THE COMPLETE CEO

The Executive's Guide to Consistent Peak Performance

Mark Thomas

with Gary Miles and Peter Fisk

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For all those who have dedicated themselves to the ultimately impossible, but infinitely rewarding, task of being a complete CEO.

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Foreword

That CEOs should perform well is of the utmost importance to society. Companies that perform well, sustainably, generate huge value for their customers, fulfilment for their staff and, of course, attractive returns for their shareholders; and it is their CEOs who are ultimately responsible for making sure that companies do perform. Unfortunately, the world conspires to make it increasingly difficult to guarantee such performance. In most industries today, there is overcapacity; many are facing unprecedented global competition; and in many sectors, products are commoditizing faster than ever before.

In essence, despite these challenges, the job of being a CEO is a simple one: the CEO has to do three things well: to set the tone, to get the right people in place and to set the agenda. Setting the agenda is clear: where the CEO focuses will be where the organization focuses – and it falls to the CEO to make sure that the most painful realities as well as the most important opportunities are addressed. Getting the right people in place is also self-evident: no CEO can do much alone. The tone is the hardest: as CEO, one sets a tone without even thinking about it: the people one spends time with; one's pace of work and decision-making; one's extravagance or frugality – all send powerful signals into the organization, and the response to these signals can make a material difference over time to the health of the business.

Though it may be simple, it is difficult to get these things right, and this is where *The Complete CEO* has made a courageous effort, for the first time, to spell out what CEOs have to do to be successful. The high-

performance model, at the core of the book, moves from a clear and insightful discussion of what drives the creation and maintenance of a winning business model into a decomposition of the role of the CEO. The authors have worked with a number of highly successful CEOs and former CEOs to understand the essence of their success, and the actions they have taken day-to-day to drive it, and the result is a practical, easy-to-understand guide.

Of course, the raw material is the most important ingredient in making a successful CEO, but I believe that any new CEO, or indeed manager of a business unit, who takes seriously the challenges set out in this book, and makes wise use of the tools and techniques it suggests, will find ways to improve his or her performance.

Ben Verwaayen, CEO BT Group

Acknowledgements

As this book was approaching its completion, we started to set down the names of those who had helped us in writing it, and were astonished at the length of the list.

First and foremost, we must thank those CEOs who have worked with us, informed us and inspired us and on whose insights most of this book is based. Many of these CEOs are profiled or quoted extensively within the text: Warren Buffett, Chairman of Berkshire Hathaway; Michael Critelli, CEO of Pitney Bowes; Gareth Davies, CEO of Imperial Tobacco; Mervyn Davies, CEO of Standard Chartered Bank, who provided us with extraordinary detail about his early days in charge; Mike Frayne, Chairman of Intec Telecom; Justin King, CEO of Sainsbury's; Michael Krasny, former CEO of CDW; John McGrath, former CEO of Diageo and then Chairman of Boots; Tim Parker, CEO of the AA; Sir Brian Pitman, former Chairman and Chief Executive of Lloyds TSB; Ben Verwaayen, CEO of British Telecom – to whom we owe a special debt of gratitude for the foreword; and Joseph Wan, CEO of Harvey Nichols.

In addition to those we quoted were a number of CEOs with whom we have worked closely and who helped enormously by commenting on the concepts and drafts of the book but who out of an exaggerated sense of modesty declined to be profiled: Rolf Börjesson, CEO and now Chairman of Rexam; Jim Nicol, CEO of Tomkins; Sten Scheibye, the Chief Executive of Coloplast; and Terry Twigger, CEO of Meggitt.

To all of these we are extremely grateful. Another group whose untiring support was essential to the completion of this book were our colleagues. Matt Smith deserves special mention for his stamina: he has been involved from the conception of the book through to its completion. The PA Information Services Group, led by Sarah Wilkins, has worked tirelessly to provide us with the information we needed to illustrate the points in the book. James Allen, Sarah Cochrane, Murray Horrex, Lavinia Pickles, Annabel Pritchard, Selina Scales, Natalie Skidmore, Will Stevens and Robert Verwaayen have all made invaluable contributions to various sections. We are also grateful to our own CEO, Bruce Tindale, for his support for the project.

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The book has also benefited enormously from the critique of professional writers: Jim O'Loughlin made a number of insightful comments which helped us restructure an early draft, Richard Heller took a later draft and helped us to improve readability and Steve Coomber has laboured mightily to make the book look like a book rather than a consulting report.

Finally, thanks must go to our publishers, John Moseley and Mark Allin, for their extraordinary patience and understanding as we worked and reworked the manuscript.

Who is this book for?

Despite the title, this book is not just for CEOs. Yes, it is written for all those executives on the way to the boardroom and the position of chief executive officer, as well as for those already there – and for anyone interested in what the CEO does and should do to become an effective and successful CEO, and help build a great company. But, and this is an important point, this book is also written for a much wider audience. If you are a divisional or functional head, in charge of a strategic business unit or a corporate group, even a team, or if you aspire to any of these positions, then this book is for you.

Introduction

In charge of some of the major forces shaping society, the CEOs of the twenty-first century bear an enormous weight of responsibility. Their role is a difficult and challenging one. They are faced with a barrage of challenges that test their abilities to the extreme. Globalization means that business is more complex and competitive; customers are more demanding; there is growing pressure from financial institutions to meet performance expectations; change management and restructuring are high on the boardroom agenda; talented personnel are in short supply; and the pace of technological change, particularly the use of information technology, continues to accelerate. Plus, there is increased scrutiny from a variety of audiences and stakeholders including the media, NGOs, shareholders, customers and employees.

The demands of running a corporation create contradictory pressures. CEOs are routinely expected to make quick decisions while keeping a long-term perspective and to reconcile the imperative for performance with ethical concerns and questions of corporate responsibility.

Warren Bennis of the University of Southern California, and one of the world's leading authorities on leadership, believes the CEO's job is tougher than it has ever been:

> The job is more complex. There's a more clogged cartography of stakeholders, unbelievable changes, disruptive technologies, globalization, inflection points no one would even think ten years ago, and most of all, speed. It not only takes a strong stomach

and a tough nervous system but a mind that can take nine points of view and connect the dots.

On one hand the modern CEO is expected to be modest, unpretentious, engaging, flexible, diplomatic, ethical certainly, even humble. Yet that same person is expected to deal confidently with a rapacious media, boldly carry off audacious deals and fearlessly take on competitors. Truly great CEOs, it seems, require a perplexing combination of apparently incompatible characteristics.

CEO school?

So how do CEOs prepare for this onerous task? Is there a CEO school where future CEOs hone their skills? Unfortunately not. There are no CEO training schools; there are no standard examinations; not even a textbook. Rarely have we seen a decent job description.

The hands-on role of the CEO is a much misunderstood topic. Most CEOs learn from exposure to their own bosses – twenty years of absorption from a variety of CEOs, supplemented perhaps by an early spell at business school and combined, hopefully, with a pinch of natural talent. Global industry truly trusts to luck when it places an untrained CEO in position.

We decided that the role of CEO should be a mystery no longer. We plan to explode the myth, and portray the reality. In this book we provide a comprehensive taxonomy of the role of CEO. Each aspect of the CEO's role is explored in detail.

Our taxonomy is based on a series of our own models and tools, well established through many years of consulting work. These models have been developed and tested with a group of some of the most successful CEOs of the last twenty years – successful as recorded by what we believe is the one true success measure, long-term total shareholder return (but more of that later). Extensive interviews with these CEOs reveal a tale of ordered simplicity and care. Our research shows that great CEOs are great because of adherence to high personal standards, simple principles, common-sense rules and an inexhaustible curiosity. Our CEOs are not film stars, TV personalities or superheroes – though

they are of course very talented. We conclude that the route to being a successful CEO is open to more people than is commonly thought.

Being a successful CEO is about more than total shareholder return though. Being a CEO means judging your own behaviour – and rewards – against the standards you want your company to observe. Being a CEO gives you a responsibility that goes beyond your formal legal and fiduciary duties. It means looking after the welfare of something bigger than yourself. If you are not up for this responsibility, do not bother to read the rest.

There are many books on management. Hundreds, if not thousands. Most seek to illuminate a single area such as leadership or strategy; or else they tell the story of a particular CEO or business. Few, however, get their hands dirty and actually dissect and examine what the CEO does and should do. This book is not a skim through the soft skills of leadership, although it does address some of these issues where relevant. It is a tough, realistic look at the nuts and bolts of the CEO's job. It contains valuable practical advice and a high-performance model that can be applied in real life. It provides a comprehensive framework – and is in this sense 'complete'.

Some highly successful CEOs have told us that the principles, guidelines and tools contained in this book have proved extremely useful in their day-to-day work of leading a successful organization. We trust that you will find them useful too.

Our research

The authors have had the immense privilege of working with some of the most successful CEOs in North America and northern Europe, both in the preparation of this book and in our day-to-day consulting activities. These CEOs have all produced real value for their shareholders. Most of the valuable insights in these pages have come from these executives, and our debt to them is immense. We have also had the opportunity to conduct systematic research with 1,000 leaders of the world's largest quoted companies over the period 1997–2005. By comparing the ways these leaders ran their businesses with their long-term performance, we have

been able to distil some valuable lessons about what works in practice. Again, our debt to these leaders is enormous.

Overview

Many people aspire to be a CEO. They want to perform well, and have every reason to believe that they have the ability.

Once they are appointed, they find that the job has unique challenges. On any realistic measure of performance, about half of all CEOs fail.

How can you be one of the successes?

You might simply be lucky. You may make one decision that brings spectacular rewards. If you are a publisher, you might decide to publish the first *Harry Potter*; or if you are in movies, to produce the first *Star Wars*. Or your hapless predecessor as CEO may have made a decision that makes your results look good. But it is unwise to bet on your luck – and not many investors will do so without solid evidence that you know what you are doing.

This book argues that the fundamental purpose of any CEO is to maximize long-term shareholder value, which entails making an economic profit – paying back investors for the capital tied up in the business. Alarmingly, we found that over half of the companies worldwide that we researched have no idea whether they are achieving this at company level, still less at product or divisional level. Without such a measure, the CEOs of these companies are lucky if they manage to deliver.

Analysis of the best-performing CEOs shows that you can greatly increase your chances of success by mastering the four key levels of the CEO role (see Figure 1).

The book will help you to master each of these levels:

- The fundamentals: building the foundations – understanding clearly and committing to the challenge of long-term success

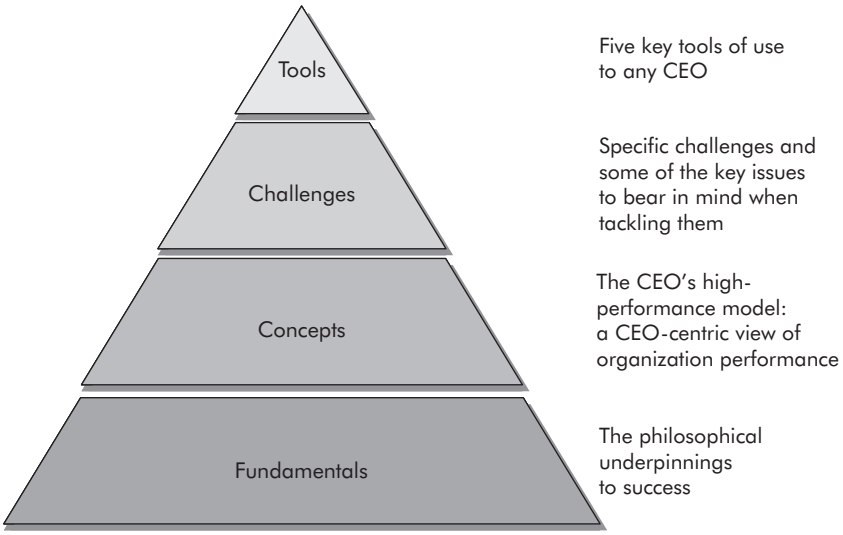

Fig. 1 Levels of the CEO role.
Source: PA analysis.

- Key concepts: applying the CEO's high-performance model to managing your business
- In practice: addressing the challenges you face with a constant focus on long-term shareholder value, despite the inherent distractions
- The CEO toolkit: making use of a number of proven CEO tools to help you apply the model.

In order to address these four levels, the book is split into four corresponding parts.

Part 1

The Fundamentals of Success

This first part of the book sets the context for the rest. It defines a number of concepts on which the rest of the book depends:

- Section 1 looks at the fundamental question of what is success for a CEO and concludes that CEOs are judged against far more demanding standards than most other managers. It demonstrates that long-term success for CEOs is synonymous with long-term shareholder value creation by their organizations. It explains that delivering long-term shareholder value requires the ability to create value for all direct stakeholders in the organization – most particularly for customers – and to motivate managers and staff to improve continually: a stiff set of challenges.

- Section 2 looks at some of the CEOs who have been most successful over the last ten years, and notes the extraordinary variety of styles and actions which led to that success. There appear to be no silver bullets either in terms of style or actions.

- Section 3 defines two of the key roles of the CEO: management and leadership. Broadly, management means making good decisions, and leadership means acting to ensure that your whole organization carries those decisions out. These two are quite different; they are both necessary, but neither on its own is sufficient. To be successful, a CEO has to work out how he or she will do both. Almost inevitably this involves recognizing and neutralizing some areas of personal weakness.

1 What is success for the CEO?

There is a continuing and lively debate about the ultimate purpose of a business. Some claim that the overarching purpose of a business is to ensure its own long-term survival. Others argue that a business exists in order to serve its customers, to preserve employment or to serve society more widely. Many managers believe that their job is to grow profits, or even just the size of the business. Finally, there is a school of thought that says that the job of managers is to maximize the long-term value of the business to its owners, the shareholders.

While this debate is entertaining, perhaps it does not matter all that much, since all the proposed objectives are mutually dependent. For example, a business that fails to keep its customers happy over a protracted period will not remain profitable (unless it is a monopoly): maintaining at least a reasonable level of customer satisfaction is essential for long-term financial success. Similarly, without the ability to attract and retain good staff, it becomes very difficult to sustain customer satisfaction.

In fact, if the shareholders are to benefit, it seems all the other stakeholders must be satisfied. So maybe the ultimate purpose of the business is unimportant; maybe all these different purposes for business are, in fact, equally important.

But this is emphatically not the case. The purposes outlined above are *not equivalent*. Far from it. While it *is* true that customer satisfaction is *necessary* to sustain an attractive level of financial performance, it does not follow that it is *sufficient*. A good example is the air transport industry.

Despite all our grumbles, this has provided a valuable service to millions of satisfied business customers and holidaymakers. Yet, since the Second World War, the industry as a whole has struggled to turn a profit.

If size, growth, ability to satisfy customers, ability to provide employment, and ability to support a large supplier base were measures of business success, the air transport industry would score very highly – but from a financial perspective it is a disaster. Many of its major players survive in their current form only because of government subsidies and protection from commercial realities. At the time of writing, for example, three of the leading five airlines in the US – United Airlines, Delta and Northwest – were operating under Chapter 11 bankruptcy protection.

Different purposes lead businesses in different directions. As CEO, it is vital to be crystal clear about your definition of success, because the rest of the organization will follow your lead. What *you define* as success internally will set the direction for the company and will determine whether in ten years' time, the business you are running resembles a loss-making airline or a company like Warren Buffet's Berkshire Hathaway in the US, which has returned a 24-plus annual return to its shareholders for well over four decades.

This section explains why maximizing the long-term shareholder value of the business must be the overarching goal of a company. CEOs are perceived as successful if, and only if, they perform against this measure. In fact, the successful CEO has to deliver long-term shareholder value regardless of any other ambitions:

- For the CEO, success must stand for the *success of the business*, not for a measure of personal contribution

- Whatever else is achieved, the CEO must get the business to deliver shareholder value

- Creating shareholder value entails making an economic profit – paying back the capital tied up in the business – something that many CEOs fail to measure and understand