

New research suggests there aren't as many as you might think.

The Ways Chief Executive Officers Lead



by Charles M. Farkas and Suzy Wetlaufer

There is no shortage of schools for business-people of every specialty: accountants, engineers, financiers, technologists, information specialists, marketers, and, of course, general managers, who have their choice of hundreds, if not thousands, of M.B.A. programs. But where is the school for the person in charge of getting the best results from all

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these members of the organization? There is no school for CEOs—except the school of experience. Chief executives must learn on the job how to lead a company, and they must learn while every stakeholder is watching.

The CEO's job is like no other in the organization. It is infinite. Senior executives are, by definition, ultimately responsible for every decision and action of every member of the company, including those decisions and actions of which they are not aware. CEOs—even new ones—are allowed few mistakes. Not surprisingly, research shows that

between 35% and 50% of all CEOs are replaced within five years. That is a costly proposition for any organization, for no company can lose its leader without losing some sense, even temporarily, of its identity and direction.

Two years ago, our interest in the role of the CEO prompted us to begin an extensive study of how senior executives lead. Over 12 months, we interviewed 160 chief executives around the world, most of whom were running major corporations in industries as diverse as gold mining, computers, and soft drinks. Our goal was to examine the set of attitudes, activities, and behaviors that determined how those executives managed their organizations. To be honest, going into the project we hypothesized that there might turn out to be 160 different approaches to leadership. There were not. Only 5 distinct approaches emerged from our data.

Charles M. Farkas, a director at Bain & Company in Boston, Massachusetts, is coauthor, with Philippe De Backer, of Maximum Leadership: The World's Leading CEOs Share Their Five Strategies for Success (Henry Holt, 1996). Suzy Wetlaufer, formerly a consultant at Bain, participated in the Maximum Leadership research project. She is now a senior editor at HBR.



No matter where a company is located or what it makes, its CEO must develop a guiding, overarching philosophy about how he or she can best add value. This philosophy determines the CEO's approach to leadership. By *approach*, we mean which areas of corporate policy—for example, strategic planning, R&D, or recruiting—receive the most attention, what kind of people and behaviors the CEO values in the organization, which decisions the CEO makes personally or delegates, and how he or she spends each day. A leadership approach is a coherent, explicit style of management, not a reflection of personal style. This is a critical distinction. (See the insert "What's Personality Got to Do with It?") We found that in effective companies, CEOs do not simply adopt the leadership approach that suits their personalities but instead adopt the approach that will best meet the needs of the organization and the business situation at hand. Is the industry growing explosively or is it mature? How many competitors exist and how strong are they? Does technology matter and, if so, where is it going? What are the organization's capital and human assets? What constitutes sustainable competitive advantage, and how close is the organization to achieving it? The answers to questions such as these determine which of the following five leadership approaches an effective CEO will adopt.

1. The Strategy Approach.

CEOs who use this approach believe that their most important job is to create, test, and design the implementation of long-term strategy, extending in some cases into the distant future. Their position overseeing all areas of the corporation, they explain, gives them the unique ability to determine their organizations' allocation of resources and optimal direction. On a day-to-day basis, they spend their time in activities intended to ascertain their organizations' point of departure (the current business situation) and point of arrival (the most advantageous market position in the future). These CEOs devote approximately 80% of their time to matters external to the organization's operations—customers, competitors, technological advances, and market trends—as opposed to internal matters such as hiring or control systems. It follows, then, that they tend to value employees to whom they can delegate the day-to-day operation of their organizations as well as those who possess finely tuned analytical and planning skills.

2. The Human-Assets Approach. In marked contrast to CEOs in the above group, human-assets CEOs strongly believe that strategy formulation

belongs close to the markets, in the business units. According to these CEOs, their primary job is to impart to their organizations certain values, behaviors, and attitudes by closely managing the growth and development of individuals. These executives travel constantly, spending the majority of their time in personnel-related activities such as recruiting, performance reviews, and career mapping. Their goal is to create a universe of satellite CEOs: people at every level of the organization who act and make decisions as the CEO would. Not surprisingly, these executives value long-term employees who consistently exhibit "company way" behaviors, as opposed to so-called mavericks, who do not always adhere to organizational norms.

3. The Expertise Approach. Executives who lead by using this approach believe that the CEO's most important responsibility is selecting and disseminating within the corporation an area of expertise that will be a source of competitive advantage. Their schedules show that they devote the majority of their time to activities related to the cultivation and continual improvement of the expertise, such as studying new technological research, analyzing competitors' products, and meeting with engineers and customers. They often focus on designing programs, systems, and procedures, such as promotion policies and training plans, that reward people who

acquire the expertise and share it across the borders of business units and functions. These CEOs tend to hire people who are trained in the expertise, but they also seek candidates who possess flexible minds, lack biases, and demonstrate a willingness to be immersed—*indoctrinated* is not too strong a word—in the expertise.

4. The Box Approach. CEOs in this category believe that they can add the most value in their organizations by creating, communicating, and monitoring an explicit set of controls—financial, cultural, or both—that ensure uniform, predictable behaviors and experiences for customers and employees. CEOs who use this approach believe that their companies' success depends on the ability to provide customers with a consistent and risk-free experience. As a result, these executives spend their days attending to exceptions to their organizations' controls, such as quarterly results that are below expectations or a project that misses its deadline. In addition, they devote more time than the other types of CEOs to developing detailed, prescriptive policies, procedures, and rewards to reinforce desired behaviors. Finally, these executives tend to value seniority within the organization, often promoting people with many years of service to the corporate team and rarely hiring top-level executives from outside the company.

Executives who lead by using the change approach spend much of their time motivating employees through speeches and meetings.



5. The Change Approach. Executives in this category are guided by the belief that the CEO's most critical role is to create an environment of continual reinvention, even if such an environment produces anxiety and confusion, leads to some strategic mistakes, and temporarily hurts financial performance. In contrast to CEOs who employ the strategy approach, these CEOs focus not on a specific point of arrival for their organizations but on the process of getting there. Similarly, their focus contrasts starkly with that of a box leader: Control systems, written reports, planning cycles, policies, and rules do not seem to interest these so-called change agents. Instead, they spend as much as 75% of their time using speeches, meetings, and other forms of communication to motivate members of their organizations to embrace the gestalt of change. They spend their days in

the field, meeting with a wide range of stakeholders, from customers to investors to suppliers to employees at virtually all levels of the organization. Not surprisingly, the people they value are usually those who could be called aggressive and independent—people who view their jobs not as entitlements but as opportunities for advancement that must be seized every day. Seniority matters little to the change agent; passion, energy, and an openness to a new, reinvented tomorrow matter much more.

In the following pages, we will describe the five leadership approaches in more detail and explore which business situations call for which approaches. There is, naturally, some overlap. CEOs who adopt the strategy approach might use elements of human-assets leadership, for example. Some box CEOs employ the techniques of a strategy leader to address the out-of-the-box issues that can be overlooked in control-oriented organizations. That said, however, our research suggests that in most effectively run organizations, CEOs select a dominant approach, using it as the compass and rudder that direct all corporate decisions and actions. Our research also suggests that a CEO's approach can and should change over the course of his or her tenure. As one of our subjects, Edzard Reuter, CEO of automaker Daimler-Benz, says, "A business is a living organism. There will always be a point where the environment changes, the competition changes, something critical changes, and you must realize this and take the leading role in meeting change."

Whatever the approach, then, the CEO's role is to act decisively and boldly—a demand of high-level leadership taught only by on-the-job training.

The Strategy Approach: Focusing on the Future, Near and Far

Of all the hypotheses we held at the start of our research, none felt as unassailable as our supposition that the vast majority of CEOs consider themselves the corporation's chief visionary, responsible for setting short- and long-term strategy. Our data told another story: Of the 160 executives we interviewed, less than 20% subscribed to that leadership approach. In fact, the prevailing opinion of our subjects was that those with the most frequent and meaningful contact with customers and competitors should be responsible for strategic assessment and planning. Peter George, chief executive of Ladbroke Group, a British gaming and hotel concern,

puts it simply: "Strategy is the domain of the business units because the people running them are closest to the markets."

Nevertheless, we did encounter a distinct group of CEOs guided by the belief that their position

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gives them the best vantage point for making decisions about capital allocations, resource management, investments in technology, new products, and locations for doing business. For this reason, they assert, the CEO alone (although often supported by a small corporate team) is equipped to determine exactly where the company in all its parts and units should go, and how fast.

Open a strategy CEO's schedule book. What you will see is time allotted with a common theme: the collection, cultivation, and analysis of data. These CEOs devote much of their days to the activities that ultimately yield strategic decisions. They rigorously gather and test information about markets, economic trends, customers' purchasing patterns, competitors' capabilities, and other matters external to their organizations' operations. To increase their sources of data, these executives frequently use company task forces or outside consultants and eagerly draw on other sources of information and opinion, such as fundamental research, trade publications, and independent surveys. Strategy CEOs strive to understand how their customers behave and what really matters to them. They also seek to know as much as possible about every competitor's strengths, technologies, and key customer segments. Moreover, a strategy CEO focuses on knowing the organization's capabilities, or how well the organization can deliver on its strategy. What can the company do? What can't it do? What are its lowest costs, highest quality, and fastest speed of delivery? In sum, strategy leaders devote themselves to understanding the company's point of departure, selecting its point of arrival, and, perhaps most important, mapping the route between them.

How do they achieve all that? More than executives in any other category, strategy CEOs employ extensive analysis as well as reporting and planning systems that test strategic scenarios, and they often

What's Personality Got to Do with It?

"But isn't leadership really all about personality?" We hear this question frequently during discussions about our research and the five leadership approaches. We also often hear this remark: "Leadership - either you're born with it or you're not."

We disagree, both that leadership is a genetic trait and that a person's approach to leadership is solely a function of personality. In fact, we found that personality is just one element of effective leadership and often not the decisive one. In the most successful companies, the CEO has scrutinized the business situation, determined what the organization requires from its leader, and chosen the leadership approach that best meets those requirements. Sometimes the approach fits the CEO's personality; sometimes it does not. Indeed, our research suggests that some very good leaders repress certain personality traits, or develop ones they weren't born with, in order to run their organizations effectively.

Consider Richard Rosenberg of BankAmerica. He employs, by his own admission and our observation, the box approach to leadership. He says that he must: BankAmerica operates in a highly regulated industry. A small error or, worse, a case of graft can have grave consequences. BankAmerica thus owes it to its customers to have a strict set of controls, and the CEO must make them his chief responsibility.

But is Richard Rosenberg the kind of person you would expect to be using the box approach? Hardly. He is relaxed, affable, gregarious. "This isn't me," he admits. "I'm not a box guy. I'd actually fit in a lot better with the people in marketing. But our situation demanded a box. So here I am."

And take a look at Dana Mead, CEO of Tenneco. When Mead was appointed to lead the \$3 billion diversified industrial concern in early 1992, he thought that the company was headed in the right direction. Instead, he quickly discovered that Tenneco was entirely off course. The company had some attractive businesses, but many of its practices prevented those businesses from thriving. There was a highly politicized capital-allocation system, a compensation program that measured and rewarded meaningless goals, and no strategy formulation process. Without a complete overhaul, Mead determined, the company would not survive into the next century. The battle plan: change. Accordingly, Mead adopted practically every technique of the change approach to leadership. He launched new policies and procedures, established a new culture, divested operations, fired employees un-

willing or unable to embrace new ways of doing business, and went on the road to preach the gospel of change to Tenneco employees all over the world.

But does Mead have the kind of personality you'd expect to find leading this charge? Again, not at all. He is soft-spoken, even a bit subdued. Indeed, in his previous position as CEO of International Paper, he was a

human-assets leader - a role that may have come more naturally to him. But at Tenneco, the business situation demanded a different approach, and Mead rose to the challenge. That, we argue, is the essence of effective leadership.

Not surprisingly, we also encountered CEOs whose personalities seemed to be a natural fit with their leadership approaches. Herb Kelleher, Southwest Airlines' humorous, down-home CEO,



probably could not work in a company that didn't require a human-assets leader. Assertive and demanding, Stephen Friedman, former managing partner of Goldman Sachs, would likely champion change at any organization. How to explain this confluence of personality and leadership approach? We see two possible scenarios. The first is fortunate coincidence: A CEO assesses the business situation, determines which leadership approach is required, and finds that it just happens to reflect his or her personal style. A second and more likely scenario: The CEO is appointed by a person or group of people who make the right match. For instance, a board of directors decides that their organization needs strong strategic direction. What sort of CEO will they look for? Not someone who wants to spend a lot of time guiding and empowering individual employees, but someone who loves to get inside the data, someone with a proven talent for analyzing current market conditions, forecasting future ones, and mapping the route between them.

The board will select a candidate who already acts like a chief strategist. Not surprisingly, given his or her performance in previous positions, the new CEO will continue to use the strategy approach and will be considered a "natural" for the job.

Until scientists discover a gene for leadership - and think of the repercussions of that in business, not to mention politics - the debate about personality will persist. Even if scientists find that leadership is more a case of nurture than of nature, there will still be those who think that only classic General Patton types can lead an organization to success. Our research indicates that leadership is more complicated than that, driven not so much by what someone is like inside but by what the outside demands.