

## **What it takes to be a Chief Executive**

The Chairman of a Board is there to bring out the best in all directors and so the first secret of being a successful CEO is to have a good Chairman who can observe and control fellow directors, can encourage and support the Chief Executive and on occasion provide reinforcement should it be needed. He certainly does not want a Chairman who competes with him and tries to run the company, a formula which is a good sign of a company heading for the rocks. In public quoted companies you know there is a problem if the Chairman is always the one in the headlines and as a rule a CEO retiring to become Chairman is a sentence of death for his successor.

The prime duty of every director is to safeguard the interests of the owners on whose behalf he is running the company. The duty of the Chief Executive is identical to that of his colleagues but there is wide room for disagreement as to how to further those shareholders interests and to maximise their return over the long term. It is therefore the thankless task of the Chief Executive to get all his colleagues pointing in the right direction and hopefully marching in step. This article seeks to describe some of the ways in which the business leader might do this whether he is called President as in many US companies or Managing Director as is more traditional in the UK. I shall generally refer to the position concerned as CEO or Chief Executive even though they sound a little trans-atlantic as these are the broadest all inclusive terms.

There are as many styles of management and leadership as there are books on how to do it but any one company head is likely to combine in a unique way the attributes of leader, dictator and seducer or seductress. There are of course many leaders who exercise only one of these characteristics but as often as not they will not be successful in the long term. Alexander the Great and Genghis Khan were perhaps the most inspiring leaders and the most ruthless dictators we know – but consider how quickly the empire each built disappeared leaving behind chaos (and 20 cities called after the former; at least 40 million direct descendants in Europe today the latter). In business it is no good for a company in the long run to have an Arnold Weinstock or a James Hanson as amazing business leaders feted by journalists. When they disappeared their companies followed them into the dustbin of history. Yet Hanson Industries and GEC were for years held up as exemplars of wonderfully effective management.

The job of the Chief Executive is notionally to run the company – but he does not have levers in his office to pull to increase sales, to manage down expenses. He needs to motivate and control others to get them to achieve these aims and the secret for success is usually having capable lieutenants. The Chief Executive who tries to do everything will assuredly fail so the first qualification he needs is a certain modesty about his own capabilities and an appreciation that the better the capabilities of those around him the better the results he will have. If the Chief Executive can delegate the right tasks to the right people he is 40% of the way towards success. With delegation must come support and control. Support because without it his closest entourage is likely to consist of people quaking in their boots lest they get something wrong, and control because ultimately it is the Chief Executive who the owners of the company expect to deliver or explain why he has not done so. The Chairman and the Board will expect the Chief Executive to make sure that company policy as authorised by the Board is carried out by those who work for the company but he has no magic wand to make this

happen. There will always be fellow directors and subordinates whose enthusiasm vanishes when they disagree with a decision – and whilst active sabotage is infrequent a failure to act in a timely matter, a tactical memory loss or an overcrowded diary will frequently be just as effective. Subordination comes naturally to subordinates, the greatest waste of a Chief Executives time will often be checking up or reinstructing; if he is skilful and lucky he will have some senior colleagues who actually do what they are asked when they are asked to do it but this is unlikely to happen without his using some of the (limited) tools he has been given.

The legal powers and duties of all directors are the same and the formal power of the Chief Executive is entirely derived from the power of the Board to run the company on behalf of shareholders. They are unlikely to include the power to hire and fire at will but will include membership of and a duty to lead and brief executive committees which do this. The firm's employees will look to the CEO to exercise control, to lead, to command and to control whilst the Board will hold him responsible for failures of any sort. The life of a Chief Executive of a FTSE company is on average about 5 years, and the majority are probably pushed rather than leaving of their own accord. I referred to bribery, blackmail and coercion as the tools in the locker but of course in corporate life we would rather call these pay, persuasion and discipline and the CEO will succeed only when he can successfully pull the right tool from the locker at the right time. The first is far too easy to use in the short term and probably the most dangerous in that allowing expenses to creep up is the easy answer today which puts you out of business tomorrow. All too often the first job of an incoming CEO is to get rid of the over expensive employees who have been bribed over the years to the point where they become the obvious expense saving leaving them without a job and the company without an experienced employee. Blackmail, or persuasion, comes in many forms from flattery and favours to encouraging compliance by implying rivals will be preferred in its absence. In larger companies Internal Audit is a great threat as no-one really wants their department looked at in detail and in smaller companies a hint of reorganisation or streamlining or oblique references to efficiency savings may work. Coercion, or taking direct control and issuing orders is really not a tool which can be used very often and is likely only to come out when something has gone wrong. Having said that the CEO who does not step in when he should will be lucky to survive long enough to regret his failure because the whole firm is likely to note any weakness. There are occasions (gross disloyalty, attempted theft of business, unacceptable behaviour towards clients or fellow employees) where the CEO must act, and act fast, or himself fail to protect the interest of the firm, other employees and his owners. The action may be direct or consist of directing others to act and supporting them but there are times to make sure things are done immediately and effectively and if they are not a situation may get out of control and severe consequences may follow. I note in passing that on such occasions the niceties are best ignored, there are occasions when you do not ask your lawyers what you can do, you do it and tell them they now need to defend why you did it.

Greed and fear do not always go very far – an exchange of favours is not always possible – the choice of weapon with which to encourage compliance is very limited and the skill of the Chief Executive is thus choosing the right weapon at the right time. The most effective Chief Executive is liked and admired but at the same time respected and, at least a little, feared. Success of course breeds success and the knowledge that sooner or later the company is going to do what he says helps both the confidence of the Chief Executive and the compliance of other employees. Frequently a successful Chief Executive will take his principal assistants with him if he moves and such a team provides reinforcement to him, not

only because he knows they will do what he wants, but also because they will often know what he wants without him telling them. So my prescription for success after many years as an MD is firstly along with Napoleon to choose commanders who are lucky to work for you, secondly never to be afraid to change your mind if you have got it wrong and thirdly to use every tool you have judiciously in the knowledge that each loses its power if used too much or too often. Never try to be liked, fairness and predictability are what your firm needs and earning respect as someone who will keep the firm and their jobs secure is in the long term going to build more loyalty amongst employees than seeking popularity.

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