Balancing speed and sustainability to set the CEO agenda

Resolving the CEO's dilemma

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BAIN & COMPANY

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Balancing speed and sustainability to set the CEO agenda

The job of chief executive officer has expanded dramatically in recent years, both in scope and in complexity. The companies CEOs run are likely to operate all over the world, in markets that have rarely been more turbulent than today. The organizations they head are no longer simple pyramids; rather they are intricate networks of overlapping jurisdictions and relationships. And CEOs' responsibilities are no longer limited to what happens inside the company. On the contrary, global sustainability and the way it shapes our lives depend as much on the actions of large corporations as on those of any government or nongovernmental organization (NGO)—maybe more so. To a greater extent than ever, CEOs bear the weight of the world on their shoulders.

This situation confronts every CEO with a series of challenges—challenges that can be rank-ordered in much the same way as Abraham Maslow's famous hierarchy of needs:

- The first priority is simply to survive in the job. This is no small matter. Between 1999 and 2006 the average tenure of departing chief executive officers in the US declined from about 10 years to just over eight. About 40 percent of new CEOs last an average of less than two years.

- The second priority is building the business and increasing shareholder value. That is a major challenge, as only about one in 10 companies achieves sustained value creation. (Our research shows that only 12 percent of companies with revenues of more than $500 million grow revenues and profits at least 5.5 percent a year while also earning their cost of capital.)

- A third priority is leaving a legacy of which he or she can be proud—a company that plays a leadership role with stakeholders, in its communities and in the world, contributing to a sustainable future rather than detracting from it.

A job with such challenges can quickly overwhelm the person who occupies it—one reason, no doubt, for the short tenure of so many chief executives. And yet as we learned in a series of more than 25 interviews with CEOs, many men and women are able to assert control over the job rather than let themselves be dominated by it. They are able to meet the challenges, pursue their agendas and accomplish great things.

One key, our interviewees told us, is that they must be utterly self-disciplined, even selfish, in how they approach their work. They relentlessly protect themselves from the countless people who want a piece of their time. They learn to focus on their own agenda rather than simply respond to external demands. And they follow their instincts even when it leads to replacing people on the team who don't contribute to that agenda or who suck time and energy from the group, regardless of how capable and motivated those individuals might be.

Six dilemmas—and six strategies for success

Apart from the broad challenges that come with running a large, complex organization, the job of CEO poses six specific dilemmas relating to time management and control of the agenda:

- I have too many demands on my time, and they all seem important. How do I prioritize?

- I need to build my team. Do I act fast or deliberately?

- The calendar of meetings is essential—but how do I avoid getting bogged down in it?
- I'm only one person. How do I get all my employees moving in the right direction?
- I have multiple constituencies, and each is asking for something different. How can I satisfy them all?
- How do I role-model the right values while making the job sustainable?

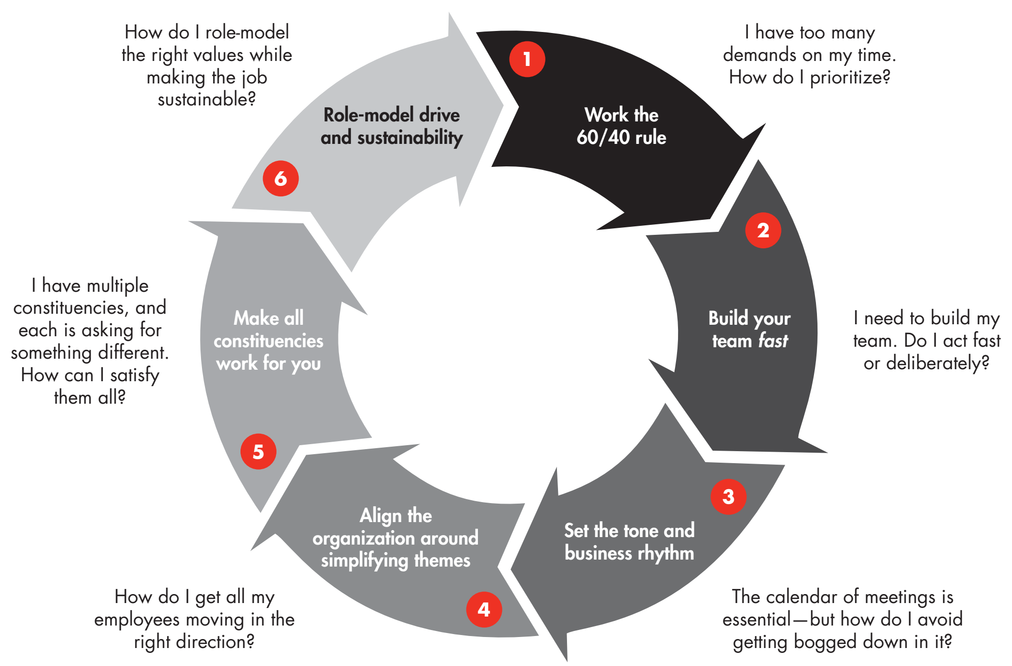
The chief executives we interviewed were not a random sample. Indeed, they were chosen precisely because they have been unusually effective in their role as CEO. When we posed these dilemmas to them, they responded with the insights and best practices that have enabled them to balance the multiple demands and spend more time on what really matters—establishing their leadership and moving their companies toward full potential, all while building a record and a legacy of which they can be proud.

Specifically, our interviewees mapped out six strategies for taking control of the CEO's job:

- Work the 60/40 rule;
- Build your team fast;
- Set the tone and business rhythm;
- Align the organization around simplifying themes;
- Make all constituencies work for you;
- Role-model both drive *and* sustainability.

Work the 60/40 rule

Every business is different, if only because each one operates in different markets and occupies a unique strategic position. In practical terms, that means the amount of time chief executives must spend on the activities necessary to keep their business moving also differs from company to company. The danger, said one



CEO with whom we spoke, is that your diary "fills itself with the corporate routine, but doesn't advance your business agenda."

Many CEOs address this issue by applying the 60/40 rule: They devote 60 percent of their time to "must-do" tasks like governance and investor relations and the other 40 percent to turbocharging high-priority parts of their business agenda. Crises and "issues du jour" will inevitably intervene, interviewees said. But if you set the hurdle for getting directly involved high enough, these distractions will stay manageable. Many mentioned that sticking to the plan requires discipline and restraint, and the CEO of one industrial group noted that he found it hard at first to exercise either one. "I felt my job was to solve or resolve all," he said. "The job was 24/7. That was panicky management, not leadership."

To stay on plan, interviewees said they have to review constantly the 60 percent of tasks that are mandatory and decide whether they really need to do them or can delegate them to others. One pharmacy retail chain CEO, for instance, said he's not particularly good at investor relations so he finds "really great people" and entrusts them with slices of these duties. Another insists on quarterly business reviews, but keeps those meetings as short as possible by sending a pre-briefing team in advance to make sure everybody agrees on the relevant numbers.

It's important as well to recognize which parts of the business will benefit most from the CEO's time and attention. The CEO of a luxury goods company identified personal contact with his top staff as an important lever that would help move the business if he invested his discretionary time in it. "I always carry two documents with me," he said. The first is a set of pictures of his direct reports and "every day I mentally ask myself, 'Have I talked to these guys?' If not, I pick up the phone". The other contains contact details for his top 100 managers. "When I'm in an airport, or similar," he said, "I will systematically call them, tick them off, then print a new list and start again."

How do you keep from being derailed by the many issues that come flying at a CEO? One way is to recognize that not every issue requires you to solve it. The chief of a food company put it this way: "I need to know about those issues and I would be cross if I didn't. But I don't have to fix them." One CEO said he jumps into emergencies only when it's a high-level issue like a merger and acquisition (M&A) or governance. The second way to keep potential crises in check is to communicate that you don't panic over every unexpected issue that comes your way. Another CEO said he prefers to get involved in potentially explosive issues early so they don't blow up into bigger problems. What's clear, however, is that being choosy has multiple benefits. "The key is not to panic about big issues or make it look like you're panicking," said the head of one agricultural company. "You need to be aware of the signals you're sending to your organization."

Build your team fast

Sixty-five percent of CEOs say that talent and human capital is their No. 1 priority, but it's also one of the most difficult. You need to get your top team in place quickly. The temptation is to take your time to pursue the best people using the most relevant information you can find. But looking back, the CEOs we interviewed put a premium on speed over deliberation. Few regret moving too fast on the tough people decisions and many regret moving too slowly. "If I were doing it again," said one, "I would be quicker off the mark, especially the people issues."

What are the most common obstacles to moving fast? Many new CEOs don't feel they have enough information about the business and the individuals on the management team

> "I divide my time into 'stuff I have to do,' e.g., managing stakeholders, and 'my choices' of how I run the business, e.g., company visits, 1-on-1 management meetings and the 'issue du jour.'"
>
> —CEO, Travel Company

"With a good financial director and human resources director, you can control the whole organization. The three of you can see everything."

—CEO, Utility Equipment Company

to make informed decisions. The lack of reliable information on candidates was the most common rationale for moving slowly, especially for outsiders who didn't even know the in-house contenders. One CEO, for instance, called interviewing a "blunt tool." Some also acknowledged that they lacked confidence at first, making it more difficult to trust their gut. That is understandable. In a business anchored in metrics, many executives feel the need for data before they make important decisions.

One key is to get some help. No CEO changes his or her entire management team, but every CEO needs to put the right people in the right roles. Typically, CEOs we talked to focused first on the finance director (FD) and the human resources director (HRD). A CEO working with a strong HR director can make changes quickly, systematically and effectively. The finance director controls the money, and that enables you to control the business. "With a good FD and HRD you can control the whole organization," explained one utility company CEO. "The three of you can see everything."

What should you be looking for in your team? The CEOs we spoke with look for both skill and will. How does a potential team member's skill set fill gaps and complement your strengths? Is he or she an energy-maker or energy-sapper? Interviewees said the old axiom is absolutely true: You can't do it alone. "The longer I'm in the job, the more selfish I've become about choosing people that energize me," said the CEO of one integrated technology firm.

Building leadership within the ranks, however, also involves finding stars and rewarding them. That means fostering a team but giving special focus to those who perform and weeding out those who don't. The CEOs in our interviews said building a "leadership supply" is essential, and sometimes underemphasized. "The role of CEO as chief mentor is overlooked but a critical part of the job," said one beverage company CEO. "This includes massive focus on getting the recruiting and retention levers right for the best people."

Set the tone and business rhythm

CEOs need to manage their own agendas, but it is equally critical to manage the pulse of the entire organization—multiyear, multimonth, monthly and weekly. As leaders, CEOs say they have the opportunity to set both the tone and the cadence of the enterprise to make it match their management philosophy and strategic imperatives. "You need to be the one beating the drum, not marching to the drumbeat," said the CEO of one industrial group.

Setting the tone is an exercise in role-modeling. Organizations value CEOs who are positive, have energy, know where they are going and are authentic. Top executives are "mentors in chief," said one CEO; their behavior and attitude suffuse the enterprise and set an example for what will lead to individual success.

Setting a business rhythm to match the tone is just as important, interviewees said. Too slow a drumbeat in the mobile-phone industry, for example, would cause a company to fall behind quickly. Too fast a drumbeat in steelmaking might risk burning out your people—and might outpace the technology of that industry. The key is setting a cadence that's appropriate for the situation of your particular business, and signaling that this is a priority now—but not forever, once the company is on track.

Once you have established that cadence, you need to create rapid feedback loops, making adjustments in real time as necessary. Business leaders often think about mobilizing the organization as a sequence that moves from defining a priority to determining action and then setting the timetable. But that approach misses some key elements—notably, what the organization needs to do in order to mobilize, who needs to be involved and when they should act.

Rapid feedback loops give CEOs a way to monitor performance and identify improvements as they drive change through the organization. It also helps to build in "mobilization periods" for each initiative—time to make the case for change and cascade it through the organization. "Be aware of whether an initiative has landed in the frontline before you can launch the next one," said the CEO of one agricultural company.

One secret to setting tone and rhythm, interviewees said, is to work through both formal and informal interactions. Not everything important can be communicated in a committee meeting or management briefing. One industrial CEO, for instance, said he tries to reserve Mondays for informal sessions without an agenda. Another said he lets it be known his door is always open. "I always have time for someone," he said. "If it is important, I can be reached in five minutes. I'm like a free player on a football team allowing me to jump in where needed on short notice."

Align the organization around simplifying themes

Getting the employees all moving in the right direction is the art of management. "I realized early on that I couldn't bring about change through just shouting," said the CEO of a major food service company. "I needed a way of communicating with 500 senior managers and then the next 60,000. I was not worried about the 300,000 operatives beyond that."

One best practice for communicating a strategy to a broad organization is first to identify the relevant business priorities and simplify them into a few easily understood themes. Most organizations can effectively handle only three to five major initiatives at one time. So, top management must spend the time to distil an often complex strategy into a few clear elements that can easily cascade through the organization. "The role of a CEO is to simplify the complexity and stick to a few themes that are easy to understand," said the CEO of one luxury goods company. The chief of a large industrial company agreed. "By using the same simple story internally and externally, you make life easier," he said.

When one international airline launched its turnaround plan several years ago, for example, the strategy had just four elements: The market plan (eliminate money-losing routes), the financial plan (fix the liquidity problem), the product plan (improve the customer experience) and the people plan (make this airline a great place to work).

"In any company I've been in, there haven't been very many people who are capable of standing back and making the complicated things very simple," said the airline's CEO. "Yet, that's where the real value is."

Armed with these simple themes, CEOs said, you have to hammer them home at every opportunity. "You need to role-model in words and deeds," said the CEO of a major travel company. "Don't just show the vision or talk to it. Demonstrate where you've acted with it in mind." That requires a communications strategy to cascade the themes through the organization so they start to feel like second nature. "I use my 10-30-300 to cascade my messages," said the CEO of an agricultural company, referring to the managerial levels directly below him. But the effort should also run deeper. It is crucial to link performance management activities to a company's strategic themes so that words and deeds match. Delegating control and accountability will force leaders down through the organization to absorb and live those

"You need to be the one beating the drum—not marching to the drumbeat."

—CEO, Industrial Group

"I've spent a lot of time educating investors. I've been able to essentially define the terms by which this industry is reviewed in a way which really demonstrates the value of our strategy and the weaknesses of our competitors."

—CEO, Fast-Moving Consumer Goods Company

priorities as well. And setting up a performance culture based on these metrics and priorities ensures that all employees know that delivering on the themes is the path to success.

The end result is an organization that the CEO leads instead of manages. And it is self-reinforcing. By empowering managers to make their own decisions, you encourage them to think like owners and behave aspirationally, two key elements of a high-performance culture. The CEO of an energy company put it this way: "I delegate as much power as possible within a well-defined framework. My responsibility is the strategy and vision—and selling that to the team."

Make all constituencies work for you

Simplifying and clarifying your strategy has another benefit: CEOs say it helps them manage the multiple constituencies they must please every day. That is crucial. Even the most effective CEOs spend as much as 20 percent of their time on corporate governance. Many of our interviewees bemoaned the hours spent in board meetings or on analyst calls and warned that these activities can easily overwhelm a CEO's diary.

The answer, many suggested, is to turn the problem on its head. Use your themes to win over stakeholders and they will become part of the solution, not part of the problem. If you involve board members in your strategic priorities, they will develop a sense of ownership, making it easier for them to understand the numbers and, better yet, to *trust* them. They will embrace the metrics that are important to advancing your agenda and will support "pay for performance" relative to those criteria.

A feeling of ownership also makes it easier for board members to accept risks and provide support when things go wrong. "Communicating with, and involving, the board is very important to build trust," said the CEO of a hand- and power-tool company. "It's important to create a forum where issues can be openly discussed and challenged." That may seem obvious, but many CEOs struggle to establish a strong relationship with the board. The relationship a CEO has with the chairman is particularly challenging, owing to the natural tension inherent in the two roles. Indeed, that is one reason why it can be important for CEOs to have other outside advisers besides the chairman.

Clear, simple themes also help CEOs to win over investors and analysts. "I've spent a lot of time educating investors," said the CEO of a consumer products company. "I've been able to essentially define the terms by which this industry is reviewed in a way which really demonstrates the value of our strategy and the weaknesses of our competitors. This is a massive value-added role." That sort of opportunity to shape perceptions isn't always available. Many interviewees, in fact, said working with the City or Wall Street is among a new CEO's biggest challenges. Nevertheless, having a well-defined, easily communicated set of strategic themes allows you to set clear expectations with investors and encourages them to see and measure the business as you do. They may not always agree, but clarity improves the chances, interviewees said.

When it comes to other stakeholders, CEOs recommend prioritizing your time with them based on what they can contribute to your agenda. The CEO of a utility company, for instance, spends a disproportionate amount of time with politicians and regulators. At companies less dependent on the good graces of government, such contacts might be better handed off to lieutenants. The challenge is especially large for new CEOs, who typically receive hundreds of invitations to meet people and attend events. "You just need to learn to say no," offers one CEO.

Role-model energy and sustainability

Moderation is not generally viewed as an asset in a 24/7 economy that is remorseless in punishing companies that can't keep up. But for all the energy and drive a CEO must project, he or she must also set the standard for job sustainability. "The CEO job is what I call the 'terminal leadership' job, performance rests with you and it can easily become 24/7," said the CEO of an industrial company. "The CEO must always be in the best frame of mind and they must take care of themselves, through physical or mental hobbies. It's a demanding job and the CEO must always be up to it," he said.

Striking the right balance involves putting boundaries between your personal and professional lives and respecting the importance of both. "I have strong rules about social engagements and travel schedules," said the CEO of a food company. "I'm not away over weekends." Others agree that taking Saturday or Sunday off is crucial. So is spending time with family and getting exercise. "The CEO can control time," said the head of one aviation services company. "I watch both hours per week and nights away."

Interviewees also emphasized sending the right signals to employees so others see that it is okay, even required, to live a life that makes the job sustainable. Making it clear that executives and others should make time for things like family and exercise, or whatever matters to them outside of work, is important. But so is respecting their time when things get tough. The CEO of a food retail company said that he is demanding when it comes to work hours, but equally restrained when it comes to interrupting time off. "The team operates on an expected availability of seven to seven, five days a week," he said. "I expect that commitment, but only in emergencies will I ever contact anyone outside of that. It is unreasonable to demand of people what I am not willing to do."

Part of role-modeling sustainability is acknowledging that the CEO's role can be an emotionally isolating one. When asked, half of the FTSE 100 CEOs said they were lonely in their jobs. The CEOs in our interviews suggested seeking out advisers or coaches—someone you can talk to, bounce ideas off and seek advice from. "After one year, I realized how alone I was," said the CEO of a retail pharmacy company. "Uncertainty was leading to anxiety. I hired a coach, an experienced ex-colleague." Other interviewees said they turned to mentors, current and former colleagues, family, friends—even the board chairman. "I am fortunate to be able to use my chairman as a sounding board," said a consumer goods company CEO. "If I wanted to chew something over I would go and talk to the chairman because that's his job. If his job is not to help the CEO, then you've got the wrong chairman, in my view."

Veteran CEOs know their effectiveness depends on maintaining a high level of energy. Many view it as their most important asset and something easily drained if you don't treat it with respect. Taking care of yourself is part of it. But as with all aspects of running a company, CEOs said, sustaining energy isn't something you can do on your own. The real masters said they often rethink their team choices based on who helps create energy and who drains it away. "It's all about people," said a luxury goods CEO. "A CEO must recruit and develop excellent people, and if he does then simplicity comes, because issues are left to other great people to resolve. It allows the CEO to rise above, and work with a clean desk and clear mind."

"Surround yourself with energy makers—the longer I'm in the job, the more selfish I've become about choosing people that energize me."

—CEO, Technology Solutions Company

Tips and tricks from the masters

There's no playbook for being a successful CEO. Those who are successful have learned the job by doing it, and have left their own stamp on it. In our interviews we heard numerous examples of tactics CEOs have found or invented to get their work done efficiently and effectively:

Choose your battles."Every year there are a couple of big, important things. My nature is to dig deep on these, and then lead the charge. Examples would be a succession issue or our biannual strategy review or a big acquisition."

—CEO, Utility Equipment Company

Get the facts first. "I do have a disciplined process of quarterly business reviews. A pre-briefing team goes in to make sure everyone agrees on the numbers. This frees up my time."

—CEO, Food Company

Spend time on the ground. "Site visits are useful to understand what is going on. I do trip reports to the responsible director. They do not go with me."

—CEO, Gas Company

Informality helps. "I introduced 'pizza night' with pharmacists to get close to the business."

—CEO, Drugstore Company

So does candor. "I hold 'CEO dinners' four times a year. Staff self-select. It's a very efficient way to get input. I always talk openly in these sessions."

—CEO, Utility Equipment Company

There's no such thing as too much communication. "I always carry two documents with me: (1) Pictures of my direct reports. Every day I mentally ask myself, 'Have I talked to these guys?' If not, I pick up the phone. (2) Contact details for my Top 100. When I'm in an airport, or similar, I will systematically call them, tick them off, then print a new list and start again."

—CEO, Luxury Goods Company

Build to last. "I'm obsessed about getting my succession in place and making sure that the critical elements of the change I've made are 'banked,' or in other words, are equally the obsession of my successor."

—CEO, Private Equity Company

Get help. "In my previous role, I used the chairman as a coach. That can work if there is respect, he has time and is willing to engage, but it also requires the CEO to have a degree of confidence."

—CEO, Aviation Services Company

Don't compartmentalize too much. "Avoid separate governance processes. For example, the best approach to risk management is the quarterly business reviews, not some risk register."

—CEO, Food Services Company

Delegate! "I would now get great people to do a lot of the 'other stuff,' for example, investor relations."

—CEO, Drugstore Company

Remember the big picture. "The role of civil society and the need to be seen as doing good is very new and different from 10 years ago."

—CEO, Luxury Goods Company

Are your senior leaders ready to step into the CEO's role some day?

Running a large business unit or managing a global function is essential preparation for executives aspiring to be CEO. But savvy chief executives also find ways to use the strategies for success to develop executive talent within their companies:

- **Experience with boards.** Most executives below the level of CEO have little experience dealing with boards of directors and all the governance issues that the board faces. So CEOs often help direct reports find nonexecutive director positions with other companies. The up-and-coming leaders will be that much better prepared to step into the top job some day.
- **Managing stakeholders.** Similarly, few executives other than the CEO are aware of all the stakeholders a large corporation must deal with—investors, industry groups, NGOs, governmental agencies, labor unions and so on. Chief executives can delegate some interactions with stakeholders to their direct reports, readying them for the greater responsibilities they may ultimately assume as CEO.
- **Teach "CEO habits."** The 60/40 rule, setting the right business rhythm and many of the other strategies for success that CEOs have developed can be learned and implemented by general managers and other senior executives, not just CEOs themselves. When the time comes, those executives will be ready to put the strategies to work in the corner office.

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