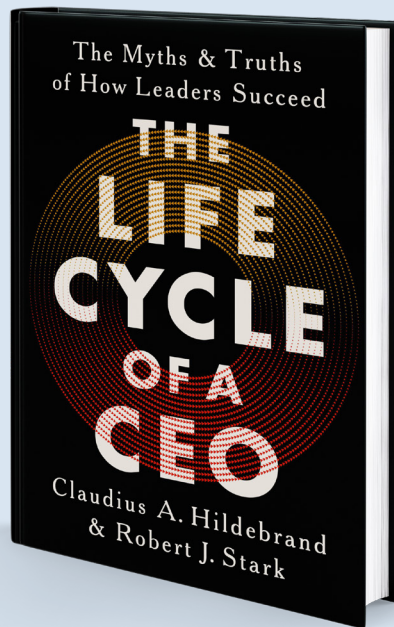


Book Snaps™

In-depth reviews of best-selling business books.



The Life Cycle of a CEO

The Myths and Truths of How Leaders Succeed
By Claudius A. Hildebrand and Robert J. Stark

Claudius A. Hildebrand, PhD, coaches and advises CEOs and future leaders to thrive and outperform in their roles. He leads Spencer Stuart's CEO Performance Analytics and is a regular contributor to Harvard Business Review. His work on mindsets and social networks was awarded "Best Article" by the Academy of Management.

Robert J. Stark is a trusted advisor and coach to CEOs and boards. He helps CEOs outperform and CEO aspirants prepare for the role, and guides boards through value-creating CEO transitions. His insights appear frequently in business publications including Harvard Business Review.

A Book Review by Soundview

Navigate the Storms of Corporate Life

In their book, *The Life Cycle of a CEO: The Myths and Truths of How Leaders Succeed*, Claudius A. Hildebrand and Robert J. Stark set out to describe the typical life cycle of a CEO. In doing so, they detail challenges and benefits of each of the stages they set out to describe. For Hildebrand and Stark, a CEO's success starts well before they actually attain that position. Once in the CEO position, a leader must be careful to avoid pitfalls inherent in the position as they lead their company to greater growth. Finally, as a CEO's tenure nears its end, they must then begin to look towards their legacy.

Ascent and Launch

The first step on the way to becoming a successful CEO actually starts years before a person is ever named to the position. It begins in the training they seek out and receive in the sometimes years prior to the appointment. Hildebrand and Stark state that "the best preparation for success is putting yourself through a rigorous and highly intentional process of personal evolution," and part of this requires a person to seek out varied roles to help fill in knowledge and experience gaps. No new CEO will have learned all they need to by the time they win the title, but they can make considerable strides in getting there. Hildebrand and Stark claim that "the surest path to success is not a linear ladder climb but a winding route that involves bold and often risky 'investment moves' to gain breadth as well as depth of experience." This can be seen through Terry Lundgren of Macy's. At one point he was the CEO at Neiman Marcus but resigned from that position to take a position as divisional CEO at Federated Department Stores where he stayed for three years before being named chief marketing officer. After this investment of time, he was named CEO of the company that has been renamed Macy's.

Sometimes employees switch companies to gain the experience they need and desire while other employees choose to stay with the same company. There is wisdom in this move as "76 percent of CEO appointments have been of internal candidates" within the past twenty years. Just because a person stays at one company, however, does not mean they can stagnate. People

choosing to move up the ranks within one organization must be willing to move “rapidly into many different functions and [take] on particularly challenging roles.”

Some of the skills people seeking leadership positions need to hone are their influencing skills. These skills are important because companies today are staying away from the “highly directive, command-and control style of leadership” that dominated the past century. Now companies seek out leaders with soft skills who can “empower and inspire people.” Potential leaders must be willing to put themselves through uncomfortable growth processes in order to acquire these skills.

Once in the position of CEO, a person can often find themselves lonely. This is because many people do not share as openly with a former coworker once that coworker has taken on the position of CEO. Additionally, there is certain information that CEOs cannot share with many people. Furthermore, very few people understand what it is like to be at the helm of an organization. Because of this, Hildebrand and Stark recommend that CEOs befriend CEOs of other companies who share the struggles and challenges they, themselves, face.

When a person takes on the role of CEO, much changes. Instead of having a single boss to report to, now the CEO has to report to a board, and this requires navigating politics and relationships with numerous different people. In addition, they may find that they now spend a large portion of their time working with stakeholders rather than actually running their business. This can prove quite challenging for the new CEO. Yet another challenge new CEOs face is outside pressure which could come from political figures, regulators, or any other of a number of sources, none of which are within the control of the CEO and not all of which can be planned for.

To be successful in this new role, a new CEO must not only learn to juggle the aforementioned external demands with internal demands, but they also must learn to focus on both the long term and the urgent needs of the organization. This requires a balance between decisive action and taking the time to learn all that is necessary about the company and the situation. This commitment to learning is crucial because a successful new CEO has much to learn about all aspects of the business. Hildebrand and Stark recommend new CEOs go on a listening tour to hear from people at all levels of an organization, and they encourage asking questions and listening to the answers during these tours. Not only does this help the CEO learn the business, but it also conveys respect for other members of the organization. The early stages of a CEO’s tenure are important and stressful as all of this must be done at the same time as a new CEO learns to navigate new relationships with board members and must evaluate and form the executive team. Hildebrand and Stark maintain that “Doing all of this early spadework is so important to flourishing as you move forward.”

Calibration and Reinvention

While a CEO’s first year is ripe with challenges and opportunities, by the time a CEO reaches their second year of tenure,

the honeymoon phase has likely worn off, and they are at risk of encountering a sophomore slump similar to those writers and musical artists often encounter. Hildebrand and Stark have several recommendations for second year CEOs that can help them navigate the pitfalls particular to this career stage. The first is not the “overreact to overreaction.” Oftentimes new CEOs can solve relatively easy problems during year one, but longer term or more difficult changes take time. At this stage, transparency is important as is giving off the impression that the situation is under control.

To maintain support during a difficult sophomore year, Hildebrand and Stark recommend further deepening bonds with the board. Furthermore, they recommend acting on well-informed intuition. This intuition needs to be informed by “rigorous data analytics.” Also important is combining intuition with that of other people even though it will ultimately be the CEO who is responsible for making the decisions. In addition, it is important for CEOs to continue to do fieldwork and observations. Finally, it is important to pay attention to the rate of change. While sometimes it may be necessary to push employees beyond what they can comfortably manage, in general, it is important to be in tune with key stakeholders and move at a pace that works for the organization. When looking at what moves to focus on, Hildebrand and Stark quote a study that states that “the highest performers relied most on these five [early moves]: operational improvements, launching new products, improving customer relationships, increasing employee engagement, and culture change.”

By the time a CEO has reached his or her third year in the position, it is likely that they have taken ownership over the role. The influence of the former CEO has likely declined, and it is at this time that the new CEO can now use “the credibility they’ve gained by successfully navigating the challenges of their first two to three years – [and] leverage it to push vigorously for big advantages.” Hildebrand and Stark state that often the most successful CEOs initiate a new strategy around three or four. Despite the track record a CEO may have developed by this point, they still may face considerable pushback from key stakeholders. Hildebrand and Stark tell the story of Terry Lundgren, CEO of Federated Department Stores. Numerous market forces made it evident to him that the company may need to change the name of its Marshall Field’s stores to Macys. This move had the potential to greatly anger certain segments of customers, particularly those in Chicago. Despite the fact that his board was only half in his favor of this move and despite the fact that it was a big risk, he believed it was a necessary one to take because he believed “the status quo is more” dangerous. This combined with other key changes including those involving omnichannel selling led the company to success. In such situations, a CEO should expect considerable pushback even if the decision is ultimately a positive one.

Hildebrand and Stark write about how important it is for a CEO to understand if they are a marathon, mid-distance, or sprint runner. In general, marathon runners and sprinters performed better than mid-distance runners. Knowing your personal style is important in determining career trajectory, as marathoners may do better staying in a role longer while sprint-



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ers may find it is in their company's best interests and their own career's best interest if they do not overstay their welcome in the role. It is also important for board members to understand who their CEO is so they can determine how long they wish an individual to stay in a position.

Complacency

As leaders move on from their first three years into later years of tenure, Hildebrand and Stark warn of the threat of complacency. Hildebrand and Stark write how "even the most talented and experienced leaders, who've successfully navigated through many challenges, may overlook or misinterpret arising threats or fail to perceive them at all." Part of the reason problems can arise even when new leaders and experienced board members can see them is that CEOs often have even more pressing concerns that they focus on over those that are burning more slowly. It is never possible to focus on all problems at one moment. In addition, some problems are harder to see by those in the C-suite who may be viewing matters from a distance.

Another problem that can arise after the first few years is overconfidence. When a CEO has a trail of successes, it is easy to fall into overconfidence. This can lead to complacency because people start to take success for granted. Decision-makers tend to make decisions that reinforce the status quo, and this can be even more likely when a company is in the throes of a successful streak. Executives can also fail to break free from the status quo because they spend much of their time with the same group of executives, limiting their insight. One way to overcome this is for CEOs to sit on the boards of other organizations. While this might not be possible in the earliest stages of a CEO's career when they have little to no extra time, this sometimes becomes more feasible after a few years in the role.

To overcome some of these pitfalls, it is important for CEOs to focus on both confidence and humility. Confidence is important because it breeds confidence in others. It must be tempered by humility, however. Part of cultivating humility is being aware of factors outside of your control that have led to your success. It is also important to remember mistakes as well as successes.

Legacy

While the general consensus is that a CEO may be best to step down from the position after ten years, Hildebrand and Stark detail multiple different CEOs who stayed in the position for considerably longer and continued to be a positive influence for their organization. Indeed, there are benefits not only for the organization, but for the leader, themselves, to remain in a posi-

tion for longer than a decade. They write, "The Legacy years are distinctive for their reliability. Leaders in their Legacy stage more consistently deliver strong results." One of these benefits is the ability to see earlier plans come to fruition. For example, Dave Cote said that he would stay on as CEO of Honeywell for the ten to fifteen years he believed it would take for his transformation of the company to come to fruition. He did, indeed, stay on for fifteen years and was able to see the remarkable turnaround he spearheaded.

The Legacy years can be a difficult time because of two different priorities. First, a CEO knows that they must continue to innovate if they want their organization to remain strong. Second, they must be thinking about who will be succeeding them in the position. This latter priority requires them to be forming the leaders that will come after.

Still, when thoughts turn towards leaving the CEO role, there are multiple obstacles that individuals may face. One of these is ego. When an individual has been in any role for a long period of time, it can start to take up an oversized portion of their identity. To give up the identity of a CEO and to give up perks which may include such extravagances as company jets, giving up this identity can be quite jarring and even terrifying. Despite this challenge, many CEOs are able to successfully transition into rewarding ventures after they leave their organization. For some individuals, this may mean taking on a CEO role at another company. For others, it can mean focusing attention on previously neglected areas of life. Still others take the skills and talents they put to use in their careers to use in other areas of life solving other problems in society. In such a way, leaving the role of CEO may alter one's sense of identity, but it does not need to destroy it nor does the departure need to be a departure from meaningful contributions to society.

Private Equity

Hildebrand and Stark move on to discuss the differences between the role of a CEO in a public firm versus that of a CEO in a private equity firm. As they state, "Among other things, the PE firm sets a more ambitious timeline for improving results and generally partners more closely with the CEO than a public board does in setting the company's course and executing to achieve those results." In short, the board is much more involved in both strategy and operations in a private equity firm. In addition, while the CEO of a public company reports to an entire board, the CEO of a private equity company reports directly to the firm's partner. Despite the differences between public organizations and private equity, CEOs of both types of organizations can learn from each other. It is crucially

important for a public CEO considering a transition to private equity to understand the differences between roles because not all people are suited well for the position.

One difference between S&P 500 companies and private equity is where they go to search for their talent. S&P 500 companies hire from inside for the CEO position 76 percent of the time. This stands in stark contrast to how portfolio companies hire as they hire from the outside 75% of the time. Hildebrand and Stark note how this can create difficulties for organizations when people primed to take a CEO position at their own company decide instead to move to private equity. Oftentimes the prospect is moving to a lesser known company, but they see the leap as one worth making because they will not face as much scrutiny from public markets and they are not beholden to quarterly reporting. Because of these benefits, private equity is finding it easier to hire CEOs than it did in the past. Those who “thrive under pressure and welcome close collaboration” may find that “the PE Life Cycle can be an exhilarating and highly rewarding journey.”

Along with these benefits, however, come some downfalls. One of these is that private equity CEOs do not have as much autonomy as their public counterparts do. In addition, they face tremendous pressure to produce results immediately. Because private equity wants to see changes quickly, “73 percent of PE CEOs are replaced at some point during the holding period, most often within the first two years.” Hildebrand and Stark describe a life cycle that the CEO will go through. The first is “Proof of Permanence,” and this stage is much more intense for private equity CEOs than it is for their public counterparts. The second stage is “Pivoting to Growth” which requires a CEO to grow and evolve. They then must move on to the final stage, “Executing the Exit.”

Transitions

As Hildebrand and Stark previously wrote about, it can be hard for a CEO to make the decision to leave, but this does not change the fact that if a company will continue on into the future indefinitely, the CEO role must change hands. As they end their book, they discuss the importance of boards looking for successors in order to protect the future of the company. They explain how important it is for boards to seek out their biases, so they can find candidates who may otherwise be overlooked.

This transition to a new CEO brings to a close the life cycle of a CEO that Hildebrand and Stark explain started years and maybe even decades before a person ever enters that role. The Life Cycle of a CEO: The Myths and Truths of How Leaders Succeed helps explain this life cycle to those who aspire to one day enter that role. It guides readers through the challenges that a CEO can expect to face at every step of the journey. It then goes further and helps the reader understand general steps that can be taken to overcome these challenges. The book goes beyond theory by detailing specific CEOs and companies and the successes and missteps they have taken, making the book a solid resource for those aspiring to be a CEO, those currently occupying that role, or those working closely with CEOs in their

own organization. Finally, it can be helpful for those serving on boards when it details steps boards ought to take to hire new professionals for the role which requires them to become intimately familiar with the candidates.