

# Dear CEO, Please don't copy your predecessors ...

As a new CEO is appointed by the chairman, the Secret IRO pens a letter of advice – suggesting how to avoid the pitfalls which shook his/her predecessors.

*Dear new CEO,  
welcome to ABC plc,*

As you know, you are joining at an exciting time for the company and, along with other members of your executive team, I am really delighted that you have chosen to take on the challenge.

It goes without saying that you will be well aware of some of our recent issues. As someone who has worked alongside your recent predecessors, I thought a constructive, well-intentioned note could be helpful as you navigate some of our idiosyncrasies and try to avoid the pitfalls that led to their all-too-fast departures. I say these things with positive intent – I hope they will help us all get off to a great start!

*Wait one  
hundred days*

How quickly we get you in front of investors is a key early decision. Your investors will want to get to know you and your plans but also see that you're taking control of the business and its issues. It's therefore an important decision as to how quickly you meet our investors and how much time you spend on investor relations in your first year in the job. The approach you adopt will also be key.

In the 'first year' our biggest shareholders will probably expect to see you a

*“ Unless you are 100% comfortable with what you want to say, these early promises or actions often backfire ”*

couple of times and if you meet them too soon they may be unrealistic as to how much you know about the issues and the plans you have to tackle them. Depending on the reporting cycle, my recommendation is that you meet them after at least 100 days in the hot seat. Some may suggest there's an idealised scenario where you meet them very early on (in the first month or so) and can be in 'listen only mode' – to hear their views and make very few comments. In my experience, this is an unrealistic expectation – most investors will naturally pressure you for comments and there's a major risk you will feel obliged to say some things and make commitments you're not yet ready for. Unless you are 100% comfortable with what you want to say, these early promises or actions often backfire – and certainly did for your immediate predecessor. They lost confidence in him before he really had a chance to implement his proper plan.

*One version of the truth*

It feeds into another point that undid their confidence. Always stick to the truth! Making things up under pressure especially if you don't know the answer, is counterproductive. It's much better to ad lib, avoid the question, or just say "that's a great question, I don't know the answer to that off-the-top of my head. We'll come back with a proper answer in due course.". This was brought home by my experience with an investor at a firm in Massachusetts back in the day – "let me check my notes" she said, "... six months ago you said, and I quote...". She took shorthand notes of every meeting! Thankfully, she's now long retired but with AI tools making notes of meetings today there's no scope for error. It's also much easier to remember the truth – there's only one version of the truth – whereas you can be tripping over exaggerations or off-the-cuff remarks for many years to come. It's always worth remembering that investors have been listening to your predecessors for many years – they will have a pretty good understanding of the business, or at least what we've said to them in the past. Getting a good briefing ahead of time is something we can do for every investor.

*When to delegate*

How much time to dedicate to IR? At the beginning I'd recommend a pretty thorough engagement from you with our biggest investors and top 20 priority investor targets. For the first 12 months there is really no substitute for them meeting you and discussing your plans. Once we get things settled then you can delegate more to our CFO and

the IR team. We will meet with all the others in the meantime – the next tier and potential targets, but until our large investors are 100% confident you are on top of the agenda, they will need to see you.

### Clear the decks

As you know, you are inheriting several big issues for the business. The main one is the disastrous acquisition your predecessor completed last year. Yes, it transformed the business, but no one was expecting that! As you will hear, there are a lot of sceptical views on how this will play out. It is not too late to reverse the decision – yes, there will be a financial hit but at this stage it's your predecessor's responsibility and part of the reason you are here. If you act before it becomes 'your problem' then you can move forwards with a clean sheet.

### Manage expectations

We have also had a challenge managing expectations. Our financials have been over-stretched to meet bonus targets and the high growth estimates that we have allowed analysts to keep – and this has started to catch up with us. Hence the recent track record of missed expectations. It's time for a reset and there may be scope for something dramatic. In an earlier life, we took radical action. Admittedly, the share price and rating of the business was as low as it could be, and the analysts were all pretty negative. When we did our big strategic reveal, the best note, from the top analyst, was headlined "New targets: Reassuringly Underwhelming". We never looked

“ You'll get a positive response if we reset expectations and set out a progressively more positive outlook ”

back and over four years delivered 14 quarters of outperformance and quadrupled the share price. It's always a fine judgement – our ratings are not so low and our business is stronger, but you need to rebuild the capacity to manage downside surprises. I am confident that you'll get a positive response if we reset expectations and set out a progressively more positive outlook over the next three-to-five years.

### Focus on the company, not the market

One final comment if I may. Please don't get caught up in the unnecessary sense of competition with our listed peers. Everyone is different and we need to play our own cards. We can learn from what they do, but fundamentally it is our own performance, track record and expectation management that will build trust in you and the business, not how

we compare to our immediate peers. Experienced sell-side analysts in particular find that behaviour very funny – a reflection of insecurities and weak strategic thinking in their view, and they will notice.

Your IR team are on top of the agenda. Despite all the changes, we continue to get great reviews and feedback from our investors and analysts. That is in part because we maintain a strong, open dialogue with them through thick and thin. Hedge funds and activists have not caused our problems – investors see the strong governance and actions being taken when things go wrong. They have not agreed with the stretching targets or recent strategic moves, but they appreciate the candour and consistent openness.

### Support from above

Your chairman has been a key part of that. She maintains a healthy but non-intrusive dialogue with our top 20 investors. She has consistently supported the team, despite not appointing them, but has taken action when needed. You are her appointee and that is very different from your predecessors. She will ask you what you would like her to do re her engagement with our investors. You instinctively may not want her to do too much. I would encourage you to let her continue in the background sounding out investors and collecting feedback. In this role she will mitigate the risk of any investor unrest as you take the actions you feel are needed, even if a little uncomfortable. With stronger actions comes potential volatility and greater risk of activism and hedge fund interference. Anything that helps mitigate that in the first 12 months will be worth its weight in gold.

We all look forward to working with you as we get this great business back on track. ■

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