

A PEP Talk:
What Can You Learn From Successful CEOs?

Steve Kaplan

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Thank you Mr. President.

Let me begin by congratulating all of you. **Congratulations!** I have taught many of you in the last year. Your performance in my courses was as good as any class I have ever had. I have high hopes for you.

And, I am happy to see that you are all here on time. Those of you who took my class know how important that is. I am delighted to say that I will not have to cold call anyone during my speech.

Now, let me thank you for inviting me here today. I am very honored.

While it is an honor, it is also a challenge. It is a GSB tradition that the faculty speaker not only offer meaningful advice, but also weave research throughout the talk.

In that tradition, I am going to talk about my most recent research. I hope it will give you some ideas about what you can do to increase the chances that you are successful and do great things in the future. In that sense, this talk will be a pep talk in more ways than one. You will see what I mean in a few minutes.

For those of you who have not been students here, I hope to give you a sense of what research at the GSB is about.

Before talking about the research, I want to point out that by graduating from the GSB, you already have taken an important step in preparing yourself to succeed. During the last year, I co-chaired a committee to review the GSB's curriculum. The committee talked to former students and employers. Former students were very satisfied with what they learned here. All but a very few felt that the GSB had prepared them well. And the employers were equally positive.

So now that you have completed your studies, what else can you do?

In the last year, my colleagues, Mark Klebanov and Morten Sorensen, and I have studied what characteristics make a CEO successful. While much has been written about CEO's, there is surprisingly little systematic, objective work on the topic.

Of course, you can read stories in the press about successful and failed CEOs almost every day. **But those stories are just that, stories, and are not much use in predicting what qualities lead to success.**

In research, economic theorists assume that CEOs have different abilities. The abilities, in turn, drive performance. But, theorists have no idea what those abilities are. They simply call them a_i .

The empirical work is a little more helpful. Economists do find that different CEOs have different impacts on companies. However, the economists provide little guidance concerning what abilities lead to those impacts.

The closest work we could find was in the management literature. In *Good to Great*, Jim Collins identified 11 companies that had outperformed for a long time. He found that the 11 CEOs of those companies were all modest, fanatically driven, hired the right people, and gave credit to others. The potential problem with Collins' work is the large after the fact bias. He did not look at what happened to all CEOs with those qualities. While the 11 he studied were very successful, it's possible that the vast majority of CEOs with those qualities **actually failed**.

So this turns out to be a great topic for research. Here is a question that no one really knows the answer to, but is of great interest to business people and to researchers.

So what did we do? We were fortunate to get detailed assessments of more than 300 CEO candidates in firms funded by private equity investors – both buyout and venture capital investors. A company, called ghSmart, conducted the assessments by interviewing each CEO candidate and then rating the candidate on more than 30 specific abilities.

We classified abilities into three categories. Some we called “hard” such as being efficient, aggressive, persistent, and proactive. Some we called “soft” such as being flexible, a good listener, open to criticism, and a team player. And some were neither hard nor soft, such as being persuasive, organized, analytical, and calm.

In case you are wondering, hard and soft abilities appear to be independent in the sense that they are not correlated with other characteristics like age or gender.

We then determined whether the CEO candidate was hired and whether the CEO who was hired was successful.

Here is what we found. Candidates who scored higher on all of the abilities were more likely to be hired and to attract private equity investors than candidates who scored lower.

The good news here is that general ability or talent matters in getting hired and attracting investors. And most of you have a lot of talent.

Next, we looked at what abilities were associated with success. To measure success, we used the investors' evaluations of the CEO's actual performance and the investment's financial return. The results were a little different from those for hiring.

In general, the soft characteristics – like listening skills, team player, and open to criticism – did not matter.

Some of the “in between” characteristics – particularly being organized – were related to success.

But, it was the hard characteristics that were the most positively related to success, particularly in buyouts. The most successful CEOs were those who were **persistent, efficient and proactive**. Persistent CEOs do not give up. They stick with assignments until they are done. Efficient CEOs get a lot done in a short period. And proactive CEOs are self-directed and regularly bring in new ideas.

At the risk of appearing cute, but in the hope that you might remember this tomorrow, let alone 20 years from now, I am going to call these three qualities **PEP** – persistent, efficient, and proactive. Now you understand why this is a pep talk in more ways than one.

Differences in PEP were meaningfully related to success. For buyouts, CEOs who scored high on PEP succeeded 75% to 90% of the time. CEOs who did not score high on PEP succeeded less than half the time. Those are big differences.

Why do I think we got these results and why do I think they are right? CEOs who are persistent, efficient, and proactive get things done. CEOs who are not, do not get things done, even if they are good listeners, team players, etc. And if you do not get things done, the people working for you get frustrated or even leave, particularly the better ones.

When people hear these results, they usually ask whether the patterns are more general. Do they hold outside of private equity? Do they hold for non-CEOs? While we don't have the data to answer that definitively, I would be willing to bet that the results will hold elsewhere. Here are some reasons why.

First, an anecdote, or what is equivalent, one data point. Jack Welch, the former CEO of GE, likely would have scored very well on the hard characteristics, but, perhaps, not so well on the soft. Jeff Immelt, his successor, has been viewed as a different type of CEO who is particularly strong on the soft skills. Our paper predicts that Immelt will not be as successful as Welch. So far, that prediction has been right. GE increased in value by tens of billions of dollars under Welch and has declined by tens of billions of dollars under Immelt.

Second, and more seriously, when I described the results to a senior executive at the pre-eminent leadership training organization, he said that he was not surprised. Our results were consistent with what he had seen there. He also was not surprised that the results did not exactly agree with Collins and *Good to Great*. Instead, he referred me to a book Peter Drucker wrote more than 40 years ago.

Peter Drucker was considered one of the great management thinkers of the 20th century. His work was based on personal observation rather than large sample data analysis. In the book, *The Effective Executive*, Drucker wrote, "effective executives differ widely in their personalities, strengths, weaknesses, values and beliefs. All they have in common is they get the right things done." According to Drucker, effective executives: utilize time efficiently; focus on contribution; do first things first; and make effective, rational decisions. Those qualities are remarkably close to the ones that mattered in our study.

And the research findings are consistent with my own observations of CEOs like Jim Kilts (of Gillette), Joe Mansueto (of Morningstar) and Mary Tolan (of Accretive Health). All three are GSB alums. All three have very different personalities and styles. But all three are the same in that they have PEP and have been remarkably successful.

So, what does it mean for you? As I mentioned earlier, you all have acquired powerful and useful tools here at the GSB. And as you will hear from Mr. Matte, those tools have had an enormous positive impact in many ways. While having the tools is important, **how** you use them makes a big difference.

As you go about your career and use those tools, you should remember PEP. Be persistent in whatever you do. Be efficient in getting things done. And be proactive whenever you can. While this may sound

obvious (and many of you probably think you already do these things), the qualities of PEP are not so common. Only 1/3 of the CEO candidates in our research were highly rated on all three qualities.

The piece of advice that goes with this is to choose work that you like to do with people you respect. It is difficult to be persistent, efficient and proactive if you don't like what you are doing and don't respect the people you are doing it with.

Let me end with one final observation. I have now been at the GSB for 20 years. You are not the first class to graduate in a turbulent, economically unsettled time. The students of 1989 and 2001 graduated in a similar environment. Many of them have gone on to great success. The economy is certain to fluctuate in the next twenty years – both negatively and positively. But your abilities and talents are constants. I am confident you will do at least as well as your predecessors. The more so if you are persistent, efficient and proactive.

Thank you very much.