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Navigating the First Year: Advice from 18 Chief Executives

CEOs who took part in Strategy&'s 2011 study of CEO turnover share their thoughts about the difficulties they faced, the successes they achieved, and what, in retrospect, they might have done differently in their first year on the job..

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Navigating the First Year: Advice from 18 Chief Executives

CEOs who took part in Booz & Company's 2011 study of CEO turnover share their thoughts about the difficulties they faced, the successes they achieved, and what, in retrospect, they might have done differently in their first year on the job.

Every incoming chief executive must confront a wide range of new issues and new pressures. The board of directors, a new executive team, matters of strategy and operations, a host of new stakeholders: These are all the responsibility of the first-year CEO. How the new chief manages these often competing interests during the first 12 months will go far in determining the success or failure of his or her entire tenure.

In conjunction with Booz & Company's annual study of CEO succession, in early 2012 we met with 18 CEOs of major corporations around the world — some still in their first year, others more seasoned — and asked them to reflect on their own experiences as new CEOs. In the following "virtual roundtable," we present some of the highlights from those interviews, in hopes of providing readers — including new CEOs and executives who aspire to be CEOs in the future — with the full flavor of the thoughts, guidance, and advice of the CEOs we talked with.

— Ken Favaro, Per-Ola Karlsson, and Gary L. Neilson

S+B: When you were first appointed as the CEO of your company, how did you prepare for the role?

Ronnie Leten: I knew well beforehand that I would be the next CEO at Atlas Copco. The chairman, Gunnar Brock, who was my predecessor, and I discussed what the time period should be from announcement until I took over, and that worked well. We agreed to take four or five months, so that I had the time to get more acquainted with some of the issues, and to allow people to get used to the change. So Gunnar Brock and I did a couple of trips to larger markets where we felt we should show up together. This helped because I hadn't had much exposure up until then. It was for me a rather new world, and it gave me the time to get into the role.

This made me feel much more confident, because I had time to get more used to the business and the responsibility. I also had time to find a replacement for myself, because I was still running the compression business and we needed to find another person to make sure that when I took over, I had my hands free to do my new job.

Severin Schwan: I too was an insider. I came from Roche's diagnostics business and was familiar with the board and my executive colleagues, but didn't know all that much about the scientific side of pharmaceutical R&D. My approach was to use my transition to dive into the area I knew least well. I found a very senior pharmaceutical executive whom I knew from the past, and who had retired in the meantime, and could help to teach me. He had enormous expertise in the area, but he

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was also known to be able to explain things in straightforward terms. I contacted him and he was very helpful — even excited to help me.

I also went to the labs and looked at the different projects. And I had practical discussions with people in the labs on very specific diseases and compounds. In doing so, I filled dozens if not hundreds of pages of notebooks with graphs and cells and signaling pathways. I spent a lot of time on this, and I believe it really helped my preparation.

José Antonio do Prado Fay: I think the initial challenges are different if the new CEO is an insider or has been recently hired for the position. For an insider, it is critical to clearly understand and leverage the differences between the new CEO and his predecessor, and to quickly develop an approach to positively engage and lead the existing executive team.

In the case of a CEO coming from the outside, the initial challenge is to have the humility to understand how and why the company works the way it does, before suggesting substantial changes. Don't think up front that everything has to change. In both cases, however, it is crucial not to get excessively far from the operation.

Kunio Noji: I think it's important for every CEO to begin with a very diverse set of experiences. Otherwise, it is difficult to break down the walls within the organization. In the old days at Komatsu, the heads of the business units didn't even talk to each other, but that has changed over the years. I made sure to encourage our people to communicate as much as possible, between functions and between regions. What is important is to create the basic fabric of trust for the communication to work.

Britaldo P. Soares: I found that one critical activity early on at AES Brasil was listening to the firm. Not just the vice presidents and directors, but the supervisors, managers, and workers in general. We structured a program in which I interacted with at least 4,000 people; in each event, I made a brief presentation, then took questions for an hour or so. The key objective was to learn from the people.

Enéas César Pestana Neto: In my case, I soon realized that I was going to have to deal with a much broader agenda at Grupo Pão de Açúcar than I had in the past. Sometimes it is very hard to segregate your individual agenda from the CEO agenda. In order to do so, I had to read a lot, do a lot of self-reflection, and effectively change my mind-set. Initially, I had to deal with the large number of different topics the CEO is presented with, but then I started to find out where I should focus, and how to devote my time to what really mattered. In the process, I did a lot of reflection. What should I do to create sustainable value? What should be my style as CEO? I had to invest some time to know myself better. And I learned that evolving my management style created positive results. I think all new CEOs should spend some time to focus on themselves — their style, their priorities.

S+B: As you began that first year, who else did you turn to for advice and guidance?

Chip Bergh: I spent the first month mostly listening. I came up with a set of standard questions: What three things must we preserve? What three things must we change? What do you most hope I will do? What are you most concerned I might do? What advice do you have for me? I sent the questions out to every single board member, and to the top 65 people in the company. And then I spent an hour with each person and basically just listened and took notes as they answered the questions.

What was interesting was that after about 15 or so interviews, it was pretty clear what the objectives needed to be. People inside the company knew what needed to happen, and it was pretty consistent.

Ian Livingston: I found that as CEO of BT, the best advice I got when I talked to people wasn't from boards, and it wasn't from shareholders, external advisors, or brokers. The best advice I got was from the chairman, the CFO, and the HR directors. Because they're the people who have to see across the entire business. They are the people who have a company-wide view and understand what the issues are.

Choosing the Top Team

S+B: We've consistently heard that one of the top priorities of new CEOs is to put together the best team of direct reports possible. In your experience, how important was that process?

Ian Livingston: It's critical. You can rise quite high in an organization by your own personal ability and by doing things better than other people. But as a CEO, you can't do it all yourself. When you're running a company with a presence in 170 different countries, you just can't be there all the time. So it's the most important part of your job to build the right team.

Ronnie Leten: This process can get very complicated, for many reasons. I suddenly became the boss of executives who had been my colleagues at Atlas Copco, some of whom I had been working with for 15 years and longer. It's not easy to do that, to suddenly be leading and steering former colleagues. That was a difficult phase we had to go through — to make sure: "Who wants to go with me and who is less motivated to go on for the next three, four, or five years?"

S+B: How important was it to move quickly to put in place your top team?

Ahmad Abdulkarim Julfar: I knew that not all of the capabilities we needed for Etisalat to execute its new strategy would be available within the organization. So we had to build and even acquire new capabilities in the organization — with a focus on people who had international experience, and who had performed similar roles in the past.

When I was first interviewed by the board, they asked me my plan for the team. I told them we needed to build new capabilities, 50 percent of which didn't exist yet in the organization. Some board members asked, "Well, isn't that too much?" We had to take our best people and put them in new positions, and augment this effort by bringing in senior talent from outside. With regard to new joiners at the senior level, I wanted to give them time to understand our environment and culture so they could perform in the most efficient manner.

Saud Al Daweesh: When I first became CEO of Saudi Telecom, although there were some senior team–member changes needed that were clear to me, I did not make any changes. I was more in favor of a gradual approach to change, given Saudi Telecom's size and cultural background. My focus was to get the operation going, and observe the rhythm of how work was conducted. This also helped calm the organization, especially because my transition to group CEO came in a relatively sudden way.

I think we turned that caution to our advantage. Due to the fast pace of the industry and to the transition the company was making into becoming a global player, we did not have the luxury of focusing on building leadership among the team. Many times, we had to pick the best young candidates and put them on the spot. And as all these changes came together — the growth in the market, new competition, going international — I could see many of these people turning into leaders. Such a move is risky sometimes, but we did not have many options back then. Now I feel proud of how many of these young employees developed into real leaders. We achieved our financial targets, but more importantly, we were able to create some leaders for the organization.

Osman Sultan: At du Telecom, we were moving to a new and innovative operating model from Day One. I didn't want to start with a transitional operating model that would have been temporary by construction. I felt that making interim structural changes in the organization would create disturbance and delay us, and we certainly couldn't afford this in the launch phase. We needed to move as quickly as possible toward building a team that would be effective in delivering within the frame of the targeted new model, and not play its role in a transitional way.

Thomaz Menezes: I dedicated most of my time to the people on the top team. I needed to assess and analyze them, to understand that the dynamics were different, given that I was not an insider, and to position myself as the new leader. Then I built the team I wanted to work with; it took me about 15 months to do so.

Masami Yamamoto: Moving forward with proactive thoughts and energy was the most important mission as the new executive team took over from the previous management team. We needed to stabilize the internal atmosphere and have our employees focus on their customer service and business development activities.

S+B: In putting together that new team, many CEOs say they should have moved more quickly to replace people they thought would not work out. Do you agree?

Ian Livingston: Yes, but if you are a decent human being, you don't take pleasure in removing people, particularly if although only averagely competent, they are decent people. You try to give them a chance, even though it is almost always a failure of hope over experience. It can also be difficult to find a replacement, especially an external candidate for a high-profile job, so in practical terms, you do have to continue with some people you might not be entirely happy with.

Britaldo P. Soares: When I became CEO of AES Brasil, one of my key short-term goals was to consolidate my executive team. I knew I should change many of the former executives, but it was a difficult task that required a multiphase approach.

During the first six months, I prioritized changes in the critical areas. The subsequent changes required more time and additional steps. I had to demonstrate to the board that even though I gave them new opportunities, these executives were not performing up to our expectations at that time. In a few instances, I even conducted a comprehensive executive performance review, working closely with HR, to make my case. Throughout the process, I had to find a balance between my frustration that the process was going too slowly, and the perception on the part of shareholders that I was moving too fast.

S+B: How did you engage the board during your first year as CEO?

Romain Bausch: In my case, it was quite special. Until I became CEO of SES, I had been a non-executive board member, so I knew the board quite well. Several directors personally owned shares, and some of them felt that they had to run the company. So what I had to do — and I think I did this quite diplomatically — was to shift the power over time from the board to management. Obviously, the board has to make all the important decisions based on good corporate governance. But proposals regarding strategy and the way the company should be run have to come from management and then be submitted to the board for discussion.

Ahmad Abdulkarim Julfar: I think it is especially important to align the strategic objectives of management with those of the board. Some of my board members at Etisalat, especially those from the private sector, are focused on dividends and near-term gains, whereas telecom is very much a long-term investment. We still distribute good dividends, and we are probably one of the best stocks on the market. But for telecom to succeed in the long term, you need to keep investing to build internal capabilities, especially when it comes to people, as well as investing in new technologies and innovation.

So we need to do more alignment on a one-to-one basis with board members on strategic issues. Different board members have different capabilities and interests, so you have to prepare them; you have to align them with the strategic objectives of the company.

André-Michel Ballester: At Sorin Group, too, I made sure early on that the board was fully aware and fully supportive of what we were doing. When you do a restructuring, as we had to, and you have to divest businesses, you want to make sure the board approves the divestiture plan. The day somebody wants to buy a business and you get an offer, you want to make sure the board doesn't come back and say, "Well, you know, we thought about it again, and we would like to keep the business."

Strategy and Culture

S+B: Did you feel, early on in your first year, that deciding whether your company needed a new strategic direction was a top priority?

Ian Livingston: I did not. I had a lot of people advising me to put forward a new strategy: "Sell this division; sell that division." Everyone wants to do the sexy stuff. But in reality, you've got to get a solid foundation to the business by improving its operations. There are many good strategies, and all of them will fail if your execution is poor. It's about people, about operations, about execution — that's what you've really got to spend your first year doing.

That was certainly the case for me. I'm sure there are other companies that have massive strategic issues they've got to solve involving corporate restructuring and such. But for me, corporate restructuring is not an alternative to a well-operated business. Shareholder value is really created by executing well.

Ronnie Leten: I became CEO in 2009, in the middle of the financial crisis. No one knew what was going to happen. So my first priority was to make sure we kept going and that we safeguarded the business, though there was still some restructuring work to do to adapt, such as closing factories here and there. And secondly to make sure the organization kept visiting customers even if they were not in need of new equipment.

Osman Sultan: The right strategic positioning and ambition are vital at the start. Finding the optimal way to execute the strategic decisions can be very difficult early on. For example, we needed to very rapidly build and expand our network infrastructure in order to launch our services. For the sake of time and efficiency, we decided to outsource much of that work. Although it was the right decision, I believe today that it is not possible to estimate accurately the inherent risks involved in outsourcing these parts of the business. You are handing over your destiny to another company. In hindsight, if it were to be done again, I think that I would have put more focus on accelerating, even more than we did, the development of our own resources for managing this work. We have to keep focus on the vision and strategy but be flexible and ready to adapt in the execution.

Kunio Noji: I don't believe that the CEO can just come up with some great strategy, tell the organization to do it, and reap great results. At a traditional company like Komatsu, it doesn't work like that. Strategy is about letting the basics dictate how the organization is built, brick by brick.

Masami Yamamoto: I agree that it makes sense to be deliberate. Speed in decision making is important in the complicated global IT business environment, but what we have to do going forward may not be too different from what we have done so far. The more strategic business models are created or designed with broader sets of products and services that build our value proposition for potential customers. In our case, for example, it's easy to say we should exit the PC or mobile handset business due to their low profitability, but we could lose future business opportunities by losing key technological capabilities.

S+B: Can you discuss how you approached the issue of culture in your first year as CEO?

Romain Bausch: When I became CEO, SES was run operationally by the technical department. But it's not enough to have a strong technical culture and to be a leader in the technical field. You also have to build up the commercial and business development functions in order to grow the business and not to become too much of a technology-focused company. We needed to make sure that the engineers accepted that other functions were also important and that it was not all about operating satellites.

André-Michel Ballester: At Sorin Group, we had to work to make the employees proud of their company again — so they would be happy to work for the company, have a sense of purpose and confidence in the future. I wanted them to be able to speak their minds and disagree when they disagree, but to talk about issues, whether or not the issues were resolved immediately. My goal was to achieve some significant changes in the culture of the company in a year. I'm not saying that I was able to change the culture completely, and even after four years I would say it's still a work in progress. But that is partly because you want your culture to evolve with your business goals. Now we are trying to build growth. It's not the same culture that you want when you want to turn around the company.

Ahmad Abdulkarim Julfar: You cannot have two different cultures in an organization. It has to be one culture, from the top of the hierarchy all the way down. You can't have one culture at the board and a different culture in management, because the management needs to be tightly linked to the board, and the board needs to be an extension of management. That is why we are working hard to integrate the culture of our management and the board.

Gonzalo Vargas Otte: When I took over my current position at INACAP, Chile's largest education system, the organization was undergoing a significant shift in terms of culture and strategy, associated with an ambitious development plan that doubled the organization's size in a six-year period. In this process, INACAP was moving from a command-and-control culture toward a more integrated, horizontal model — one that encouraged executives to be accountable and make more decisions on their own. Being able to grow exponentially, while at the same time improving quality at all levels, required a strong emphasis on formalizing policies, procedures, and standards — thus enabling a decentralized decision-making model, guaranteeing organizational strategy alignment, and facilitating quality improvement and homogenization throughout the country. These and other changes were necessary if our culture was to become coherent with our new strategy.

Ian Livingston: In my view, culture takes a very long time to change. I actually believe the only way to change culture is to change behavior, by changing the attitudes and the objectives of the employees and leadership. What I definitely wanted to do is set some very clear objectives for the company and the behaviors we needed. One was honesty; the other was agility. The reason I said *honesty* is that in the past, pretty much every time something went wrong in the business, it was the result of people not facing facts. And then agility is about pace — whatever you do, do it quickly.

Kunio Noji: External shocks force us to rethink how we do business and make ourselves stronger. Without shocks, we become complacent and stick to the old way of doing things. Transformations should always be in the "drawers" of management, ready to be applied in times of external shocks and crisis. Trying to figure out transformations after a crisis hits is too late. Readying the organization to execute transformations is also important. In normal times, the organization must continuously train and stand ready to execute.

Transformations take time. For example, fundamentally transforming our manufacturing flexibility took nearly five years. But pushing and convincing the organization to tackle this change paid off. The capability allowed us to reconfigure our manufacturing and recover very quickly from the shock that followed the Lehman Brothers failure. Whereas it used to take us one year to move a product between plants, we can do it now in three months. We purposely move products around to keep plants on their toes. We can do this because the basics of the organization are unchanged. That's what top management ensures.

Masami Yamamoto: I tried to communicate with my employees in as many ways and as frequently as possible. This took place both in staff meetings, when I visited our branches outside Tokyo, and via Fujitsu Group's internal website. Sending messages to our employees with my honest thoughts, I believed, would be the best way to get their feedback. I have sent more than 200 such messages since I became CEO.

S+B: New CEOs have much to deal with in a short span of time. How can they best manage all the pressures and demands of the job?

Severin Schwan: You have to be very conscious about how you balance your professional and your private life. The reality is that the job is demanding, and it's also time-intensive. You travel a lot, and that is of course an element. As a consequence, you might have less time available for your family than if you're not in such a role. In my case, I have three small children, which only makes it harder. Having said this, at the end of the day, it's also very much about the quality of the time. You have to keep a certain distance from your own job. It's not easy to switch off over the weekend. I know people who can go to bed and forget about the job and sleep extremely well. I wish I could always say that.

Ian Livingston: I think the stability, the support from home, makes a huge difference…. If you don't have a very stable, very supportive home life, it can become too much pressure to take.

That's also why it's so important to have a top team. That becomes a critical thing, because as you go to the top of a very complex organization, what you cannot do is run the organization yourself. We see some really good senior executives who, when you promote them, start to show that what they're really good at is doing stuff themselves. They don't really want to bring in a team who can help them, and they start to implode. You have to run large organizations via teams of people. Finally, the ability to sleep on planes and read in cars is a really big help!

S+B: What are some of the most daunting issues for a new CEO?

Severin Schwan: People will be observing very closely what you do during the first couple of months. And that's actually an opportunity: You know you are in the limelight, so you can use that time to send a signal as to what is important to you. I think it's important, especially in the initial phase, that you don't hang on to your old job. You need to move on, and to make sure that the organization immediately recognizes that you are now in a new role. Because people always think, "This is the guy from that unit, so he looks at things from a particular angle." You have to get rid of this perception.

Ronnie Leten: For me, there are two things. First, suddenly you have the freedom to oversee everything, and the ability to use that freedom. Don't jump to conclusions. Go and look at the situation. Is this particular division in a tough business? Or is it really that you have a tough competitor? Is a particular problem operational, or is it strategic? Take the time to look into every aspect of the business.

And when you do want to change something, make sure that you get buy-in from key people in your organization. Really know that they are willing to go with you, that they're saying, "Okay, this is something I can really see myself working on." Finally, when you start making the change, make sure that the next day you work with customers to help them understand the change. It is extremely value-destroying for an organization to talk among themselves and not with the customers.

José Ricardo Mendes da Silva: There's always some sort of crisis in the CEO's first year — something that probably led the former CEO to leave — and it is key to initially focus exactly on the issues related to that crisis. In my case, the company was losing market share, which led me to see things from a new perspective. For example, I had to start looking more at revenues, rather than costs, as I had been mostly doing in my former position as CFO. Later, I started to focus on products and portfolio. This required a comprehensive approach, with many actions, including creating a new methodology to promote innovation and changing the management team.

Masami Yamamoto: Fortunately, we have many shareholders who have owned Fujitsu stock for a long time. This means that we do not necessarily need to concentrate on short-term results, but can build strategic and sustainable strengths for longer-term stable earnings growth. Having these shareholders' understanding of the need to invest in internal capability enhancement is a critical task for the top management.

S+B: So the new CEO must make sure to extend his or her outlook beyond internal matters?

Romain Bausch: Absolutely. Look at all the different stakeholders of the company and define your position toward each of these groups in the first year. With the board, come to an agreement about corporate governance, about responsibilities, about the delegation of power and authority, and about the strategy. Then take the time to build up your relationship with the employees — to communicate with them, to explain to them changes that you are making in the organization — and then try to get them on board and don't try to do this without their support. The third group is composed of your customers. Make yourself known to all the customers, go and meet with them; get up to speed right from the beginning of the relationship, and make clear that you take contact at CEO level.

You have to look at your environment in its entirety and find the time to develop the relationships, the strategy, and the approach toward each of these stakeholder groups right from the first year. You cannot say, "This year, I will do this, and next year, I will do the other." That would be a big mistake.

Osman Sultan: What I would say to a new CEO is to draw a diagram and put yourself in the center. At the top of the vertical line, put your board and shareholders; at the bottom of this line, the management team and employees. On the left of the horizontal line, put what we can call the "market-driving factors" — customers, distributors, industrial partners. On the right, the external, "non-market-driving factors" — regulators, media, academia, and so on. Then quickly identify the people on each of these fronts that you can trust to deliver. This is the radar screen you should look at every morning to ensure that you're not losing control of any of these things that could snowball very rapidly in any startup. As a CEO, you cannot afford the luxury of not being active on all these fronts.

Severin Schwan: Transparency with all your stakeholders is absolutely key. The moment you put issues or risks on the table and speak about them openly — with the board, with your colleagues on the executive committee, with external stakeholders, media, and investors — that in itself creates trust. And that in turn triggers support: The moment you frame the topic, people become very interested in making it better and working at a solution.

Of course, you also have to look at the input you get relative to where the input is coming from. I know from my own experience that even though people try to be objective, they are not. They look at the world from their perspective, as I do from mine.

S+B: Do you see that first year as a time to plan or to take action quickly?

Horacio Busanello: I believe the first two years should be inward looking. You must get into the business. Once you are "in the business" and have built empathy, and the executive team is fully functional and has realized that you are one of them, then you can turn outward, to clients, markets, other stakeholders. The first phase must be an introspective one. My key advice is to listen and understand where you are standing before moving. You must have a clear map of where you want to get to, and have clarity about who will help take you there. Once you have that, it's time to consolidate and implement the plan that will take you there.

André-Michel Ballester: In my case, at Sorin, I tried to look beyond the first year of our turnaround and actually extend my views to two, three years ahead. My recommendation to a new CEO would be, "Don't stop there." Look right away at what you want the company to become in the next 10 years — even if it seems crazy to look 10 years ahead when the company is bleeding and could go under if you don't do something fairly drastic. But it does matter, because there are things that you will need to start very, very early on in the process if you want them to materialize five years or seven years from now. This is what we did with R&D, for example, and we increased our R&D investment from 7 percent to 10 percent of sales while turning around the company. On the other hand, we only started business development activities a year ago in a coordinated fashion. Why? Because we thought, "Why should we do business development activities if we don't really have the cash to pay for them now?" Well, the business development activities we have today, and particularly in the technology area, will pay off within five years. If we had done some of this, even on a small scale, when I first became CEO, some of these new technologies would be on the market today. We were so focused on the relatively short term — the next two or three years — that we didn't think it was really relevant to think about the next 10 years.

Ahmad Abdulkarim Julfar: I would tell new CEOs that whenever they see any kind of opportunity, they should jump on it immediately, and focus on the implementation, rather than debate it internally. Opportunities have expiration dates. It could be an opportunity to acquire a business or to gain a new customer or to deploy a new technology, or even an opportunity to make major changes to the organization. Maybe we have been cautious, and maybe this is part of our culture. I think that has impacted the management approach, maybe more than it should have done. My advice is to push back more aggressively sometimes, if it's in the best interests of the company. Take the calculated risk.

Saud Al Daweesh: Indeed. You need to be daring sometimes, even if you have doubts. This keeps the team around you motivated and driven. ✚

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