Chapter One

Why We Need a New Process Now

Gil Amelio of Apple, Durk Jager of Procter & Gamble, Doug Ivester of Coca-Cola, Al Thoman of Xerox, John Walter of AT&T, Jill Barad of Mattel, Eckhard Pfeiffer of Compaq, and Lloyd Ward of Maytag—all these former CEOs of top corporations (or in the case of Walter, the former CEO heir apparent) share two characteristics: They are all very bright people with sterling track records as managers and leaders; they all failed as CEOs (or never got the chance to succeed).

These are not isolated cases. Every day brings stories about CEOs who left their organizations in chaos or controversy. Some had been promoted from within to the CEO position, whereas others had been recruited from the outside through extensive and expensive searches. Some left on their own, whereas others were forced out with hefty severance packages. All entered with great expectations and exited angry and frustrated. Along the way, something went terribly wrong. And it continues to go wrong in companies large and small, not only in this country but in other countries as well. For every story that makes the paper about a disturbing departure of a CEO, there are countless others that aren't reported. Despite all the selection, succession, and search processes that are in place—or perhaps because of these processes—we're choosing the wrong people to head our organizations.

Certainly poor CEO choices were also made in the past. But they weren't made with the frequency or devastating effects that are occurring today. Years ago, the environment was simpler, the strategic business issues were more straightforward, and boards had the time to take long looks at internal candidates, whom they almost always selected. In the 1950s and 1960s, organizations generally found it easier to select the right CEO. But the difficulty of selecting a CEO has increased with each passing decade. Part of the problem has to do with the selection process. Given the growing complexity of the environment in which CEOs are chosen, you might think that the selection process would have evolved accordingly. It has not. In many cases, boards, incumbent CEOs, chief human resources officers (CHROs), and search consultants show less diligence and are more prone to take shortcuts than in the past. As we'll discover, the process they use is often not up to the challenge before them.

Before examining the problems this process has produced, let's focus on the current environment and how it has raised the performance bar for all CEOs.

Good Is No Longer Good Enough

It used to be an easier, more forgiving job. Until relatively recently—say ten or fifteen years ago—chief executives were better trained, had broader experience, and had defined roles to play. Though they sometimes had to confront difficult issues and challenges, most chief executives had both the power and time necessary to deal with these issues and challenges. It was unusual for a CEO to be driven from office or to resign in disgust. There was more privacy within which to do the job and more margin for error.

All this has changed. Being a CEO today is a pressure-packed, nerve-wracking, and sometimes impossible job. The issues organizations face have grown more complex than in the past, and dealing with these issues often requires a comfort level with ambiguity and paradox. Imagine trying to name a chief executive given the following stated parameters:

> We need to find someone who can help us make the transition to e-commerce. For years, we've been dragging our heels, and now our

> competition has a significant edge in this area. The problem is that there's a lot of politics going on; there's a lot of resistance in the company to shifting time, energy, and resources away from our traditional distribution channels and toward the Internet. People in our sales groups, especially, feel threatened by e-commerce, and the former CEO came up through the sales ranks and intends to remain active on the board after his successor takes over.
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> Our company has always had a gentlemanly culture, and it's fair to say that we have studiously avoided conflict and confrontation over the years. Unfortunately, we no longer occupy the market leadership position we once did and need to get rid of deadwood and raise performance levels across the board. Our new CEO is going to have to take some tough actions that veteran employees are going to view in a harsh light. In fact, they will probably complain that the new CEO is not "one of our kind of people," though in fact we need a CEO who is not one of our kind.
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> We're not sure what kind of chief executive officer we require. On one hand, we'd like someone who can carry on the tradition this company has established and who will display the same qualities and competencies as the previous CEO, who held the position for eighteen years. On the other hand, we realize our pyramid structure is outdated and that we haven't taken risks by investing in new technologies, and this is starting to hurt our overall performance and our product quality. So we're kind of caught in the middle in terms of what direction to take, and we're hoping the new CEO will help us create a viable strategy that upholds our tradition yet makes some changes.

These scenarios only begin to suggest how difficult—and how essential—it is to find the right candidate for the job. More so than ever before, organizations must get the CEO specifications right. The specs, however, are no longer the same or similar for every CEO position. Organizations are facing highly individualized problems and opportunities, and as a result need very specific types of leaders at the top. One company may need to grapple with diversity issues, while another requires a visionary who can imagine a future for the company that has little to do with its past. One organization may need to find someone who feels comfortable in a newly flattened structure, while another may seek an individual who is capable of thinking and planning on a global basis.

Given the pace of change, the pressure for short-term performance, the information revolution, the demands of e-commerce, the global marketplace, team-based structures, and scores of other developments, companies no longer have the luxury of hiring merely competent chief executives. There are too many complex issues that demand immediate and effective attention. To hope that a moderately qualified candidate will grow into the job is a dangerous gamble. To make the perfect match between an organization's needs and a candidate's expertise and experience—and to make the match with all due speed—is crucial.

The current system doesn't achieve this goal. Let's look at what's broken in our current search, succession, and selection processes and why it needs to be fixed immediately.

The Five-Headed Monster

Consider the delicate dynamic among the incumbent CEO, the CEO candidates, the board members, the CHRO, and the executive search consultant. These five people or groups all play a role in choosing the next CEO. It's a delicate dynamic because if even one of these five isn't playing their role effectively, the wrong person is likely to be chosen for the job. Increasingly, this dynamic is dysfunctional. One or more of the participants refuses to accept reality, and a psychologist might say that these people are in denial about some aspect of the organization and their role in it. Historically, this has not always been the case. Years ago, our five participants tended not to make the selection mistakes that are commonly made today because they generally were more realistic about what they needed to do to select the right CEO and more serious about their roles as part of the process. Though the process back then was far from perfect—it suffered from an overreliance on the old boys' network, for instance—it often produced a CEO who was well-suited for the job.

As we look at the dysfunctional elements of our five process participants, therefore, we'll also examine how these dysfunctions have emerged historically.

Chief Executive Officer

Until relatively recently, most chief executives took the issue of their succession very seriously and attempted to groom candidates to succeed them. Often, they chose from among senior executives who had been with the company for twenty years and had been rotated among seven or eight significant business-intensive positions so that each of them was prepared for the job. Although these CEOs also tended to discriminate against all sorts of candidates—women, minorities, job-jumpers, the young, people who didn't go to the right schools, and so on—they usually trained their successors well. Unfortunately, many chief executives today don't place the same emphasis on developing their successors internally.

Perhaps that's because they don't want to think about anyone replacing them, a thought that was not quite as irksome to CEOs in the past. As "royalty," they were expected to pass their kingdom on to an appropriate "heir." Until the 1990s, many CEOs were monarchs of mahogany row. Entering their offices, one had to pass through various checkpoints and rooms until finally arriving at their sanctuary. Typically, a reception area and an anteroom with the CEO's executive secretary guarding a closed door had to be traversed. The office itself was grand, usually on the top floor, and filled with everything from a private bar to expensive artwork. Robert Lear, a former CEO and Columbia Business School professor, captures the old CEO gestalt well in an article published on the Internet [www.chiefexecutive.net] (June 2000). He suggests that years ago, they were "proud members of the CEO Club" and that they "obeyed the unwritten rules of its exclusive franchise." Lear doesn't simply disparage this exclusive mind-set but also explains a positive side to it: "But the old CEO Club did stand for some pretty good things. A certain dignity of office. An increasing adherence to better codes of ethics and improving corporate governance."

Though today's CEO still has a strong ego, he's likely to have that ego shaken by criticism and controversy. Today, the CEO's time in office is shorter, and whatever he builds is likely to change or be torn down much more quickly. That's why many CEOs often focus on the legacy they'll leave and look to hire a successor who will preserve their legacy and preserve and extend what they've created—and why retired CEOs often hang around for years, maintaining an office in the building and serving on the board. Procter & Gamble, for instance, allowed two previous CEOs to maintain their offices at P&G headquarters. But having two former chief executives hovering over the shoulder of the current CEO strikes me as a dysfunctional arrangement.

Today's CEOs receive such enormous salaries and benefits packages and their actions are reported so extensively by the media that they almost can't help but believe their press clippings and overestimate their own importance. As a result, they harm the selection dynamic in three ways.

First, they often move agonizingly slowly when facing succession issues. Even though their board is telling them it's time for them to face this issue and they've agreed with the board, they don't have any sense of urgency (even when there is a real business urgency to find their replacement). They worry about a loss of identity when they're no longer an enterprise leader, and they do everything possible to delay that from happening. There are chief executives who while publicly bemoaning their company's failure to find an internal successor have privately been happy about this failure; it confirms for them that no one can take their place, that their skills and vision are unique.

Second, some CEOs search for replacements who are mirror images of themselves. Whether consciously or unconsciously, they don't look for the best candidate but for one who will "carry on my legacy." Typically, that's either an internal protégé or someone from the outside who thinks and acts like they do.

Third, we've all observed chief executives who simply take their eye off the ball. In their final months (or even years) on the job, their focus is on retirement dates and packages rather than on finding the right person for the organization's well-being. I know of more than one CEO who was more concerned about maintaining his use of the company jet after retirement than working on succession planning.

Boards

Board members unbalance the selection dynamic through a rubber stamp mentality and insufficient knowledge about CEO requirements. This dysfunctional behavior, too, has its roots in the past. Years ago, boards were much less involved in governance and CEO succession issues. To a certain extent, they were less involved simply because there were fewer CEO searches conducted than there are today. But it was also because of the board mentality that existed for years, a mentality that disdained the outside world. Boards used to be joined at the hip with the CEO, and they pretty much followed his lead in all things, especially the choice of his successor. That isn't to say that boards didn't participate in the succession process years ago, but that their participation was often nothing more than a formality. In some instances, they might contract with a search consultant to look for outside candidates, all the while knowing that the CEO was going to select an internal person for the job.

Now boards have become much more involved in governance and succession, and they're expected to lead the CEO search process. Because of the diversity of a board's composition, legal concerns, and the fact that they may serve the company longer than the CEO, they often take their responsibilities more seriously than boards in the past. Nonetheless, the tradition of board members being cronies of the CEO hasn't disappeared, and boards often are reluctant to challenge a CEO, especially a powerful and successful one. They feel obligated to the incumbent for naming them to the board and often have strong social ties to the CEO. For these reasons, they may well rubber stamp a CEO's selection.

In addition, many board members are simply too busy to spend the time required to make the right selection. It's very difficult these days to convince a board member to volunteer to head the CEO selection committee. Some simply don't want to make the investment in time or deal with the headaches. Others are too closely tied to the CEO and don't want to step on his toes. Most are neophytes when it comes down to conducting an external CEO search.

Part of the problem, too, is that board members don't know their organizations as well as they should. If you were to ask a given board member to explain his company's strategies and its vision for the future, he would probably not be up to the task. As a result, boards often search for candidates without knowing what they should be looking for. If they don't know that the company must switch directions over the next five years and become more technologically driven, they may fail to look for a candidate with this strength. In reality, strategic goals and visions are more complex than the preceding example, and board members need to understand the complexities in order to evaluate candidates properly.

On more than one occasion, board members have told me, "I really don't know what kind of CEO we need," or words to that effect. This is a terribly sad, terribly embarrassing admission, yet most of these board members confessed it with a shrug.

Finally, and perhaps most significantly, many boards are aging. Though there certainly are exceptions, board members in their seventies often are more concerned with the company's present than its future. In addition, older boards tend to have business philosophical differences with incoming CEOs and other top executives, who often are at least twenty years younger. Not only are they sometimes skeptical of the new business ideas of a younger generation, but also they often don't give a new CEO a fair chance; they're much quicker to criticize a fifty-something chief executive than their contemporary who appointed them to the board in the first place.

As you can see, boards can throw off the selection dynamic in all sorts of ways. Here are some of the more common actions and attitudes that cause problems:

- Confining a search to internal candidates for the wrong reasons
- Confining a search to external candidates for the wrong reasons
- Selecting the wrong search consultants
- Failing to implement a board-supervised executive pipeline process
- Failing to recognize the lack of a CEO heir apparent
- Failing to assess whether a CEO is stale, a caretaker, or whether he should be replaced
- Being ignorant of how the company compares when benchmarked against competitors, the loyalty of employees, the depth of executive talent

CEO Candidates

Executives used to be willing to wait their turn. The unwritten rule in most organizations was that if you put in your time and displayed loyalty to the company and competence in your job, you would be rewarded. It might take thirty years of waiting, but eventually you would at least have a decent chance of being selected if you played your cards right; it was your job to lose. They knew that the odds were against the company passing over qualified internal candidates and finding someone from another industry (or someone younger, or a woman). In fact, I remember many candidates being offended when we (search consultants) approached them about a CEO position. They resented the implication that we thought they'd be willing to "desert" their companies. Most candidates also had been mentored to succeed within a very specific corporate culture and assumed that they would have difficulty doing well in other cultures. Others weren't interested because of loyalty to their companies, their people, and their bosses.

Today, in the absence of selection rules, long-term employment by one company, and two-way loyalty, CEO candidates tend to upset the delicate balance of the selection process with their naiveté. In countless interviews, I've met candidates who accepted the CEO-successor job without ever coming to terms with whether they have the skills and knowledge an organization requires or whether they are a good match for the culture. They're so anxious to become CEO and leave their current organization that they don't squarely confront the reality of the new position. Similarly, they're willing to accept whatever conditions the incumbent CEO sets down, even though they may place unacceptable limits on their ability to set direction for the enterprise. Or even more troubling, they believe the CEO when he tells them that even though he's going to remain with the company for the next five years and sit on his hand-picked board, he will never interfere.

To a certain extent, candidates are victims of a system that does a poor job of preparing them to be CEO. Today, relatively few senior executives have had a pure profit-and-loss (P&L) experience. With a matrix structure or functional management style, companies aren't preparing people to run the whole show. There aren't many executives with direct reporting responsibilities to the CEO, a situation that prevents the on-the-job learning that prepares people for the top spot. In addition, downsizing cuts a wide swath, and many potential candidates have either been physically removed from a company's talent pool or they've been sufficiently disillusioned that they have no interest in working for a large company again in any capacity.

A related issue is the lack of solid leadership development programs in companies. Finding internal candidates can be difficult if the leadership cupboard is bare. Too many organizations spend the bulk of their development dollars helping people learn specific jobs and skills and give short shrift to growing their own leaders. Consequently, companies find they lack the visionaries, strategists, risk-takers, and big thinkers needed for the CEO position. Because of this lack, they are forced to look at outside candidates who may be qualified to be CEOs but are unfamiliar with a company's culture or goals. These candidates are in for a shock when they accept the CEO position and find out very quickly that their leadership style and skills clash with the gestalt of their new companies.

Into this environment enter native candidates who are taken in by an egotistical CEO's song-and-dance about how he won't interfere or who actually believe that they can win over a skeptical board. Sometimes, they accept without question the board's or CEO's description of the company's financial and strategic positions, never realizing that they've been fed a sugar-coated version of reality. This naiveté doesn't just get these candidates in trouble; it causes a company to spend months or years in limbo as the candidates accept the job and then leave shortly thereafter when they realize they were deceived.

Search Consultants

Search consultants used to conduct much more thorough searches than are done today. By "thorough," I mean that more candidates were interviewed more times, and a greater effort was made prior to conducting the search to understand a given organization's business goals and strategies and how each potential candidate might help achieve them. Boards respected this effort because it fulfilled their mission of due diligence. Incumbent CEOs thought it appropriate because it helped them locate the individual who was best capable of maintaining (and sometimes building upon) what the incumbent had created. Most of the major search consultants routinely did their homework; they invested the time and energy necessary to sort through many candidates and find the perfect match between company and individual. Most organizations accepted that consultants could not find suitable candidates unless they diligently researched the company and the candidates, and they accepted that this would be a time-consuming process.

In the past, search consultants were trained as management consultants, and they brought a strong business and strategic mentality to the table. Executive search consultants came out of A. T. Kearney, Booz Allen & Hamilton , McKinsey, and George Fry, and these consultants were attuned to the issues facing CEOs and boards. They established a true partnership with their clients, and both the search consultants and their clients expected objective and detailed feedback. Back then, a search consultant would have been insulted to be called a headhunter and would have resented the implications that he was a mercenary out for a quick kill.

Today, search consultants sometimes lack business training and willingness to do in-depth research and interviewing. CHROs, CEOs, and boards put pressure on them to find someone quickly (and sometimes cheaply), and they respond to this pressure by "transacting" the search and even approach executives in client companies. A common transactional tactic involves recycling the same old names for different positions. Most search firms keep a "bin" of candidate résumés that they present to their previous clients, and when they book a new search, they look through the bin to see whether there are any names that might be acceptable to the new client. Although search firms often feel that this bin is their competitive advantage, it is nothing more than a lazy consultant's time-saving device that yields generic candidates. Unique research is required to find a CEO. In other words, the unique requirements of the company must be identified and a wide net must be cast to find the few people who match these requirements. This means going beyond the standard list of names and being creative in the search; it requires a search consultant to make a lot of calls and ask a lot of people whether they know anyone who might fit the requirements like a glove. This type of research used to be standard practice in the search industry, but today it is the exception rather than the rule. It has been delegated to "back-room" people who have little exposure to clients or candidates.

Certainly there are excellent search firms out there today, but the increase in firms who fit the headhunter description is distressing. It takes knowledge, effort, and resourcefulness to fill a CEO position, and when any or all of these traits are absent in a search, the result is often an inappropriate candidate. Remember, only 4 percent of total searches are CEO searches, meaning that a very small percentage of search consultants have had the experience to conduct these critical assignments properly.

Heads of Human Resources

Before the term *human resources* ever existed, there were personnel heads and managers of labor or industrial relations. Back then, personnel had nothing to do with selecting or searching for a CEO.

Theoretically, HR chiefs today should play a pivotal role in helping organizations identify, develop, and select the right potential CEOs from within. More than anyone else in organizations, they know what type of talent is needed. From a human asset standpoint, they know what their companies need and what they have in abundance. They also are skilled at defining the job specifications; they can translate the requirements articulated by board members and the incumbent CEO into job specs that can be used internally or by a search firm.

Many HR chiefs today do participate on CEO succession teams. In fact, my firm conducted a survey of 350 chief HR officers and found that only 6.6 percent of those surveyed said they had no role in CEO successor selection, whereas almost 68 percent said that they were more involved in successor searches than in the past. What is surprising, almost 78 percent of respondents said they were involved in CEO, COO, or board searches. A number of factors accounted for this increased participation, ranging from having closer relationships with the incumbent CEO to being included as an active member of the senior executive team.

Although HR chiefs do have a more active role in the succession process than in the past, this role is often limited. Sometimes HR heads serve as henchmen for the incumbent CEO, acting as a liaison between the organization and an executive search consulting firm. Or they do some preliminary interviewing or administrative tasks connected to the CEO search. Rarely, however, are they made primary partners in the process and their specific skills and resources—knowledge of the company's internal people, psychological insights, and contacts with executive search consultants—aren't maximized.

When HR heads are excluded from the business process or their roles are demeaned, the company loses a valuable perspective and resource. The unfortunate attitude of many organizations is that the leadership development process is not a strategic business process. In fact, that's exactly what it is.

How an Unbalanced Dynamic Is Producing Ill-Matched CEOs

Creating the right specs for any CEO position requires hard work and insight. There are many subtleties and complexities that need to be factored into the equation, and a team effort is required to capture these subtleties and complexities. Just as important, there needs to be a series of checks and balances along the way to ensure that one person's opinion about the position—usually the incumbent CEO's opinion—doesn't overwhelm all other considerations. On a number of occasions, I've seen strong CEOs push their handpicked successor on the company, or dominate boards and prevent them from orchestrating the process, or mislead CEO candidates who shortly thereafter quit in disgust. Sometimes these chief executive officers have the best of intentions; they truly believe that they know what's best for their organizations. But even if they're sincere in these beliefs, their dominance skews the process and results in a flawed selection or a situation that dooms the new CEO to failure.

Similarly, boards need to be alert for CEOs who have not provided for their succession; this is sign that the CEO might be dysfunctional and will often throw off the selection dynamic. Companies with strong succession plans often have strong business results. It's no coincidence that General Electric has made leadership succession a top priority. Without a succession plan, the search is artificially tipped toward external candidates.

Organizations need to rebalance this unbalanced dynamic. If they don't, they'll end up in situations similar to those that confronted the following companies.

The Overreactive Board

With hindsight, Apple's decision to name Gil Amelio CEO was a major blunder that continues to haunt the company. In his autobiographical account of the event, Amelio clearly communicates how his decision to take on the job was ultimately a mistake. After Apple's board helped send cofounder and CEO Steven Jobs packing, Amelio, an Apple board member, took on the job himself. On the surface, it may have made sense to Amelio and the board. He was a smart, successful former chief executive who knew about Apple's problems from serving on the board. Despite his smarts and his talent, however, he was the wrong person for the job. He had little understanding of Apple's culture. Actually, though he may have understood the culture intellectually, he lacked an emotional identification with that culture and a grasp of how important the culture was for both the people who worked at Apple and the organization's success. Amelio's tenure was marked by false starts and product mistakes, and the company lost a great deal of momentum. Though the board did induce Jobs to return and Apple's fortunes have picked up, they came perilously close to the edge.

Boards that overreact is one of the unbalancing factors in this day and age. For a highly public company such as Apple that receives significant media and financial analyst scrutiny, board overreaction is an omnipresent danger. Although it may be an overstatement to say that Apple's board panicked, they certainly responded to the pressure they were feeling from various stakeholders. They lost sight of Apple's culture and never established CEO candidate qualifications that fit that culture.

Search Firms That Work from Bad Information

Another unbalancing factor involves search firms that are working from bad information. Years ago, it was almost inconceivable that a CEO or board would provide a search firm with inaccurate information about an organization's needs or future direction. Today it's all too common. For instance, the CEO of a large manufacturing company informed his board that he intended to retire within the year, and the board began the search for his successor. The CEO had met with the board and briefed them about the state of the business, clearly communicating that the company's superior technology and product quality would stand them in good stead for years to come. In fact, he had stated outright that they were the premier low-cost manufacturer in their industry, not mentioning that they also had some of the highest labor rates. The CEO's only concerns—and he emphasized they were relatively minor ones—involved motivating their dealer network and getting the sales force better organized. As a result, the board brought in a search firm and instructed them to look for a CEO with strong sales, marketing, and dealership experience.

What the board didn't know, because the incumbent CEO didn't tell them, was that the company was in great need of a fast turnaround. Serious cost and quality issues had recently surfaced that the CEO had hidden from the board out of vanity; he foolishly hoped that these issues would resolve themselves on their own. This enterprise leader was so worried about his legacy and fearful of any blot on his record that he convinced himself that this wasn't an issue that would impact choosing a new CEO.

The CEO wasn't the only culpable party in this crime. The board had no process in place to question the CEO about organizational needs or assess his answers. To make matters worse, they had a well-crafted consultant analysis secreted away in the CEO's desk drawer. If they had been privy to this analysis or had a CEO assessment process in place, they would have asked him the type of tough questions that would have forced his hand. Instead, in typical board fashion, they flew in on the day of the meeting, had a few quick committee meetings, and enjoyed a nice lunch. After the meal, everyone started looking at their watches and were grateful to get out of there as quickly as possible. The HR chief, too, who might have been able to identify this crying organizational need, was excluded from the committee's search process. The sales-and-marketing-oriented CEO they eventually hired was completely incapable of creating the fast turnaround the company desperately needed, and the desperate straits they found themselves in shortly thereafter made them a prime target of a corporate raider. Despite downsizing and other measures, the company is still in trouble.

The process is unbalanced by a combination of factors: CEOs who are more worried about their legacies than the company's future, boards that lack a formal procedure for evaluating CEO candidate requirements, and HR executives who are absent from the process. If any one of these groups had fulfilled their proper role, some balance would have been restored and an appropriate CEO might have been hired. As it was, the search consultant was operating with erroneous information. This is a true story; it happened to me.

The Starstruck Board

Another unbalancing factor is a starstruck board—a board that believes talent can cure anything that ails the organization. Rather than doing their homework and pinning down the specific traits, competencies, and experiences appropriate for CEO candidates, they look for miracle men and women. Because we live in an era in which certain CEOs have been turned into celebrities by the media, it's only natural that some boards have been seduced by certain CEOs' mystiques. Even when the mystique is earned—when it's based on savvy judgment and spectacular results—it shouldn't substitute for analysis of what a company really needs.

Sunbeam, for instance, was seduced by Al Dunlap. Dunlap's radical cost-cutting techniques had resulted in turnarounds at Scott Paper and other companies. His star was shining bright when Sunbeam's board offered him the position. As it turned out, his techniques were ineffective at Sunbeam and his ineffectiveness (not to mention the enmity his Draconian measures created) eventually cost him his job. If Sunbeam's board had simply determined the five or six qualities they needed in a CEO and the leadership style that fit the company, they probably wouldn't have hired Dunlap.

The "Grass Is Always Greener" Syndrome

The fourth unbalancing factor involves the "grass is always greener" syndrome. Some organizations steadfastly believe that it's better to bring in an outsider as CEO rather than choose someone internally. There are times when it makes sense to recruit an outsider; some organizations need to be shaken up and require fresh blood. Increasingly, however, we're seeing companies spending enormous amounts of time and money on searches, scouring the planet for a savior. More so than ever before, an outside search seems like standard operating procedure. When inside candidates are automatically ignored, potentially outstanding candidates are not even considered. All other things being equal, the inside candidate at least is familiar with the culture and business, a trait that gives him a leg up on outside candidates.

One need look no further than Hewlett-Packard to see the changes that have taken place in CEO selection. It used to be impossible to recruit any top executives away from Hewlett-Packard; they had a wealth of talent and wouldn't have considered looking elsewhere for their CEO. Recently, however, they brought in Carly Fiorina as their new CEO, offering her a reported total compensation package approaching $90 million. Perhaps it is worth it. But it's also worth considering whether such an expenditure of money and effort was necessary, and whether stockholders' money might have been better spent in other ways.

Although some CEOs from the outside can come into a company, rally the troops, and create a sense of followership, others arrive and are immediately overwhelmed by what they need to learn. Rather than being highly visible and engaged leaders, they lock themselves in with a few key executives and mounds of data. Because they don't spend enough time with key customers, employees, and other significant stakeholders, they are always viewed as outsiders.

Therefore, organizations need to analyze what type of leader an outside CEO will be, and ask the questions and do the analysis necessary to make sure he becomes one who can rally the troops.

Analyzing Your Own CEO Selection Process

Given the shorter tenure of CEOs in today's volatile environment, it's likely that most companies will need to replace their top people relatively frequently. Successful CEOs are hotly recruited and will be sorely tempted by spectacular offers from other organizations. Unsuccessful ones will leave even faster. And even moderately successful chief executives can burn out quickly. Not only are they under intense media scrutiny, but they also have to deal with the pressures of dissident shareholder groups, pension fund management issues, and growing corporate governance.

Given these pressures, every company should have a sense of how effective their CEO selection, succession, and search processes have been or might be. To give you this sense, answer the following questions:

1. Was your company's most recent choice of a CEO a wise one?
2. If you were to replace your CEO, would the best possible candidate be inside or outside your company?

3. Does your CEO possess an ego that would make it difficult for him to work with a successor during the transition period?
4. Is the chairman of your board's search or selection committee an independent director?
5. If you were selected to lead a board search committee, would you be willing to devote time to this effort?
6. Is the CEO involved in the search engagement?
7. Has the full board signed off on the specs and the candidate profile for the new CEO?
8. Has the board structured a timetable for the CEO's transition and departure?
9. Will the retiring CEO remain on the board?
10. Is your CHRO an active and important participant in the management group?
11. Is your CHRO so close to the CEO that it's impossible for him to be objective about a successor?
12. What is your search consultant's or firm's track record for conducting searches for CEO positions similar to your own?
13. What companies is the search consultant or firm prohibited from taking employees away from?
14. How well does the search consultant or firm know your company?
15. How many other CEO searches is the consultant or firm conducting?
16. What are your company's strengths and weaknesses and what are the competitive threats; has all this been factored into the candidate specs?
17. What is your procedure for considering internal candidates (or do you not plan to consider them)?
18. Do you plan to conduct a horse race (pitting internal candidates against each other and evaluating how they perform over a given period)?

19. Is your CHRO knowledgeable and fully qualified to participate in your CEO search?
20. Do you have a contingency plan to replace your CEO if he should depart unexpectedly?
21. Have you called in a CEO compensation expert to brief the board on compensation packages prior to conducting your search?

The odds are that at least some of these questions disturb you, especially if you're a CEO, CHRO, board member, search consultant, or CEO candidate. You may even feel threatened by some of the questions. I do not mean to be threatening, but I am intent on provoking people to confront difficult issues. If you're a board member, for instance, you may want to avoid dealing with the CEO's desire to serve on the board after he retires. This is a touchy issue, especially if you have a good relationship with your CEO. Ignoring this issue now may avoid problems in the short term but create much more serious problems in the long term.

Other questions may make you angry because they lead you to believe that a fellow participant in the selection process will sabotage it. For instance, you look at the questions about search firms and suspect that the search firm's book-and-bill mentality will prevent them from evaluating candidates thoroughly and insightfully. Or you try to answer one of the board questions and realize that the board lacks the interest, methodology, and objectivity necessary to conduct an effective CEO search.

To feel comfortable with the answers to these questions, a new process is necessary. Actually, what's really needed is an old process retooled for our current environment, as the next chapter will demonstrate.