Becoming an Effective CEO

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You are the Majority Owner, so you are the CEO. Right? Not necessarily. There are generally three paths to majority ownership of a company. You started it. You acquired it from an unrelated third party. You bought or inherited it from a related party.

Each path has some common similarities and differences. The goal is to be an effective CEO and it is worth exploring what each of the paths take. We will begin by examining what it takes to be an effective start up CEO.

Path 1: You Started the Company

If you started the company, chances are you're automatically the CEO because startups rarely begin with a fully developed management team. Many startups are the activation of a dream or invention by highly motivated people who may or may not have sufficiently developed skills to build, guide and direct the growth of their firms.

Some inventors fall into this category. The story of The Polaroid Land Camera Company illustrates the problems of the inventor as the CEO, Dr. Ed Land, the founder, was a pure inventor. He lacked most of the skills and mindset to become the effective CEO needed to drive his company. His investors eventually realized Dr. Land would never be the person to drive the company to its zenith, and they relegated him to his laboratory, trotting him out once a year to show off his latest creative products. If he had remained at the helm, it would never have been the success it was in the mid-20th century.

Path 2: You Inherited or Bought the Company

If the company you have started isn't your first rodeo (i.e., you have been the majority owner/CEO of another firm or firms before), you have a leg up on some of the things that an effective CEO needs to do. Unfortunately, most CEOs get to some semblance of effectiveness through trial and error, with a lot of emphasis on the error part of the equation. There is no handbook with checklists available to prescribe the exact ways to get to effectiveness, but experiences as part of a key management team help in making decisions about what to do and what not to do and when to do them.

I think it helps you become the CEO or owner of your company if you have done three things:

Get an education in a field appropriate to the industry in which you will be. While an English major education might be good intellectual capital, that education is unlikely to provide you much intelligence for running your manufacturing company.

Get a job with a company in a field related to your intended industry. Learn from seasoned professional managers how they do business, make decisions and decide policy. That usually means working for a public firm or a large private firm. Perform to a level that earns you one or more promotions. It is quite useful, by the way, to try to operate in different functional areas so you get a semblance of the bigger picture that is so important to the growth and success of any firm, including yours.

Get a job in a smaller firm in the industry you intend to enter. See how the CEO of that firm does things. Compare your experience there with your experience in the larger firm. Particularly for those who are going to be inheritors of a family business, this is important. If all you learn about running a company is the way your family does it, you are going to need significant outside advice to work your way through the minefield of your business landscape.

Path 3: You Acquired the Company from an Unrelated Party

The problems of the startup CEO are similar, but not the same, for the “Acquired It” CEO. Unless you have experience with the company you purchased, you are starting fresh but with an existing management team and employees you know little about other than what you have been told and what your due diligence in the acquisition process has told you. The good news is you have a management team and employees who don’t have to be built from ground zero. The bad news is you have a management team and employees who already know the company, its history, climate, culture, etc., before you try to imprint your own values and culture on the entity you acquired.

One of several acquisitions I have been involved with illustrates the conundrum described above. The CEO, in his terminal illness days, brought in a new CEO who had related industry experience and a solid track record of success in his prior employment with a professionally managed firm. This was a last-ditch effort to sell the company because he had offered favorable terms of sale to the four key managers (I called them the “Gang of 4”) only to have them reject the offer because, frankly, there was not an entrepreneurial manager in the group. That led to a two-year war with the management team where they undermined him and thwarted progress. The dying CEO was smart enough (thanks to good advisors and legal advice) to put into place a golden parachute for the new CEO which would have made “the Gang of 4” finally realize their financial future was closely tied to this CEO’s and the firm’s success. I might add this firm was successful before the transition and the “Gang of 4” could have purchased the firm with its own cash reserves without hurting the capital/cash flow needs of the business. Sometimes things aren’t rational!

End note on the story above: The new CEO gradually overcame the “Gang of 4” resistance, added key management talent, repurposed the roles of the gang members and continued to build the business. Many of the things he did are integrated into this blog. The company got substantially larger, profitably, and was acquired by a major player in its industry a few years ago for a payoff several times larger than the value of the company at the time of the aborted transaction.

Key Actions of the Effective CEO

There are three critical actions that must take place if you are to become an effective CEO, regardless of whether you are the starter, the acquirer or the inheritor. They are:

1. Creating a clear vision of what you want the company to become.

2. Developing a clear articulation of the core values you espouse to guide the execution of that vision.

3. Building a cohesive team to support that execution.

Clear Vision

A clear vision of what you want your company to become over a specified time line is the starting point. It is your company, after all, so what do you want it to look like when it is finished?

If you started the company because you decided that because you know how to do something, you can run a business that does that something (Gerber’s definition of a “technician”), you might have only traded a job for a job because having a technician’s vision does not translate well into creating and developing a successful company.

Core Values

You need to establish early on the core values on which you want to build your company. This is true whether it’s a startup, acquired company or inherited organization. This might be the most important part of what you need to do to create a successful firm. If your core values are not clearly built and defined, the rest of the development process will be flawed and could result in a lot of trial and error.

If you are acquiring or inheriting a company, a substantial change in already established core values will be problematic. Most established firms inherently resist change and it might not be a pleasant experience. If you are a startup, you start with a clean slate, but that creates its own problems unless you have spent some quality creative time defining what you want your company to be and become.

Build a Team

You need to build a team capable of executing the vision and the core values. Again, this is problematic for all situations. The startup rarely has the right people to grow the firm because of limited resources and time. The acquisition firm will find a lot of the incumbents unworthy or inadequate after applying Gino Wickman's "Traction People Analyzer" (Gets It, Wants It, has the Capacity to Grow) evaluation of the existing team. The family business equation gets more complex many times since relatives often occupy positions in the firm are there because they have the right last name, not necessarily the right talents. Changing that, regardless of the ownership circumstance, is rarely easy or painless. Getting the right people on your bus is critical to venture success.

You might have noted to this point I have not used the words "leader" or "leadership" even one time. The most effective CEOs lead by inspiring their team to execute coordinated strategies and plans consistent with the company vision and core values. Thus, leadership is implicit in all that has been stated in this treatise.

Getting Help

The effective CEO addresses all three components whether personally or through the help of others because that foundation makes or breaks the progress and success of the enterprise. All three paths to majority ownership and potential effective CEO title have a common problem here: none of them can do the three essential tasks of the effective CEO without help. The help, and the degree to which it is needed, is usually a function of the experiences, vision and team development available to the CEO.

For the startup CEO especially, the needs for outside help and advice are critical. For those who have never navigated the breadth and growth of their enterprises before, seeking advice and guidance from others who have already do it is central to success. No CEO is an island.

Finding and utilizing the experience, practice and wisdom of others who have "been there, done it" is a major part of the learning curve. That can be accomplished in several ways, including:

1. Seeking out a guru who has successfully navigated the waters in which you are about to dip your toes.

2. Create a Board of Advisors or join a group of CEOs whose willingness to guide you through the uncharted waters and listen to your concerns and fears is another way to get this help.

3. Embrace the EOS (Entrepreneurial Operating System) Gino Wickman details in his book, Traction. The EOS/Traction process is difficult for start up firms.   It is imperative, in my opinion, that it be implemented in acquisition and inherit situations.

4. The COSE Strategic Planning/CEO Development course is a logical way to help those facing the acquisition/inheritance situation. The course provides tools and information that helps with both strategy formulation and strategy execution. Moreover, it gives participants access to over 800 business owners/key employees with at least one thing in common - they all have "drunk the kool aid" of the course and are almost always willing to share their experiences and expertise with those who have also taken the course.

I've Tried Becoming an Effective CEO, But I Am Failing

Now what? You can usually deal with the vision and the core values, but not always. Some entrepreneurs simply cannot get past the habit of chasing new ideas much of the time so that the Vision is never in equilibrium. If that's your case, you need to really embrace EOS and the Traction process so you can stay focused. Where a large portion of would-be effective CEOs fall down is in team building. The solution: Hire an "Integrator" (Wickman's terminology) who can do that for you. You might even have to make that person COO or President, and she or he will run your company while you focus on those ideas and inspirations that are the next steps for the advancement of the company. It's important to recognize and reconcile the possibility you are not the person to lead your company day to day. Remember Dr. Land earlier in this blog? It is not a weakness to realize that to achieve company success you need to take a different role. It is better to be the designer who recognizes his or her weaknesses and finds a solution to overcome them than to forge blindly ahead towards sub-par performance.

5 Takeaways

Takeaway No. 1: It isn't easy to become an effective CEO. If it were easy, a lot more people would be effective CEOs.

Takeaway No. 2: Becoming an effective CEO is a process, not an event. Getting relevant experience and education helps a lot.

Takeaway No. 3: Get help from those who have successfully been in your shoes. Their experiences frequently stop you from going down blind alleys, helps you keep focus and form a safety net for you while giving you "next steps" insight. "Been there, seen it, done it" is rarely overrated!

Takeaway No. 4: Recognize you might not ever have the tools to be the effective CEO of your business. Someone else might need to be brought in to take that role.

Takeaway No. 5: Remember the goal, not the ego. The name of the game is a successful, profitable enterprise with great rewards for all concerned (employees, customers, and you).

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Learn more about the COSE Strategic Planning/CEO Development Course at cose.org/spc