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Lessons from the
Trenches for New CEOs
*Separating Myths from
Game Changers*



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EXECUTIVE SUMMARY

CEOs operate in a new terrain today. Financial and regulatory changes have altered demands on corporate leaders. Boards hold CEOs and their teams more accountable than in the past, and fewer CEOs also hold the position of board chair. How does an incoming CEO negotiate this new environment?

Based on our experience in the trenches with top management across a variety of sectors, and on 11 annual surveys tracking CEO succession, we've identified four game-changing practices that will substantially contribute to success for new CEOs. They are especially useful for those who fit the typical emerging CEO profile: an executive who came up from inside, with deep knowledge of the company but no prior CEO experience; who does not hold the concurrent position of board chair; who has no COO; and who faces high board expectations. These game changers:

Engage the board as a strategic partner. Boards today need to own strategic decisions jointly with the CEO; they no longer simply anoint them at an annual off-site. The CEO must keep the board engaged in the same way that business units are expected to engage the CEO.

Do only what only a CEO can do. With so many tasks vying for attention, the CEO must focus on shaping

the company's definition of success, breaking the frame (for example, by changing some fundamental aspect of the company's business model), resetting expectations, and integrating the company parts with the whole.

Find the right pace for change. Moving too quickly can be as problematic as moving too slowly. Setting the right pace requires resisting arbitrary pressure to chalk up fast wins, while moving rapidly enough on the company's critical priorities to keep it moving forward. Few experienced leaders look back on their years as CEO and feel that they moved too slowly on their companies' critical priorities.

Get the culture working with you. The informal, emotional elements of the organization are as important as the formal, rational elements. A CEO must understand how these operate and use the organization's hidden strengths to move the company forward.

THE NEW CEO TERRAIN

Being a CEO has gotten tougher in recent years. The shift has been driven by major changes in the regulatory and business environment over the past decade. Prevailing standards for corporate governance have become more formal, more rigidly codified, and more universal across international boundaries. Sources of capital have become more demanding and expect to be more involved in decisions about how capital will be used and how investments will be returned. More stringent demands for transparency, from both investors and regulators, have created high expectations for CEO performance, and there is little room for error. And the time frame for succeeding is shortening.

Since the terrain is new and there are few guideposts, it's difficult for a new CEO to find a reliable path to follow. Your predecessor's experience is likely to be less relevant than it would have been a decade ago, because that person's job was very different from the one you now hold. The guidance you get from board members, including the chair, will be immensely valuable, but also limited in light of their different backgrounds and the fact that their responsibilities have diverged from your own.

These shifts in the structure of your job have the potential to make you more effective. They may lead to clearer expectations from the board and others, and to more explicit accountability. But they also leave you with fewer obvious sources of internal and external support. If you want to effect significant change, you must seize the reins proactively based on your understanding of this new relationship.

So, as a new CEO, how do you deal with the situation? How do you move confidently over uncharted terrain that's planted with potential minefields? How do you balance the pressure for immediate results with the imperative to make fundamental changes? And how do you create the space you will need to learn on the job?

Our answers are based on working with CEOs in many sectors and regions around the globe and on the results of the CEO succession study we have conducted annually for the last 11 years. There are significant insights available about what the new terrain demands—if you look for them. In this Perspective, we provide a clear picture of how the job of CEO has shifted and we identify specific game changers: actions you can take

to make your time at the company's helm as productive as possible. The typical CEO profile today has four essential characteristics. The first of these has been true for some time, but the others are new.

1. You Are Typically an Insider

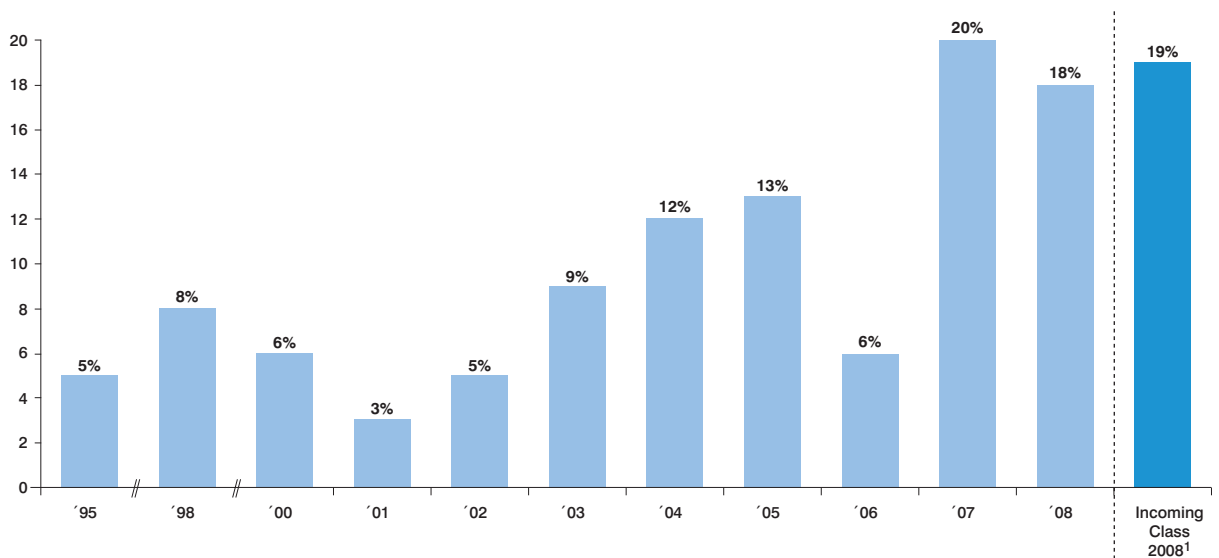
Eighty percent of CEOs today are appointed from within the ranks of their companies. This trend has held steady over the last 11 years in the

top 2,500 companies by market cap. Your insider status, the experience you bring, and your hands-on knowledge of your organization's core business and its culture are essential aspects of your value. They are part of the reason you were hired for the job.

Yet being an insider also presents challenges. To start with, as an insider you are far more likely to be assuming a CEO role for the first time.

Although the percentage of new CEOs who have previously held the position has increased slightly over the past year as companies moving out of the recession seek experience at the helm, an average of only 10 percent of new CEOs over the past decade have had prior CEO experience (see Exhibit 1). Since there is no school for CEOs and the terrain is new, you will have to get your training on the job.

Exhibit 1
CEOs with Prior CEO Experience (% of Outgoing CEOs who Previously Held a CEO Role)



¹ Percentage of incoming CEOs who previously held a CEO role. Source: Booz & Company CEO Succession Database

As an insider, you are also more likely to hold conventional assumptions about markets, competitors, or business practices that may be limited or out of date. For example, if you've had great success running a business unit (and you would hardly have been chosen if you had not), you may be tempted to adapt the practices that made you successful to your new job. This is natural, but it can also be a point of weakness. It can cause you to focus too much on narrow challenges rather than addressing long-term market shifts or the need to seek out customers in new ways. It can also discourage you from reaching out beyond your usual circles to develop new and unexpected sources of information and insight.

The CEO in today's environment is most effective when functioning as both an insider, who intimately knows the organization and its culture, and an outsider, who looks at the orga-

nization from a broader perspective based on an understanding of what the world will require in the future. Maintaining this balance means finding the sweet spot between the demands of the market and your company's culture, between the opportunities of the external world and your company's constraints. Only by drawing on this multifaceted perspective can you use your knowledge of the company to break its established frame: to abandon old practices that may have been successful previously but don't suit emerging demands.

2. You Are Unlikely to Be the Board Chair

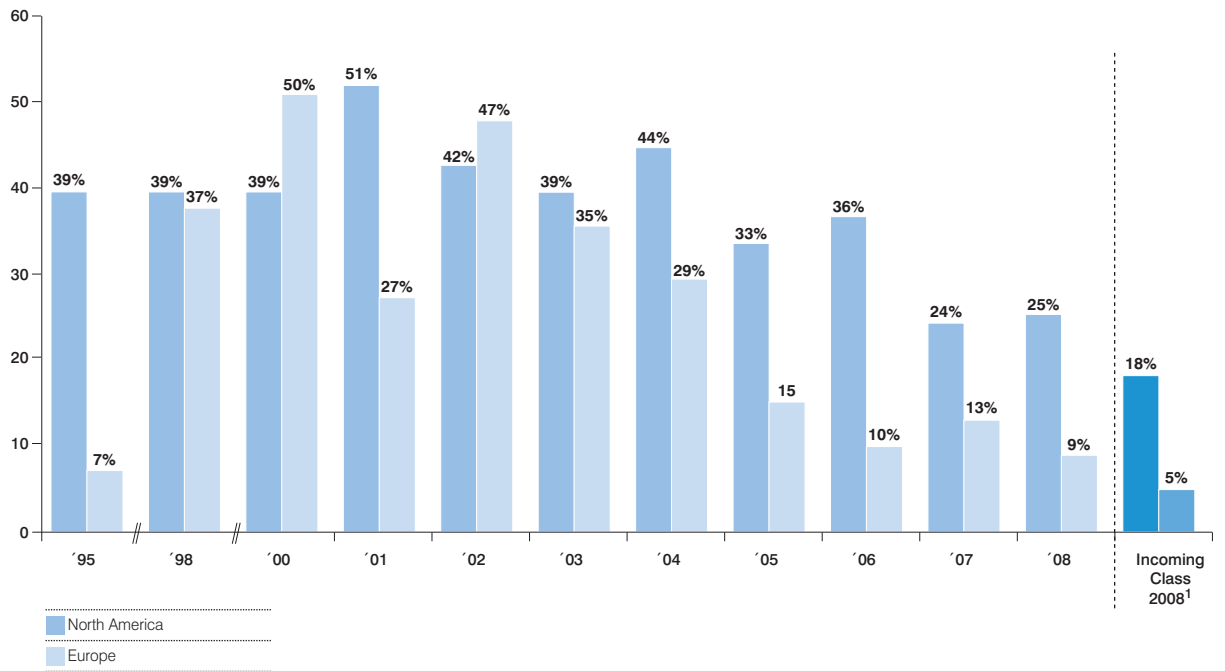
Over the last decade in North America, there has been a dramatic drop in the number of incoming CEOs also holding the chair position, from 51 percent of the outgoing class of 2001 to only 18 percent of the incoming class of 2008. The situation in Europe is similar. You are therefore far less likely

than your predecessor to hold the chair position, which makes your job fundamentally different (*see Exhibit 2*).

In addition, the CEO whom you succeeded is more likely to be your boss (that is, the chair), which adds to the differences in your role. A chair who was formerly CEO is likely to hold strong views about strategy that can make it difficult for you to chart an independent path. This may be one reason that companies in which the CEO moves on to become the chair underperform others, as the succession survey data clearly shows.¹

The complexities of the evolving chair/CEO relationship also present challenges with respect to protocol and communication. You must therefore manage these aspects more consciously than CEOs did in the past. Securing support is difficult but necessary, and it constitutes one of the vital components of your success.

Exhibit 2
Decline in Combined Chair/CEO Role over Time
(% of Outgoing CEOs Who Had Assumed the Dual CEO/Chairman Role at the Start of Their Tenure)



¹ Percentage of incoming CEOs who are assuming the dual chair/CEO role.
 Source: Booz & Company CEO Succession Database

3. You Typically Have No COO

There has been a significant decline in recent years in the number of companies with a chief operating officer position. This is primarily a consequence of splitting roles and responsibilities between the chair and the CEO. As the chair assumes more active oversight, the CEO assumes a greater operational role, which tends to make the COO position redundant.

As a CEO without a COO, you are likely to have a broader span of control than your predecessor, while at the same time being more accountable for how the strategies you develop are executed. You have more responsibility for building your operational team, which in turn makes your relationships within the company more important. These relationships provide a great source of support, but they can also present difficulties unless you establish an effective

leadership team with shared accountability for the company's success.

We find that CEOs in today's operational environment can benefit by drawing on a range of councils, work groups, and teams as they roll out strategy through the organization. Again, your insider experience can provide advantages here. You can draw on your knowledge of people in the company as well as your deep understanding of the business to develop the resources you need to support your operational responsibilities. Leveraging board expertise more purposefully can also help you create an effective operating team.

4. You Are More Likely to Face High Board Expectations

Regulatory changes and global pressures have altered the ways in which boards undertake their responsibilities. Shareholders today are likely to

pressure the board to be more activist, involved, and accountable than in the past. Boards are subject to a high degree of scrutiny, not only from shareholders but also from analysts, the media, and the courts. This changes the relationship between the CEO and the board, altering what the board expects from you and what you can expect from it.

The board now wants and needs to be well integrated into your strategic decision-making process. In the past, boards often simply anointed CEO decisions; today their involvement is less formal or constrained. As CEO, you must therefore find a way to enable the board to shape and own your company's strategy along with you. You can also reap substantial benefits by using the board as a resource to balance your internal and its external perspectives.

GAME CHANGERS FOR THE SUCCESSFUL NEW CEO

Given the changing nature of the CEO position, we have observed four practices or game changers that are most important to navigating the new environment.

Game Changer 1: Continually Engage the Board as a Strategic Partner

In our experience, effective CEOs tend to practice a corporate version of the Golden Rule: When engaging the board, do unto it as you would have your business units do unto you. This is especially important if you do not simultaneously hold the chair position. Just as you want your business leaders to engage you as their strategic partner, so too should you engage the board as your strategic partner.

You want your business leaders to be transparent about the strategic issues they face and the alternatives they are considering; your board wants the same from you. Your business leaders in turn expect you to add value to the performance and development of

their businesses; you should expect the same from your board. Your business leaders expect you to have a strong point of view on their strategic issues and alternatives; so too should you expect this from the board. You need your team to keep you informed of the good, the bad, and the ugly; the board has the same need.

There are many ways to build on this reciprocal model. For example, when Sir Brian Pitman was chief executive of Lloyds Bank and then Lloyds TSB, he made a practice of carefully crafting a memo to his board at the start of each year. In it, he laid out the specific issues he planned to focus on in the coming year and presented several alternative courses by which the company could tackle them. Not only did he solicit the board's input when writing the letter, but he also made it clear that he would respond to the board's evaluation of the alternatives he presented.

This memo became the focal point of board meetings throughout the year; it was both a planning document and a tool for dialogue. It effectively turned the board into Pitman's decision-making partner by involving board members in every phase of strategic development. By presenting alternatives, he was able to solicit more considered decisions and build ownership for decisions at the highest levels of the company.

Pitman believed that if he wasn't getting good value from his board, it was his fault, not the board's. He saw it as his job to educate the board about what he believed the company required. He also recognized that he needed to not only gain but also keep the confidence of his board throughout every stage of his tenure. By working tirelessly to maintain the board's support, while continually sharing alternatives that kept it involved in the process, he earned the license to make big changes that yielded superior results. Because he took it upon himself to practice the Golden Rule with his board, he was able to balance responsiveness with strategic strength.

Do not wait until you are established in your position to include the board in decision making. You must do it quickly and proactively or risk losing the board's confidence. One incoming CEO began the process well in advance of his start date by getting counsel from the outgoing CEO about business issues that the board perceived to be important. Then, once he was in the role, he scheduled a series of discussions, led by business or functional heads, to engage board members on these topics. These discussions typically took place at successive board meetings, giving everyone involved plenty of "soak time" to develop an understanding of one another's views.

In the old model, CEOs kept the board at a distance, involving them in strategy only at yearly off-site meetings. Given the pressure now being placed on the board, and the level of accountability expected from it, this approach is no longer sufficient; board members need to take part in the strategic conversation as it develops. Otherwise, they may overly focus on risk mitigation, a hallmark of inexperienced or uninformed boards. And they will insert themselves in the discussion only when they feel the need to question your decisions or actions.

As CEO, it is your responsibility to lead the board to be bolder than it otherwise might be in challenging the company's leadership and direction. This can only happen if board members have a strong understanding of both long- and short-term goals, and sufficient information about the pertinent high-value issues and alternatives to engage in open debate. The CEOs we have worked with accomplish this by putting in place an explicit structure and processes that guarantee continual board engagement. They ensure alignment on perfor-

mance expectations and highlight the available alternatives for achieving performance objectives, then assess performance systematically using an iterative approach.

You must also find a way to address board members both individually and collectively; some will require more attention, and have more to offer, than others. Boards today provide complementary skills by design, with specific members offering expertise in specific areas, such as finance, compensation, operations, or markets. Your process of inclusion must likewise be designed to leverage this expertise. Yet since board members often lack a deep knowledge of the business, you must provide them with the background they need to make a constructive contribution.

Successfully leveraging the board also requires knowing your own strengths and weaknesses. For example, the newly appointed CEO of a healthcare products company recognized that his experience was more operational than strategic. He therefore decided to engage his board in a series of

discussions throughout the year to bolster his strength in strategy. He set aside time at each board meeting to consider either a major dimension of the company's strategy, such as its approach to China, or a narrower but pressing issue, such as loss of share in a key market. The CEO thus transformed his engagement with the board on the company's strategy from an annual "review" event to a dynamic, ongoing collaboration.

Similarly, the CEO of a European oil company designed a highly interactive corporate strategy review by arranging four full-day meetings during his first six months on the job. The sessions included the CEO and his direct reports along with board members. In the first meeting, the group reviewed fundamentals for each part of the business, identifying value drivers and considering different plays the company could pursue. In the second meeting, participants looked at alternative strategies and clarified the underlying logic of various choices. In the third, they focused on articulating the overall corporate strategy and assessing several variations on that

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strategy in the context of risk/return trade-offs. Finally, they reviewed what they had learned and collaborated on setting objectives for the year ahead.

The result of this collaborative effort was a more educated board that gave the CEO the support he needed to make far-reaching changes and pursue bold strategies. Actively participating in the strategy-setting process gave the board an equal stake in the plans that the CEO was implementing.

Game Changer 2: Do Only What Only a CEO Can Do

Let others do the rest of the company's work. The job of CEO is unique. You must therefore be rigorous in selecting the issues you choose to address, and focus on doing what no one else can do. And you must be prepared to do these four things immediately:

Shape the Company's Definition of Success

The first challenge you face is shaping the company's definition of success. When working with a new CEO, we always ask "What do you define as

success for your company?" But we also ask "What do your employees define as success?" because this is what drives their behavior. And if you don't have a clear recognition of the way people define the company's success, you will not be able to rally your people around a coherent course of action.

When Franz Humer became CEO of Hoffmann-La Roche, he made this question one of his first priorities. Over a period of six months, he met with his new team to precisely define what "winning" would mean for the company. He challenged the team to develop both a general rationale and specific measures for the changes needed to make the company a winner. The resulting document provided him with the clarity and platform he needed to start turning Roche from an industry laggard into an industry leader in terms of its mission, growth, and profitability.

The new CEO of a global consumer goods retailer did a superb job of defining success by articulating a detailed vision of what the company

wanted to achieve over the next five years in growth, market position, and customer expectations. The document addressed operational challenges, outlined the customer experience the company aspired to offer, noted how it would respond to sustainability challenges in various regions, and laid out specifics of how employees could support these commitments. He then shared this 10-page memo broadly across the organization, giving employees a clear idea of the company's priorities for the years ahead.

Break the Frame

Another thing that only a CEO can do is to break the frame that has defined how the company pursues its mission and markets. Doing so requires either changing a fundamental aspect of the company's business model or challenging an underlying operating assumption about, say, how to go to market or develop talent. In most industries today, there is at least one dimension of the commonly practiced business model that is broken, offering a new CEO the opportunity to reconstitute it.

Breaking the frame requires strategic insight and an unorthodox analysis of what the market will require. The CEOs who do this well often have a contrarian view of where the world is headed or a fresh understanding of who or what will constitute competition in the years ahead. This vision enables them to question deeply rooted strategic and operating assumptions and practices in the business units, and to prevent the company from becoming stuck in routines that may become obsolete.

The kind of frame breaking that's needed will vary. Some examples:

- The new CEO of a pharmaceutical company may have to replace the old commercial model (based on sending salespeople to doctors' offices) with a new one that engages not just physicians but also payors and patients.
- The new CEO of a consumer products company may have to replace the old practice of paying retailers to promote and price the com-

pany's products with a new model that starts with the consumer and works with retailers as partners rather than channels.

- The new CEO of an electronics distributor may have to jettison a developed-world approach and replace it with a different one to reach businesses in the developing world.

These steps can stir pushback in the organization because they are perceived as threatening business unit interests. That is precisely why these changes cannot be made at the business unit level. Only the CEO has the scope to make fundamental adjustments to the way an organization defines its markets. This is doing what only the CEO can do.

Reset Expectations

You need to create a new day in the organization by specifically defining what will change. The more succinctly you connect these changes to people's expectations in terms of performance, accountability, and culture, the more likely you will

achieve the hearts-and-minds mandate that strategic change requires.

Resetting expectations requires balancing boldness with a realistic understanding of what is possible in your organization. Culture doesn't change in a day. New CEOs sometimes boldly declare targets or mandate changes that they later regret, as cultural nuances and other constraints come into clearer focus, yet they feel locked into those early proclamations because they were delivered with such conviction. While maintaining momentum is essential, CEOs must be willing to incorporate the wisdom they acquire on the job and make corrections as needed, rather than simply staying the course out of a fear they will lose credibility.

One retail department store management team we worked with decided to address the informal workarounds that were undermining leadership authority and making it difficult for the CEO to hold leadership teams accountable. For example, the company had conducted extensive analysis resulting in the decision to discontinue certain SKUs.

One area manager had expressed his objections by sending an e-mail message directly to the CEO, who had then halted the implementation of that decision and tabled the topic for an executive discussion.

The routine acceptance of such workarounds and special pleadings had undermined the credibility of top management in the company and led people to assume that all decisions were provisional. In the first week of his tenure, the new CEO declared that this way of operating would come to a halt. He instituted a mantra of “No more second-guessing” and made clear in every conversation that he would not discuss overturning a team leadership decision without open dialogue that included those initially involved in making it.

The CEO of another company set out to change the company’s excessive focus on the past when making decisions. As support for their positions, business unit leaders routinely prepared lengthy decks of detailed analysis on what had happened in the past and why. As a result, leadership

spent too much time in meetings looking in the rearview mirror rather than considering future goals and objectives and how to achieve them. In reaction, the CEO discouraged reliance on scripted presentations and encouraged more spontaneous give-and-take, which he viewed as essential to developing bolder thinking and moving away from paralysis and finger-pointing. He reinforced this belief with a new policy requiring business unit leaders to structure their meetings around forward-looking issues.

Resetting expectations requires you to have a strong understanding of your organization’s culture and how it influences behavior. You need to use both informal and formal aspects of your various businesses to build advocacy for a new day and get resources flowing in that direction. During the 15 years that preceded Aetna’s successful turnaround between 2001 and 2006, a deeply imbedded culture essentially stalled turnaround efforts by three successive CEOs. Jack Rowe and Ron Williams finally succeeded by making purposeful use of informal networks, communities, and working norms. For

example, they set up a strategy council and an organizational effectiveness council comprising individuals who had unusually good informal networks in critical populations of the company. This created a back-and-forth flow of information and insight that would have been difficult if not impossible to create through formal channels. As a result, an emotional commitment developed across the company that had not existed before.

Using informal elements requires a deep knowledge of the culture, so having insider experience in the company can be an advantage. However, creating a rigorous performance-based standard against which to hold former peers accountable can be difficult for insiders. The key is to acknowledge your understanding of the way things used to be done, while clearly articulating your new expectations and encouraging business units and their executives to move forward in ways that will meet them.

Integrate the Parts with the Whole
Only the CEO can instill an enterprise-wide frame in an organization

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because only the CEO can reconcile and address tensions that routinely erupt between the whole and the parts. The parts of a company are predisposed to battle the centralized corporate function on the grounds that it consumes overhead, slows implementation, and doesn't understand the customer. The center is predisposed to feel frustrated with the parts because they act on their own interests, fail to put the larger company first, and are reluctant to coordinate actions and goals.

Only CEOs who recognize the inherent tension in this situation can unify these divergent interests. Every company is at once many businesses and a single business; every manager has both a horizontal and a vertical influence on the larger organization. By acknowledging this, CEOs can craft explicit strategies that coordinate the parts and the whole to support the organization's overarching strategic objectives.

One bank CEO we worked with recognized the need to manage the business units less as a holding company and more as an integrated set

of businesses with a similar strategic purpose. To facilitate the transition, he set up a transformation program that teamed pairs of top executives to address cross-organizational process and management issues.

The point of this exercise was to give the business leaders of separate units both an opportunity to identify their common challenges, such as making the best use of shared services or building client capabilities, and the experience of working toward a joint purpose to solve them in support of the CEO's objectives. This process of working together also accelerated the development of an enterprise-wide perspective—one explicit objective of the transformation program.

Game Changer 3: Find the Right Pace for Change

As CEO, you are the only one who can set the pace for change within your company. This entails first defining what must change, and then determining which changes must take place quickly and which will take more time. Setting the pace is a judgment call that requires understanding

how quickly your customers, your competitors, and your people can absorb and adapt to change. Again, your insider knowledge and experience give you an advantage.

Properly pacing change often requires pushing back against expectations about what can be achieved in your first 100 days. Every CEO faces a learning curve; making premature pronouncements about forthcoming changes to the company's business model, culture, and cost structure will create problems for you down the road. Yet moving too slowly also presents dangers, providing the competition with an opportunity to pull ahead or undermining efforts to build essential momentum. As CEO, you must skillfully and forcefully articulate not only what *must* be done, but the stages in which essential change will take place.

Once you've spelled out your commitments, you must be clear about where you want to accelerate movement toward them, and where the company can benefit from exercising more caution. The CEO of a major food

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company now regrets having laid out specific financial goals for his first few months without specifying the order in which to address them. In retrospect, he realizes that proclaiming the need for a uniformly rapid pace had the perverse effect of slowing the company down. Categorically declaring goals constrained the CEO's ability to first make the necessary fundamental or cultural changes to support them. Blindsided by an arbitrary 100-day frame, he failed to see what the pitfalls might be in moving too fast.

It is always important to seek a variety of perspectives during the first few months of your tenure, but this is especially true if you are trying to shift the company onto a new course. For example, an incoming CEO of a global manufacturer took the helm early in the recession, just as performance was drastically deteriorating. She soon recognized that her company was operating in several businesses that each required its own capabilities and operating model, and that she needed to break with the previous strategic direction and significantly restructure the

company portfolio. She committed to a three-month program of seeking input from her business managers, the board, customers, and other external stakeholders before designing a new strategy to address these operational challenges and portfolio disjunctions. Knowing where to make drastic cuts and where to direct limited investment funds required first clarifying the future strategic direction. She understood that in order to gain support for these fundamental changes from the board and her direct reports, she needed to allow them time to come around before launching a comprehensive program to address these challenges.

CEOs must also create space for themselves to make calibrated adjustments and learn from their experience as they go about pursuing their agendas. This is essential given that most CEOs receive their training on the job. Pacing your own learning and coordinating it with the articulation of your strategic objectives will help you avoid the common mistake of making overly bold proclamations in an attempt to compel credibility and buy-in.

Business realities sometimes interfere with attempts to accomplish goals quickly or in predefined time frames. Yet timelines are essential to achieving challenging objectives. Wise CEOs stay close to their markets, avoid isolation, and educate both their board and their business units about the need for a calibrated pace.

CEOs in today's uncharted environment can benefit by moving coherently with deliberate haste rather than at a uniformly rapid pace. This requires coordinating initiatives in accord with varying objectives, having the confidence to gather information before making big decisions, and pushing back against unrealistic or arbitrary expectations from boards, capital markets, and even employees. A coherent pace is more effective than a frenetic one for creating sustained change, even though it often doesn't feel that way.

When you try to accelerate the pace—for example, because you are trying to cut costs quickly—you not only risk addressing the wrong issues but also miss the opportunity to learn where your real problems may lie.

Also, moving too quickly out of the gate may set up unrealistic expectations that undermine your very real achievements. Managing pace is a way of managing expectations. This is essential for building sustainability and preparing organizations for the transformation they need.

Game Changer 4: Get the Culture Working with You

As an incoming CEO, you need to address business priorities and change in ways that your organization can realistically accommodate. Understanding how your culture influences both formal and informal behaviors is therefore essential. In the past, CEOs typically thought of culture change in terms of formal constructs such as vision, strategy, programs, metrics, and structure. These aspects are most commonly expressed in codified documents, protocols, metrics, and charts.

But an overemphasis on the formal overlooks the importance of informal interactions such as networks, peer-to-peer relationships, work

norms and habits, information and resource flow, and communities of interest. Leveraging these mechanisms is integral to achieving lasting change. Informal elements influence people's behavior and beliefs and are often at the heart of the emotional commitment that characterizes peak-performing organizations. People are vested both bottom-up and horizontally in personal relationships and habits rather than in formalities or the chain of command. These embedded, informal elements are more useful for achieving transformative change than a vision statement that cascades down from the top.

Leaders typically think of culture as synonymous with values. But it's more useful to think of it as information, influence, and insights that flow among peers. Whether you have a strong or weak culture often depends on the strength and caliber of these peer connections. For example, when peers spend time telling one another why specific changes won't work, it creates negative momentum that can derail even detailed performance

initiatives. In strong cultures, peers reinforce an innovative and positive response to change.

As a new CEO, you can benefit by making use of informal connections. For example, the head of an international telecom operator was frustrated for nearly two years because his vision, strategy, and organizational priorities failed to address negative customer reactions to service. He was able to turn this around dramatically by instituting a cross-organizational effort to engage peers and colleagues at multiple levels in ways that improved responsiveness so it exceeded customer expectations.

But CEOs also need to make use of the culture without being owned or victimized by it. Doing so gives you an independence that enables you to accelerate change on your terms by using informal mechanisms to catalyze the formal. In many organizations this is difficult because they are already out of balance. Silicon Valley startups, for example, often overemphasize informality. As these companies

become larger and more complex, they must adopt more formal constructs, but without losing their awareness of the informal frame. In fact, new CEOs are often brought in at just that point of transition—from startup to large, established player—expressly because the company needs the organization and management skills often lacked by entrepreneurial founders.

Culture can be the primary impediment to a new CEO's ability to lead transformational change. In the Aetna example mentioned earlier, in which three CEOs tried unsuccessfully to lead change over 15 years, a deeply imbedded and emotionally enforced culture defeated them. Transformation was only achieved when a new CEO and his top team actively worked to get the culture on their side by taking time to develop a wide variety of informal work groups, peer relationships, and networks along with rigorous and programmatic process changes.

Transformation and performance excellence always occur in a cultural context. But culture change differs

from programmatic change. Change management addresses tangibles such as strategy, metrics, and new ways of measuring performance. It is rational, analytical, hierarchical, and implemented from the top down. Culture change addresses values, feelings, and informal communities of interest; it is intuitive, emotional, and inherently cross-organizational.

You cannot *manage* culture change in the same way you manage for organizational effectiveness and efficiency. It is not part of the structure that the formal organization controls; it lives in people's feelings, interactions, and habits as well as in the organization's narrative. It responds to informal mechanisms that lie beyond hierarchical control but can nevertheless be *influenced* by those who hold hierarchical power. As an incoming CEO, you cannot influence the culture by acting solely from your base of positional power. If you seek to move the organization in a new direction, you must respect, understand, and leverage the emotional power vested in your role by the culture.

You can most effectively move the culture if you make use of your insider knowledge in the service of an outsider perspective. When you are able to yoke the two together, you can garner extraordinary support.

Outsiders can become insiders—and vice versa—by learning to work skillfully with the informal elements of the organization. Aetna's Rowe, one of the most skillful CEOs at leveraging informal networks, came from outside his industry—in fact, he is fond of describing himself as “the most unlikely choice to lead a major corporate turnaround.” When he was chosen as CEO, he immediately began working to compensate for his lack of familiarity with the company's culture. Rather than hiding behind the cloak of outside expert, he created an informal network of more than 100 respected managers across multiple layers throughout the organization. He used this network to stay in touch with key aspects of the business and to build a strong base of support for his early actions. By doing so, he managed to create a transformation that had eluded previous CEOs.

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CONCLUSION

Every CEO takes the helm at a particular moment in time, and the job is defined accordingly. Today, external forces and internal company dynamics are coalescing in unique and powerful ways that both challenge new CEOs and offer them a distinct opportunity to make a mark. The rules of

engagement for CEOs have changed (see Exhibit 3).

It is also less lonely at the top than in the past. Chances are, you are surrounded by capable people who clearly see the challenges your company is facing. But your resources are also likely constrained, so it is ultimately your job to marshal your people's energy and capabilities in pursuit of a shared strategic purpose. Along the way, you may be the one to finally bridge the gap between the center and the individual businesses and to reshape the culture around new performance gains and strategic imperatives.

Continually building and maintaining a strong base of support—from the board, internally, among stakeholders, and from the broader culture—will enable you to move confidently through this new terrain.

The job starts even before you formally assume the position. What you do then, and in your first year, will set the pattern for your tenure. The final piece of management is managing yourself: Be thoughtful and clear about the results you expect, why you expect them, and when they should appear. And use everything you learn while on the job, every day.

Exhibit 3
Changing Rules for CEOs

OLD RULES	NEW RULES
- The CEO needs to manage the board	- The CEO needs to engage the board as a strategic partner
- The CEO must move rapidly on all fronts	- The CEO must decide where to move swiftly and where to move with deliberation
- The first 100 days are make-or-break for the CEO	- The CEO must manage expectations for change
- The CEO must define what he or she means by success	- The CEO must understand and shape how the company defines success
- The CEO must manage culture change	- The CEO must understand how to mobilize emotional commitment
- The CEO must seek to influence the formal structure of the organization	- The CEO must align and integrate the informal and formal elements of the organization
- The CEO must focus on superb execution	- The CEO must rethink the business logic and break the frame if necessary

Source: Booz & Company

Endnotes:

¹ Per-Ola Karlsson, Gary L. Neilson, and Juan Carlos Webster, "CEO Succession 2007: The Performance Paradox," *strategy+business*, Summer 2008.

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