HOW TO START WELL AND STAY ON TOP

A new CEO can bring about positive change or a painful destruction of value. Here, Mark Daniell offers seven principles to help meet the leadership challenge by reducing the chance of failure and increasing the chances of succeeding and enduring as chief executive

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Each year, on average, nearly 50 of the top 500 UK companies replace their chief executive. In the US, recent CEO turnover has been even higher. New leaders are stepping up to take charge of some of the largest companies in the world: IBM, Philip Morris, PepsiCo, Kodak, BP, ICI, Unilever, Cable and Wireless. But each year there are many less heralded examples of leadership change. And, sadly, there are perhaps many more who try but fail to establish themselves as a leader.

Each new CEO has the opportunity to intro-duce significant change to the business, but few choose to take it. Of those who do, even fewer succeed. When a new CEO takes over there are, broadly speaking, three types of transition: successful stable, successful change and failure. The successful transitions are characterised by a number of similar features that can reveal a broad set of rules about how a new CEO may establish his or her leadership. They can help prevent a number of highly visible failures if considered and applied thoughtfully by the new inhabitant of the corner office. There are seven fundamental rules:

- Choose the right CEO opportunity
- Be consistent in approach
- Ignore control systems at your peril
- Identify and court constituencies
- Find the real levers on shareholder value
- Create a vision and align your organisation to achieve it
- Communicate effectively

Of course, it must be remembered that each company's situation is unique, and no set rules can be elaborated and applied to ensure that a new CEO makes it into one of the successful transition categories.

In the successful stable category, the transfer of leadership is marked by a stability of corporate direction and style, with little change or disruption to past practices. Such stable transi-tions are usually characterised by promotions from within the organisation. They are typified by some of the world's most successful and long-lived organisations. Marks & Spencer, GE, Motorola, Procter & Gamble, Boeing and 3M, for example, have never brought in a CEO from outside. Their CEO transitions have almost invariably been seamless.

In the successful change transition, the handover is followed by radical and positive change in how a company operates and in which businesses it competes. Indeed, the need for radical change may well have been the rea-son for a shake-up in a company's top manage-ment. This category is typified by a new CEO being chosen from outside the organisation, frequently from outside the industry. Successful change CEOs are not common: they include high-profile successes such as Michael Eisner at Disney, Lee lacocca at Chrysler or Archie Norman at Asda and less well-known heroes of corporate change such as John Devaney at Eastern Electricity. Successful change is hard for the new CEO. There are many more failures and underperformers than there are undoubted successes.

The third category is failure. As shown by a series of disastrous examples, the change to a new CEO can fail on a number of critical dimensions. The result will be unnecessary value destruction for a company's manage-ment, employees and shareholders. Such fail-ures can mark the end of careers. The first step in avoiding such an end is encapsulated in the first rule of transition.

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1
Choose the right CEO opportunity

Every company has a distinctive corporate style and culture. In some, each division may have a different style. Certain firms, such as Microsoft, GE or Hewlett-Packard, have such a strong internal culture that it is known by the outside world as well as the companies' employees. A company's unique set of cultural attributes, stylistic approaches, history and traditions makes up its style, or "soft box". The soft box is defined by social factors such as how people talk to each other, by physical factors such as open plan versus enclosed offices, by leadership history, by the presence or lack of a shared set of core values and by incentives that reward specific behaviours. The soft box is very hard to change: in many respects, it constitutes what the company is.

A new CEO brings to this soft box his or her own personal set of values and behaviours. Failure comes early to the CEO whose personality and expectations clash with the corporate culture. The dominant, driving CEO who expects to lead and be followed will fail in an environment where individuals expect to be heard and valued and whose managers work by consensus, not by dictate. Conversely, the CEO who operates by delegating decision-making and expecting managers to learn from their mistakes will not fit happily into the organisa-tion whose soft box is driven by rules and hier-archies and whose culture is one of fear rather than of trust.

To avoid joining an organisation whose soft box is alien, the wise CEO spends time before accepting the new job learning the history, cul-ture and values of the company that he is join-ing and calculating whether his personal style will allow him to succeed within its confines.

2
Be consistent in approach

An inappropriate or inconsistent approach to the job can dramatically limit a new CEO's ability to create change. This problem can arise because of unfamiliarity with the job, a lack of confidence, a desire to make change incrementally or a misplaced desire to placate conflicting sources of demand on the new boss.

In a recent set of interviews with more than 160 CEOs of some of the world's largest companies, we found that successful approaches to the CEO job could be grouped in a small num-ber of definable styles. The most successful CEOs have a clear and consistent approach to adding value in their businesses. Conflicting sig-nals, repeated changes in approach and lack of clarity are consistent sources of value destruction within the organisations sur-veyed. New CEOs are particularly prone to creating confusion and inefficiency as they seek an approach that suits both themselves and the organisations they direct.

Every CEO is required to spend time on the basic requirements for the job: attending board meetings, reviewing year-end accounts, work-ing with direct reports, put-ting forward the public face of the company, and so on. However, successful CEOs ensure that they fulfil their primary task by allocating time to one of a number of differ-ent approaches that leads to value creation within an organisation.

In the Strategic leadership model, a CEO'S primary contribution is made by spending time determining and communi-cating the path for-ward for the individual business units and the group as a whole. Another model is the resource manager, who spends most of his dis-cretionary time hiring, developing and encour-aging staff. Gillette's Al Zeien does that by giving 8oo performance reviews a year around the world. A third model, found most often in regulated industries such as utilities and financial services, is the box builder. This CEO devotes most of his time to defining rules aimed at achieving a well-defined out-come and limiting behaviour that would operate against the organisation's goals.

The expertise approach is a fourth model. Under this, CEOS focus organisa-tions to Capi-talise on specific proprietary expertise. An example is Cooper Industries of the US, which builds its business around its ability to inject manufacturing expertise into the companies it acquires. The final cat-egory, change agency, captures the approach of those turnaround experts who create rapid and fundamental change in their organisation.

Each of these five leadership models can be effective if articulated clearly and imple-mented consistently by a company's leader. Any confu-sion or inconsistency, especially from a new CEO, can lead an organisation through a series of what the operating units see as ad hoc, neg-ative interventions. One CEO new to the job hired a set of divisional presidents, who joined the company with the expectation that the group CEO would operate as a strategic leader, leaving the daily operations of the divisions to them, his highly experienced divisional heads. In his first year, it became clear that the new CEO could manage only through an expertise approach, which was based on his transac-tion background and marketing skills. Any initia-tive undertaken by the divisions in these areas (and other areas as well on an unexpected basis) was subject to CEO review and, often, cancellation or transfer of the responsibility for the projects from the division to the group CEO.

The result was a demotivated and ineffi-cient organisation. The CEO's approach led to a significant underperformance of the company. relative to its potential and meas-urable destruc-tion of shareholder value.

3
Ignore control systems at your peril

Each CEO, old and new, operates in a box of his own design. The box has both hard and soft characteristics, which must be complementary. In contrast to the soft box - which is made up of cultural attributes, his-tory and other elements of the organisation's personality - the hard box comprises finan-cial targets, information flows, limits on spend authorisation, reporting relationships, compensation principles, attendance at required meetings and other components of the job that lay out the rules for behaviour and achievement in the organisation. The framework of the hard box is the system of control through which the business can be monitored and managed.

To avoid failure, a new CEO must first build the box. That done, the next challenge is to extract full potential from existing busi-nesses, and then to grow through break-through initia-tives outside the existing business base. Failure at the first step can alienate a new CEO from the organisation and create a situation in which it is impossi-ble to make the changes required or to grow into the future.

In one privately owned European Conglom-erate, a new CEO was brought in from outside to replace a family member who wished to step aside from the daily management of a multi-billion dollar busi-ness. The new CEO promptly led an assault on the businesses from India to Indianapolis. He intervened in the opera-tions of the companies much more aggres-sively than his predecessor. However, he could not implement his long list of desired changes in strategy and tactics because the requested changes were impossible to mon-itor or manage. The new CEO could only draw upon an exceptionally lean HQ with limited information flow from a disparate set of businesses. He had failed to set up a hard box to give him the information he needed, and his interventionist approach was universally rejected as a violation of the bound-aries of the soft box. In less than a year, all of his plans for change had been neutralised. His departure, six months later, was inevitable.

In contrast, John Neill, the CEO of Unipart, one of the UK'S most successful engineering companies, clearly defined Unipart's hard box and the information sys-tems and organisational structure required to operate it effectively. He also created a path of clear change in corporate culture and attitude, which has led the formerly ineffi-cient British Leyland parts division to a position of quality leadership in the UK automotive components sector.

Redefining boxes can be painful. At Allied-Signal, Lawrence Bossidy replaced 69 of 128 key managers to get the box oper-ating properly. In 1985, Jack Welch at GE removed an entire layer, the sector layer, between the CEO and the operating busi-ness heads to improve performance. Welch notes that for too long he managed through the sector layer - an admission that his fail-ure to build the box properly kept the organ-isation from achieving its full potential for a number of years. A large number of new CEOs have recently downsized quite dra-matically the HQ staff they inherited. This pushed responsibility down into the operating units and reset the dimensions of their box to make changes across the entire company.

Like many CEOs in eastern Europe, the

task for Anatoli Sivak, the new president of the Siberian and Far Eastern Oil Company, was to build a box from scratch. His organisation has 250,000 employees in 22 operating companies across 10 time zones within Russia alone. After the company was formed in May 1994, Sivak spent his first nine months building a box that did not previously exist. He sees this as a nec-essary step towards becoming a world-class, vertically integrated oil and gas Company.

Within the box, the new CEO is surrounded by a cadre of colleagues and advisers. One of a new CEO's most important box-building tasks is to change or confirm his team and the way it works. Failure to be clear and direct can slowly emasculate team members and create organisa-tional inertia, which will destroy value for shareholders, managers, employees and, most important, customers.

4
Identify and court constituencies

Time is a precious. During our conversations with more than 160 CEOs we discussed time management, and we found that many CEOS had become slaves to their diaries. Indeed, some of them defined what they did and how they added value simply by displaying their congested calendars. Some CEOS openly confessed to having no time to think and delegate this vital task to others. Perhaps worse, we found many CEOS who never saw their families, had major lifestyle dilemmas and had no idea how to recover their lost wives and children.

Sir Iain Valiance, chairman of the UK'S revitalised telecommunications company BT, believes that a CEO should dedicate his time to only the most critical constituents. He reviews his diary to ensure that his time is spent meet-ing his constituency priorities, and he delegates less critical activities. Through this discipline, he believes that the CEO can create the greatest value for the time invested.

The ability to identify key constituencies can make or break new CEOs. For John Sculley at Apple, founder Steve Jobs was a major focus of his first six months on the job. At the Swedish airline Linjeflyg, the employees were a key constituency for CEO Jan Carisson. At ICI, the board was extremely important for John Harvey-Jones when he became CEO. At Allied Chemical, it was Moody's and Standard & Poor's. There, Allied's new CEO needed to preserve the Company's credit rating in order to roll over $300 million of commercial paper coming due just after he took up his new post.

In the US, institutional shareholders are becoming an increasingly important constituency. The recent ousting of the Saatchi brothers in the UK from the group they founded shows that US-style shareholder activism can be exported to other jurisdictions. In the UK, non-executive directors have often brought about CEO change when the company has been poorly managed.

In Russia, government ministries still deter-mine the structure of some new commercial entities. Recently, a disgruntled official in the Ministry of Fuel and Energy removed assets holding 5 billion barrels of oil reserves from a CEO's Company because it had not properly lobbied to preserve the structure of the business.

Government constituencies can be more important in emerging markets or in highly regulated areas, where obtaining licences can determine the profitability of a business.

5
Find the real levers in shareholder value

Among new CEOs a common source of frustration is the inability to identify and control the key business elements that can yield most effective short- and long-term results. To find those levers and set priorities, most new CEOs need to spend some time immersing themselves in the business. At Avon, this immersion lasted nine weeks: it identified the sales vs marketing issue as a key element in the strategy. In moving from Pepsi to Apple, John Sculley had a longer learning process, which resulted in a focus on product strategy rather than distribution or marketing as the key lever to improve long-term shareholder value. Lou Gerstner, who no doubt regrets his comments on the lack of value of an IBM vision, has spent his time building just that for the stumbling giant.

As these priorities are being identified, the information system will need to be reviewed. In all likelihood, the flow of information will be reduced and the amount of useable informa-tion increased. Designing a succinct manage-ment information package and setting regular control meetings to review variances and major business events can prevent a lot of headaches down the road. As one new CEO said after set-ting up an 8am control meeting every Monday:

"My managers have 50 chances a year to tell me how things are going. If they use those opportunities to identify difficult business issues, we can sort out the issues together. If there are nasty surprises outside the meetings, I have to sort out the individual as well as the business problem. This tends to keep me informed on a weekly basis of the status of all of my businesses around the world and allows me to identify and solve profit issues on a timely basis." Besides helping him learn quickly, these weekly meetings provided a regular forum in which the CEO could pass on and reinforce his key messages. In a short time, this CEO reversed a historical decline in profits and more than trebled the business.

The bruising takeover business highlights the fate of CEOs who try to play a caretaker role and leave key levers unattended when a new vision is needed. One CEO, on his way out after a short tenure, described his role as "hopefully, a good steward" of the heritage that was the company's hallmark. An embittered colleague commented that that was the problem - they needed a captain and they got a steward.

6
Create a vision and align your firm to achieve it

A single page outlining a company's principles or vision can be an extremely powerful document. A new CEO of a company making nearly $1.5 billion in profit used the approach to establish credibility with his new organisation. He had come from another industry in another country, and his arrival had been viewed with some concern. By stating his approach to customer focus, new product development and profit measurement, he allayed fears and established a positive background for a successful initiation into the new business.

Domenico De Sole, leader of a fabulously successful turnaround and IPO at Italian luxury goods company Gucci, has distilled his vision to a short, digestible format that has been cir-culated to all Gucci employees worldwide. Archie Norman at Asda is a master at distilling visions into a simple set of goals that all of his colleagues can remember easily and integrate into their plans: his “10 for 98” lists 10 clear goals to be achieved by 1998.

Without alignment of the organisation, the most articulate corporate vision will fail. A new alignment requires wrenching change across all organisation elements: it will reset objectives, salaries and incentives, organisational structure and hiring (and firing) policies. Dramatic ges-tures such as a change to set annual bonuses by quality performance or market-share targets, rather than unit-sales targets, can signal clearly where the organisation and the people with-

in it should invest their efforts. Restructuring a business to give full support to growth in new markets, for example, can also require new people in new jobs working to a set of long-term objectives and incentives.

Aligning an organisation means changing the investment programme, distribution sys-tem, marketing spend, compensation structure and all other elements of the business system to focus on achieving the new vision. Initially, this will be enormously time consuming, but it will create massive momentum into the future. However, even when the vision is clear and the business system properly aligned, the full benefits of the programme will not be achieved without effective communications.

7

Communicate effectively

No one views a new CEO's arrival with indifference. Some employees will have over-inflated expectations; others will greet the arrival with disdain. Failure to communicate a clear vision will create a vacuum that will most probably have a significant negative effect. Doubters will be confirmed and enthusiasts disappointed.

A new CEO'S first words and actions will be scrutinised and reviewed in infinite detail by every employee. As an established CEO, only signals of major change will get the same atten-tion. Both France's Jacques Chirac and the US’s Bill Clinton misfired dramatically in their first days in office as "CEOs" of their countries. Clinton's trying to change the status of homosexuals in the military and Chirac's testing of nuclear devices in the Pacific outraged key con-stituencies, stifled momentum and lost good-will that required months of rebuilding.

More successfully, a new Swedish CEO in a large manufacturing business captured a whole new approach to the business in a 1.2.3 programme: become number one by doubling sales and tripling profits. He developed his vision with his senior management team then began a major internal marketing programme to sell it to his organisation. From posters on office and plant walls to T-shirts, review ses-sions and stationery, the 1.2.3 message was hammered home. His efforts were successful and his ambitious goals achieved.

At Allied Chemical, the new CEO had to restructure swiftly the portfolio of Companies and businesses inherited to save the group. The urgency created a receptive audience for a clear statement of strategic redirection and objec-tives. In other cases, the opportunities for value creation are less dramatic and need to be pur-sued over a longer period. One CEO of a multi-billion dollar international business took six months to benchmark his company's perfor-mance against international competition. Although there was considerable resistance from his organisation, he announced his inten-tion to cut costs while increasing service rev-enues. He stuck to these goals over two years, systematically communicating the need for change and emphasising his need for support. Because he articulated his vision early, he gained support from employees and sharehold-ers alike. After a year, the scheme began to show vast improvements in service and cost levels. In five years, profits have risen 250%.

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In both of these cases, the list of priorities was short and clear. Value levers were identified and targets clearly communicated. This success not only brings its own rewards, it also sets up a positive dynamic with the organisation that can continue to pay off for years.

There are many ways to market a message. One high-profile example of a successful communication programmes comes from Unipart's colourful John Neill, who organised a West End musical performance to communicate the importance of Unipart's changed ownership status. Another new CEO, of a high-growth, multi-billion dollar logistics and technology company, made a video in a television news format to announce a new company mission statement. The video is shown to all new employees in 184 countries and is part of the the company's culture.

One proven communications approach is to build a specific internal marketing component into each part of the new CEO’s accession programme, which lists deadlines by which objectives should be achieved. This can serve as a reminder that vision, action and leadership can only truly be developed if fully communicated. In addition to stating your vision, you should also address values and principles as you go forward. Repetition of key themes is appropriate in most programmes for at least the first year.

A change of CEO is a major event in a corpor-ation's history. Each situation requires a different response, but these principles can reduce the chance of failure and increase the chances of becoming a successful, and enduring, CEO.