Executive Insights

Volume XIX, Issue 4

CEO 4.0: What It Will Take to Win

Never before has the chief executive officer been confronted by more challenging economic, market, technology, and cultural forces. With change no longer moving in a linear fashion, but at the exponential rate of technology, expectations for the top role are growing ever higher, and the time for delivering ever shorter.

The high turnover rate (15% to 20% per year) among CEOs clearly indicates the need for a new type of leader: CEO 4.0, capable of managing new critical tensions, in addition to the traditional responsibilities of the corner office:

1. Managing disruptive innovation… while leveraging the company's core strengths

When confronted with disruptive technologies, many companies fail to align digital strategies with their core strategy. By definition, disruptive innovation challenges a firm's core capabilities; direct channels, for example, provide low cost and ubiquitous distribution, but cannibalize traditional salesforces and threaten partners. CEOs today must possess the technological fluency and open-mindedness to understand fully the disruptions they face, and decide which legacy capabilities are core to the future, and which should be jettisoned — all at the speed of innovation.

In 2012, GE's CEO Jeff Immelt launched GE's digital strategy to connect minds and machines, combining a legacy of innovative industrial manufacturing with cutting-edge data and analytics expertise. "If you went to bed last night as an industrial company," Immelt observed, "you are going to wake up this morning as a software and data analytics company." Failure to grasp such disruptions — and adapt quickly — can be fatal.

2. Pursuing cost leadership… and differentiating for value

Manage costs — or add value? Today, this tension is perilous for CEOs. Focusing on one at the expense of the other is no longer a choice.

- On one hand, pure cost-based strategies are now rarely viable because the forces of automated production, mass customization, global supply chains, direct channels, networked devices, etc., have permanently established a new base level for both manufacturing and total cost of ownership. Even in the most commoditized markets, winning players need to create value by adding small slivers of differentiated services, logistics, quality and reliability.
- On the other hand, a highly differentiated offering is no longer a guarantee of long-term value creation. Diminishing cycle times, rapidly disseminating intellectual property and fast R&D allow competition to catch up quickly on any breakthrough, so even the most valuable innovations can see their price premium drop rapidly.

CEO 4.0 must constantly balance these cost/value pressures, rapidly re-evaluating strategic priorities, including where to participate in the industry value chain in order to remain competitive and profitable.

CEO 4.0: What It Will Take to Win was written by **John Goddard** and **Aubry Pierre**, partners at L.E.K. Consulting. John is based in London and Aubry is based in London and Paris.

For more information, please contact strategy@lek.com.

L.E.K.
INSIGHTS@WORK

3. Exploiting global opportunities… and managing risk

Investment opportunities come and go quickly – and unwise are the CEOs who underestimate the risks. However, the pace of global business now often precludes traditionally rigorous diligence. CEO 4.0 must be agile and adaptive, operating from a mindset of continual anticipation and appraisal in order to facilitate timely investment decisions and speedy execution.

Decision making in today's matrixed organizations often no longer has the necessary responsiveness, detaching them from both their customer base and market realities. By creating nimbler, more autonomous businesses and pushing decision-making down the management chain, CEO 4.0 can increase corporate collaboration, speed, and adaptability, as well as simplify or replace burdensome management processes (e.g., implement frequent, rapid, project-specific evaluations instead of annual performance reviews). A 4.0 organizational strategy calls for small, manageable units focused solely on specific technologies, end markets, or geographical areas. Additionally, impractical and quickly outmoded high level P&L management can be supplanted by KPIs that stress driving value for every critical part of the enterprise.

4. Responding rapidly to opportunity…while ensuring high quality

For CEO 4.0, the mandate to identify, assess, and seize opportunities rapidly is indisputable — but it cannot be achieved at the expense of quality, the bedrock of brand value and customer loyalty. Yet companies across all sectors are striving to accelerate innovation so that they can break free from low-growth markets, differentiate and sustain competitive advantage. Innovation cycles speed up and time-to-market goes down, and the resulting disruptions in the value chain compound customer demand for quality. Failure to balance time to market with insistence on excellence has, for some CEOs, led to highly visible product recalls and damaging interruptions of service. Achieving the best of both — fast response coupled with a high-quality offering requires a new approach, for example, leveraging partners across the supply chain such as General Motors collaboration with LG, a key component supplier to develop the Chevrolet Bolt EV, or Caterpillar, which has established partnerships across industry, governmental organizations and academic institutions to speed up the pace of its R&D.

5. Drawing in new talent… and integrating a cohesive team

Increasingly, all businesses need access to technology talent, thereby ensuring the pace of innovation and its subsequent implementation are sustained. However, acquiring adequate technology talent continues to challenge CEOs globally because their legacy teams often lack the know-how to effectively search the most fruitful channels. CEO 4.0 takes a lesson from firms in technology hubs such as Silicon Valley, Boston's Route 128, Austin and Shoreditch, all of which are well-versed in what it takes to compete in the tech talent market and routinely wield enticing offers and the opportunity to be part of a "next big thing" culture to attract the brightest and the best.

In addition to ramping up technology savvy recruitment, CEO 4.0 faces the weighty challenge of creating a cohesive, high-performance culture. Integrating new capabilities with the legacy organization is critical, but poor management will bring conflict and failure. Established teams need to be motivated to embrace potentially radical ideas and approaches inherent in harnessing new talent and achieving business success. At the same time, CEO 4.0 must remain focused on driving innovation (e.g., building new technology and R&D centers outside of outmoded legacy locations, developing ownership and incentive models that both attract new talent and retain key individuals).

Conclusion

How skilfully, and quickly, CEO 4.0 addresses these five tensions will go a long way toward determining success. But the role's traditional demands — balancing short-term success with long-term gains, managing conflicting stakeholder interests, showing results early, and facilitating corporate responsibility and other firmwide initiatives — will remain just as critical. Taken as a whole, these complex challenges will be best met by a leader who can rapidly deploy the technical fluency, market and customer insight, and organizational dexterity to define and mobilize a new management culture.

About the authors:

John Goddard has been a partner since 1995 and has more than 25 years' experience in strategy consulting, performance improvement, transaction support, and business development in the private and public sectors around the world. He has helped clients address issues such as strategic positioning, business plan development, acquisition due diligence, business modelling, forecasting, large scale tender submission development, and dispute resolution support. John has a particularly strong focus on industrial products and services, having advised some of the largest clients in the sector. He also leads L.E.K.'s European Surface Transport & Logistics sector.

Aubry Pierre is a partner, with more than 25 years' experience of advising leading corporations across Europe, North America, the Middle East and Asia. He focuses on corporate and business unit strategy, organizational strategy and corporate transformation, helping organizations improve their business performance by defining differentiated go-to-market strategies, aligning their organizational capabilities with their strategic intent, and ensuring the cost-effectiveness of their organizational strategy. Aubry's expertise covers a range of industry sectors, including banking, insurance, retail, consumer goods and industrial products.

About L.E.K. Consulting

L.E.K. Consulting is a global management consulting firm that uses deep industry expertise and rigorous analysis to help business leaders achieve practical results with real impact. We are uncompromising in our approach to helping clients consistently make better decisions, deliver improved business performance and create greater shareholder returns. The firm advises and supports global companies that are leaders in their industries — including the largest private and public sector organizations, private equity firms and emerging entrepreneurial businesses. Founded more than 30 years ago, L.E.K. employs more than 1,200 professionals across the Americas, Asia-Pacific and Europe. For more information, go to www.lek.com.

L.E.K.
INSIGHTS @ WORK®