A CEO's guide to building a strong organization

It is important for leaders to learn to side-step common failure modes, be aware of their own biases and not let these influence their decisions.

A chief executive officer (CEO) we once worked with, when asked what he thought was the biggest failure mode that could happen, smiled and said, "Well, becoming a CEO is like getting into your dream relationship. You either become the happiest person when it does work, or the most bitter when it doesn't."

The simile is pertinent. Being a CEO is an exciting, but lonely and uncertain role. CEOs have to manage multiple tasks and perform them all with finesse. While many mistakes are reversible, some are irreversible and can prove costly. CEOs have significant demands on their time, including working long hours and managing never-ending to-do lists. The physically taxing travel further compounds this. All of these will be exacerbated by the proverbial loneliness at the top; CEOs have few peers with whom they can discuss ideas.

In spite of all these challenges, many CEOs lead their organizations through periods of growth or restructuring and manage to steer it in a clear direction. On the surface, the dream relationship appears to have worked out for the CEO, and their success is evident to the world. However, there comes a moment when fortune turns, and the company no longer continues on the same trajectory. This failure often emanates from the CEO's multiple biases, which slowly build up and corrode the foundations of a successful organization. Often when the market and competitive context changes, these weaknesses become pronounced.

It is, therefore, essential for CEOs, especially those leading an organization through change, to be aware of their own biases and not let these influence their decisions.

Performance or health

A rigorous performance management system that focuses on the company's commitment to its stakeholders in terms of financial and operational terms—for example, net operating profit, net operating costs, stock turn—is an important tool that CEOs use to set the organization's priorities. However, strange as it may sound, too much of a good thing can actually be detrimental to the organization. A blinkered focus on financial performance, with a lack of adequate focus on the means to get there (focus on organizational health) is something many CEOs suffer from. Health is the ability of an organization to create alignment, execute and renew itself in relation to its performance goals. In our surveys with more than 600,000 respondents of whom more than 6,000 were CEOs, we found that the leaders had to focus on both performance and health in an integrated manner. The tendency—and one that should be avoided—is typically to de-prioritize health to meet immediate targets. Chasing targets or performance without due regard to the means can be counterproductive.

Consider the case of a large industrial company led by a CEO with a bias for strong performance management. The company entered the league tables of Asian firms, driven by the CEO's strong

grip on financial performance and attention to detail. However, even as the company grew, its CEO remained focused on conducting challenging reviews and getting into the details of financial and operational metrics without paying adequate attention to long-term health, including capability building, succession planning, innovation, etc. The result: the company's executives felt directionless and never had a view on the firm's strategic priorities, or where the next billion was going to come from. The company missed capitalizing on various avenues of growth that its competitors exploited. As a result, multiple competitors managed to overtake it in terms of revenues and market capitalization—the same metrics that the CEO was trying to drive.

Misreading expectations

An important aspect of a CEO's role is to bring all the organization's stakeholders along on the company's growth journey, and carefully set and manage their varied expectations. However, CEOs often ignore or fail to read the expectations of one or more of these critical stakeholders, which often leads to mismatched expectations and a below-par outcome from the stakeholders' perspective. Such misreading is most likely driven by the CEO's bias to chart the organization's journey along his or her own strengths (for example, growth versus restructuring). This is compounded by infrequent communication with all stakeholders about the CEO's vision for the organization. In India, it is quite common to see a mismatch of expectations between the CEO and chairman of a family-owned firm that has hired professional management.

For example, an incoming professional CEO of a diversified group had a strong track record and experience in driving growth, and entering new markets and product areas. Going by his natural bias for growth, he focused his energies on driving expansion in international markets. However, the promoter wanted to fix the foundations of the company's India business before venturing into any new location—something the CEO failed to realize. It took the CEO more than five quarters to understand the promoter's priorities, losing organizational time in the process. Eventually they had to part ways.

Inability to take tough calls

A CEO's job is to make decisions and this sometimes involves having to make tough choices about people, processes and investments. For example, a crucial component of a CEO's operating model is to have the right team—putting the right people in the right roles and ensuring there is no leadership vacuum in the organization at any point in time. It is also important that CEOs accept that they might possibly choose people who are not best suited for the role, and be willing to make corrections as required. This will involve having honest performance conversations with people with whom they work closely, which can be a tough situation for any CEO. Many CEOs fear being labelled trigger-happy by the board and the markets, and are therefore unwilling to course-correct and change their teams when required. This fear often leads to the failure of their efforts in the long term.

An example of this is when the new CEO of a leading agricultural company realized that most of his business heads were not suited to play their roles. Many were ready to retire, and had lost the ambition. While he was aware of the situation and tried to make a few minor modifications, such as bringing in a new marketing head, he did not make the real changes that were needed. By the time he finally made the changes, he had lost three years and significant ground in some businesses.

Failure to learn and adapt

Leadership is context-specific—many leaders who are enormously successful in one context often fail when the context changes. A CEO who has been highly effective in driving growth, building new businesses and entering new markets is often at a loss when having to turn around a company that is performing poorly. For example, a CEO with a sales background, who is extremely efficient at performance management and driving the team, can fail to become a strategist and lead the company through an industry transition. When faced with such unfamiliar situations, many CEOs often tend to become close-minded—the arrogance

of success, as one CEO describes it, leads them to believe that they have nothing new to learn from anyone, especially from outside the organization.

This sometimes leads to less-than-desired outcomes. A CEO with a stellar prior performance record at a multinational company failed to adapt to the realities of an Indian family-owned business when he had to lead it through a transition. The CEO felt left out of the loop at times when the promoter interacted directly with the CEO's top team—many of whom were company veterans and had direct access to the promoter. The CEO also struggled with the company's definition of autonomy, as he was unclear about the areas where he needed to consult with the promoter and the areas where he could take an independent call. Finally, the CEO failed to identify the family members' selective priorities for their business. The result: the CEO was unable to create the right roles and setting for the family members to selectively engage in their priorities, which led to too much interference from the members across various aspects of the business.

In another context, the CEO of a chemicals multinational took over the company during a financially difficult phase and set it on course for restructuring that revived the firm so that it outperformed in a span of three years. After successful restructuring, the natural focus for the company was back on growth, but it was difficult for the CEO to adapt to this new focus. Although a great deal of focus and energy shifted to driving growth, he was not as successful as in the turnaround—for example, actions around ramping up resources to deploy for growth, or allowing for more risks to drive growth were not pursued with full potential, as he was still operating with assumptions made in the turnaround phase.

The CEO superhero

All too often, CEOs become unwittingly involved in far too many aspects of the business. This excessive control actually elicits dysfunctional behaviour. Employees feel micro-managed and in some cases demotivated, and tend not to think creatively.

CEOs dealing with crisis situations are often tempted to increase their spans of control. They enter into superhero mode—centering all decision-making with themselves or a select coterie of people who are not necessarily ideal for the task, but are close to the CEO. In a large Asian conglomerate, a superhero CEO who had never managed to think about the organization beyond his tenure ended up creating structures and processes that were highly person driven. This led to a situation where there was hardly any member in his executive team who could succeed him, or even be entrusted to lead new businesses that they would venture into. This meant that he became the de facto CEO even for smaller group companies, which he had no natural skill sets to lead.

Superhero CEOs are often hugely successful in their era, but cannot separate success from their own actions. Often it requires an active board, or a cycle of business disruption to break the mould and create opportunities for fresh leadership talent to emerge.

CEOs cannot but have biases, but need to be self-aware of what their biases are and how their biases prejudice them into taking decisions they are comfortable with rather than those that are right for the organization and stakeholders. CEOs need to find mentors who will challenge these biases of theirs and act as their sounding board. However, the first big step is often to become aware of the biases.

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