Strategy Implementation **Insights**

Chapter 14 / Version 1.0

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NEW CEO SUCCESS . . . FROM DAY ONE

We urge all new CEOs to take five critical steps – from or before Day One in their new role:

1. **Step back before you step out – inventory resources, opportunities, and hostile and friendly terrain.**
2. **Broaden and sharpen your focus and vision – don't get sidetracked.**
3. **Make your numbers – deliver on commitments.**
4. **Watch the clock carefully – time is not your friend.**
5. **Communicate aggressively – manage expectations.**

The recommendations for focus and action that follow are applicable to CEOs selected from outside the company, as well as to those promoted from within.

While space limitations preclude addressing the full spectrum of issues and actions in our *Insights* format, we hope the following summary will provide a valuable overview for a transition to CEO success.

Early meetings with a wide range of constituents provides the opportunity for new CEOs to test their perceptions of the enterprise's strengths, weaknesses, and options for action.

Sometimes meetings with constituents begin as venting sessions, but when the new CEO is attentive, honest, and engaged, important underlying problems and potential solutions are often identified.

These meetings also provide the opportunity to expand personal contacts, to build relationships, and to assess the enterprise's culture and talent.

1. *Step back before you step out – inventory resources, opportunities, and hostile and friendly terrain*

Most new CEOs find themselves in the spotlight as soon as their selection is announced. Even before assuming the CEO role, they are asked to comment on goals, directions, and actions.

Rather than speculating during the first few weeks, the new CEO should feel comfortable saying, "I am determined to be thorough and thoughtful. Let me have a few (hours/days/weeks) to do my homework." This provides an important opportunity to manage expectations and establish open lines of communication. New CEOs promoted from within must not assume their prior experience allows them to sidestep this process.

▶ Inventory resources, opportunities, and hostile and friendly terrain

In most cases, it would be a mistake for the new CEO to announce action plans, staffing changes, or new business strategy without first understanding the organization's risks, opportunities, resources, and capabilities . . . and especially its capacity for change.

Areas for study for the new CEO include:

- critical resources, including brand, talent, technology, intellectual property, and infrastructure;
- strategic investors, partners, and customers;
- strengths and weaknesses of the industry, competitors, and competitive threats;
- opportunities for innovation and growth that enable competitive advantage;
- how "success" is currently defined and measured;
- financial performance compared to plan, and the enterprise's track record and plans in terms of stock value, credit rating, and cash flow;
- history of enterprise-wide strategic change initiatives, including mergers, leader and director transitions, and new business launches;
- performance, compared to commitments, involving investors, employees, customers, and partners;
- regulatory and legal issues; and
- processes, policies, practices, and culture.

▶ Be an effective listener

From our experience, great leaders are great analysts and listeners. During the first few weeks the new CEO must capitalize on the opportunity to play the role of listener and student, to discover perceptions, and to understand individual competencies.

The new CEO's credibility is strengthened when he or she listens, exploring individual views of opportunities to change or to continue policies and processes, strengthen and optimize people, and increase revenue, profitability, and shareholder value. It is important to expect that views will "cover the waterfront" and many will be diametrically opposed to one another.

A new CEO needs to understand which competencies and values led the board to choose him or her over other candidates.

Were there additional skills the board considered important for success that are not strengths of the new CEO?

It will be necessary to mitigate the new CEO's weaknesses quickly through executive coaching or enhancing the senior leadership team.

A new CEO must understand the board's priorities for addressing major operational and financial issues, and their expectations for CEO achievements.

During the first weeks on the job, the new CEO will need to test and assess the board's perceptions of the enterprise's strengths, weaknesses, and options for action.

Based on what is learned, the CEO will need to collaborate with directors to refine priorities, milestones, and expectations for success.

▶ Arriving at truth

Whether promoted from within, or recruited externally, the new CEO should meet quickly, one-on-one, with corporate officers, board members, and a broad cross-section of key global stakeholders including:

- alliance partners
- community officials
- distributors
- employees
- financial advisors
- industry advisors
- investment bankers
- investors
- joint venture partners
- lawyers
- major suppliers
- outsourced resources
- public accountants
- strategic customers

. . . and all remote locations, including manufacturing plants and sales offices.

Although the ultimate goal is to meet with all of these stakeholders, the scale and geography may limit contact within the initial weeks to the most strategic contacts, or locations, in each group.

The challenge will be to ensure that a diversity of views is represented. The majority view may actually reflect a "herd mentality" that misses key challenges and opportunities. A minority, or even rogue view, may identify a better strategic direction, a more effective or efficient way of achieving growth, or a better way to add long-term value.

▶ Define competence and perceptions

It is important to immediately understand the mindset and competence of the people the CEO leads or serves. The new CEO may not agree with the views unearthed, and he or she may be disappointed by the competencies observed.

New CEOs, assisted by trusted consultants or colleagues, can quickly analyze the discordant perceptions, inventory change resources and obstacles, build a profile of leadership talent, and then build a roadmap and timetable for change.

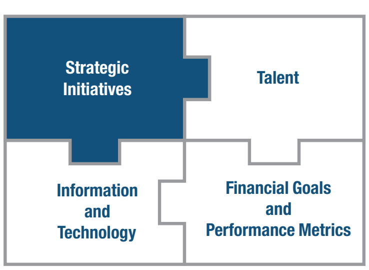
We urge that the preliminary version of the roadmap and timetable for change be developed in 30 to 45 days. Then, it can serve as the foundation for collaboration with board members, critical leaders, and outside advisors and resources.

Mandatory weekly senior leadership team (SLT) meetings should be conducted, even if from the road. The meetings should focus on operational challenges, and provide the opportunity for the new CEO to:

- demonstrate leadership,
- build relationships with the inherited SLT,
- assess the capabilities of each SLT member,
- establish accountabilities, and
- suggest hypotheses for strategic change to test the competencies of the SLT and their readiness for change.

Strategic change is always complex, with many important facets, interdependencies, priorities, risks, and benefits.

The framework for implementing strategic change must integrate initiatives, assets, and competencies across an enterprise. There must be a clearly defined timeline with frequent progress milestones.

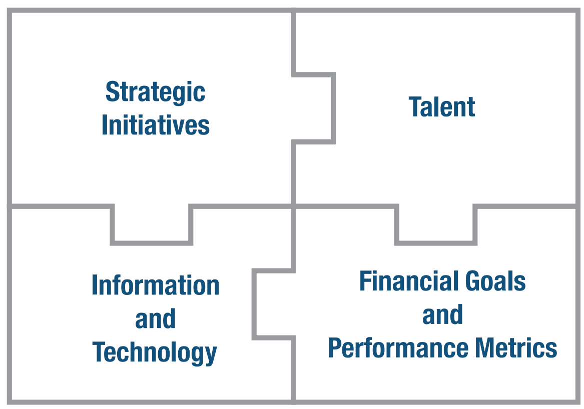


2. *Broaden and sharpen your focus and vision – don't get sidetracked*

The new CEO will quickly develop an extensive list of issues and challenges that seem to deserve immediate attention. Too often, new CEOs get sidetracked working on an area they know well, or on one challenge that seems important but may actually be just an isolated symptom.

We believe that there are at least four key areas requiring equally balanced attention by the new CEO:

- ► Strategic Initiatives Roadmap and Timetable
- ► Talent – Senior Leadership Team and Directors
- ► Information and Technology
- ► Financial Goals and Performance Metrics



► Strategic Initiatives Roadmap and Timetable

During the hiring process, the new CEO will have developed an understanding of the directors' vision and goals for the enterprise. From a personal due diligence review, the new CEO should arrive with initial hypotheses for strategic initiatives to advance the enterprise's success.

One purpose of the first round of research, travel, and meetings is to discover the information that will allow the new CEO to affirm or refine the enterprise's vision and goals, and the initiatives to achieve them. Questions to explore will include:

- What is a realistic vision and how will it evolve over time?
- Who will measure success, how, and in what time frame?
- What is the current state?
- What are the obstacles to success?
- What will enable success?
- What is a sound yet aggressive roadmap and timetable for action?

At the highest level, strategic goals are developed to create significant, sustainable, and scalable increases in shareholder value.

Strategic goals with time-oriented quantitative measures should be defined by the CEO and senior leadership team, then approved by the board of directors. These goals are then cascaded down into the business units and departments to define supporting initiatives at every level.

Creating a dynamic strategic vision, supported from the top to the bottom, requires a holistic perspective and integrated participation at all levels of the organization.

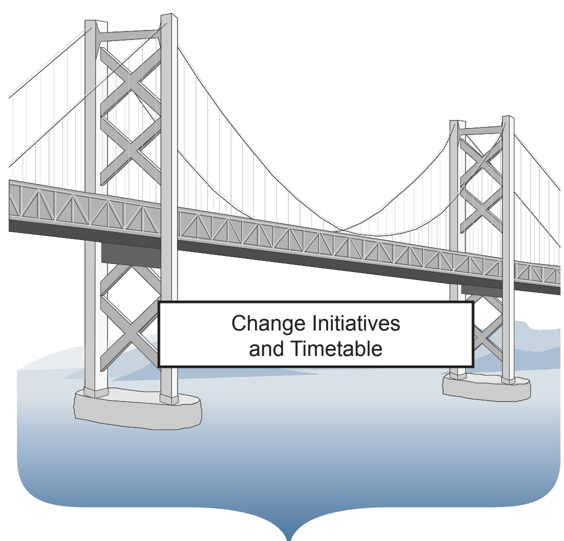
Working with the SLT and directors, the new CEO aligns priorities based on the vision and goals, then begins the process to define the strategic initiatives that will move the enterprise to success. It will be necessary at this stage to:

- Inventory active strategic initiatives to determine which ones meet the revised vision and goals, and which ones may need to be refocused, refinanced, or stopped. Stopping or refining existing strategic initiatives can be more difficult than launching new ones. However, it must be done to leverage scarce talent, technology, and financial resources, to ensure success.

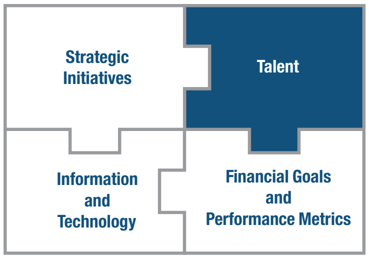
- Determine an initial group of the top three-to-five "must do" strategic initiatives. In our experience, most enterprises can simultaneously sustain the implementation of only a limited number of strategic initiatives.

- Develop an implementation timeline and quantifiable milestones for each strategic initiative, devote the necessary financial resources, determine initiative interdependencies, assign the talent essential for success, and define leadership competencies required for success.

Some clients have used the following bridge graphic as a metaphor to help define a vision from "as is" to "must be." The bridge graphic outlines a change journey sharply focused on essential resources and commitment to achieving end goals.



The new CEO, along with the SLT and directors, should quickly finalize the new framework of strategic initiatives and implementation plans. Formal reviews and presentations should be made to the full board of directors for approval, and then implementation announced and launched as quickly as possible.



► Talent – Senior Leadership Team and Directors

Senior Leadership Team

Through the first month or so of weekly SLT meetings, in groups and individually, the new CEO should begin to assess who should stay, who needs development, who should be moved to new roles, and who should go.

Our new CEO clients have frequently told us that expeditiously building the right senior leadership team is their most important challenge. Decisions regarding the SLT must be based on the competencies required to lead the new strategic initiatives – but these initiatives may take months to sort through and finalize.

We recommend that new CEOs keep the following in mind:

- Don't underestimate the fact that a significant number of key people may leave. During a period of leadership change, key people will leave for a variety of reasons. The loss of key people creates turmoil and ambiguity, and potentially negative fallout in employee and customer relations. Arrive prepared to quickly identify and re-recruit key people and to develop bench strength one level below the SLT, to mitigate the impact from those who leave.

- The search for potential SLT candidates must extend beyond the headquarters' organization charts. During the initial period of listening and travel, the new CEO should identify key leaders with close ties to markets, customers, employees, and intellectual property essential for long-term strategic growth. These leaders should be included in early collaboration on visions, goals, and strategic initiatives, and quickly transferred or promoted as appropriate.

- Since an external search for SLT-level executives can take four-to-six months or longer, the openings will need to be determined and search parameters designed quickly.

Directors

New CEOs should quickly establish working relationships with, if possible, each and every director. The sequence and timing of interactions will be impacted, among other things, by whether the new CEO also serves as the board chairman.

If there is a separate chairman, the new CEO has leeway to focus initially on company leadership, operational, and strategy issues. However, if the new CEO also holds the chairman's role, or if the board is especially dysfunctional, the new CEO may need to devote more time and attention to board leadership early on.

Leading and managing the board is a significant activity, where the end goal is to ensure the exemplary effectiveness of each director and the board as a whole. Directors, and the board they represent, should be strategic assets and positive competitive differentiators.

Replacing directors can require a long lead time for resignations, search, selection, and orientation. Early assessment of competency gaps and director replacement decisions will be important to ensure that a strong and focused group of directors is available to advise, support, and mentor the new CEO.

Losing key people, particularly those with close ties to markets, customers, employees, and intellectual property, can be damaging. It is important to identify critical survivors and then re-recruit, collaborate with, and involve them as early as possible.

The board and SLT should reflect the global demographic profile of the company being built.

The complexities of globalization demand new leadership skills, creativity, processes, and operating structures.

Understanding customer needs, the regulatory and competitive environment, talent requirements, and corporate cultures is orders of magnitude more complex when dealing in multiple languages and dialects, cultures, values, and business practices.

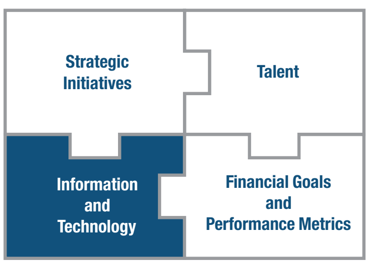
It is important for the CEO, chairman, and directors to be personally and collectively responsible for frequently recalibrating and quickly responding to the unique and often fast-changing factors that, in the end, will define success, mediocrity, or failure for the enterprise. These circumstances include the following:

- Every board, and each director, must comply with the unique laws and regulations imposed, at the moment, by the government agencies and stock-trading exchanges relevant for that company, in that country.

- Every board, and each director, should understand and respond to the unique current and evolving needs of their company's markets, customers, partners, suppliers, and competitors . . . in every part of the world. It is essential to consider unique cultures, values, business practices, and belief systems, hundreds of unique languages, and countless levels of economic development.

- Every board, and each director, should understand and respond to the unique competencies, needs, and aspirations of the directors themselves, the chairman, and the CEO and senior leaders.

► Information and Technology



The company's information and technology capabilities must provide positive competitive differentiation.

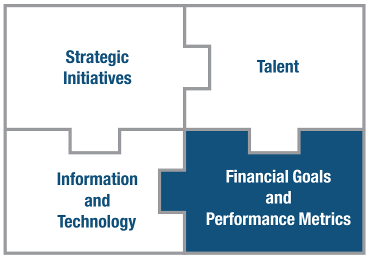
The IT organization must be aligned with the operating units, to support strategic initiative objectives.

Organizations have become increasingly dependent on a broad array of information and technologies (IT) to operate and grow their businesses. New CEOs must question the:

- alignment between IT strategy and tactics and corporate strategy;
- talent and capital requirements for IT initiatives in the context of corporate talent, and capital availability and needs;
- flexibility and ability of current IT architecture to meet such business challenges as regulatory reporting, new business launches, mergers and acquisitions, and marketplace change . . . worldwide;
- potential for competitive advantage in the unique strategic deployment of existing and emerging IT; and
- risks to shareholder value from the high cost and long-term horizon of IT investments.

Except for leadership talent, IT may be the single most critical point of vulnerability for most of our global clients. We have seen too many business failures due to inadequate IT strategy planning, merger failures due to the inability to integrate multiple platforms and programs, and missed marketing opportunities caused by the inability to mine data from legacy systems.

The new CEO must quickly assess opportunities for competitive superiority and mitigate the enormous risks that IT presents. IT solutions are expensive, can quickly spiral out of control, and can cause irreparable damage to an organization. The new CEO should anticipate significant challenges involving security, legacy systems, infrastructure, scalability, recoverability, knowledge management, and talent.



▶ **Financial Goals and Performance Metrics**

Quantify everything that matters. Present quantitative goals in the context of the past three years of actual performance and the projected next three years, aligned with the strategic initiatives . . . and then deliver.

For example, eliminating one product line to focus assets on a new product line may adversely impact near-term revenue or margins. Presenting a decrease in one quarter, or one year, in the context of longer term projections is an important tool in managing expectations for intermediate and end-game goals.

Examples of quantitative goals to project and track for a three-year period include:

- quarterly – product, geography, and business segment goals, measured in terms of:
  - $ revenue
  - $ profit contribution
  - % employee or customer satisfaction
  - % employee turnover
  - % margins
  - % market share
  - % return on assets
- stock price and market capitalization
- credit rating
- growth from structural change, for example:
  - transitioning from private to public ownership
  - merger, joint venture, or alliance partnership

3. Make your numbers – deliver on commitments

The new CEO will need to understand quickly, refine if necessary, and deliver on commitments that have been made to key stakeholders. The new CEO builds credibility delivering on commitments, setting an example for others to follow.

Regardless of when the new CEO comes on board, the operating plan and budget must be reviewed and confirmed within the first 30 to 60 days. The CEO must quickly report to the board what he or she believes is achievable or not achievable, and why. Then, begin to deliver.

Another key factor for CEO success is ensuring that the quantifiable milestones, within the framework of strategic initiatives, are cascaded down into the business units and departments.

Cascading responsibilities and accountabilities for delivery against strategic expectations ensures alignment of assets and competencies across the enterprise, and can identify gaps or overlaps. Mitigation of gaps or risks can be pursued, or the quantified milestones adjusted quickly.

4. Watch the clock carefully – time is not your friend

Like a multi-faced clock in the town square with some sides out of sync, different stakeholders will have different views of the timing for the CEO's success. The new CEO must manage time with an understanding of these multiple viewpoints.
Key questions include:

- Which clock are you watching?
- What clocks are other people following?
- How do you know which clock is accurate?
- What if you are out of time and just don't know it?

One client CEO has established aggressive revenue and EBITDA growth goals. He depicts a 36-month clock, divided into quarters, on the front of the board briefing books delivered to directors in advance of each quarterly meeting. The hour hand is moved around the face of the clock for each meeting – a dramatic visual to keep him, the directors, and the SLT focused on the time left to achieve the established goals.

Most new CEOs run out of day before they run out of "to dos." They must be ruthless in establishing priorities for high impact objectives and delaying "nice to achieve" but low impact objectives. Decisions on what to personally manage or delegate to the SLT will be unique to each enterprise. The SLT assignments need to be clearly communicated to everyone concerned.

The new CEO must establish expectations about priorities and timing, establish contingency plans if timing may be delayed, and communicate clearly the consequences of a delay to all concerned stakeholders.

New CEOs also must be alert to what is not happening. Success hinges not only on what is being done, but also on what is not being done on time, or perhaps not even assigned a time on anyone's clock.

A capacity for anticipating opportunities and understanding threats needs to be embedded in the strategy implementation process, to sound an alarm when a course correction may be needed.

5. Communicate aggressively – manage expectations

The CEO is the public voice of the enterprise. The CEO must communicate tirelessly with key constituent audiences:

- each and every member of the board of directors,
- each and every member of the senior leadership team,
- employees and unions,
- strategic customers,
- strategic investors and partners, and
- strategic vendors,

. . . in the framework of the larger world of competitors, the economy, regulations, and continual change.

However, the communication plan must begin first with the CEO listening. We believe that communication is 60% listening, 60% explaining, and 100% shaping and managing expectations.

The new CEO must listen, then explain creatively, tenaciously, and aggressively–24/7 and worldwide–in all the native languages of the critical audiences. Adequate resources must be committed to the effort, including leveraging technology – intranets, Web portals, blogs, and 800-number inquiry centers staffed with "real" people to handle complex questions.

Selecting the right medium for each message and audience is key to success. Do not use e-mail to manage expectations that need a two-way exchange. "I sent an e-mail" is not communicating. It is important to elicit, then listen to, concerns and questions, in order to know how to establish and manage expectations.

The goals of the communication plan include being certain that your critical audiences:

- embrace, and have the opportunity to influence, your vision and timetable for changes that may have an impact on them;
- identify with the win-win enabled by the new CEO and SLT, and the new strategic initiatives;
- understand milestones, risks, and mitigation plans;
- understand their personal role and accountability for strategic success; and
- feel empowered to express what's on their minds within a culture that keeps communication channels open, up and down the organization.

The new CEO must communicate from, and in some cases before, Day 1 – even if it is just to let the audiences know that there is nothing to communicate yet. In the absence of the new CEO's perspective, even bright people often fear the worst, invent incorrect scenarios and expectations, or are influenced by the rumor mill.

The new CEO needs to address rumors, quickly, and underlying concerns and misperceptions before they escalate, sapping time and energy from the organization and causing damage that is difficult to mitigate.

Leadership change can be unsettling at every level in the organization.

The new CEO must be proactive in anticipating and answering constituents' questions, such as:

- What does this mean for me?
- What is going to happen to me?

Summary

Leadership styles and practices that generated success in other positions may not apply in the new CEO role. For most CEOs, the changes in visibility, responsibility, and perception by others quickly make it clear that being a CEO is different. Use this realization to guide focus, decisions, and actions.

Our experience is that integrity, agility, and strategy-based decision making are skills that most frequently lead to success. Conversely, defensiveness, inconsistent messages, and making decisions prior to doing all the homework frequently lead to failure.

As the new CEO leads his or her enterprise on the change journey from "as is" to "must be," our recommendations in five critical areas should be considered for immediate and sustained success.

1. **Step back before you step out – inventory resources, opportunities, and hostile and friendly terrain.**
2. **Broaden and sharpen your focus and vision – don't get sidetracked.**
3. **Make your numbers – deliver on commitments.**
4. **Watch the clock carefully – time is not your friend.**
5. **Communicate aggressively – manage expectations.**

As we prepare each new ***Insights*** chapter, we circulate it to selected clients and alliance partners for peer review. We would like to thank the following for their comments: Dick Clarke, Kevin English, Don Hirsch, Frank Ianna, Bronwyn Poole, and Mike Ruffolo.

We look forward to sharing our lessons learned in more detail.

We welcome your suggestions, thoughts, agreement, or disagreement. Please contact Sharon Carrigan, *Insights* editor and Vice President, Communications at 203.801.5002 or ***sec@implementstrategy.com***

April 2006
New CEO Success

Our Firms

McCreight & Company, Inc. partners with clients worldwide, helping to ensure their competitive superiority, designing and guiding the implementation of sound and sustainable strategy. Our unique consulting and operating experience evolved while partnering with many of the world's most respected leaders and most dynamic organizations. Our capabilities are further enhanced by our two sister firms – Board Effectiveness Partners and the CIO Group.

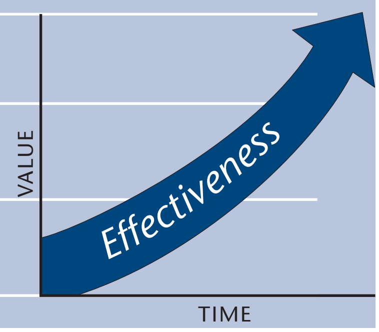
How We Add Value

Analyze and refine strategy

Define implementation initiatives with timelines and milestones

Define implementation roles, accountability, and resources

Monitor implementation progress and identify and help mitigate roadblocks



Our Goal

Our goal is to ensure strategy is sound, sustainable, scalable, and successfully implemented, on-time, on-target, and on-budget. We partner with clients in designing and implementing strategic change, including: global growth, leadership transitions, board and director effectiveness, business restructurings, new business launches, mergers, acquisitions, joint ventures, and alliance partnerships.

Industry Competencies

- Aerospace
- Communications
- Defense
- Foundations
- Information & Technology
- Intelligence
- Life Sciences & Health Care
- Media
- Professional Services

Our Chairman

JOHN MCCREIGHT has devoted over 35 years to consulting and partnering with CEOs, senior management, boards, and investors, defining and implementing large-scale strategic change. Mr. McCreight leads every engagement and is professionally involved on site.

Alliance Partners

Each strategy implementation engagement is unique in terms of our client's needs, our response, and the consulting competencies and professionals involved. McCreight & Company nurtures relationships with over 100 alliance partners worldwide. They strengthen our capacity to ensure our clients' success. Our alliance partners exemplify preeminence in their fields and complement our core competencies.

Research & Operations Center (ROC)

Our ROC professionals are linked globally to our clients, alliance partners, industry experts, and the academic community. We focus daily on monitoring facts, opinions, successes, disappointments, lessons learned, and emerging best practices in many areas, including board and director effectiveness, information and technology, and the issues and challenges that impact strategy development and implementation.

INSIGHTS

We publish *Strategy Implementation Insights* periodically to encourage dialogue on strategy implementation effectiveness.

We invest in developing and publishing *Insights* chapters to share the lessons we learn during consulting engagements, supplemented by our ongoing research.

Our readers are encouraged to pass this *Insights* chapter along to others, or contact us for additional copies.

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