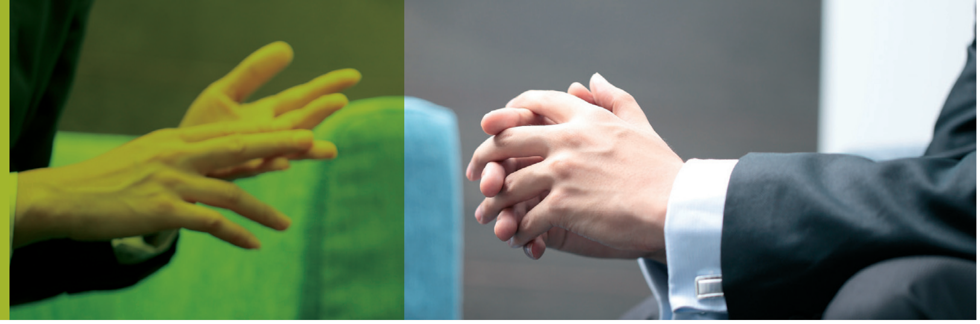

How can CEOs choose the best-suited operating model?

CEOs need to decide where to spend their energy.

A major feature of the modern chief executive officer's (CEO's) role is managing the uninterrupted stream of information and communication brought on by technological advances. This relentless flow pulls leaders in several directions at once. It also places unreasonable demands on them in terms of serving—on a virtually non-stop basis—the needs of the market as well as their internal and external stakeholders.

In order to manage these unceasing demands more efficiently, CEOs need to adopt an appropriate operating model. They need to decide where to spend their energies, and what arrangements to surround themselves with that best benefit the business and also provide personal fulfilment. Creating an operating model on these lines helps them determine: 1) what they engage on; 2) the team they need to ensure execution; and 3) their mode of engagement with others in the organization. These three fundamental choices can make all the difference between a CEO who is merely effective in the short term, and one who is able to not just manage but also thrive in the fast-paced modern business environment.

Though it may sound like a basic requirement for CEOs, it is also true that not many CEOs put any thought into creating an appropriate operating model. More often, several fall into an operating model that is no more than an instant response to the immediate business context. All too frequently, this results in the urgent taking over the important. Systematically adopting an operating model that takes into account the CEO's personal requirements, the larger needs of the organization, and the long-term direction of the business environment can help CEOs navigate challenging situations more quickly and smoothly.

Decide what to engage on

All too often CEOs become unwittingly involved in far too many aspects of the business and are swamped by the number of areas they are enmeshed in. An effective operating model helps CEOs control what they are involved with. CEOs can judge if they are engaging in the right issues by answering a set of questions: 1) What do you drive or are personally accountable for?; 2) What do you shape, even if you are not directly accountable for a particular deliverable?; 3) What do you only review?

A blurring of these categories and a mismatch between the time spent on them and their relative importance is indicative that the CEO is not operating from the best model.

In such cases, it is worthwhile for leaders to invest some thought on creating an operating model. One way to do this is to collate all their activities along two axes—those that add unique value (as opposed to routine business activities); and those that provide energy (versus those that drain energy.) CEOs simply need to drive those activities that create the most value and energy, and either shape or review the others.

This is a quick way in which they can regulate what ultimately lands on their table. For instance, the CEO of an Asian telecom company chose to focus his time on three areas: mergers and acquisitions, managing the regulatory environment and appointing strong business chief operating officers. On all other matters, he chose to play merely a shaping or reviewing role. He was, therefore, able to pay undivided attention to those areas that he felt created the greatest value for the organization.

Similarly, the CEO of a leading pharmaceutical company in Asia decided to drive only two areas—managing the product portfolio and product development, areas where he could uniquely add value and which were truly the nerve centres of the business.

Shaping an activity, on the other hand, requires the CEO to take a deliberate step back. Deciding which areas to shape involves identifying members of the management team who will have personal accountability for these areas. In such cases, the CEOs limit themselves to setting the aspiration, clarifying the mandate and providing problem-solving support. For instance, the CEO of an Indian auto company decided to play only a shaping role in the operations excellence agenda of the company and convened a review forum to drive the programme. After participating in the first two-three reviews, he delegated the responsibility for taking this important initiative forward to one of his business heads.

Finally, the items where the CEO can play a reviewing role are typically the quarter-to-quarter business performance reports as well as certain policy decisions. The decision on what to review could also be a function of the maturity of the business and the presence of strong leaders in the top team who could take over the driving role.

For example, confident in the capabilities of leaders in each of his businesses, the CEO of a conglomerate decided to structure his reviews such that mature businesses were reviewed by him only semi-annually, less mature businesses once a quarter, and new and incubating businesses on a monthly basis. Adopting this model freed him to concentrate on the fledgling businesses that were in most need of his time.

Pick the best possible team

The second crucial component of a successful operating model is building the right kind of team. CEOs are only as successful as their execution of deliverables which, in turn, is directly related to the quality of their team. There are three core factors in choosing a good team— diversity, distinctiveness and complementarity.

Diversity: Effective CEOs do not succumb to the temptation of surrounding themselves only with people they feel comfortable with or who think in similar ways. While these criteria are important, it is also essential to have a bit of grit in the oyster. This diversity enhances the organization's perspective, and reduces decision-making bias and risk. It also sends a message of inclusion to the broader organization.

In this context, the CEO of an Asian technology company would celebrate differences in his top team and use them to eliminate biases in decision-making. Before making a critical decision, he would pick the person in his team who was the least convinced about the idea, and would ask the working team to present the idea to that person. This often threw up insights that had been overlooked, even by the CEO, and led to greater rigour and commitment from the team.

Distinctiveness: An extensive McKinsey research study done in association with Egon Zehnder, Return on Leadership, provides a counter-intuitive insight on leadership: successful businesses have so-called spiky leaders rather than general all-rounders. Though these spiky leaders have a solid grounding in all aspects of leadership, they have invested heavily in becoming best-in-class in their particular areas of strength, even if this means they are less than outstanding at other leadership competencies. By recognizing the spikes in their team, CEOs can unlock significant hidden potential and make more potent use of the talents at their disposal.

The CEO of an Asian energy company, for example, recognized the spike that his CFO had in managing difficult external communications. He, therefore, made him the point person for all media interactions, especially the ones that required sensitive communication like a challenging results presentation or interactions on environment concerns.

Complementarity: Effective CEOs surround themselves with a set of leaders who complement their working style and provide support in areas where the CEO does not have particularly strong skills. This act of self-awareness when picking a team is crucial to an effective operating model. For instance, one CEO realized that reviewing the long-term health of the business was where he added the most value, rather than in monthly performance reviews. He was aware that his chief financial officer (CFO) was known for a sharp performance focus and challenging fact-based reviews. He requested the CFO to start playing a business role and driving the much-needed short-term "performance" focus that the company required.

Create a personal engagement model

Since most work in organizations is achieved through conversations, the third critical aspect of the CEO's operating model is the quality of conversations with the teams—both, one-on-one and in groups.

Engaging one-on-one: Several CEOs are natural problem-solvers and are instinctively inclined to solve issues in one-on-one conversations. However, it is equally important to step back and allow teams to come up with solutions. One CEO of a technology company would patiently listen to the problems brought up by his direct reports and finally comment, "Now tell me, do you want me to solve this for you or help you choose the best solution?" CEOs use these one-on-one conversations to build accountability as well as to renew engagement.

Engaging the team: Not all top teams are created equal. When engaging with their top teams in a group, CEOs need to develop a rhythm and architecture that allows deep discussions on significant business issues. One of the fundamental choices a CEO has to make is whether to fashion the top team into a working group or an integrated team.

A working group is driven by individuals who come together as a team to review their independent agendas, while an integrated team has an agenda over and above what is driven by individuals, for example, working on special projects or forming sub-teams to work on larger organizational priorities.

The CEO of an Indian infrastructure company successfully manages his top team as a working group where each drives their independent profit and loss statement, with little overlap. However, the CEO of a global pharmaceutical company prefers the integrated team model to manage his functional organization since all members of the top team have high interdependency. He meets members of the top team after each budget to discuss the overall goals of the organization, their level of confidence in achieving these goals, their apprehensions, as well as their individual goals. This allows them to operate as a team that trusts and actively supports each other and to enjoy a team mandate that supersedes the individual mandates.

It is important for leaders to recognize the scale and intensity of the challenges before them and equip themselves with the necessary tools to help ease navigate the frenetic business landscape. Those who create an operating model to better manage their environment will be able to deal with the inevitable periods of turbulence with far more assurance.

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