

## Do Strategy Practitioners Make Excellent CEOs?

### SCG Explores The Phenomenon Of Appointing Strategists Into Leadership Roles

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In light of the announcement that Ian Narev, at the tender age of 44, will succeed Ralph Norris as leader of the Commonwealth Bank of Australia the 2<sup>nd</sup> largest business on the ASX, Stonewater Consulting Group (SCG) takes a closer look at what makes strategy practitioners the “flavour of the day” for executive line roles within industry.

By no means is this trend to appoint previous strategy consultants into leadership roles unique. Indeed, Mr Narev is walking a well-trodden path; following in the footsteps of many of the top 100 ASX CEOs. Other examples include Marius Kloppers at BHP (McKinsey), Cameron Clyne at NAB (PwC & IBM), and Nick Leeder at Google Australia (McKinsey). And what seems to bind these individuals is the ability to set the vision and subsequently ensure strategies to address this vision are created and implemented successfully.

USA Today note that of the top 10 companies at producing CEOs, McKinsey tops the list, with Deloitte, PwC, and Ernst & Young also making the top 10. In their words “McKinsey, Deloitte, PwC, Ernst & Young and the now-defunct Arthur Anderson all rank in the top 20 CEO factories. [These] Management Consultants... can recruit the top MBA grads, who help companies solve knotty problems and those who succeed earn reputations and a fast track to the top”.

In their quest for success, these CEOs navigate a path from the old to the new; determining what resource options are best suited to help develop and implement their various strategies. They lead from the front and embark on a promised journey to a brave new world. So what makes them so successful (and indeed, are they so successful)?

To address this particular topic, we took a 3-pronged approach to our research by asking the following questions:

1. How is the success of a CEO measured?
2. What are the common traits that are consistently manifest in successful CEOs?
3. What is it in the Strategists toolkit that provides these individuals with the "keys to success"?

## Measuring Success as a CEO

Unlike with some other management and leadership roles, the CEO's role often comes with little ongoing performance reviews and development appraisals. Even when a CEO asks for honest feedback from his or her management team, the fear is there: non-flattering feedback may stall a promising career. And even when a company uses 360-degree feedback mechanisms, we have seen that in reality it is difficult to measure and hold a CEO accountable.

Of course there is The Board of Directors, which oversees the CEO, but they are far removed from day-to-day actions and – although, over time, they can evaluate performance – they look mainly at share price and company strategy. They are rarely interested in or concerned with the CEO's daily behaviour.

However, share price is only one indication of success and doesn't necessarily provide any indication of what is happening internally within a business. If one agrees that in its broadest terms the CEO's job is setting strategy and vision, building culture, leading the Executive Team, and allocating capital then by measuring performance based on the duties in pursuit of these aims, a CEO can be better monitored in terms of success.

Experts at Wharton say that, "even though hard numbers play a critical role in determining short and long-term remuneration, compensating a CEO can sometimes be as much an art as a science, because any number of factors can affect the way CEOs are judged by their boards". Some of the "factors" they refer to include a particular management style; an especially challenging industry; soft metrics (such as customer satisfaction or R&D); the influence of increasingly well-informed shareholders, and an organisation's age (start-up vs. mature company).

Charles M. Elson, director of the John L. Weinberg Center for Corporate Governance at the University of Delaware says that the metrics used to measure the success of a CEO "are all over the road," and may include such figures as earnings per share, return on equity, return on assets, return on capital, revenue growth, cash flow and EBITDA, or earnings before interest, taxes, depreciation and amortisation. "Typically, it's a blend of earnings targets, sales targets, sometimes the success or failure of dispositions or acquisitions," he notes. "The stock price is a part of it, too."

An interesting sub-note to this is that according to research undertaken by Justin Menkes (author of "Executive Intelligence" and "Better Under Pressure: How Great Leaders Bring Out The Best In Themselves And Others"), no matter how successful or seemingly secure any business appears, there are no longer periods of calm seas for leaders in any industry. Justin claims that although more than half the companies that were industry leaders in 1955 were still industry leaders in 1990, **more than two-thirds of 1990 industry leaders no longer existed by 2010.**

Therefore, a successful leader isn't simply managing returns for the short-term, but navigating the way for future success against an ever changing market.

### Common Traits of Successful CEOs

In a recent study commissioned by the Harvard Business Review, performance data for approximately 200 candidates being assessed for the CEO role at major U.S. corporations was gathered. These candidates were divided into three groups, with the top-performing quartile labeled "highly successful," the middle two quartiles characterised as "average performers," and the bottom quartile as "highly ineffective."

What emerged was that certain attributes — three in particular — were highly consistent within the top performers, regardless of industry or job type. Clearly, this mental architecture was responsible for the execution ability of the most effective executives operating under pressure. What's more, these attributes were almost totally absent among the bottom-performing quartile.

What transpired is that to perform their best in today's turbulent atmosphere, leaders must possess a highly unusual set of three traits that often run counter to natural human behaviour. These attributes are catalysts for the mastery displayed by the world's best CEOs — and, together, they add up to a new definition of leadership:

1. **Realistic optimism.** Leaders with this trait possess confidence without self-delusion or irrationality. They pursue audacious goals, which others would typically view as impossible pipedreams, while at the same time remaining aware of the magnitude of the challenges confronting them and the difficulties that lie ahead.
2. **Subservience to purpose.** Leaders with this ability see their professional goal as so profound in importance that their lives become measured in value by how much they contribute to furthering that goal. What is more, they must be pursuing a professional goal in order to feel a purpose for living. In essence, that goal is their master and their reason for being. They do not ruminate about their purpose, because their mind finds satisfaction in its occupation with their goal. Their level of dedication to their work is a direct result of the extraordinary, remarkable importance they place on their goal.
3. **Finding order in chaos.** Leaders with this trait find taking on multidimensional problems invigorating, and their ability to bring clarity to quandaries that baffle others makes their contributions invaluable.

Furthermore, it seems that these three attributes have become even more important through the beginning of the 21st century. The good news is that these three capabilities can be learned!

## In The Pursuit Of Greatness

No matter the sector or timing in the market, our research shows that a great CEO is ultimately defined by their leadership qualities. Those that are best at creating a strong culture within an organisation are invariably the most successful. And it is this ability to be at once cheerleader and task master that perhaps best describes their function. Out of the visionary leadership qualities comes clarity in the way a great CEO defines and communicates the strategy for the way forward. Employees are not left wondering about what the company is striving for; indeed they can articulate the strategy because it's been so clearly defined for them.

Once the groundwork has been done, we also know that great CEOs are then prepared to get their hands dirty. They don't stop at creating the strategy; they are right there, balancing the priorities and inspiring their team and they are able to sort out mistakes in a "blameless autopsy" so that creases can be ironed out and success may be achieved as soon as possible.

Last but not least, a great CEO knows when they aren't a great CEO; meaning that they know what they're good at and what they're not. And of course it doesn't stop there. They are then willing to seek others more able than themselves to take the helm in the areas they know they don't excel. In some circumstances, they may even need or wish to reposition themselves; especially where conflicts of interest may arise.

### What Makes Strategists Successful In Leadership Roles?

So now that we have identified the key traits of exceptional executive talent, we need to ask why it is that Strategists/Management Consultants are being singled out as the future leaders within the commercial (and, to a lesser degree, Government) sectors.

Management consulting is one of the more popular career paths for senior executives, because having an MBA and a consulting background is considered one of the best preparations for general management positions. Amongst other things, it appears that the reason for this is most consulting firms will provide their staff with experience in what are considered to be the core business mechanics:

- *General Strategy:* matching the company's external environment with internal strengths to decide which paths the company should follow when faced with a wide array of opportunities.
- *Operations:* delivering excellence in business processes across the functional areas of the organisation.
- *Human Resources/Organisational Structure:* understanding proper structure, efficient communication mechanisms, compensation to support corporate goals, and specific human resources processes.
- *Finance and Financial Modeling:* establishing more efficient processes for managing financial information to help companies make better financial decisions with the data they have.
- *IT Systems and Implementation:* designing, developing, and/or implementing information technology systems for financial reporting, inventory control, human resources, customer relationship management, e-commerce, etc. This often requires a thorough understanding of the information technologies, the business processes and the strategic context in which the information system is deployed.

In short, exceptional leaders need to excel in a broad range of dimensions and truly gifted leaders have a good feel for selecting, motivating, and evaluating people; developing and selling a strategy; creating an inspiring culture; developing an organisational structure and management process that work for the strategy; fostering cooperation across silos; understanding and using financial measures; and an understanding of how marketing, branding, finance, production, distribution contribute to strategy. Therefore, it is unsurprising that extra consideration is given to individuals from consulting backgrounds, who by inference have "ticked off" many of these areas.

Furthermore, consultants are trained to make sound strategic judgments. Rather than just having a flare for good judgment, a strategist is taught how to identify issues, distill facts, and develop instincts to make sound strategic decisions. This competence that strategy professionals possess when it comes to making high-stake decisions is perhaps one of their greatest differentiators. Even the most decisive manager can be thrown into despair when faced with a high-stakes matter, but less so a strategist. Working on the principle that a single approach won't necessarily work for every situation, there are nonetheless key factors that strategists are taught to consider when making high-stake decisions which ensure they reach a sound conclusion.

### **The Concept Of High-Stake Decision Making**

People respond to the pressure of big decisions in different ways. As Michael Roberto, the Trustee Professor of Management at Bryant University, said in one of his Management Articles "What You Don't Know About Making Decisions", "all too often decision-makers rush to a conclusion or else dither endlessly and decide too late." Finding a middle ground is difficult, agrees Sydney Finkelstein, the Steven Roth Professor of Management at the Tuck School of Business at Dartmouth and co-author of "Why Good Leaders Make Bad Decisions." "When there's more at stake, you have to take more time, but how much time really depends on the magnitude of the decision," he says. In any case, whether you are inclined to take shortcuts or not, what's most important is to be aware of the hazards that might befall you, and how to avoid them.

Management Consultants are trained in understanding not only how to make big decisions, but who should be involved. In short, they understand that big decisions shouldn't happen in a vacuum. By consulting others, they expose themselves to differing opinions, which in turn helps them to make a more informed choice, and

gives them a better shot at winning buy-in from those who will be affected. At the same time, strategists are able to compute the risks. But while important issues, such as changing the strategic direction of a group or hiring a new manager, typically require input from many sources, at the end of the day, one person needs to be accountable and it's walking this fine balance that Management Consultants seem to do extremely well.

## Conclusion

Leadership plays a critical role in enabling organisational growth and transformation and ultimately strategic success. Good strategy identifies an organisation's current reality as well as its desired destination; what it needs to develop and how it needs to change in order to successfully compete and achieve its business objectives. It is therefore no wonder that the gap between current reality and desired destination can be filled by individual strategy competency as well as building organisational capability. Becoming a great CEO is a process of growth and development. From gathering knowledge, skills, and experience through successes and failures to building networks and a trusted approach to tackling business challenges. It is this vital blend of knowhow and leadership that really defines the success of a CEO. Perhaps the most critical factor facing senior executives in global organisations is preparing for change and it is this context of "change and renewal" (i.e. building businesses that need to continue developing to continue to be successful) that plays to the strengths of Management Consultants and Strategists. The proof is, of course, in the pudding and we therefore wait to see how effectively these leaders can steer us through the choppy and uncertain waters that the global economy is currently facing.