Me, Inc.

Making the transition to CEO: a strategy for personal success

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Introduction

Your track record in operating roles led to your dream job as CEO. Before taking the post you read a lot of the management literature on the role and attended a business school course for new CEOs. You are confident you will succeed. However, the job is much tougher than expected. You are struggling to manage your time effectively.

The company's performance hasn't turned around as quickly as expected. The stock price is down. Investors are beginning to question whether the board made the right choice. The board is challenging your decisions. Your dream job is turning into a nightmare.

According to a recent study between 38% and 55% of CEO turnovers are induced by weak stock performance.[1] The percentages are even higher in the first years of tenure. Even when stock performance is good, many CEOs depart quickly. Recent research shows that median CEO tenure at large-cap (S&P 500) companies was five years at end-2017, down from six years in 2013. In that five-year period, 282 chief executives in the S&P 500 left their jobs.[2]

In this article we discuss a framework for understanding the unique requirements and challenges of the CEO role. In a recent series of structured interviews with 20 current and former CEOs — from the very successful to some whose tenure was cut short — we debated and refined that framework. This article represents the results of that process. It draws both on the personal experience of these and other CEOs, and on our observations as their advisers.

"The essentials of any leadership role are clarity, courage and humanity. Clarity around your principles and goals; courage to take decisions where you don't have all the information and where others may find it difficult; and humanity is understanding you can only achieve your goals with, and through people."

Mark Tucker, Group Chairman, HSBC

What's your strategy for personal success?

Many new CEOs fail to appreciate that success requires a different strategy than what worked before. Most of the CEOs who found the transition difficult, fell into the trap of believing the job was simply a bigger version of their current role. It is not.

The more experienced CEOs we met — who by definition survived the step up — learned over time to fundamentally rewire their thinking for the distinctive requirements of the role.

New CEOs are prone to defaulting to ingrained behaviours when things get difficult. Your personal strategy for the CEO role requires hard choices about how you will be different, not only from others but from your previous self. Based on our experience working with CEOs and our recent interview programme, we identify five mutually reinforcing elements of a successful personal strategy.

1. Focus your energy on what really matters for your new role (and understand the difference between time and energy).
2. Organise around a clear framework to manage the multiple sets of stakeholders (mastering three-way management).

Close to 50% of the CEOs we surveyed said the job was not what they expected.

3. Leverage the power your new role gives you over information flows.
4. Be a coach, not a player with your management team; and move fast(er) to get your team in place.
5. Fully exploit the four key corporate levers (vision and strategy, resource management, and people) that are now in your direct control.

Energy management

Senior management teams waste most of their valuable time on second-order issues that have little or no impact on company value.[3] Many CEOs accept that the role involves sacrifices in other parts of their lives, but if that extra working time isn't used properly, bad can crowd out good and you may be spending time on low-value issues that limit your focus on decisions that will really move the needle.

"Turning engagements with the board from an energy-draining exercise into a source of support and advice took a real mindset shift on my part, but contributed greatly to my personal success and to the feeling that I had advocates around me," says one CEO we interviewed.

The distinction between time and energy was a common theme in our interviews, with many CEOs stressing that **energy management is more important than managing time**. Time is fixed, but energy is more fluid. Activities which take up relatively small amounts of a CEO's time can disproportionately exhaust large amounts of energy. Equally, some activities can boost energy.

Dealing with disloyal or weak direct reports, competing demands from different stakeholders, poorly designed committee agendas, and a tendency for even the most trivial of decisions to be referred upwards, all take time and drain energy. Yes, the chief executive can fix almost all these things. The important thing is that it gets done, not that you do it.

For Stuart Fletcher, former CEO of Bupa, strategy boosts his energy, not necessarily the creation of it, but ensuring that he always thinks strategically and does things that enhance reputation.

Lesson 1. ***Think deeply about where you get and how you spend your energy. Are you depleting energy on low-value matters? Refocus your time and energy on high-value issues and delegate low-value issues to others.***

"Being time-constrained is a given, but managing your energy is important. I'm very conscious of where I divert my energy and direct it; where I get my energy and what saps it."

Stuart Fletcher, former CEO, Bupa

Three-way management: up, out and down

The CEO must build deep trust and shared alignment with the board, external stakeholders such as investors, media and government, and the organisation. The individuals we interviewed spent, on average, half of their time managing up and out. They also struggled to sustain success across all three dimensions for any period of time. The ability to manage up, out and down is critical to build support for the business vision and recognition of your role in delivering that vision.

The Board

Never underestimate the importance of managing up. Chief executives need to build and sustain alignment on the company's values and strategy. Successful CEOs devote sufficient time to build and maintain strong one-to-one relationships with individual directors. The CEOS we interviewed who did not focus on developing such relationships wished, again with the benefit of hindsight, they had.

In a survey by Dominic Barton and Mark Wiseman, only 16% of directors felt that their board members understood the dynamics of their industries and only 22% believed their board understood how the firm created value.[4] For this reason, board directors could be easily influenced by external investors who care only about the short-term impact of their decisions, which may lead to pressure for CEOs to focus excessively on immediate results.

"I've seen more examples of where delivery of financial performance allowed people to keep the job longer than they probably should have than the reverse. What the board keeps an eye on more closely is all your controllables and as long as they're all going in the right direction, you get a lot more leeway around absolute financial performance because that tends to be a bit out of your control." – Rob Peabody, President and CEO of Husky Energy

Barton and Wiseman also find that only the last three years of stock returns have any statistically significant impact on a given CEO's tenure.[5] In other words, boards tend to be myopic when assessing their chief executive's performance, so it is important to sustain contact with board members.

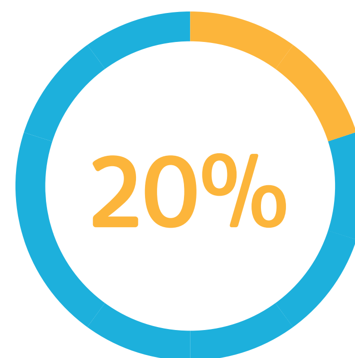
Your relationship with the board takes work. Some CEOs admitted that they failed to stay sufficiently focused on this as board membership changed, and as a result they felt that trust had faded over time.

Others succeeded in growing a strong rapport with non-executives. One CEO told us, "we are a team now, the board is very much a team. We work together to debate issues and make things happen."

External stakeholders

Maintaining contact with investors and other external stakeholders, such as customers, media, industry, government and regulators is difficult according to many of the CEOs we interviewed. The key purpose of managing out is to share the right information to build alignment on, and support for, the vision and strategy of the company. Regular engagement builds trust to enable you to make the — sometimes tough — short-term calls that are in the best interests of your longer-term objectives. But few CEOs seem to enjoy this part of their job.

Rob Peabody notes that managing out allows you to "write your own scorecard." Demonstrating consistent progress on that scorecard can be a powerful tool to build support and cultivate patience among current and potential investors, Peabody says.



CEOs we surveyed, on average, spend 20% of their time focused on the Board.

"Be clear in your mind about when you are seeking input and guidance and when you are building alignment for your ideas."

Nancy Southern, Chair and CEO, ATCO

If your own message of success is reflected in analysts' reports and media stories, a beneficial side effect is that you reinforce your messages both 'up' and 'down' encouraging internal alignment around your vision — and yourself.

External engagement is a two-way street. In our experience, CEOs who connect to external stakeholders tend to understand investors' expectations and concerns and use this feedback to improve their communication with investors and other stakeholders. They also work well with regulators and legislators and are more alert to potentially disruptive change, which makes them better strategic thinkers.

Managing down

The new CEO also needs to recognise the potential information disadvantage they now have with their executive team. No chief executive has sufficient bandwidth to maintain the same detailed, personal understanding of the business that they may have enjoyed in previous roles.

Several of the more experienced CEOs in our survey overcame this disadvantage by adopting an organisational structure and reporting standards to (1) give them a clear line of sight into different business lines and support functions, and (2) enable them to hold members of their management team fully accountable in each of those business lines. This can free up a lot of time that would otherwise be spent seeking out information, allowing you to devote more energy to leveraging that information with other stakeholders.

Lesson 2. ***Free up a sufficient share of your energy (and time) — perhaps 50% — to managing up and out. This is the most unfamiliar part of the role, but vital to ensure your tenure and the long-term success of the business.***

"I had plenty of external exposure, but it wasn't singular in the way the CEO is. When you are a division head, you have other division heads you can share views with about how the organisation works. You can't do that in the same way when you are CEO."

Bill Winters, Group CEO, Standard Chartered

Managing the information flow

A chief executive typically knows more about the company than the board or external stakeholders, yet knows less about the individual business lines of the firm. To be successful, CEOs must get better at managing and leveraging such information assymetries.

The challenge is to distinguish between the often-intuitive 'tacit' knowledge that chief executives typically use to make day-to-day decisions ('know-how') and the more formal 'explicit' knowledge about the company that non-executives must rely on to judge those decisions ('know-what'). To manage up well, the CEO has to translate intuitive business decisions into a logical framework that fits with the explicit knowledge that directors have accumulated. The ideal framework is based on your long-term vision for the company. Telling a director that a key decision was based on your intuition is much less powerful — and more risky — than explaining how your decision will help deliver the company's long-term success.

The distortionary impact of asymmetric information is most apparent, and potentially most damaging, in the relationship between CEOs and outside stakeholders. The market interprets the signals about underlying value flows from current financial performance and messages a CEO transmits through engagement with investors, analysts and the media.

Consistent financial performance is an important signal that can build trust, and hence buy time, to pursue more ambitious strategic objectives. As António Horta-Osório, current Group Chief Executive at Lloyds Banking Group and former CEO of Santander UK, puts it, “If we don’t have short-term success, you are bound to be derailed in your [long-term] strategy by factors beyond your control, i.e. dying on the beach.” He stressed the short-term has to be good enough to maintain trust in your long-term strategy, but not at the expense of your investment in that strategy.

Lesson 3. ***Control the information flow up and out of the business. Organise the company to give you a clear line of sight into your business lines and supporting functions and demand internal reporting standards so you understand what’s going on.***

Be the coach, not a player

The typical CEO is a former line manager who has been appointed to the role because the board believes he or she can add a significant amount of value ‘off the field.’ Designing and communicating the company’s strategy to investors and other stakeholders, and coaching others in operating roles are important new responsibilities that prevent CEOs from contributing as much as they used to in operating roles.

Paul Foster, CEO of Sellafield, says “I spent too long working across multiple roles (CEO and previous role), when I should have been bringing in new hires.”

You need to rely on your team, and as one CEO put it, “be very conscious of the career paths of team members, their individual development needs, and how you guide and coach them to succeed.”

Evelyn Bourke, Group CEO Bupa says, “Inevitably your relationships with your colleagues change when you step up to being CEO. People often want to bring you proposals etc. that are fully ‘baked,’ when in fact getting an early contribution from you could give a better outcome and avoid wasted effort. It requires the CEO to make it ‘safe’ for people not to have all the answers and seek the input earlier.”

“I operate on the grounds that you (the players) are running that organisation. The reality is if somebody as experienced as me is getting down in the detail, that’s not a great place to be because that means I lost confidence in them.”

Evelyn Bourke, Group CEO, Bupa

Move fast to put together your team

But first you need to move fast and decisively to build the right team and focus on individuals who share your vision, what author Jim Collins calls ‘getting the right people on the bus.’ Many CEOs we talked with wished they had acted faster and struggled with understandable biases such as a wish to retain people who ‘know where the bodies were buried’

or kindness to long-tenured management who were nearing retirement. But all the CEOs we interviewed wished they had ignored such feelings and acted faster.

What matters more: loyalty or ability?

Evelyn Bourke says it's important to show zero tolerance for people who aren't aligned with your business objectives. For Bill Winters, Group CEO of Standard Chartered, the first necessary qualifier was to demonstrate an ability to work well with the team, second, relevance in their fields and the third, assessing potential.

Lesson 4. ***Move early on your management team, then stand back and coach the team to individually and collectively deliver your vision.***

Use all the levers you now control

The CEO has enormous power to influence the direction of the company through four key management levers. We already discussed two of these levers, performance management and people choices. The two others are business strategy and resource allocation.

Top performing companies set and achieve high standards for (1) strategy development and execution and (2) resource allocation. Successful management teams are clear, at the company and business unit level, on how their strategy will create a profitable difference from competitors, what financial and other resources are required to achieve their goals and how they would respond to both expected and unexpected market developments.

The most effective CEOs achieve this clarity by setting high standards for group and business unit strategy development, focused on superior value creation. They optimise financial efficiency by allocating resources only to those group projects, business units, and strategies which meet their standards. As a result, they are very clear on where to invest more resources (financial and human) than competitors to build valuable differentiation, and how they will still hit short-term profit objectives by underinvesting in areas where differentiation is expected to have limited value.

Lesson 5. ***Set high standards for strategy development at every level, and only allocate resources to proposals which meet those standards. This ensures that everything the company does is aligned with maximising company value and it will go a long way towards ensuring your personal success as CEO.***

"Of course I was choosing a bunch of people I didn't know and equally deselecting people I didn't know, which was the other piece of advice you get which is do all of the hard things up-front before you get to know or like anybody."

Bill Winters, Group CEO, Standard Chartered

Final thoughts

Your first CEO role may be a big step outside your comfort zone. If it isn't, you're probably not doing the job well. Being deliberate about how you will do things differently will allow you to adjust more quickly and increase your chance of success.

Don't be oblivious to the obvious and revert to old habits. Ask yourself: Am I spending too much time on day-to-day management? Am I getting the information I need from the business units? Am I sharing the right kind of information upwards and outwards? Am I spending enough energy on individual relationships with board members? Am I in touch often enough with investors? How's my external network?

With a commitment to regularly ask yourself these questions and track your score, you'll be equipped for the challenges ahead.

"I wish I had understood how different the job was before I started. Although, would I have had the self-awareness to identify with some of the changes I needed to make?"

Paul Foster, CEO, Sellafield

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Notes

[1] Dirk Jenter and Drew Anderson, "Performance-Induced CEO Turnover," *CEPR Discussion Paper No. DP12274*, September 2017, available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3035268.

[2] Equilar, "CEO Tenure Drops to Just Five Years," January 19, 2018, available at: https://www.equilar.com/blogs/351-ceo-tenure-drops-to-five-years.html.

[3] A survey of 187 companies worldwide with market capitalisations of at least $1bn, carried out in collaboration with the Economist Intelligence Unit. See Michael Mankins, "Stop Wasting Valuable Time," *Harvard Business Review*, September 2004, available at: https://hbr.org/2004/09/stop-wasting-valuable-time.

[4] Dominic Barton and Mark Wiseman, "Where Boards Fall Short," *Harvard Business Review*, January – February 2015, available at: https://hbr.org/2015/01/where-boards-fall-short.

[5] See Jenter and Anderson, "Performance-Induced CEO Turnover."

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