

The Role of the CEO

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This article looks at the changing role of the CEO and attributes needed for success.

Main Points in this article:

- 1 **CEO's need to have integrity and vision and act as a positive role model.**
- 2 **CEO's must understand that returns need to exceed their cost of capital.**
- 3 **Successful CEO's identify trends in demand well ahead of their competitors.**
- 4 **Successful CEO's spend a lot of time hiring good people.**
- 5 **Successful CEO's are good at asking for, and listening to advice from others.**

The role of the CEO changes as the company and its businesses evolve.

Due to recent negative publicity about CEO behaviour, more and more emphasis is being placed on integrity, vision, and being a positive role model.

These were the findings reported in a global survey, titled "Role of the CEO", by Accenture in October 2002. This survey involved feedback from 250 executives.

These executives also stated that CEO's need to focus on governance and innovation.

The increased focus on governance is no surprise, with both shareholders and regulators calling for change and far more transparency.

The focus on innovation reflects the competitive environment and the need to generate new ideas and new products to maintain market position.

Apart from integrity, vision and acting as a positive role model, there are five other attributes associated with successful CEO's.

These attributes may be more or less important depending on the stage of the company's development.

The five key attributes are:

- Leading and encouraging people
- Understanding the numbers
- Staying ahead of the trends

- Selecting and retaining good people, and
- Listening to others.

Leading and Encouraging Others

General Colin Powell once said "the ripple effect of a leader's enthusiasm and optimism is awesome". He also talked about the importance of a positive attitude saying "we can change things here, we can achieve awesome goals, and we can be the best".

For early stage companies with limited resources, this type of proactive attitude may mean the difference between success and failure. The CEO needs to clearly articulate and communicate the vision and values of the company.

Powell also said "great leaders are almost always great simplifiers". The easier it is for everyone to understand the vision, the greater chance of acceptance and gaining commitment to it.

Understanding the Numbers

The first goal of the CEO is to make sure the company makes money, so that the financial rewards can be shared with investors and staff.

The quote by a prominent CEO of a growing company "I want my business to be the best investment for my investors" shows very strong alignment between the CEO and the investors.

In order to deliver strong financial performance, great CEO's

understand that their after tax returns must always exceed their cost of capital.

Successful CEO's have a very strong focus on cash flows. This means monitoring the cash conversion cycle.

One CEO, appointed to turnaround a failing company, focused on all cash movements and signed every cheque. This may seem extreme, but for a cash starved company where every dollar is critical, it may be the difference between survival and the liquidator. For larger companies, different systems are required.

Staying ahead of the Trends

Successful CEO's identify trends in demand well ahead of their competitors. This can result in either an opportunity to build a prosperous business venture, or a costly experience if the trend disappears or fail to materialise.

Trend opportunists need to anticipate when to change their business model or simply move on to the next opportunity.

This is where CEO's with strong industry experience are likely to be more successful. Due to their expertise and familiarity with the industry, these CEO's had the ability to recognise trends or patterns as they develop.

They also have the ability to fill in the missing elements, and this early recognition allows them to exploit the opportunity ahead of their competitors.

Colin Powell said "you don't know what you can get away with until you try".

It is worthwhile pursuing a trend providing the market is of sufficient size (greater than \$100 million), and there is strong customer acceptance (customer orders in hand).

Acceptable financial returns (returns greater than the cost of capital) also need to be present.

To remove some of the uncertainty, the opportunity may need to be developed on a staged basis with specific "go or no go" milestones.

Selecting and Retaining Good People

Successful CEO's spend a lot of their time hiring good people. Jack Welch of GE fame admitted to spending 60% to 70% of his time on people related matters.

How do you pick the right people?

If ten different CEO's were asked that question, there would probably be ten different answers. The majority of CEO's would probably say the qualities they look for include personality, intelligence, motivation and experience.

Powell's rules for picking people are "look for intelligence and judgement, and most critically, a capacity to anticipate, to see around corners". He also suggested that you need "high energy drive, a balanced ego, and a drive to get things done". That's a fairly comprehensive set of requirements.

Retaining talented staff is a major challenge for CEO's, especially in those industries where skill shortages exist.

CEO's must continually assess their talent resources. People who are good in the early stages of a company's development may not be the right people for a larger company with disciplined processes and procedures.

One recurring comment from CEO's in growth companies is that they have not brought in new people quickly enough. For smaller companies, this is a dilemma.

Sales need to be generated before adding to the back office positions.

Unfortunately, the additional back office positions may be critical for the order fulfilment process and the ongoing support of the customer.

Listening to Others

Successful CEO's are good at asking for, and listening to advice from others. One prominent CEO suggested that if you are building a business you can't know everything, so don't be afraid to ask.

It is interesting to note from the Accenture "Role of the CEO" survey, a lot of executives rely on a mentor for advice. In fact, 46% of the most senior executives, and 47% of the other executives/managers reported having a mentor or role model in the company.

Mentors not only act as important sounding boards, they are important for developing careers and capabilities.

Successful CEO's create a climate where power and responsibilities are entrusted to intelligent and enthusiastic people.

They encourage and empower people, but still keep a close eye on the financial detail. Without the financial returns they know they won't be able to attract talented people or secure funding from investors.

CEO's need to establish direction, build commitment, ensure execution and create change. This may sound a tall order but many successful CEO's accomplish it.

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