What is this thing called CEO leadership?

Whether it's a public company or a private equity-run business, both need leaders who embody these 10 crucial characteristics. **By Harry M. Jansen Kraemer Jr.**

Given the significant growth of the private equity industry in the past several years, it is clearly understandable why the industry is receiving an enormous amount of press coverage.

Having spent 25 years working in publicly traded companies (including the positions of CFO, president, CEO and chairman of Baxter International) and the last three years as an executive partner at the private equity firm of Madison Dearborn, I find it interesting to see the similarities and differences between companies that are publicly traded and those owned by private equity firms.

One of the areas that is actually very similar in both the private equity and public company environments is the selection of the CEO. Private equity investors and publicly traded company boards are both trying to determine the answer to one key question in selecting a CEO — is the person truly a leader? In essence, I believe there are 10 key leadership components that investors must focus on to answer this crucial question for CEO selection.

1. Does the leader have "true self-confidence"?

I describe this key leadership component as "true self-confidence" for a very specific reason. This component is not about the ability to act self-confident or simply play a role. It comes from focused self-reflection and self-assessment that enables the leader to openly and honestly understand what they know — and what they don't know. The true self-confident leader does not need to be right. Instead, the leader is fanatically focused on making sure they do the right thing. The leader clearly and openly states their values and is proud to set the example for appropriate behavior in the organization. They realize there are many people brighter, quicker, and more articulate than they are. However, they are okay with this reality because they are "okay" in their own skin.

2. Does the leader demonstrate "genuine humility"?

It is critical for the leader to balance "true self confidence" and "genuine humility." People will only follow people that they believe they can relate to. Team members constantly look to the leader to see if the leader is approachable and truly cares about them as individuals. The team members ask themselves very specific questions: Does our boss realize that everyone on the team is important? Do they keep their egos in check? Do they remember where they came from? Do they admit it when they make a mistake? Do they give others the credit when things go well, and take the blame when things fail?

As anyone who has ever been in a leadership position knows, balance is critical to almost every aspect of the job. My experience has been that there are at least two sides to every issue. My grandfather used to say, "Life is much simpler when you understand only one side of the story."

In the real world, virtually every decision one makes has implications for multiple constituencies, and the leader must be capable of understanding this fact of life. Are we managing this business for the short term or the long term? Usually, the answer is yes. Are we focusing on growth or returns? Again, the

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answer is often yes. The leader needs to be capable of balancing each of these trade-offs. I find that few people in leadership positions are capable of understanding this fine balance, keeping it simple, and clearly communicating it to the team.

3. Does the leader possess solid values and focus on setting an example of those values for the entire organization?

The leader is responsible for setting the values, culture and expectations for the entire organization. The leader must clearly articulate what is acceptable behavior and what is unacceptable behavior.

It must be clear to every person in the organization that the leader expects all team members to always "do the right thing." It is critical that the leader set an example in all of their actions, all of the time. The leader needs to realize that they are constantly being watched 100 percent of the time. As the industrialist Andrew Carnegie once said, "The older I get, the less I listen to what someone says, and the more I watch what they do."

4. How well does the leader manage the "people process"?

To paraphrase the words of a former U.S. president, "It's the people, stupid." Is the leader capable of attracting the best people to the organization in a highly competitive environment? How good are they at assessing talent, developing talent, and retaining talent? Is the people-development process an area where the leader spends a significant percentage of their waking hours, or do they simply delegate it to the human resources department and expect things to "just happen"?

Some leaders state that they would like to spend more time in this area, but time does not permit it. Think about it. What could be more important than getting the right people into the organization in the right jobs? In fact, if you get the "people process" right, you are well on your way to becoming a very effective leader.

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5. Is the leader capable of setting a clear direction for the team?

It amazes me how many leaders are incapable of setting a clear direction that *everyone* in the organization is capable of following. It is not reasonable to expect that multiple levels in an organization can understand and implement a direction that is complex and convoluted. A good standard is one that Albert Einstein set: "Make it simple without being simplistic."

Also, the leader should focus on listening to the team and soliciting as much input as possible. That's why we focused so much time and attention on the people process.

6. Is the leader an effective communicator?

It is hard to imagine a skill set more important to the leader than being an extremely effective communicator. It is critical that every single member of the team, regardless of their level in the organization, truly understands where the company is going, why, and what their specific role is in the organization. And each person is actively encouraged to question and challenge assumptions of the leader, because, as noted earlier, the leader is not focused on being right, but rather is focused on getting enough on-going input to help them "do the right thing." One way to assess how well the leader is doing in this dimension is to speak to the top five executives in the organization. When you ask each of the top five executives for the top five priorities of the company, do you get a total of five priorities, or five times five (i.e., 25 priorities)? No wonder so many team members are often confused!

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Another key to effective communication is making sure that the communication is two-way. The leader must spend significantly more time listening than talking so that the team members really feel that they are being heard.

7. Does the leader have the ability to motivate and empower the team?

The true leader is well aware that without a highly motivated team, nothing positive is going to happen. I have found that most team members do not want to follow someone without a pulse.

Does the leader exhibit passion and excitement that is easily transferable to team members throughout the organization? If not, how is the leader going to accomplish anything? Referring back to the point about balance, is the leader capable of empowering the team and at the same time staying close enough to the action so that they are not detached from the business?

8. Is the leader capable of executing, implementing, and "making it happen"?

Some individuals in leadership positions actually believe that their role is simply to think "great thoughts" and delegate all of the work to others so they can continue to think up the next set of "great thoughts." They view themselves as leaders, and the implementers as the managers. This is clearly not an effective way to lead a team. In order for the organization to be effective, the leader must be close enough to the action to know whether the business is on (or off) track.

I often think of the analogy of a football game and three types of leaders. One type of leader is the quarterback, calling the plays and involved in everything going on in the game. While there are some advantages to the leadership role of the quarterback, there are also some drawbacks. The key problem of leading from this role is that you are so close to the action that you may not be capable of managing both the current set of downs and at the same time thinking about what should be done in each of the remaining quarters of the game.

A second type of leader is the head coach, walking the sidelines with a headset, taking notes, and having a strong set of advisers and assistant coaches. The head coach position enables you to balance the short *and* long run simultaneously. This is a great position from which to exercise leadership.

Unfortunately, many people in leadership roles do not want to be that close to the action, and they prefer to be in the third type of leadership role — the "leader" in the skybox with a case of fine wine. This leader occasionally glances down at the field to see what is happening. However, this vantage point often ends in disaster because by the time this leader figures out what is happening, the game is often over.

9. Does the leader have the courage to deal with constant change, controversy, and crisis?

As anyone who has been in a leadership position clearly knows, it is not a question of *if* there will be change, controversy, and crisis, but *when*. The true leader is capable of preparing for these conditions as a result of the conditions we have laid out earlier — true self-confidence, genuine humility, balance, clear direction setting, people development, effective communication, motivation, execution, and implementation.

The true leader prefers to be proactive rather than reactive. They not only welcome change, they actually focus on creating change to which competitors must react.

With regards to controversy, the leader realizes that it is much better to proactively manage the issue and get their perspective clearly understood before the "other side" attempts to monopolize the issue. Crisis is something that the true leader is well-prepared to handle. The leader has so clearly defined the culture and values of the organization that the organiza-

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A 'visible hand' is much in evidence

Conventional wisdom could lead one to believe that the current crisis in the financial markets is going to create an enormous sea change. Are capital markets as we have known them until recently coming to an end? Is any light we see at the end of the tunnel just an oncoming train?

I believe the answer is no. Why? As my economic professors, Jim Dana and Corry Azzi from Lawrence University in Wisconsin, taught me more than 30 years ago, "Nothing goes straight up forever. Harry, there are good reasons one calls it a business *cycle*. In fact, if it is too good to be true, it's probably too good to be true!"

Let's face it. We have had a very long period of sustainable real economic growth, not only in the United States but virtually everywhere in the world. We have been blessed with a fantastic combination of increasing real productivity, strong GDP, growing global trade, relatively low interest rates, and moderate inflation. One could argue that the positive business cycle went on for so long that many people actually began to believe that it would never end. I believe this was the major source of our current dilemma.

If lenders of capital begin to believe that the economy will continue to expand, subject to no apparent business cycle, then "non-economic" decisions begin to be made. For example, should a banker provide a mortgage to individuals who cannot realistically make mortgage payments — i.e., a subprime loan? Should a bank offer large loans at high multiples of EBITDA that are "covenant lite" (loans with no or minimal financial covenants) and contain PIC features (interest capitalized into the loan) to acquirers of companies with little downside protection? Well, if you can generate enormous fees and you believe the economy will expand continually, why not?

Unfortunately, we forgot one thing: There has always been, and always will be, business *cycles*. They are a key component of our wonderful capitalistic, free enterprise system. As we learned in Econ 101, greed has a way of always bringing good times back to earth. The current environment definitely proves one thing very clearly — the "invisible hand" of Adam Smith is alive and well. In fact, right now it is a *very* visible hand!

So what is a reasonable expectation for the short-term and long-term financial markets, and what changes should CEOs make in how they lead their organizations?

Clearly there is going to be some indigestion in the short term. A certain percentage of loans and investments made by some individuals and institutions did not accurately match the level of risk and return. As a result, the piper must be paid, and substantial write-offs will occur. However, as painful as the short term may be for some market participants, I believe this is actually healthy for the global economy. Risk and return will now both be taken into account and the markets will adjust accordingly.

As for the economy in the long term, I believe it will be very bright. As Thomas Friedman has so well taught us, "the world is flat" and the global economy will continue to grow, with global trade and productivity continuing to be the major drivers around the world.

The implication for private equity firms is clear. Those firms that are disciplined, focused, consistent, and credible will continue to do well. Madison Dearborn Partners has been a consistent top quartile return performer over many business cycles during the past 15 years in all of their funds. In fact, Madison Dearborn has achieved a net compound annual return to its investors of approximately 23 percent during this entire period. I believe we will continue to be a strong performer in the future. In fact, there may be specific opportunities for well-run firms in the current down cycle.

The implication for CEOs is to stay the course. Those CEOs with true self-confidence, genuine humility, balance, values and the ability to execute, implement and "make it happen" will do extremely well. As I discuss in the accompanying article, a crisis is only difficult to surmount if you are not prepared to deal with it. If you are prepared, you can turn it into an opportunity.

But whatever you do, never forget one important fact. There is this thing called a *business cycle*.

— Harry J. Kraemer Jr.

tion is appropriately positioned to deal with the crisis. Clear examples are J&J's handling of the Tylenol crisis and Baxter's handling of the dialysis filter crisis.

10. Is the person socially responsible?

At Baxter, we referred to this as the leader's ability to be a "Best Citizen" — that is, the capability of seeing the big picture beyond the organization.

The company clearly needs to generate a superior return for its owners. The crisis may present a very difficult challenge for the organization. However, given the clearly stated values of the leader, everyone on the team knows exactly what is expected of them: Do the right thing. The leader understands that there are multiple stakeholders, and focusing exclusively on "shareholder interest" is not a winning strategy.

I believe this is true not only because as the leader you want to "do the right thing" morally and ethically. It is also true because it is what all of your team members and customers expect you to do — and if you are not "doing the right thing" in a socially responsible manner as a "best citizen," you will not have a great team, and you will not have customers. As a result, there will be no shareholder return. Said another way, it is hard to generate shareholder returns without employees and customers! (And the true leader understands this.) Once again, it comes back to finding the *balance*.

Finding values-based leaders that exhibit these 10 components clearly sets up the organization for a successful future and a significant shareholder return — regardless if the company is publicly traded or owned by a private equity firm. ■

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