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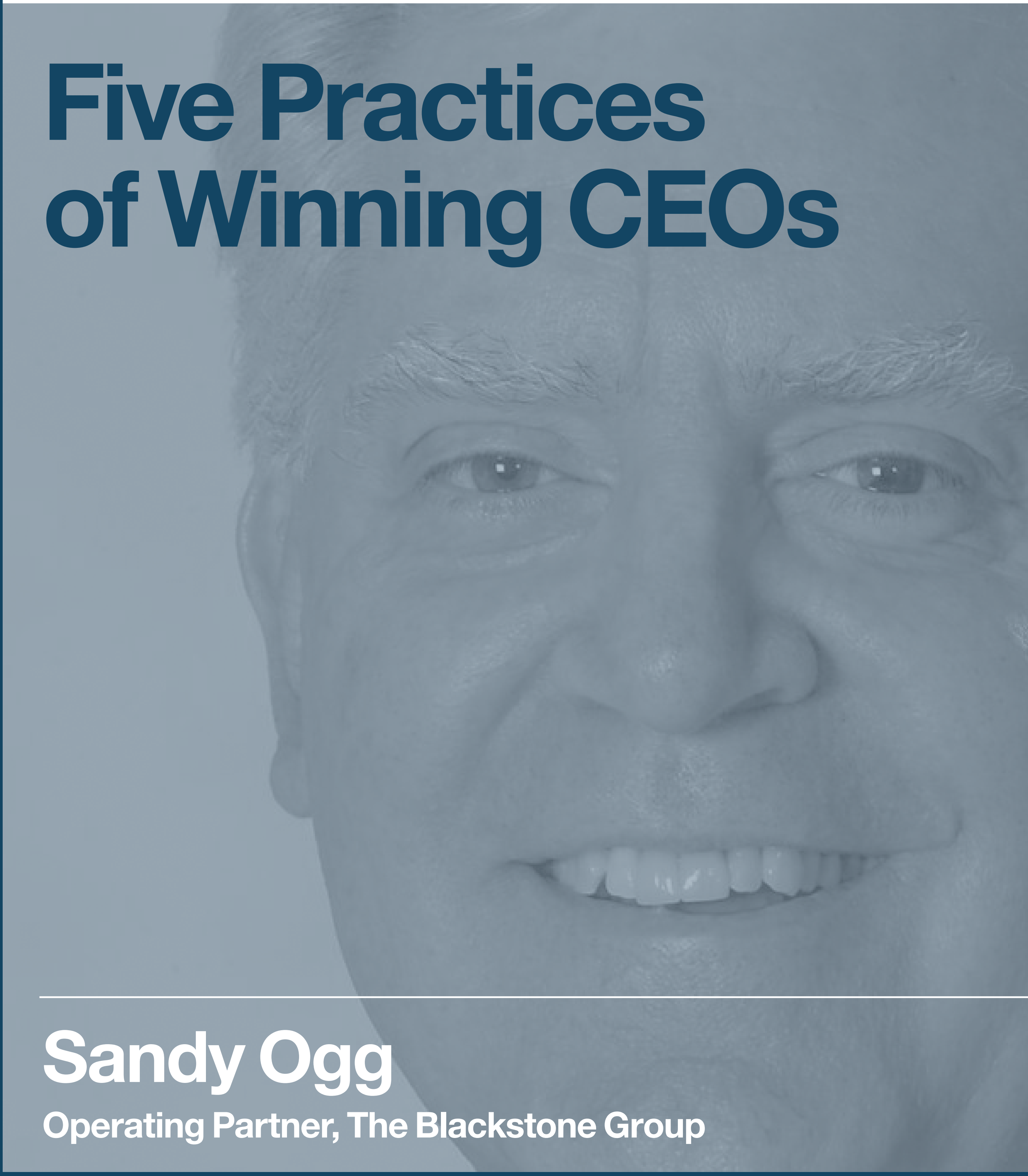

Five Practices of Winning CEOs

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Sandy Ogg is an Operating Partner in the Blackstone Private Equity Group. Prior to Blackstone, he was the Chief Human Resources Officer for Unilever based in London. Mr. Ogg was also the Senior Vice President, Leadership, Learning and Performance at Motorola. Before his corporate roles, he began his career as a line officer in the U.S. Coast Guard doing rescue work at sea.

Mr. Ogg recently sat down with Jack Zenger and Joe Folkman of Zenger Folkman to discuss his views on leadership development and to share his leadership experiences. This is a brief summary of that conversation. Listen to the podcast for the full conversation.

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Leadership is the red thread that goes through my entire career. I describe my career as having four phases, all beginning with the letter "C," which I'll admit is a bit of a force.

The first "C" is that I'm a graduate of the United States Coast Guard Academy. After graduating from its Leadership Training School, I performed rescue work at sea in various roles ranging from line officer to Commander. My interest in leadership started with the Coast Guard, because I had the opportunity to see, in legitimate life-and-death situations, the impact that leadership can have and the difference one individual can make. I saw the results of my own failings as a leader when we were on a rescue mission and we didn't bring the people back safely. This experience left an indelible mark on me that leadership really matters.

I then spent a number of years as a consultant, the second "C," in the area of leadership development and helping conduct leader-led transformation of small pieces of big companies. Progressively, I got more involved in leadership as a catalyst of change and organizational business transformation.

During this time, Motorola, one of my clients, asked me if I would be interested in joining the company. This began another phase of my career, the third "C," working in corporate, where I had some great experiences. I left Motorola to join Unilever as the head of Human Resources where we did a massive business transformation. When I started, Unilever had between 55 and 60 billion dollars in sales, 300,000 employees, and 1,600 brands. During this transformation, we reduced the number of brands to fewer than 400, closed 80 factories, reduced the employee headcount to 175,000, and took the managerial headcount from 20,000 to about 7,500.

During the second five years I was there we took this more fit organization and went from what I like to call "clean up to beat up." I think the evidence speaks for itself: the share price of Unilever tripled during that period.

Now I'm a capitalist at Blackstone, the fourth "C." My responsibility at Blackstone is talent.

In the private equity business there are two fundamental things you have to get right:

- You have to buy the right business (at the right price).
- You must have the right people running the business.

If these two things are not in place, our business model doesn't work. We need a repeatable model of value-creation and business-transformation to capture value—and leadership becomes an important part of the process.

During my first year at Blackstone I worked primarily on leadership supply: getting the right people in key jobs to make the funds work. Now I work on what I like to call mobilization, which is once we have selected a leader, to help the organization move fast.

By studying the CEOs in our Blackstone private equity content, we have been able to articulate the five things that the winners do that differentiate them from less-successful CEOs.

During this process, I studied 80 investments over a backward-looking, ten-year period and discovered a couple of facts:

- 53% of the time, we had a CEO change during our five-year investment period. And 17% of the time, we changed the CEO twice. When we changed CEOs, we usually made the change at just over two years into the investment.
- If we were on the investment case at the end of the first 12 months, we had a success rate of 80%. And in those cases when we were not on track after 12 months, we had, with some frequency, a CEO change.

These CEO changes are very, very expensive.

I then met with 15 of our CEOs who had produced outstanding results.

I also met with the CEOs I had the opportunity to work with at Motorola and Unilever to see what they were doing to be successful. So I had a bit of private equity and a bit of public company, but the patterns were very similar.

The conclusions are not going to be shock-and-awe. There are five things these CEOs did that were consistent and that helped differentiate them. And, by the way, these are in no particular order. People always ask, "Well, where do we start." You start where you need to start.

1. Effective CEOs use what I call the Leadership List.

This is where you take the value-creating agenda and determine who actually makes a difference. A typical company for us will have 3,500 employees and about 30 jobs that make the difference.

> What are the jobs that create the value, in rank order, top to bottom? And then, do we have people in those jobs that can maintain the value that you have and deliver the value you need?

It might be shocking how frequently we are not sharp as to what these value-creating positions are and then we are slow, or unwilling, to change people in those key jobs. The number one sin is to leave people in a job that they can't do or never will be able to do in time to deliver the desired results.

When ranking these jobs, we look at the enterprise value, which is a function of the EBITDA (earnings before interest, taxes, depreciation, and amortization) that each position generates times some multiple. We are looking at value. If somebody is running a division that produces x amount of EBITDA, we take the multiple for that company in that industry and apply it. So in the course of the transformation, we are trying to increase the EBITDA and improve the company's multiple.

If somebody is running a division that throws off $100M of EBITDA, and the company has a multiple of 10, that is $1B of value for that one job. If someone else is running a Lean program in the manufacturing area that produces $60M in EBITDA improvement, that job has $600M of value associated with that effort.

As to whether these jobs are predictably the same in all organizations, I think that the key value-creating jobs would, on the one hand, be predictably someone who is responsible for a big chunk of the P&L (profit and loss). It might also be someone who is on a project, such as Lean, or on a project to redesign the organization to eliminate spans and layers. The person in charge of these efforts might be responsible for $25M in EBITDA improvement, which generates $250M of value. That might be the CFO or the head of HR.

There are also people that mitigate value-at-risk, for example, the lawyer in a health care company responsible for compliance of government regulations. You could have an amazing value-destruction event if you fall out of compliance and you get a letter from the FDA and you have to shut down a factory.

You need to manage value and value-at-risk. And it has to be quantified.

> My biggest problem with talent-management is that we have these elaborate processes and people spend all their time talking about talent rather than the connection between the talent and the value they are trying to create.

The CEO is not just interested in the high-potentials and whether are they being developed. As CEO, I'm interested in where the value is in the organization. Do I have people that are big enough to deliver value? Do I have a reliable pipeline of people that are being developed to fill these jobs over time?

2. Effective CEOs make strategic choices.

You take this value that you are trying to create and you have to make strategic choices as to where you are going to play and how you are going to win. This is not just strategy or strategic planning; it is choices.

The number one sin that leaders make in this area is that they overreach. Leaders lay out what the market possibilities are, and there are shiny objects in all directions, and the CEO doesn't choose the places where the company can go get the value and get it in time. The issue isn't that the strategy was bad or that the execution was bad. The issue is that the strategy that was chosen could not be executed in time to deliver the value. Strategic choices are bets that you are going to make. And every strategic choice is a bet and there is risk involved.

3. Effective CEOs master execution risks.

You take your strategic choices and overlay them on the organization you have and you identify the risks. You then need to ask many questions. Do I have the talent? Do I have the organization? Do I have the capabilities? Do I have the culture? You need all these things to deliver on those choices that will produce that value. This is where you can really quantify your value-at-risk. Is my organization capable? Is my organization willing?

Culture is a reflection of the will of the organization. It never ceases to amaze me that people will bite off such a big piece, and then they overlay it on the organization, and it can't be done in the time they need to do it.

Some cultural elements need to be changed if they get in the way. One of the biggest problems we see is people who worship at the altar of decentralization. Or they worship at the altar of centralization. But the answer is that virtually all organization forms in the Internet world are interdependent. These bad operating models and bad organizational designs lead to really bad behaviors: me, mine, I have to have everything, I'm the king of my area, the rest of you stay out. Those are the things that really kill an organization.

Successful organizations do not vacillate between centralization and decentralization. I used to think that the axis of evil in organizations was centralization or decentralization. We all know people who have made their careers by going into a centralized company and decentralizing it to make everybody happy. Or, going into a decentralized company and centralizing it to make it more efficient.

> I think that is terrible. The real axis of evil is an organization that is hopelessly local or mindlessly central. The real answer is that every organization has to have interdependence—it is some blend of centralization and decentralization. Interdependence is the key. Being able to master interdependence is where the winning happens.

Leading in a collaborative environment is key, not just to get everybody to nod their heads in agreement. Someone needs to orchestrate in that collaborative environment without owning all the resources. We all see these horrible organizational designs where there is a big, heavy corporate overhead with its own HR and finance people. Then you see the same thing in the region and the same thing in the factories. This is complete nonsense. If we were willing to share those resources, the organization would be cheaper and better. But some of us never learned how to share.

4. Effective CEOs manage initiatives.

All of this boils down to what are the initiatives we are going to work on this year to move our value-creating agenda forward?

In 80 out of 80 cases, I didn't find a single example where people were trying to do too little. When it comes to strategic choices, I always say to people, Think bigger. Not more, but think bigger. Then pick out those couple of things that are really big that make you uncomfortable that you are going to go do. So people need to think bigger, but when it comes to what they are going to work on this year, they need to start smaller.

Think big. Start small. What are the fewest number of initiatives we could imagine doing, because this is a question of capacity. The organization has only so much capacity to run the business and change itself fast. When it comes to capacity, we think big and we start small. If we start big, we move slow. And then the CEO gets fired.

> When you think you've started small, start smaller. If you think you need three program offices to organize everything you're trying to do, you are lost.

What are the handful of things we're going to do that will make all the difference in moving the ball forward? I think people always overestimate what they can do in one year and underestimate what they can do in three years. If you have a nice, steady pattern of things you are doing year by year, at the end of three years, you can make huge progress in these large organizations. But in one year you can always do less than you think.

With initiatives, start small. And then move fast. Think bigger. Start smaller. Move faster.

5. Effective CEOs have energy and give energy.

The secret sauce in all of this if you start with the individual leader, is energy. The scarcest resource in any organization is the energy level of the CEO. When I was 30, I thought the scarcest resource was money. When I was 40, I thought the scarcest resource was time. And now that I'm more than 60, I can promise you that it is energy.

Effective CEOs must have energy and give energy as an individual, but they have to do it in a systematic way. I always tell CEOs to show me their calendars, and then let's compare the calendars to their value-creating agendas. How much of their agendas are being run by the CEOs and how much is being run by their secretaries? And are they running for political office or are they trying to create value.

I often see this fundamental misalignment in the way they are spending their energy. I also look at their meeting cadence and I see that there are a lot of meetings that don't do anything and the rhythm of those meetings is not going to produce results. Meetings are places where decisions happen and deadlines occur. If the whole meeting structure and cadence isn't good, the CEO's energy is being wasted and the energy is sucked right out of the organization.

Regarding meetings that kill energy, there are these ritual meetings in organizations, for example monthly staff meetings. What decisions happen in those staff meetings? "Well, we sort of update each other on what's going on." Is a meeting the best way to do that?

Conclusion

The important thing is to make sure that whatever you are working on is directly linked to how the firm creates value. If you are running a program and you can't see how value is going to be created as a result of you doing it, then you have to ask yourself the question, "Why am I doing it?"

If you can't answer and understand how the business creates value today, and how it will create value tomorrow, and your leadership development work is not directly linked to that, then you're wasting your time, the company's money, your own energy, and everything. Even if people are begging you to do something, why in the world would you do it?

We can do ourselves, collectively, a service if we continue to connect talent and leadership-development to value. And every time we don't do this, we get sucked into working on something that, in the final analysis, is off from what the business is there to do and we are taking a step backwards.

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