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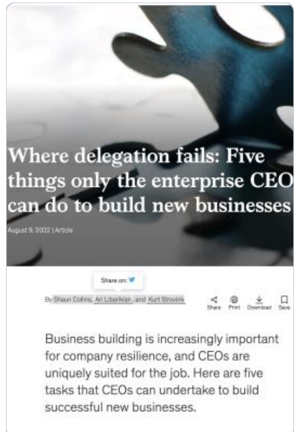
Where delegation fails: Five things only the enterprise CEO can do to build new businesses

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Take-Aways

- Corporate CEOs need to set high goals and focus on becoming serial new-business builders.
- Chief executives must protect the independence and allocated funding of a new business.
- The CEO should find the right person to lead a new business.
- Chief executives must avoid and resolve conflicts between the parent company and its new ventures.
- The CEO should communicate regularly about new businesses while tailoring messages to specific stakeholders.

Recommendation

When a parent company builds a new business, it increases its growth and resilience – if all goes well. Not surprisingly, data from McKinsey, as reported by consultant Shaun Collins and partners Ari Libarikian and Kurt Strovink, show that in 2021 more than half of CEOs saw new-business building as among their top three priorities. McKinsey's researchers examined real-life cases to identify five new-business building tasks CEOs should not outsource to anyone else. These are the areas in which chief executives can bring the unique strengths of their position to bear and make a unique impact.

Summary

Corporate CEOs need to set high goals and focus on becoming serial new-business builders.

While companies expect to build revenue from new businesses, many new ventures fail to generate sufficient value. The CEO is responsible for ensuring that the money and time invested in a new business earn sufficient ROI. The new project should bring in expected results and have transformational value. To achieve these effects, business leaders must set ambitious targets with clearly outlined goals.

> *"Serial business builders generate an average of 40% greater revenue for each new business they build when compared with first-time new-business builders."*

Chief executives shouldn't place all their bets on any single new project. Instead, they need to develop a serial new-business building capability, in recognition that some new businesses will falter or fail.

Chief executives must protect the independence and allocated funding of a new business.

Incumbent parts of a company often want to take back financing when a new venture inevitably encounters challenges. Funding for a new project should be independent, and should follow an agile venture-capital style in which the parent company unlocks funding as the venture meets its key performance indicators (KPIs).

A new business should be innovative and independent, not committed to the practices of the parent company, since a start-up mentality provides one of a new venture's crucial strengths. At the same time, CEOs should realize that balancing new and existing advantageous practices often leads to success.

The CEO should find the right person to lead a new business.

The CEO needs to recruit and hire someone with the right mix of skills to lead a new business. For a project to run smoothly, its leader should not only excel at the business operational side, but also at communication and collaboration with the parent company. Select someone with stature who can work as equals with the current leadership.

> *"One leader told us that the new-business leader should be someone who could be CEO of the entire company someday."*

For example, a consumer services company assigned two respected strong performers from its existing business to lead a new venture. Their appointment demonstrated the new firm's importance to all employees and underscored that the executives had the necessary credibility to work with the parent company.

Chief executives must avoid and resolve conflicts between the parent company and its new ventures.

Conflicts between the parent business and new projects are inevitable, so CEOs should prepare to resolve these issues and protect the new business. Leaders have to ensure that all employees are aware of the value the new venture brings to the existing company.

The CEO should provide incentives to the senior gatekeepers in the parent business by giving them leadership roles in the new project and keeping them accountable for its success. This can mean working as part of the venture board or as part of a task force focused on concrete business functions. Connecting compensation and bonuses to the KPIs of a new business can be an effective way to motivate performance and loyalty to the new venture.

The CEO must be vigilant about existing leaders having too much authority in a new business and equally vigilant about limiting the project's autonomy. Good practice calls for striking a balance between the established and the new.

The CEO should communicate regularly about new businesses while tailoring messages to specific stakeholders.

Frequently, CEOs underestimate how important communication is to the success of a new business. Chief executives should take charge of the narrative about the new project. They need to be intentional in what they communicate and customize that communication to a variety of specific audiences. For example, when speaking to relevant teams in the parent company, CEOs should stress the value the project brings to each unit and to the business in general. When addressing the board, CEOs should focus on building resilience in an unpredictable marketplace.

> *"This near constant drumbeat of communication serves to reinforce conviction and goals."*

Communication strategies should evolve with the new business to craft a cohesive story over time. In the beginning, CEOs should create excitement for the project within the company. As a new business matures, leaders need to share its progress and provide strategy updates. Giving new business updates during quarterly earnings calls helps establish a regular communication routine.

About the Authors

Shaun Collins is a consultant in McKinsey's New York office. **Ari Libarikian** and **Kurt Strovink** are senior partners at McKinsey.

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