

EXECUTIVE INSIGHT

Grooming a World-Class Chief Executive: Part 1

Defining World-Class Performance Dimensions

WHAT WE THINK

Who has the most critical and influential role in every institution? Most people would agree it is the CEO.

Not only are the organization's prospects impacted by the CEO's leadership, the lives and fortunes of thousands of people, and sometimes entire communities, are affected by their decisions.

For this reason, ensuring a capable successor to a sitting chief executive is one of the most important duties of a board of directors. The incumbent CEO and senior HR leaders also have key roles to play in this crucial task. But where do they start? In order to groom a world-class CEO, you must begin by defining the target. In Part 1 of this two-part Executive Insight, RHR International outlines the criteria that define world-class leadership performance in the chief executive position.

First and foremost, truly great CEOs can be measured by their ability to lead their organizations in delivering sustained performance in the top 10% of their industry. What actions or skills allow them to achieve such amazing results? After working with CEOs and top leaders over many decades, RHR International believes there are five core dimensions that chief executives must perform well.

Ensure the Right Strategy

CEOs must establish a vision and use it to anchor and align key constituencies (employees, senior team, board,

customers, and investors) around the purpose and direction of the organization. Great CEOs such as Sam Walton, Steve Jobs, and Michael Dell are often the architects of breakthrough strategies.

Others, like Lou Gerstner of IBM, have to adapt or radically change a strategy that no longer produces results. On the other hand, some CEOs need to have the foresight and courage to stay the course in leading their companies by not diverting from the core strategy. In every case, a world-class CEO is sufficiently savvy to ensure a winning company strategy. To skillfully execute this dimension, chief executives must possess forward vision, pattern-recognition skills, and the capacity to innovate when required.

Make the Right Investments

In consultation with their boards, world-class CEOs make the right bets about where to put the company's limited resources. Then, they work closely with their CFOs and other key direct reports to stay on top of short-term financial performance and

longer-term trends. To do this properly, CEOs must cultivate and leverage deep knowledge of how the company makes money. Really great CEOs maintain a close, hands-on understanding and appreciation of all of the key levers that drive revenue and the significant risks to the stream. Part of the 2008 worldwide economic swoon was due to surprising ignorance from many financial sector leaders about what risks were on their companies' balance sheets. Both Jamie Dimon of JP Morgan Chase and Lloyd Blankfein of Goldman Sachs are examples of CEOs who managed their risk exposure and balance sheets better than their peers, thus helping their companies fare better during the economic downturn.

Unwavering Focus on Talent

To successfully execute strategy, CEOs must ensure the selection, development, and retention of great talent. World-class CEOs set the bar high and make talent management a personal priority. In addition to the careful selection and leadership of their senior team, great CEOs invest in processes that support the growth and

performance of all employees. Why? They know that cultivating exceptional talent is a competitive advantage. While compensation is always a consideration in attracting and retaining talent, people also make decisions about where to work based on the people they will be working with and for. Ajay Banga at MasterCard is a great example of this. He is a talent magnet and is making tangible commitments toward the development of his workforce. Great talent begets great talent. World-class CEOs know this and make significant investments toward making sure they surround themselves with the finest individuals available.

Create Stakeholder Value

Great CEOs represent the company to all key stakeholders with high levels of respect, credibility, and integrity and create value through building strategic relationships within each group. The board of directors tops the list: wise chief executives leverage its contribution and spend time cultivating a strong partnership.

For publicly traded companies, it is essential to properly inform and guide the investment community. All companies have vital customers and funding sources who expect to interact with the corner office as well. Time and attention should also be given to industry, regulatory, and community constituents. While often overlooked, the workforce of the company is a critical stakeholder. Great CEOs inspire their employees and engender pride of association. Those who miss on this or (worse yet) violate public, customer, or employee trust, erode the reputations of their company and compromise their ability to attract the best talent.

Skillfully Manage “Moments of Truth”

Even the best leaders will likely face some unforeseen situations outside their control that pose serious threats to the organization’s well-being and maybe even its existence. How CEOs conduct themselves when faced with these challenges usually plays out in full view on the world stage. Consider

the difference between the leadership of BP during the oil spill versus that of Johnson & Johnson, who were praised for their swift actions during the 1982 Tylenol-tampering crisis. Courage, a strong moral compass, and unequivocal ethics, especially during times of great stress and challenge, are the character traits that result in high levels of respect, credibility, and followership.

The Bottom Line

Whether you are selecting a new leader, trying to become a better CEO, or preparing potential successors, remember that a world-class chief executive:

- Ensures the right company strategy and direction
- Makes the right investment of company resources
- Maintains unwavering focus on talent
- Creates customer and stakeholder value
- Manages “moments of truth” with wisdom and skill

ABOUT RHR INTERNATIONAL

RHR International LLP is an independent global leadership consulting firm whose mission is to unlock potential in leaders. Through its behavioral lens, RHR has worked side by side with CEOs, board directors, and senior executives for more than 70 years, helping them acquire the knowledge, wisdom, and skills necessary to achieve business results.

RHR’s practical solutions, guided by in-depth analytics, lead to business outcomes that further clients’ success. RHR offers Executive Bench®: Talent Pipeline suite of services, Board & CEO Services, Senior Team Effectiveness, Leading Transformational Change, Executive Development, and Executive Assessment across industry sectors. For more information, visit rhrinternational.com.