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CHAPTER 13

LEADERSHIP IN THE CORNER OFFICE: THE BOARD'S GREATEST RESPONSIBILITY AND CHALLENGE

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The single most important responsibility of the board of directors of a publicly traded company is to ensure that the right CEO is leading the corporation. To meet its primary responsibility, the board is faced with three questions: Does the organization have the right CEO? Does the organization have a robust process for developing incumbents? And if it's necessary to go outside, how can the board ensure that it picks the right candidate? There are proven practices to help the board answer these questions and meets its most important obligation.

After World War II, the U. S. economy experienced a period of unfettered growth and development. Most people enjoyed lifelong careers with the same company. Succession to the CEO position took many years, and generally was given to the most senior executive who maintained that term of office until retirement. As the U. S. economy entered the 70s, global competition arrived and the circumstances in organizations changed. White collar ranks and the executive suite became as susceptible to reductions in force as workers on the plant floor. Lifelong employment was no longer assured, CEO longevity became less certain, and the long-serving, most senior person was no longer the given choice. The question became, Who is best equipped to lead the organization at this time under these circumstances.

According to a Booz & Company study, the average turnover of CEOs is not just a U. S. issue. In fact, Europe, with its strict governance standards, is an even more difficult environment

for CEOs. In a look at the ten-year average rate of CEO successions that organizations force, the figures are

- United States, 27 percent
- Europe, 37 percent
- Japan, 12 percent (Succession Planning, 2008; p. 8).

LESSONS LEARNED

It is hard to find a business book, magazine, or newspaper today that doesn't touch on or address some aspect of leadership: how we define it, how we identify it, how we teach it, whether it is nature or nurture, all parsing the secrets of leadership that can aid and abet the process of developing the most effective leaders. One thing we have learned since Plutarch's *Parallel Lives* reported on the strengths and flaws of Greece's and Rome's leaders almost 2000 years ago is that the right person in the right place at the right time makes all the difference. Some individuals have a way of overcoming obstacles and difficulties that plagued their predecessors and can reach goals that previous leaders were unable to accomplish.

Another lesson learned is that leadership comes in all shapes, sizes, personalities, gender, and color of skin. As Peter Drucker wrote, "An effective executive does need to be a leader in the sense that is now most commonly used. Harry Truman did not have an ounce of charisma. Some of the best business and non-profit CEO's I've worked with over a 65-year consulting career were not stereotypical leaders. They were all over the map in terms of their personalities, attributes, values, strengths, and weaknesses. They range from extroverted to nearly reclusive, from easy going to controlling, from generous to parsimonious" (2004, p. 59).

Despite years of observation, erudition, ink, and evolving views on what constitutes leadership, we may know it when we see it but, unfortunately, we only see it with the benefit of hindsight. Training programs, job rotation, industrial psychologists, and all the other means at our disposal are not litmus tests for prospective CEOs that provide certainty when it comes to putting the right leader in the right spot. Only time spent in office will tell if the right choice sits in that chair. You are never likely to hear board members use the words Matthew J. Paese suggests: "I am still waiting for the true realist to emerge from the board room and announce, 'We are making this CEO succession decision recognizing that it probably won't work out and that next year at this time we will be looking for a replacement.' Of course, it is absurd to imagine any board openly condemning an incoming CEO but if board members were appointed purely to make accurate predictions, that's precisely what many of them would be compelled to do. The data supports it: Over the last decade CEO turnover has increased by over 50% and performance related departures by over 300%" (2008; p. 19).

The High Cost of Failed CEO Leadership

The price for failed leadership at the CEO level, whether the candidate is internally developed or hired from the outside, is almost incalculable (see, for example, Stoddard & Wychoff, 2008). Organizations can quantify the cost of failure in terms of loss of shareholder value, but the cost associated with employee turnover, low morale, loss in productivity and the time it takes to turn around the business--call them opportunity costs--are equally extraordinary. These penalties clearly reinforce the importance of making the right choice. What lessons, insights, and knowledge can boards of directors draw from to deal with this risk?

In 1990, John Kotter extolled a view of leadership that described powerful personas providing extraordinary vision, coalescing and exciting the people in their charge to create profound change. Clearly, Kotter was influenced by dramatic changes in the U.S. economy during the 1980s. In that period, annual reports carried vision and value statements, and the general and trade press printed hundreds of stories that focused on the charismatic CEOs who led these changes. The elevation of leaders who possessed "the missing ingredient" carried into the 1990s, when the bubble burst and suddenly many of those bigger than life personalities revealed feet of clay. Organizations like Enron, WorldCom, and Tyco, and the people in them and the people who did business with them, suffered incredible damage. Regardless of the size of the institution, it is not difficult for the wrong person in the CEO's chair, over a short period of time, to destroy significant shareholder value and to wreak havoc on hundreds, even thousands of lives.

Since then the focus of the conversation has shifted to examining the understated natural "leader of men." Jim Collins captured that stereotype in 2001: "Compared to high profile leaders with big personalities who make headlines and become celebrities, the good to great leaders seem to have come from Mars. Self-effacing, quiet, reserved, even shy, these leaders all produce a blend of personal humility and professional will. They are more like Lincoln or Socrates than Patton or Caesar" (pp. 12-13).

What kind of leader is right for the organization? What is the right model of leadership practice? Should a board use a one-size-fits-all perspective, or should it follow the latest business fashion? The truth is, for any senior leader, most often he or she is never performs quite as good as the numbers indicate, nor as badly. When things are going well for the company and the industry, it produces a halo effect on a leader; he or she can do no wrong. Extraordinary leaders

may possess capabilities that create extraordinary results, and perhaps such leaders can replicate those results in almost any organization. Or maybe such leaders are the consequence of the board putting the right person in the right place at the right time.

[[START Exhibit 13.1]]

Exhibit 13.1. When Choices Go Wrong.

The saga of Bob Nardelli's tenure as CEO of Home Depot remains a fresh story in most people's minds. Although he had an outstanding record of accomplishment and success at GE, becoming one of three finalists to succeed Jack Welch, in less than five years, in a number of well-documented ways, Home Depot's market capitalization fell and its debt rose. The organization became a poster child for bad governance and failed leadership.

The story is instructive for all of us. After a storybook run of success, the two founders of Home Depot, Bernie Marcus and Arthur Blank, who were considering retirement, realized they had not developed an internal successor. Once Bob Nardelli became available, the board acted quickly (in retrospect, too quickly) to bring in this proven leader from the company many experts viewed as paragon for developing leadership talent. As it turned out, Nardelli was the wrong person in the wrong job at the wrong time.

[[END Exhibit 13.1]]

The Challenge to the Board

I am familiar with the challenge of CEO turnover. Since January 2000, I have served on the board of directors of six companies that have made a change of CEO at least once. After 40 years of experience in the business world, starting as a sales trainee and rising through