The Mind of the CEO

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“Everything is in play.” With those four words, Leonard Riggio, chairman and CEO of Barnes and Noble, captured the environment in which CEOs operate today — the possibilities, the vulnerabilities and the uncertainties.

Global CEOs are in the middle of the third industrial revolution and face three kinds of challenges in a world where everything is in play.

First, they have their hands full with the central strategic problems of how to take advantage of the Internet and the global economy.

Second, they face the everyday dilemmas of leading and managing corporate Goliaths.

And third, they have roles to play on the global political, economic and social stage.

While the strategic and everyday problems are almost overwhelming in themselves, CEOs are doing the best that can be expected, often in the face of trends and pressures that are more powerful than they are. Where they fall down is in the third category. They haven’t sufficiently understood or accepted their role as leaders in helping to create the rules and institutions for trade, finance and communications, and for defining social responsibility for global companies.

Most CEOs construe their jobs too narrowly. Their crucial task is to build value for shareholders over time, not just to please speculators and day traders who buy and sell securities according to the latest headlines. That means CEOs will not only have to run profitable companies but will also need to build great institutions that provide customers with superior products and services, create high-quality jobs, and in the process make life better for the population at large.

In addition, however, they will have to devote far more effort to helping devise the rules under which businesses will operate in the future. Because we are in a transition between the industrial and information ages, a large vacuum exists concerning the regulatory framework for the global economy. We have very few of the international institutions that will eventually be required.

There is nothing equivalent to a central monetary and banking authority, no global Securities and Exchange Commission or Food & Drug Administration, no common set of anti-trust procedures, and no international arrangements for emerging problems such as environmental protection, labor standards, the Internet, genomes and global fraud and corruption.

Moreover, the environment for global business is fragmented, with a powerful political and social backlash building against continued liberalization of global trade and finance.

CEOs, therefore, must take more responsibility for shaping the environment in which they and everyone else can prosper. That includes helping to define the role big corporations should play in solving many of our social problems before they become too severe to handle — and before multinational companies become scapegoats blamed for causing problems in the first place. The definition of the public interest has become too complex to draw clear lines between the public and private sectors, as we have tended to do in recent years.

Differences from the Past
This challenge comes during an era of many challenges for CEOs. In the business world, technology and globalization have created a level of competition that will lead to new categories of winners and losers and force a transformation in how companies are organized and led. The impact of those changes will spill over into the
workplace and the economy. It will also spread to the political realm as citizens and governments search for new regulatory systems for both the national and global economies.

Many of the phenomena we are experiencing today were also evident in the past two industrial revolutions — England between 1750 and 1840, and America between the late 1860s and 1920s. Then, as now, new forms of business and work patterns emerged, the spirit of innovation was intense and immense fortunes were made.

Nevertheless, it is likely that the current challenges are even greater. Ron Chernow, the biographer of J.P. Morgan and John D. Rockefeller, describes how things moved so much more slowly a century ago and how business leaders therefore had more time to plan their strategies step by step. Rockefeller often spent hours staring out of his office window, just thinking.

Yesterday’s tycoons paid scant attention to shareholders, disclosed the barest of information to the public, and wielded near-total control over their boards of directors. They did not have to travel abroad, with all the mental and physical strain that involves. Rockefeller, for example, built the world’s most powerful international company without venturing outside the United States until his mid-40s.

In the first two industrial revolutions, corporate competition was mostly local, not global. Big moves and dramatic organizational changes weren’t nearly as necessary as they are now. Indeed, the imperative for today’s CEOs isn’t just to find the right business model but also to keep changing it to meet the pressures of unprecedented competition. Today, the corporate race is less against some identified competitor than for markets that do not yet exist, for consumer needs that have not yet been identified, and for young talent whose full creativity has yet to blossom. It is not enough to have strong growth; hypergrowth is the yardstick. It is not enough to succeed in being within a range of earnings; a CEO must hit or exceed a precise target.

The forty CEOs interviewed for this book — such as GE’s Jack Welch, AOL’s Steven Case, Newscorp’s Rupert Murdoch and AT&T’s C. Michael Armstrong — are acutely aware of the changes sweeping society. They believe the links among producers, suppliers and customers are blurring and the borders between countries and industries are dissolving.

They live in a world that includes too much unsifted information, multiple constituencies with different objectives, pressure to act with extreme speed in an environment of conflicting market signals and untested technologies. It is a world of tremendous uncertainty, where the tradeoffs between different courses of action are almost impossible to quantify and require a high dose of gut instincts. Consequently, they place great weight on finding simplicities that work — following basic instincts, clearly identifying first principles and remaining true to them in good times and bad.

What emerges from the interviews is an unsatisfying feeling of untidiness. There is no elegant theory of management that CEOs can use to deal with their problems. There are too many contradictions. Of course, that’s real life.

Are these CEOs leading the third industrial revolution, are they being carried by it or are they being consumed by it? The interviews provide evidence for all three possibilities. The men and women who run the most powerful corporations are not masters of the universe — not by a long shot. Nor are they lost in space. The reality lies somewhere between.

The fragility and vulnerability of their situation was captured in a statement
made by Stephen Case in the spring of 1998: “I sometimes feel like I’m behind the wheel of a race car. I need to keep my eyes on the horizon, but I need to keep my attention on the rearview mirror to see who’s gaining on me. From the passenger seat, consumers are telling me where and when they want to be dropped off, and behind me my shareholders and business partners are engaged in backseat driving. One of the biggest challenges is that there are no road signs to help navigate. And in fact, every once in a while a close call reminds me that no one has yet determined which side of the road we’re supposed to be on.”

Going Global
CEOs are obsessed with trying to understand what the Internet means for their companies and how they can use new technologies to be competitive. In the interviews, however, they did not display the same enthusiasm, urgency or imagination in their discussion of global strategies as when talking about the Internet. They did not seem aware that just as it is critical for the Internet to become part of a company’s DNA, it is also essential for a company to have a global mentality that is deeply embedded in all it does.

That means having a global vision, a global strategy, a global hiring system, a global training program, a global procurement and supply system, and a global R&D operation. It means coming to grips with the tensions that arise when one corporate culture must include people and markets of many different national cultures. It implies creating a global system of financial and psychological incentives that align the activities and interests of every part of the company with its central vision and strategy.

There was a time when the big global companies were pure reflections of their national cultures and policies, but successful corporations will soon have to be multinational in a literal sense.

One assumption that will have to be discarded is that being big and multinational is in itself a competitive advantage. An increasing number of such firms are moving into all corners of the Earth, growing by acquisition after acquisition. The decisive difference between success and mediocrity — which is to say between success and failure — will be the ability to transform global reach into real customer value that competitors cannot provide.

This task requires more brains than brawn. It involves creating a truly multicultural organization to take advantage of the enormous diversity around the world. It requires imagination well beyond the kinds of recent reorganizations that have focused on the relationship between product lines and geographical regions. Getting it right will be a never-ending preoccupation for the CEOs who succeed in the wired world market.

True North
Within these global, fast-paced empires, CEOs will have to learn to operate without the command-and-control style of the past. “Leadership of companies are going to have to become much less CEO-driven,” notes Jack Welch, who seemed the epitome of the command-and-control leader at GE. “People within the company are going to have so much data in their hands that they will be able to challenge [a CEO’s] decisions all the time. The pace of events is going to be so fast that people aren’t going to wait for the next layer of approvals. There’s going to have to be far more participation.”

A central issue that arose in the interviews was the importance of a leader having a strong compass in the storm of this third industrial revolution, and the sheer difficulty of staying on course. Another was the need for CEOs to be trusted by their employees, and the need for trust between a company and its
constituents — and how that too has become much tougher to achieve.

Bain & Company’s Orit Gadiesh says a leader who can provide a steady anchor is more critical than ever to the survival and success of a big organization. She calls this anchoring “true north,” a combination of character and principle that makes it clear what the leader — and by extension, the organization — stands for.

CEOs make the point over and over again that their companies must stand for something beyond mere profitability, although that is a precondition for success. Firms must radiate these values over a long period of time, through swings in the business cycle and other shifting factors. They must communicate their values in a clear and understandable way to all their constituencies.

While true north is an attractive concept, it is harder than ever for CEOs to implement today. When “everything is in play,” the strategic directions for any company need to be reassessed so often that the very idea of strategy often threatens to devolve into little more than day-to-day tactics. So many firms are in a constant state of restructuring that the basics that once defined them are in danger of vanishing.

True north, therefore, is both an invaluable concept and a difficult one to put into practice. CEOs must identify what they stand for with more than platitudes, communicate it and stick by it — all the while exhibiting extreme adaptability to rapidly changing circumstances. How many people can rise to this standard?