

The CEO helps a transformation succeed by communicating its significance, modeling the desired changes, building a strong top team, and getting personally involved.

# The CEO's role in leading transformation

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**In today's business environment,** companies cannot settle for incremental improvement; they must periodically undergo performance transformations to get, and stay, on top. But in the volumes of pages on how to go about implementing a transformation, surprisingly little addresses the role of one important person. What exactly should the CEO be doing, and how different is this role from that of the executive team or the initiative's sponsors?

As the interviews in this publication show, there is no single model for success. Moreover, the exact nature of the CEO's role will be influenced by the magnitude, urgency, and nature of the transformation; the capabilities and failings of the organization; and the personal style of the leader.

Despite these variations, our experience with scores of major transformation

efforts, combined with research we have undertaken over the past decade, suggests that four key functions collectively define a successful role for the CEO in a transformation:

1. *Making the transformation meaningful.* People will go to extraordinary lengths for causes they believe in, and a powerful transformation story will create and reinforce their commitment. The ultimate impact of the story depends on the CEO's willingness to make the transformation personal, to engage others openly, and to spotlight successes as they emerge.
2. *Role-modeling desired mind-sets and behavior.* Successful CEOs typically embark on their own personal transformation journey. Their actions encourage employees to support and practice the new types of behavior.

3. *Building a strong and committed top team.* To harness the transformative power of the top team, CEOs must make tough decisions about who has the ability and motivation to make the journey.

4. *Relentlessly pursuing impact.* There is no substitute for CEOs rolling up their sleeves and getting personally involved when significant financial and symbolic value is at stake.

Everyone has a role to play in a performance transformation. The role of CEOs is unique in that they stand at the top of the pyramid and all the other members of the organization take cues from them. CEOs who give only lip service to a transformation will find everyone else doing the same. Those who fail to model the desired mind-sets and behavior or who opt out of vital initiatives risk seeing the transformation lose focus. Only the boss of all bosses can ensure that the right people spend the right amount of time driving the necessary changes.

### **Making the transformation meaningful**

Transformations require extraordinary energy: employees must fundamentally rethink and reshape the business while continuing to run it day to day. Where does this energy come from? A powerful transformation story helps employees believe in the effort by answering their big questions, which can range from how the transformation will affect the company down to how it will affect them. The story's ultimate impact will depend on not just having compelling answers to these questions but also the CEO's willingness and ability to make things personal, to engage others openly, and to spotlight successes as they emerge.

### **Adopt a personal approach**

CEOs who take time to personalize the story of the transformation can unlock

significantly more energy for it than those who dutifully present the PowerPoint slides that their working teams created for them. Personalizing the story forces CEOs to consider and share with others the answers to such questions as "Why are we changing?"; "How will we get there?"; and "How does this relate to me?"

Some leaders include experiences and anecdotes from their own lives to underline their determination and belief—and to demonstrate that obstacles can be overcome. Klaus Zumwinkel, the chairman and CEO of Deutsche Post, talked about his passion for mountain climbing, linking the experience of that sport and the effort it requires to the company's transformation journey. Corrado Passera, CEO of Banca Intesa, kicked off the communication effort by composing a short story, "written in human language," about the transformation. John Hammergren, CEO of McKesson (a US health care services operation on the West Coast), stressed the fact that every employee was or would be a patient in the health care system and that this "larger purpose" made a difference. "Had we been in the ball-bearing business, I'm not sure it would have been as easy to personalize it," he acknowledges.

### **Openly engage others**

When a CEO's version of the transformation story is clear, success comes from taking it to employees, encouraging debate about it, reinforcing it, and prompting people to infuse it with their own personal meaning. Most CEOs invest great effort in visibly and vocally presenting the transformation story. Julio Linares, executive chairman of the Spanish telecom provider Telefónica, says that, for him, the most important and hardest part of the transformation was "to convince people of the need for the program." N. R. Narayana Murthy, chairman of the board and former chief executive

of India's Infosys, agrees and says, "The first responsibility of a leader is to create mental energy among people so that they enthusiastically embrace the transformation." His view matches the experience of Banca Intesa's Passera, who spearheaded communication efforts to get the story out to 60,000 employees by traveling the length and breadth of Italy. Passera says, "It is a long process, but you have to put your face in front of the people if you want them to follow you."

Once the story is out, the CEO's role becomes one of constant reinforcement. As P&G CEO Alan G. Lafley says, "Excruciating repetition and clarity are important—employees have so many things going on in the operation of their daily business that they don't always take the time to stop, think, and internalize." Paolo Scaroni, who has led three public companies through various chapters of change, likes to find three or four strategic concepts that sum up the right direction for the company and then to "repeat, repeat, and repeat them throughout the organization."

Reinforcement should come from outside as well. Passera notes, "If everyone keeps reading in the newspapers that the business is still a poor performer, not contributing to society, or is letting the country down, people will not believe you."

### Spotlight success

As the company's transformation progresses, a powerful way to reinforce the story is to spotlight the successes. Sharing such stories helps crystallize the meaning of the transformation and gives people confidence that it will actually work. Murthy of Infosys describes how high-performing teams were invited to make presentations to larger audiences drawn from across the company, "to show other people that we value such behavior."

Ravi Kant, the managing director of the integrated Indian auto business Tata Motors, deliberately identified people who would serve as examples to others. He talks about how he highlighted the achievements of one young man whose success on a risky project and subsequent promotion showed colleagues that talented and determined people can rise through the hierarchy.

Emphasizing the positive, behavioral research shows, is especially important. In 1982, University of Wisconsin researchers who were conducting a study of the adult-learning process videotaped two bowling teams during several games. The members of each team then studied their efforts on video to improve their skills. But the two videos had been edited differently. One team received a video showing only its mistakes; the other team's video, by contrast, showed only the good performances. After studying the videos, both teams improved their game, but the team that studied its successes improved its score twice as much as the one that studied its mistakes. Evidently, focusing on the errors can generate feelings of fatigue, blame, and resistance. Emphasizing what works well and discussing how to get more out of those strengths taps into creativity, passion, and the desire to succeed.

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### **Role-modeling desired mind-sets and behavior**

Whether leaders realize it or not, they seem to be in front of the cameras when they speak or act. "Every move you make, everything you say, is visible to all. Therefore the best approach is to lead by example," advises Joseph M. Tucci, CEO of EMC, the US-based information storage equipment business. Ultimately, employees will weigh the actions of their CEO to determine whether they believe in the story.

### **Transform yourself**

Employees expect the CEO to live up to Mahatma Gandhi's famous edict, "For things to change, first I must change." The CEO is the organization's chief role model.

Typically, a personal transformation journey involves 360-degree feedback on leadership behavior specific to the program's objectives, diary analysis to reveal how time is spent on transformation priorities, a commitment to a short list of personal transformation objectives, and professional coaching toward these ends. CEOs generally report that the process is most powerful when all members of an executive team pursue their transformation journeys individually but collectively discuss and reinforce their personal objectives in order to create an environment "of challenge and support.

Murthy's 2002 decision to take on the job title of chief mentor at Infosys, for example, meant that he had to reinvent himself, because he laid aside his formal managerial (CEO) authority at the same time. He explains, "You have to sacrifice yourself first for a big cause before you can ask others to do the same," adding, "A good leader knows how to retreat into the background gracefully while encouraging his successor to become more and more successful in the job."

### **Take symbolic action**

The quickest way to send shock waves through an organization is to conceive and execute a series of symbolic acts signaling to employees that they should behave in ways appropriate to a transformation and support these types of behavior in others. For instance, C. John Wilder, CEO of the Texas energy utility TXU, gave a large bonus to a woman who had taken a clear leadership role in a very important business initiative. "This leader's contributions generated real economic value to the bottom line," he explains. "Of course, news of that raced through the whole organization, but it helped employees understand that rewards will be based on contributions and that 'pay for performance' could actually be put into practice."

### **Building a strong and committed top team**

The CEO's team can and should be a valuable asset in leading any transformation. As Deutsche Post's Zumwinkel suggests, "You need excellent individual players, but you also need players who are dedicated to playing as a team." Sharing a meaningful story and modeling the right role will certainly increase the odds of getting the team on board, but it is also vital to invest time in building that team.

### **Assess and act**

Successful CEOs take time to assess the abilities of individual members of the team and act swiftly on the result. In some cases, input from third parties (such as executive search firms) is sought to create a more objective fact base. Many CEOs find it useful to map team members on a matrix, with "business performance" on one axis and "role-modeling the desired behavior" on the other. Those in the top-right box (desired behavior, high performance) are the organization's stars, and those in the bottom-left box (undesired behavior, low performance)



should be motivated, developed, or dismissed. The greatest potential for sending signals involves the employees in the box of “undesired behavior, high performance.” When clear action is taken to improve or remove these managers, the team’s members know that role-modeling and teamwork matter. Banca Intesa’s Passera affirms that, “If necessary, you have to get rid of those individuals, even the talented ones, who quarrel and cannot work together.”

How do CEOs know when to intervene with the strugglers? They can reflect on the following questions:

- Do team members clearly understand what is expected of each of them in relation to the transformation?
- Is the CEO serving as a positive role model?
- Does everyone recognize the downside and upside of getting on board and doing what is required?
- Have struggling team members received a chance to build the needed skills?

If the answer to all of these questions is yes, decisive action is justified.

Experienced CEOs attest to the positive impact this can have on the rest of the company. EMC’s Tucci says he had

to take “public” action to tackle the “whiff of arrogance” that used to characterize certain parts of the company. TXU’s Wilder recalls that “When we did a cultural audit, we found that the number-one complaint was that management was not dealing with employees that everyone knew weren’t carrying their load.”

#### Invest team time

Even with the right team in place, it takes time for a group of highly intelligent, ambitious, and independent people to align themselves in a clear direction. Typically, the first order of business is for members to agree on what they can achieve as a team (not as individuals), how often the team should meet, what transformation issues should be discussed, and what behavior the team expects (and won’t tolerate). These agreements are often summarized in a “team charter” for leading the transformation, and the CEO can periodically use the charter to ensure that the team is on the right track.

Intesa’s Passera speaks of how he brought his team together regularly to “share almost everything,” to make it “clear to everyone who is doing what,” and to “keep the transformation initiatives, budgets, and financial targets knitted together.” P&G’s Lafley emphasizes the importance of spending the time together wisely: “You need to understand how to enroll the leadership team.” As a rule of thumb, 80 percent of the team’s time should be devoted to dialogue, with the remaining 20 percent invested in being “presented to.”

Effective dialogue requires a well-structured agenda, which typically ensures that ample time is spent in personal reflection (to ensure that each person forms an independent point of view from the outset), discussion in pairs or small groups (refining the thinking and exploring second- and third-level

assumptions), and discussion by the full team before final decisions are made. In this process, little tolerance should be shown for minutiae (losing the forest for the trees) and for any lack of engagement. Face-to-face meetings, as opposed to conference calls, greatly enhance the effectiveness of team dialogue.

### Relentlessly pursuing impact

As this publication consistently emphasizes, organizational energy—collective motivation, enthusiasm, and intense commitment—is a crucial ingredient of a successful transformation. There is no substitute for a CEO directing his or her personal energy toward ensuring that the company's efforts have an impact.

### Roll up your sleeves

Initiatives with a significant financial or symbolic value require the CEO's personal involvement for maximum impact. There may be several beneficial effects, among them ensuring that important decisions are made quickly—without sacrificing the value of collective debate—and sowing the seeds of a culture of candor and decisiveness.

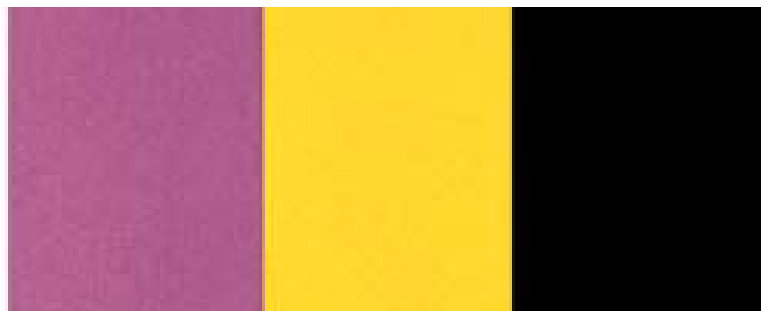
Leaders must be willing to leave the executive suite and help resolve difficult operational issues. Peter Gossas, president of Sandvik Materials Technology and a man with lifelong experience in the steel industry, observes, "If there's a problem, it can be helpful if I come to the work floor, step up on a crate so that

everyone can see me, and hold a discussion with a shift unit that may be negative to change." He adds, "It's hard for me to walk into a melt shop and not begin discussing ways to solve operational problems."

### Hold leaders accountable

Successful CEOs never lose sight of their management responsibility to chair review forums. Through these, they compare the results of the transformation program with the original plan, identify the root causes of any deviations, celebrate successes, help fix problems, and hold leaders accountable for keeping the transformation on track, both in activities (are people doing what they said they would?) and impact (will the program create the value we anticipated?). A central role for the CEO during these review forums is to ensure that decision making stays grounded in the facts. As Narayana Murthy wryly observes, "We have embraced the adage 'In God we trust; everyone else brings data to the table.'"

The CEO also plays a critical role in ensuring an appropriate balance between near-term profit initiatives (those that deliver performance today) and organizational-health initiatives (those that build the capacity to deliver tomorrow's results). This is a lesson applied by John Varley, CEO of Barclays: "For several years, the focus on initiatives to improve financial performance



dramatically crowded out attention on franchise health, leaving us with a set of issues in some businesses that needed urgent attention. We are addressing those issues.” During the transformation, some CEOs even choose to hold separate review meetings for short- and long-term objectives in order to ensure that companies maintain a balance between operational improvement (tactical strategies, wage management, productivity, and asset management) and long-term growth (revenue and volume growth through market share, new products, channels and marketing, M&A, talent, and capability management).

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For CEOs leading a transformation, no single model guarantees success. But they can improve the odds by targeting leadership functions: making the transformation meaningful, modeling the desired mind-sets and behavior, building a strong and committed team, and relentlessly pursuing impact. Together, these can powerfully generate the energy needed to achieve a successful performance transformation. ■

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