

IDEAS



# Do we need a CXO?

## Evolving the senior management team

It's no coincidence that many of the new executive roles being added to the C-suite today have to do with transformation, digital and data analytics. The adoption of roles like chief transformation officer, chief digital officer and chief omnichannel officer, among others, reflect the growing urgency for businesses to respond to changing customer expectations, new competitive threats from market-disrupting competitors, or the threat of disintermediation.

A new senior leadership position reporting to the CEO — a “CXO” — can serve as a lightning rod for a new strategic priority, helping the organization accelerate progress against a specific agenda. By focusing management team attention, establishing a platform for collaboration and coordination by leaders and functions, and signaling the importance of related initiatives, these roles can serve as a catalyst for change in an organization.

But CEOs also create new CXO roles for other reasons, including a desire to raise the visibility of a specific functional area that has become more important strategically, to attract stronger leadership talent in key roles or to create opportunities for potential CEO successors to develop broader experience.

CEOs often grapple with questions related to these new roles, including when to create new top-team positions and how to make them successful. We explore these questions below.

## A CATALYST FOR CHANGE OR BUILDING CAPABILITIES

Not unlike cabinet-level “czar” roles that are established when U.S. presidents want to signal the importance of an issue or initiative and bring focused attention to it — such as the cybersecurity czar or recently created Ebola czar — new CXO roles raise the visibility of strategic priorities and provide a platform for building new capabilities and ways of working.

U.S. retailers such as Macy’s and The Bon-Ton Stores, for example, announced the creation of chief omnichannel officer positions to ensure they can provide the integrated customer experience across the physical store, online and mobile operations that consumers increasingly demand. Meanwhile, some print and broadcasting media companies have established the role of chief content officer, responsible for transforming their content-producing operations to be more efficient, flexible and responsive for the digital world.

When he was head of Kraft Foods, Jim Kilts created the role of chief quality officer reporting to him in order to focus the organization on continuous improvement and total quality management. “That was a temporary role, but I wanted to give it enough visibility in the organization to underscore that this was something we wanted to get a very quick start on,” he explained. “If responsibility for quality was further down in the organization, it would get less respect. By virtue of it being on the executive committee, it had a lot of visibility and received a lot of support from the senior management of the company. That helped us to accelerate the idea of total quality in the organization.”

## ENTERPRISE-LEVEL FOCUS

Especially in organizations that are structured by business units, where functions such as strategy or marketing are owned by the business unit leaders, the creation of a new functional CXO role can ensure that issues and opportunities are considered at the enterprise level.

Similarly, when an organization evolves from a decentralized/federal structure, where each country operation runs as a semi-autonomous business unit, to a global functional structure, CEOs tend to elevate various functional roles to their teams. One company transitioning to this model spent 18 months building a global structure with functional reporting lines, with the goal of creating a more easily scalable structure to support business growth and reduce the du-

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plication of activities. Several new management team roles reporting to the CEO were established — chief marketing officer, chief technology officer, global head of sales, global head of services — to direct activities in these areas centrally.

Corporate leadership roles reporting to the CEO also tend to attract the strongest candidates. For this reason, some CEOs favor having a large, flat management team that provides them a direct line of sight to the senior leaders of the company.

“Don’t be afraid to have a lot of direct reports because the discipline of having a larger team forces you to be very demanding of the quality of the people you have,” says Kilts. “By flattening the organization, they all have to report to me. I get to evaluate them directly, and because you have a lot to do, you can’t put up with weak performers. Having a flat organization forces you to select high-quality, independent leaders who can drive their organizations without a lot of supervision.”

## SUCCESSION PLANNING AND LEADERSHIP DEVELOPMENT

Providing development opportunities for potential succession candidates is another reason for establishing new CXO roles. A larger role with an expanded set of responsibilities can help executives gain a broader, enterprise-wide perspective on the business and help them to develop new skills. For example, we have seen CEOs combine the responsibilities of the chief marketing officer and chief sales officer to create a single, larger chief commercial officer role overseeing both functional areas.

The creation of a chief operating officer (COO) role deserves special consideration. As CEOs begin to look ahead to transitioning out of the role, many consider naming a COO to oversee several business units or functions. However, naming a COO usually sends a strong signal internally and externally about the winners and losers in succession planning, so it’s a decision that shouldn’t be made unless the CEO and board are confident that the individual can close developmental gaps. Ideally, the executive will have had the opportunity to be exposed to enterprise-level issues through other developmental positions or projects prior to being named COO. The business also should be operating well because these moves can be disruptive when executives who already have their hands full running the business are suddenly given additional responsibilities.

## DO CXO ROLES NEED TO BE PERMANENT?

The strategic reason for creating the CXO role should drive decisions about when to evolve or phase out the position. A chief integration officer by definition is required only as long as needed to oversee the successful integration of a newly acquired or merged business. Likewise, CXO positions established to provide specific development experience to individual executives may no longer be needed once the individuals move into their next role.

When the goal is to build a new organizational muscle — in digital or innovation, for example — the CEO may dissolve the role once the capabilities and responsibility for the area are sufficiently integrated into the business. It is not unusual for individuals in these roles to work themselves out of a job.

That is what Big Heart Pet Brands CEO Dave West had in mind when creating a new vice president of project leadership and resource management position to lead the effort to transform the company's legacy processes. "Our processes were built around the historical Del Monte consumer products business, which was a seasonal and cyclical business. Pet food is very much an everyday consumer product, and a much less seasonal business," he says. "I saw the need to have a business process, change management person to help build those processes and an organizational understanding of innovation and the resource tradeoffs that have to be made. It's not an organizational muscle we had, so it's one I wanted to be very close to and have a line of sight to. Over time, as the organization learns to do that on its own, that person should work their way out of the job."

By contrast, a CXO role established to ensure that someone is responsible for driving cross-company programs or strategic thinking at the corporate level — a CMO or chief strategy officer, for example — may be an ongoing presence on the CEO's team, as the need for enterprise-level perspective in those areas never subsides.

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## SETTING UP THE NEW CXO FOR SUCCESS

A poorly defined role or lack of defined responsibilities for the new CXO position can put at risk the cooperation and coordination that will be needed between the new leader and others on the team in order to be effective. Other senior executives may go about doing their jobs and not realize what they need to do in order to make that role successful for the organization. The creation of a new CXO role also can breed cynicism, unproductive competition or fear that the new CXO will step on their responsibilities.

Defined deliverables and accountabilities, clear metrics and objectives that are shared across the team empower the new CXO and increase the likelihood that he or she will receive the necessary support from other executives.

One of the best practices we have seen when establishing a new CXO role is for the CEO to meet with the management team and ask every member to share their views on how the role should be defined, the responsibilities and obligations of the role, and how their own role would interact with the new CXO, including potential challenges. This exercise helps to clarify the role and to secure buy-in from management team members, who will have to support and collaborate with the new CXO. It builds consensus for the common mission and provides structure for working together toward shared objectives. As a foundation for these discussions, it can be helpful to gain outside perspective about which other organizations have the position and how they have structured it.

## CONCLUSION

CEOs' teams are larger than they used to be. From the mid-1980s to the mid-2000s, the size of the CEO's executive team doubled from five to 10, with approximately three-quarters of the increase attributed to functional managers rather than general managers.<sup>1</sup> Yet there are limits to how many direct reports a CEO can effectively manage, mentor and develop.

New leadership roles — the chief digital officer, chief transformation officer and chief content officer are some recent examples — will continue to emerge as businesses face new challenges or opportunities. These roles can

<sup>1</sup> "Who Lives in the C-Suite? Organizational Structure and the Division of Labor in Top Management" Maria Guadalupe, Hongyi Li, Julie Wulf. *Harvard Business Review*. June 18, 2013.

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serve as a catalyst for change or may reflect the increased strategic importance of a specific business or functional area. Establishing a new CXO role represents just one approach to achieving these goals; many CEOs prefer to place responsibility for key functions and high-profile initiatives with every member of the senior management team. The size and structure of the business; the strengths and weaknesses of the CEO and his or her team; the specific industry context, business cycle or company life cycle; and, of course, the preferences of the CEO all influence decisions about the size and composition of the management team.

Understanding the potential tradeoffs when adding, consolidating or eliminating management team roles and clearly defining the responsibilities and accountabilities of all the members of the team are critical conditions for making these moves work.

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