

# A Letter to the new CEO

by Sir Roderick Carnegie

Excerpted from Festschrift for Elliott Jaques (1993)

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In 1993, Sir Rod Carnegie shared A Letter to the new CEO for inclusion in a Festschrift to honor Dr. Elliott Jaques (the founder of Requisite Organization International Institute) on his 75th birthday.

Carnegie, well-known Australian businessman, one of Harvard's top MBAs, started at McKinsey in New York, then set up McKinsey Australia before joining Conzinc Riotinto of Australia Limited (now Rio Tinto) to run the mining giant from 1974 to 86, serving as chief executive, chairman and managing director. Early in his tenure Carnegie discovered Jaques' General Theory of Bureaucracy, and subsequently invited Jaques to bring his Stratified Systems Theory (now Requisite Organization) research to CRA, where they spent the next decade working closely together to advance management science and its application in the global mining industry. Responding to a request for advice to a recently appointed CEO, Carnegie shares his unique perspective, words of wisdom, and reflections on his experiences, which are universal and timely for all CEOs.

Dear Douglas,

Congratulations once again on your appointment as Chief Executive. It is a great step forward for you and I am sure for the Group.

You have been kind enough to ask me to give you my advice since I ran a similar size enterprise until a few years ago when I took early retirement.

You have 90 days until you take over. Already people are expecting you to lead them. Already they are trying to second guess what you will approve of or disapprove of. In a way, no one can prepare for your new job but you have to get your thoughts straight. In a way, it's already too late to prepare - the clock is already ticking - but you can't prepare earlier for a job which may never be yours.

I have divided this letter into six sections: how you will feel in the job; what you can do to prepare in advance; some thoughts about the leadership style you plan to adopt; building the team at the top; structuring the organisation for best results; and some of the management matters you should review and deal with in the longer term. This letter is written to help you avoid some of the mistakes I made. It has turned out to be rather longer than I first hoped. However, it is written in a way which I hope will help you in the three months until you take over. Good luck until we meet again.

## How You Will Feel in the Job

In a word: *lonely*. The Chief Executive is by definition in a unique position. You will be doing two jobs - that of Chairman as well as that of Chief Executive. Some people are lucky enough, as I was at the start, to have a senior friend able to hold down the Chairman role in a fully involved but non-competitive style. This would make the job easier but many of my friends have been able to hold down both jobs very well. I know you will.

You know your Group well since you have been a senior executive for some five years even though your achievements have been largely in another country outside the USA. In this respect you have a great advantage; international experience. The world is becoming a global market but it does not look the same from every country. Your exposure to various cultures and to different perspectives will bring much needed depth to your leadership.

You will have to lead through your relationships with the top two hundred people in your Group. You have many friends in the Group but already they are looking at you differently. They wonder how your appointment will affect them. Some are concerned about where you will take the Group. All are concerned about how you will treat them.

From now on your greatest treasure and scarcest resource will be objective Information. However honest everyone tries to be they will be worried about how you will now react to their honest observations. Everyone normally rushes to tell you the good news. Few will rush to tell you the bad news unless and until you make that an explicit requirement of your vision for the Group. Everyone remembers "the Chinese Emperor who executed any messenger bringing bad news on the assumption that if he never had any bad news his Empire would continue to flourish."

You can prepare yourself for the loneliness in three ways:

## 1. Get a clear idea of your own values.

This means you must really know what you think is important and what you think is less important. If you spend your time on the larger issues you can set up processes to cover all the smaller issues using a minimum of your time.

As you know, after I retired I had a bad car accident when a drunk driver nearly killed me. It took two years out of my life. An experience like this makes you reflect on the whole of your life. Looking back on my time as a Chief Executive you recognise one person can only do so much.

An important piece of advice is to do only what you can and must. Then clearly delegate to others the responsibility for doing the things they can and you haven't time to do (and recognise when they do it better than you might have).

You must set a standard of performance for all to follow. You can push others to achieve world-class standards, but you can't do everything yourself. Do what is important to you and do it well.

## 2. Get a working plan to protect you.

As Chief Executive you will always meet the unexpected. This will take time usually when you can least afford it. As you are now middle aged, with all of the family, personal and social pressure, this stage of life brings, you need to do some planning of your calendar before everything takes you over. Two things you must have:

- (a) Sleep and exercise each day. I know you don't need much sleep but it is easy for the worries inevitable in this job to build up a sleep 'debt.' Better to organise your diary now.

You already exercise regularly and that is good. I think half an hour a day will make a real difference to your personal balance.

- (b) Vacations. I doubt if you have taken much in the way of holidays in the last few years. In your new job you will need to take a real break. I suggest two weeks away, twice a year with your wife, giving your assistant orders not to ring unless 'the earth is falling in'.

It is easy for your calendar to get too full but don't let your quiet thinking time evaporate. Remember you need to do some independent reading so that you get input not simply based upon internal reports circulating within your Group. And don't think an odd weekend tacked onto a trip to Japan or France does more than refresh the morale!

## 3. Develop some friends outside the business.

Occasionally you can find a consultant who can be a friend as well as being objective despite having a business involvement. It is a rare luxury. Occasionally there are a few old friends who you know and whose careers have paralleled your own. Perhaps they can be independent enough to be trusted.

In 1977 when I started on the task of rebuilding the management of our Group into a leading position in the world I read and interviewed widely social science and business organisation professors and practitioners. This effort included seeking help from consultants (including amongst others my old firm McKinsey) and from the best practise in the leading companies worldwide. I regularly visited Japan and found much of their work and practise very interesting and rewarding.

In one very hard to read book A General Theory of Bureaucracy written by Elliott Jaques, I saw a graph which because of my physics training triggered my thinking. It was a brilliant insight by Jaques.

Mark Turner, a friend and colleague from the United Kingdom, knew Wilfred Brown and Elliott Jaques. He gave an introduction and we engaged Jaques to help our organisation efforts. His input was extremely useful in building our organization and the best practise of our managers into a codified approach for the whole Group. His theory is a fundamental advance in management.

However, in your new position many acquaintances look at you as a potential donor to some charity they have in mind and they won't help you much with your problems.

Build the friendships you can so you can have some friends to support you in times of trouble. And remember your family are the best friends you can have. (Both of us are particularly lucky in this respect.)

As you start this new job you may not feel lonely. You will be asked by politicians, by other Boards, by various committees of good works, and by business associates to make speeches, to make donations, to open buildings, to join clubs, to join committees, and to undertake all manner of activities at which your presence, they say, can make a real difference. As I look back, in hindsight, I see much of this activity as time wasting and not contributing adequately either to my own life, or to my company, or to society in general. My advice is to have some scepticism on the value of the contribution you can make.

Overall you will feel some uncertainty in your dual role. You know the future is never certain. But the Chief Executive must place his bets, lead courageously and fight hard for what he believes in. While you will find things lonely, particularly at the early hours in the morning, I am sure with your "courage, honesty and commitment you will get through.

## Preparing for the Job in Advance

Competition is increasing. When you start in three months you will have to lead. You will need to see and be seen throughout the whole Group. Your predecessor was well liked in both industry and company so he will be a 'hard act to follow.' While your Group is very strong all employees will want to be assured of a firm leader in command. You must give some clear messages without damaging the best of your predecessor's preferred priorities. You have no choice but to stick with what you have and build on that. You can't say like the proverbial countryman who when asked for directions replied "well if you want to go there, sir, I would not start from here."

While you have been with the company for five years, many of the main divisions and major functions have not had your direct managerial overview. This means you are, to all intents and purposes, a new face. You can be sure of one thing - your very credible actions in your old job are now being examined, by the "bush telegraph," and unless you make it clear otherwise will be assumed to be your preferred policy for the Group as a whole.

My suggestion is that you plan your first three months with about a third of your time visiting major components of the Group, taking with you some of your key subordinates. This will achieve three things: first, people throughout the Group will see you in your new role. Key division managers will be able to describe to you what they have as their top priorities. Second, you will be able to see first-hand how your key subordinates react with and relate to their subordinates. Third, you will be able to get a first-hand sense of the unexpected strengths as well as the weaknesses in individual businesses.

In making these visits I recommend you do not follow the prescribed route. Get a look at the grass roots, visit outlets, stores, offices, factories - and do the unexpected, like eating in the canteen or using the non-executive men's lavatories.

Central to my work in the organisation enhancement project or in my own consulting practice has been to start understanding the business by examining the work closest to the customer or the production work bench. Travelling for three days with a salesman selling grocery products in Chicago or Minneapolis gives you a real understanding of how hard it is to win shelf space!

When I started the consultants off at the pilot mine site I said "my starting point is what can be done to improve the effectiveness and the efficiency of the truck driver." The consultants said "but we do top management work!" they were shocked at my reply "fundamental to improving the performance of the whole group is getting the members of the management group (then of some 7000 people) to add value to what the truck driver did hour by hour and thus to add value to the work done by the 23,000 operators who made up the Group in total."

When the consultants understood what was needed and why, they did some really good work.

In preparing for this series of meetings you should think of the questions you might be asked and in particular decide which ones you will not or cannot yet answer. In most of your recent jobs you have known what needs to be done and you went about confidently doing it. In this new job you are trying to build their support for you so you can pose quite a few questions and ask them for their views. This is a useful and rare opportunity to see what they feel should be done to advance the part of the business in which they are involved. You will be able to gain a sense of whether they feel a real sense of part ownership of their *piece* of the business.

Since you will find the job inevitably lonely, and your own values will be the corner stone of your confidence, an important part of your preparation will be codifying these values. As a way of helping you, let me specify six critical questions upon which I built my own view of the Chief Executive's job. Answering these questions honestly and being able to live with the answers will help you withstand the pressures of your new job.

### **1. Is the objective of our business simply short term profits?**

Some of my friends think I am naive to say "profit is a result not the aim." However, my view is that the real objective of a business is serving a market efficiently with high value goods (or services) which customers, choosing freely, buy in adequate volume. If you supply good value to customers they will buy enough to generate good revenues and if you are efficient you will generate adequate profits. If a business is one which due to its market structure (i.e., too many competitors) cannot generate enough profits even for an efficient producer, then exiting that business makes sense.

Taking a longer view of how to generate value for customers seems to me to be a better objective for a business than simply the bottom line quarterly result. Any good business management has to contribute to the company's long term health as well as just 'milking the business' to look better today. This means investing in such things as training all employees, researching new product possibilities and testing new production and servicing methods. All these investments create tomorrow's business out of today's.

### **2. What will be the balance between secure employment and competitive wage and salary costs?**

No company can give a guarantee of permanent employment if they operate in a private enterprise market economy. The best companies seem to me to try hard to give reasonable employment security.

Our Japanese competitors have shown the great loyalty that can be generated and the competitive performance that results from a sense of mutual commitment between the work force and the enterprise. American success stories, such as Nucor Steel and IBM to name just two, have shown that this mutual commitment is a big source of strength.

### **3. What is the balance between demonstrated performance and youthful potential in our promotion practices?**

No enterprise can succeed without the combination of the drive, energy and enthusiasm of the young and the experience, commitment and cooperative relationships developed in sustained service by the more mature. Promotion cannot simply be based on seniority or age or superficial appearances of potential. Fundamental to a feeling of fairness in your company is an honest and objective approach to making promotion decisions. It is not possible to avoid a little of the inevitable subjectivity in a decision made by one human being about another. The best an institution can do is to strive hard for objectivity and honesty in making personnel decisions.

At best you have 7-10 years in this role, perhaps less. In the later years of your life, what may give you the most sense of satisfaction is to see the ten or twenty young managers (whose lives you have helped to change, and broaden beyond their original imaginings) grow in stature and responsibility. The ability of some of the people in your Group to gain renewed vigour from sideways transfers in the organisation will also surprise you.

One of the most difficult steps is moving people sideways in an organisation. They have built their own career to a certain level building upon their functional skills and their executive experience. But often a sideways move say between a big functional job like, finance V.P. and a key line management job like, V.P. of a major division is a necessary step before the next step upwards in a career is possible.

In the early days such moves in my company were often greeted with a comment like "have you lost faith in me doing what I am now doing." Now, after half a dozen years of successful moves, such lateral moves are taken for granted.

My own advice based on repeated experience is to define specifically the responsibility of the 'Boss once Removed' for making promotion decisions. The immediate Boss is often too close to the situation to make wise decisions. While the immediate Boss must have the ability to reject a candidate who is being appointed into his team, he should not have all the power. A Group-wide policy that assigns the responsibility for promotion to the 'Boss once Removed' will be an important formality to building a better sense of fairness.

### **4. How far do you encourage adequate debate about key decisions facing the company?**

A central issue of your values is to what extent do you want to hear the bad news. My own view is that almost anything can be forgiven an executive except failing to tell his boss as soon as something is going wrong. This is an important issue for you to decide and to make known by your actions (not just your words). Some very successful men do not want to hear problems from their subordinates. They only promote 'successful generals.' Some others feel this policy too easily leads to subordinates aiming low, so as to be seen to be successful in meeting their commitment.

There is an inevitable tendency to tell the boss what he wants to hear. Unchecked this soon leads to an increase in the inevitable politics in any organisation. However, one does not want a company to disintegrate into a debating society. Such a disintegration would lead to a 'talk talk' environment rather than to taking decisive action on key opportunities to improve the company's competitive position. A proper balance can be maintained by the Chief Executive who values that balance.

## 5. When things go wrong who is to blame?

My own view is that failure is the responsibility of the boss. Either the boss picked the wrong subordinates, or they were given too much latitude or their job was not defined well enough. If the wrong context is given to a subordinated within which he has to carry out his job then he will almost certainly fail. But the responsibility for setting the context is that of his superior.

In hindsight I believe I was often too tolerant of less than superior performance. My advice to you is to get rid of the poorest performers – say fire one in twenty of your closest subordinates within the first year – so everyone knows that good performance is high on your priority list.

## 6. To what extent do community stakeholders count in your company and its policies?

No Chief Executive wants the company he runs to be branded as a bad citizen. But being a good citizen normally costs effort, time, and money. It was easy enough to talk about being a good citizen in the 1960's. But from 1970 onwards the issues have been more complex. Deciding how the community will regard company policies in, say, 10 years, is far more difficult. The community now applies 20:20 hindsight to any large company. This is not very fair but it is a fact of life you will have to live with. My only advice is to do your best.

You will have to develop relationships with the members of the media and with key financial analysts who will comment about your company and about your performance. Properly handled these contacts will make you aware in advance of issues which your company will have to be concerned about. Remember forewarned is forearmed in such matters.

My best decision was to have one personal assistant who came from outside the normal business ranks. He came from a university publishing house editor's job and had a journalistic background. He gave a sufficiently different view so that I felt policies and issues had an adequate early-warning scrutiny.

You may feel there are other key issues: My only point to you is to look at some of the critical issues you want to have a view about. Do not try and go too public on these issues but do recognise leadership involves standing for something. Having a personal philosophy is a basic starting point which must come ahead of corporate change.

There are three other things you should get right with your Board in advance:

### (a) Their attitude toward a change of control of your Group.

Fortunately, it probably will be another decade before 'funny money' games become fashionable again. This means that takeovers will not be encouraged by the merchant banking specialists with promises to pay funded on the 'never never'. However, despite this you have a significant sized group (net assets \$5 billion) which is dearly in world class. I can think of a number of competitors or related businesses who would like to buy your company. One does not have to believe all of "Barbarians at the Gate" to feel you may face some challenge particularly if the improvements you will make to the business take a little time to gain market acceptance.

### (b) Their thoughts on Board composition and membership.

I urge you, in your capacity as Chairman, to focus on attracting better non-executive directors. Such people are becoming harder and harder to find, to attract and to reward adequately so they really contribute. In my view they should have a significant shareholding position to concentrate their

attention on helping you with your Group. There are some fine men on your Board but they are, dare I say it, either very busy or mostly retired.

**(c) The view of your Board toward disposal of assets.**

Examine those assets which may once have been strategic but which now look unrelated to your core business areas. Properly handled, divestments can be a signal of strength, of concentration upon the future and they can revitalise attention both within and without the Group upon your new, or at least newly presented, strategy.

The Board is separate from the management of the Company. You have to play a unique role as the link between the Board and the senior management and as the principal driver of the enterprise toward long term value creation.

## Your Leadership Style

Taking over as leader of an organisation with over 20,000 employees you cannot hope to have a direct business relationship with more than, say, two hundred. To lead the other 19,800 you have to create an environment where most want the business in total and their part in particular to prosper. I have been lucky to meet a number of the world's business leaders over the last twenty or thirty years and have discussed and observed their leadership approaches. I think what you must do can be summarised in four parts.

The first task is to develop a *personal image*. This flows naturally out of the topics I have outlined in this letter so far. Your personal image will flow out of your answer to these four questions:

- what do you stand for?
- what do you want the company to stand for?
- who gets promoted and why?
- who gets sacked and why?

The second task is to develop and clearly articulate a concept of what you want the business to be. This must cover the business in relationships with:

- customers
- competitors
- financiers (both equity owners and lenders)

Since you know your business well, I will not spend time in this letter to discuss these topics. However I should say that articulating a concept for the business is worth some considerable time and attention. A clear concept can help to transmit the things you feel are important in terms which will help your middle managers make their own business decisions.

You want your middle managers to make their own decisions guided by concepts that support your strategies. You cannot create this in a month or even a year in written memoranda – until your management group has an agreed common language on the vital issues which you have defined for them.

The third task is representing your enterprise in the public world. You will be on show continuously in and through the media. You will have governments seeking you out to have company decisions altered in ways that support

their electoral pre-occupations. Bureaucrats as well as ministers assume all power is at the top, and will ingeniously seek to reach you with special pleading while avoiding local or divisional management.

The Group very properly has a role in industry-type associations determining policies in your industry but also in your industry's relations with other industries, with governments and with regulatory bodies. My only advice to you is to seek a year or two to settle into your new job before you allow yourself to get drawn onto committees, etc. Committee work, while of value and of potential benefit on a selected basis can, if not controlled, rapidly expand to cover more than the time available. As Chairman you will have to do some of this but play your hand in first. What your immediate subordinates do in these bodies can also be a valuable insight into their strengths and weaknesses. Over time, you may find this representational function a very valuable proving ground.

Last but not least, is building your own extended team at the top. The top two hundred people in the Group have to be members of your team. You have to use their links into the organisation to get your work done. I remember that when I began my tenure as CEO the company was run by members of the 'Broken Hill Mafia.' Broken Hill was a great mining centre but the very richness of the ore body led to a number of poor work practices. Managers who went through Broken Hill together had close links and moving them towards international competitiveness was not easy. I reckon it took me five years to get them working positively with me.

Any organisation is full of informal 'clan type' links which bind together individuals. The links have arisen by shared experiences in the past and are supported by current working relationships. Since you have had only about five years in your present company you are not a member of some of these key informant structures. You need to be aware of them. In building your team at the top you will be able to think how such informal structures can act as a trumpet through which you can get people to understand your vision and support it. Using clan-type links effectively enables everyone in the Group to feel proud of what they are a part of, and to be sufficiently committed to the enterprise to support it fully with their own life and work. My thoughts on building your team at the top is described in more detail later in this letter.

Any organisation will respond to the style of the leader. You can use this to your advantage but this needs a little care and attention now in advance. My only personal advice is to try to lower expectations. You are seen as a strong man and people expect a lot from you. However, events may be unkind. No one is insulated from 'the slings and arrows of outrageous fortune.' My suggestion for your party line is that you praise the record of your predecessor and promise to carry on the good work. Do not promise rapid or dramatic change but rather steady improvement added to the already fine base of the Group. If expectations are lowered you will not disappoint people. Your Group's results seem good enough not to call for dramatic changes quickly. When you want to make changes play them, in ways that support your own leadership and which build on everything you have inherited.

## Building the Team at the Top

A lot of books have been written about life in a position of leadership. You can read many books like *In Search of Excellence*, Drucker's books on management, Sloan on General Motors or Watson on IBM. All of these give useful thoughts. But building a team at the top is an intensely personal matter. This letter is therefore heavily based on my own experiences. It is written in a way designed to cover some significant tasks I believe you should focus on.

The appointment of any Chief Executive means that some of his key subordinates will be rivals who have in one sense failed. In Japan members of the same age group immediately leave the parent company so the leadership pattern is clear. But in your case, like mine, some of your principal lieutenants are older and have more industry experience than you. The Group cannot easily afford to lose these men, nor can you. Your first task is to weld an effective new relationship with them. Your first step will be to have initial one on one meetings with all of them.

My advice is to hold a regular top management meeting at which key policy and strategy decisions can get their initial airing. This meeting should be limited to key executives and should be quite separate from the executive committee of the Board. This key top management meeting should take place regularly once a month to consider in advance major items of policy, including matters which in due course will go to the Board for appropriate review and ratification.

This meeting is a chance for you to lead directly with your key subordinates. Each person will be different. In my case one was very conservative wanting no change. By contrast another was radical, brilliant when he was hot, but terrible when he was not. You will have to play this by ear.

Make this group informally the 'office of the Chief Executive.' You need to be certain you lead a united team at the top. In my case building this team took time. My colleagues had deep links into the organisation and were accustomed to running their 'fiefdoms' in quite individual and unique styles. Persuading them, to accept the possibility of learning from each other or modifying the actions in their own area of responsibility in order to make a stronger Group took time. If we had faced a crisis I could have moved faster but things were going all right so I had to build a climate for change based on trust developed over time. This took about two years.

There was a long argument among the members of the office of the Chief Executive and between the members of the senior management group about the work to be done in the first management level. One senior executive who was trained as a chemical engineer got impatient one day and said "What does it matter if a supervisor is a boss or not?"

This eruption forced me to do three things:

1. To define clearly the authority of a boss over a subordinate. For me the four essential powers are:

- (a) to select onto his team (i.e. to hire)
- (b) to remove from his team (i.e. to fire)
- (c) to assign the work to be done (i.e. 'to say do and he doeth')
- (d) to give higher or lesser pay or benefits for work done better or worse than others (i.e. to differentially reward).

2. To clarify what the supervisor does in our company. Namely to act as the deputy to an individual who is at the first level of management carrying out his commands when because of shift hours or distance the manager cannot make the decision because he is not present. The decision made by the supervisor (i.e. by the manager's assistant) is always made on behalf of the manager and under his guidelines and policy.

3. To establish clear language so that everyone knows the difference between a 'manager' and an 'executive assistant to a manager' in decision making.

Now as a result of defining a common language quite precisely no one asks "does it matter." It took a year to get it all of this clear but the improvement of front line effectiveness was immediately apparent to all.

My second suggestion is to specifically allocate areas of responsibility covering both line and staff accountabilities to your key subordinates. I could not, and you probably cannot, change the key line decision making executives. So you need to find a way to make them think Group-wide at the same time as running their own units. If you give them a functional area of responsibility you force them to participate in the Group-wide considerations.

You can then balance their relative enthusiasm for line and staff responsibilities in the way you want to see the Group develop.

This second suggestion will be met with some criticism. Some will say Joe doesn't know anything about finance, or Bill, who knows all about the widget business, knows nothing about Group-wide sales standards. Others will say, any time taken off line matters will hurt current profits. But you want your team at the top to take a Group-wide view as well as simply a divisional view. It is important that your colleagues participate in the whole Group. That means giving them some accountability for the whole Group as well as for a part.

In broadening the task of top management it is worth considering the mix of talent and skills you have at your command. Basic to having the right team at the top is getting enough talent into the Group. This is probably a five year task and indeed one which is never ever finished. While in principle you should be able to recruit and train people so your Groups' senior management can be home-grown, looking outside for some talent is a way of freshening up the Groups' attitudes. Equally important is looking hard at people who are locked into one or other of the divisional units and promoting those with talent into new jobs.

The third task is developing the structure of individual accountability of your key subordinates below your top half dozen executives. Here we can think of two teams - *the senior team* of the top thirty and the *extended team* of the top two hundred. People must know what they are meant to do. In particular what the structure of power delegation is to be between jobs at various ranks.

A very central question is how far you want everything to drift to the top 'just to check it out with the boss.' Put another way, to what question is it acceptable to give the answer "Even though you are my boss I don't know the details in this area. Bill is responsible and he will know. I will find out and let you know later the answer to your question." Executives who rise to the top of a large company do not like admitting they don't know the answer to any question asked by their boss. As a result power tends to gravitate upwards. The endemic consequence of this is the buildup of staff to support key executives. Before long, down the line managers are so busy answering questions from the higher levels of staff the focus on doing the business gets diluted.

You have an opportunity to trim down the size of your corporate headquarters, not in a radical hatchet waving manner; but rather in a controlled way which builds better decision making. It is easy to make a reorganisation which makes things look different. But really building a more effective organisation is hard work and takes time and consistent effort.

A lot of companies are now talking about 'more focus on their core businesses' or about a 'lean and mean headquarters.' Both terms can simply be jargon. But careful attention to the power balance between the top six, the top thirty (including the six) and the top two hundred is quite fundamental. It is important to stress that promotion is not always easy. Promotion means new and different and wider responsibilities. It means giving up some of the things you have done successfully in the past and upon which you built your success. It requires the willing acceptance of new and often painful personal growth.

This particular task of the Chief Executive is one where you may need some outside help. An objective assessment of the distribution of power between levels is not easy to get. Most consultants can talk quickly on the subject. However, only a few have the experience of having actually had a job like yours or have its equivalent, deep experience inside several different human organisations. Only very few have enough maturity, wisdom and trust to help you. I hope you can find such an individual as support for you in your task.

The fourth task is getting a trustworthy lieutenant who can be Executive View President for Human Resources.

My brainstorm was to appoint a really experienced line manager who had successfully run a number of divisions but who had no 'so called personnel experience.' Jack Brady had great common sense and did not focus on the jargon of the 'personnel trade.'

The head of the mine site where we started our work was a very able and idealistic man called Mike. He in the late 1970's reacted against the 'too hierarchical' view of how management should work which was then prevalent. He focused hard on building better relationships between people at all levels. The mine became a very good place in which to work but productivity levels did not rise. The mine employed some 400 people. Because Mike was ready to look for something new and because he was exceptionally able, we started our pilot work at this site.

Unfortunately after a few months, Mike got very ill and subsequently died prematurely. This was a tragic loss and the project had to proceed without him. His approach was important to the project however because he indicated to everyone at the site that things could be done better.

One of the big advantages of this pilot was that the Division Vice President Jack Brady took a keen interest in the project. Jack Brady was Mike's boss. Working directly with Jack on a part time basis on this project for three years gave me confidence:

- in his practical good judgement on matters of human beings working together in the organisation.
- in his interest in the project and ability to contribute to its application on a wider basis throughout the entire Group.
- in our ability to work together, with him saying 'no' when either he did not agree, or he did not understand, or he did not see the practical benefits we would get from the making the change suggested.

Central to both of our views is the belief that human beings continue to develop in their capabilities throughout their life. So as this personal capacity grows they wish to put that to work in new and challenging assignments.

The fifth task, in building a team at the top, revisits your role as leader. You must build a shared vision of being a better company which all two hundred at the top can feel part of. This vision has to be articulated in such a way that middle managers feel striving to make the vision into reality is worth missing the Saturday golf game. And it has got to be attractive enough that his wife and family support him. Your vision has to be satisfying for all. Not just for high-fliers but satisfying to those who have made conscious career/life choices not to strive higher. Excellence matters at every level (as Japan's performance has shown us).

While many people talk about having a vision very few leaders, except in conditions of crisis where survival is at stake, can articulate one clearly. My only advice is don't let the PR department draft something for you. Your colleagues will clearly know if it doesn't come out of your soul. And once you act in a way clearly seen to be out of character with your vision statement you might as well forget the whole exercise. The vision has to be yours. It has to be what, under conditions of extreme pressure, you really believe in.

On re-reading this part of my letter I feel I have fallen well short of any good statement of what you will have to do in leading your enterprise. All I can say is I know you will rise to the challenge.

## Structuring the Organisation for Best Results

Fundamental to getting the best out of all your people is: shaping the organisation structure and its accountability culture. Any business of your size requires subdivision into some units. When I first was involved in developing the idea of organising General Electric into strategic business units in 1969 this was a novel concept.

Now the idea of a division executive vice president with clear profit and loss responsibility for a product or geographic-based business is widely accepted.

My only advice is not to let the size of such a unit get too big. My aim would be 3000 or fewer employees. Resulting from this would be no more than three levels of management between division executive vice president and the shop floor or office operators. A division should have its own balance sheet and a clear three year business plan.

The next higher level interface in the Group organisation will be your Group's senior executives looking ahead to the division's projected business and competitive position in seven years; determining the extent of allocations of Group resources to be made to that division compared with other divisions.

In addition to the line business units your Group will also want some specific development units whose job it is to contribute today to creating tomorrow's business.

This requires research and development relevant to products and processes (or its equivalent, like exploration for mining businesses). You may also need some embryonic new business units where development prospects offer an opportunity for building new businesses.

You will also need to consider having some Group-wide services such as finance, personnel services, quality control laboratories, accounting and management information services. Many companies in an effort to be 'lean and mean' have cut these functions to the bone or eliminated them entirely. My own view is that such functions should be placed on a fee for service basis so they provide value for money. However, in a complex business such as the one you will lead I believe your service functions can provide value for money when compared with the costs of going outside and training your outside advisers to be sensitive to and responsive to your Group's unique requirements. Group-wide services should be encouraged to help operating divisions exchange and swap 'best practise' so everyone can learn from each other.

As I said in discussing your leadership role, I feel you should allocate specific responsibilities to the members of your Chairman's office. Particularly giving people responsibility for areas in which they have not previously been involved. Remember in considering organisation changes don't try to change too much too fast and particularly don't change what works. My advice to you is to read Elliott Jaques' book, *Requisite Organization*.

## Some Management Matters

You may well have thought to yourself as you read this letter, "What about the key aspects of management?" I agree they are important but your enterprise has much of the appropriate management processes and practices already in place. Making modifications to the process may be worthwhile but I know you will attack such opportunities in a sound way without any preaching from me.

Nevertheless for completeness let me suggest you take a moment to review three aspects of your Group's current practices:

### 1. Ensuring the planning system helps you make the right choices.

Leading the business involves allocating your critical resources of money and talent on the best bets. You have to choose where to place your bets.

- on people who perform
- on ideas which offer significant competitive advantage
- on customers who will pay.

The planning system has to be the mechanism that helps you in the process of choice.

My view is, you will notice, that planning cannot be done by staff groups. Rather it has to be a way of life for line management. Many planning processes fail into one of two undesirable extremes.

- either they are a Bible. One which is followed even if industry circumstances change and opportunities to make more money or to improve one's competitive position arise which were not envisaged when the plan was drawn up;

- or the plan is drawn up by the staff either at the corporation or at the business unit level. This means the line management regard the process as something done by 'the people with the green eyeshades.'

What we want in a well-run company is a thoughtful commitment by the line management to the best result they can foresee on the information available at the time. But good line management means responding to opportunities as they arise. So if something comes up you don't want your plan to be 'a straight jacket' within which your line managers ignore any strategic opportunity to do better.

The planning review session gives you, as Chief Executive, a real opportunity to do two things which will be of fundamental importance:

- to let you see your subordinates present their ideas and their assessment of their own performance
- to enable you to stamp your priorities onto management via the questions you ask and the emotions of pleasure or displeasure you convey.

The planning process will take a lot of your time but it can be of real value to you.

You will need a good staff lieutenant working with you in this area. Particularly someone who encourages the line management to do their best so that you get the very best input upon which you can then make your own imprint.

## **2. Deploying your best people where they can do the best job.**

Any Chief Executive has to decide where to put his best people to work.

One of my friends said his advice to a Chief Executive is 'carefully study who are your potential successors and then fire them so you have no rivals for power.' This is a recipe for an easier life for a Chief Executive but I don't think it is the best plan for you!

There seems to me to be three questions you need to think about in assessing each of your key subordinates:

- can they do a job at this level or are they already over promoted? If your answer is that they cannot perform adequately then my advice is to move them out quickly.

- can they do more than one job at this level? If they can move sideways at this level then they are valuable because they can be a vital part of your team and can be re-deployed to best advantage.

- could they do your job in due time? If they have this potential they can be either very valuable if they are on your team or dangerous if they become your rival. You have to be conscious of both their ability to disrupt the corporation and of their ability to help you drive it forward.

You decided where to put the best talent to work. This is fundamental for you. The best people can either build on the Group's strengths or be deployed to patch up the Group's weaknesses. A central task of your leadership is to put your key subordinates to work where they will do the best possible job in building your Group against your competitors.

My advice is to move your best people around for two main reasons:

- first, under new conditions you will see more clearly how they can perform and how good they really are
- second, a new person in a new job is likely to make improvements which the longer tenured job holders may well have overlooked.

### **3. Focus hard on the deployment of your net discretionary cash flows.**

Obviously any business has to generate cash flow first. However, your Group has a good record for long term profitable operations so you will not find sustaining cash flow too difficult. Out of this cash flow must come the requirements for shareholders (dividends and capital growth), for lenders, and for the capital requirements at a minimum level to stay in business. Above these minimum commitments your real judgement must come into play.

Amongst other alternatives you could deploy this extra cash flow to expand your international activities, to broaden your product line, to invest to lower costs in the future, or to acquire other enterprises. In making these decisions you will be changing the balance of the Group by emphasising one business area of opportunity versus another.

Central to your long term impact on the Group will be your strategic commitments. My only advice is to strive to find the right balances between 'jam today and jam tomorrow.' If you can build a strong cash flow and deploy it to build your competitive strength then you and your colleagues and your shareholders will see your Group make a big move forward over 7 years.

\* \* \* \* \*

Re-reading this letter makes me think of the way the world will change in the next ten years or so while you lead your Group. Political, economic and social changes lie ahead. You will do well. You will contribute more than you receive from this job.

Unfortunately much of what you do will build benefits for the future so your successor will get the reward and the public recognition.

I wish I had more easy words to offer you. You have a big job. In fifteen years-5 years after you have retired-your Group will be stronger. You will be doing something else and power will have passed to the new CEO. Use the power you have today, while you still have it, in ways which permit you to live with your own conscience. Do your best.

Basic to the future of the market economy with political pluralism-the society we have in the United States-is the willingness of good men to lead institutions for a better future for all. Your Group is lucky to have you to lead them in this way.

Remember when you feel discouraged that the job of a chief executive of a significant world enterprise is just as truly a creative challenge as in science or art or literature, with more capacity to improve peoples' lives than in politics.

With all best fortune.

Sincerely,

Rod

P.S. I hardly need to add, but would be remiss if I did not, that you must clarify with the Board's Compensation Committee your pay and employment conditions and the basis on which your performance will be judged. I know you will be well paid and I know your company will do well under your leadership. However there will always be questions of choice between 'jam today and more jam tomorrow.' What you do will set the standard for the whole Group in the future. You already know just how easy it is to improve today's results rather than risk expenditures today to try to improve competitive position in the future. Now, how you perform will spur even more 'sincere' imitation-for good or ill.

Most large companies gradually go downhill because it is easier to concentrate on doing a better job for today, rather than shaping tomorrow's company today. You must get a clear view with your Board on the relative importance of more profit this year or improving your worldwide market and competitive position for a better future.

You need to clarify with your compensation committee how you will be paid and how your pay will move with company results. Shareholders, individual or institutional, will for at least another decade, have a beady eye on value creation. Both you and your immediate subordinates have advantage in being seen as shareholders. Thus, I hope you can negotiate a bigger share option position than your predecessor.

The Requisite Organization International Institute was established in 1999 to provide support and services to those engaged in implementation and further development of the work on human organizational development begun by Elliott Jaques as Stratified Systems Theory over sixty years ago.

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Provide access to and authoritative knowledge about the full body of work in human organization and human capability developed by Dr. Jaques (and colleagues).
- 

Provide authoritative guidance for the development of tools and resources which contribute to and support the implementation of Requisite Organization (RO) in organizations and institutions around the world.
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