

CEO: Long-Term Strategist of Short-Term Hired Gun?

Lost amid the statistical rhetoric about the economic devastation of the past year, with whole industries (such as telecommunications) laid waste, and the future stolen before it even had a chance (e-commerce), lies a largely unnoticed fact: the unprecedented turnover of Corporate America's CEOs.

Well, you might say, "Okay, the Big Guy's gone—so what?"

From a strategic perspective there are at least four problems with the current period of revolving-door CEOs: New CEOs are often brought in from the outside and lack "institutional memory" so necessary to understanding the firm's strategic traditions; today's new CEOs are frequently directed to focus on short-term performance not long-term viability; they are told to concentrate on a "financial fix" rather than "strategic fix"; and everyone, including the CEOs themselves, expects them to be in their new position for a very short time.

What's wrong with this picture? While there is no rule that says it must be so, the CEO has largely become the de facto chief strategist of the firm. With such massive turnover in CEOs, corporate strategy in North America has never been in a more precarious position.

All in all, it looks like a tough time ahead for strategy.

The Revolving Door to the Executive Suite

What's fueling the change at the top? In a few cases, it is retirements, as in the closely watched transition at GE. Other, more important factors, appear to be the general economic turmoil, the chaos in the technology sector, and the apparent trend to "pass the baton to a new generation." To this latter point: In the Fortune 300 today, some 15% of CEOs are now under 50 years old.

Whatever the cause, the current CEO turnover is unprecedented in American business history. The heads of Mattel, Procter & Gamble, Campbell Soup, Xerox, and Coke changed in 2000. The heads of Yahoo, Gateway, Maytag, Hershey Foods, and two major airlines have changed this year. At this writing, e-business company VerticalNet is on its third CEO in six months and its competitor Ariba is back to an

earlier CEO after dumping one who'd served only one quarter.

On a broader scale, the folks in the know about CEO turnover are the "head hunters." Here's what they've found:

- Through May of 2001, outplacement firm Challenger, Gray & Christmas recorded 473 CEO departures, 22% more than the first five months of 2000.
- According to executive search firm Spencer Stuart, an astonishing 125 CEOs were separated from their companies in October 2000 alone. Spencer Stuart also reported a shrinking tenure for the CEO position: In less than a decade, the average tenure has shrunk from eight years to less than five.
- Outplacement firm Drake Beam Morin (DBM) also found that CEO tenure is becoming shorter and less secure. Its analysis of 476 companies in 25 countries revealed that nearly half of all current CEOs have held their jobs for fewer than three years.
- Among major global companies, more than half are led by a chief executive who has held the job fewer than three years, according to Russell Reynolds Associates. "Today's CEO is evaluated not in years but in quarters," its report said. Many institutional investors lay the blame for CEO churn on the companies themselves, however. Of the investors surveyed, 81% said they are "troubled by the perceived failure of companies to properly groom internal CEO candidates." In the U.S., 63% of those surveyed said that high severance packages help to shorten CEO tenure by undermining the executives' motivation to perform. The study, released in June, also found that 15% of institutional investors have called for a CEO's termination within the past year.

Nearly two-thirds of all companies in the DBM study had installed a new CEO in the past five years, with many on their second or third. Today's definition of corporate leadership is changing radically as a result. Many observers lament that CEOs can ill afford to focus on the end result of five-year plans; most of them won't be around to see it. Their only option is to focus on short-term goals and a payoff mindset. Just as loyalty has practically vanished within the workforce due to lack of security, loyalty at the top is being expressed in three-month intervals.

Nowhere is this more evident than in the tech sector. The average tenure of dot-com CEOs is a mere 26 months, according to John Challenger, partner in the outplacement firm bearing his name. The number of first-year CEOs has tripled since 1990, thanks in part to the Internet boom. At any given time, nearly one in six new CEOs is employed in a technology company.

However, after nearly two years of nonstop CEO changes, many recruiters are reporting that the pace may finally level off, despite the fact that institutional money managers are still screaming for more heads to roll. Also, most analysts note that as the pace of mergers and acquisitions slows, there is less general movement at the top.

Despite the apparent slowing of CEO changeovers, devastation in the ranks of future-focused, seasoned CEOs will undoubtedly change strategy for decades to come. During their tenure, the outgoing class of CEOs (about mid-1980s through the 1990s) has seen it all: quality, consumer, and energy crises; intense global competition; rapid technology change; a strong dollar and weak dollar; recession and wild, unrestrained growth ... and all these changes at accelerating speeds. As the focal point of a firm's strategy, the outgoing crop of CEOs would not be surprised by very much.

This is not to suggest that the incoming class is somehow inferior. Quite the contrary. Today's incoming CEOs are the best-trained and most sophisticated group of managers in corporate history. But, and this is a big but, they will be driven by events away from strategy and toward short-term financial engineering. They have no choice.

Where then will strategy come from?

Strategy: From Whence It Came; Where It's Going

The seemingly limitless ranks that traditionally supply the stuff of corporate strategy—boards of directors, staff specialists, strategic business units (SBUs), and outside consultants—are being sacrificed on the altar of cash conservation.

While boards have a legitimate role to play in strategy formation (see JBS July/August 2000), many have been distracted by new reporting and governance requirements or by executive searches for new CEOs. Boards can only do so much, and those that are preoccupied with management succession or current earnings or plunging stock prices find it difficult, if not impossible, to focus on long-term strategy.

Once the darlings of strategic planning enthusiasts, specialized groups within the firm that focused solely on strategy have been slowly but surely fading from the corporate landscape since reaching their pinnacle of power in the 1970s. (As if missing the energy crisis wasn't enough, many of these staff strategists sealed their fate by also letting the consumer movement, TQM, and the Japanese blind-side them!) The last vestiges of these specialized strategy groups are mostly viewed either as irrelevant creatures of ivory towers, or easy targets for staff RIFs (reductions in force), and have been decimated in the latest round of corporate fat reduction.

Most SBUs, often the sources of innovative new technology or business opportunities, are locked in desperate short-term battles for survival. No time for strategy here!

Likewise, many firms that relied on outside help from consultants have reduced or eliminated such longer term investments as part of their short-term cost-saving measures. Almost all the so-called "strategy consulting firms" have reported low levels of new business, and most have delayed or retreated from hiring their usual crop of freshly-minted MBAs.

With traditional sources of corporate strategy dead or dying, strategic planning, like so much else, goes to the CEOs. After all, isn't that why they get the big bucks?

Strategy's Ultimate Goal

In a free market economy, strategy's ultimate purpose is to provide investor confidence for earnings projections based on a vision, mission, and an executable plan. But in the last three quarters, once-mighty firms that saw their economic futures laid out in precise terms (giving Wall Street earnings "guidance" to within pennies), began a new mantra: "We have no idea what the future holds. It's totally unpredictable!"

While my definition of strategy is quite different (more about that in the next column), its goal is simple: Chart a path toward as exciting but as predictable a future as possible. Without at least some modicum of predictability, private and public "risk" capital simply disappears.

The CEO has, unquestionably, always been the chief "articulator" of such predictability in the form of a clear-cut corporate strategy. But, the CEO's role as the "diviner" of that strategy is somewhat less clear.

The CEO's Role in Strategic Planning

The CEO clearly plays a role in corporate strategy, whether by dint of position or personality. But what exactly is that role? Does the CEO chart the entire strategy (the top-down approach), or does the CEO establish and guide a team process the causes strategy to be bubbled up from the front lines of the firm (the so-called bottom-up approach)? The answer of course is: yes!

Depending on a range of factors, from company tradition to industry volatility, the CEO can play either role—the prime source of strategy or the key cheerleader to ensure the troops themselves produce the strategy. Historically the pendulum often shifted from one extreme to the other, based on industry dynamics or current management philosophy.

Examples abound that support either top-down or bottom-up approach. Either can and will work with the proper set of circumstances. However, for the typical company, some combination of top-down and bottom-up seems the best way to combine the leadership of the CEO with the commitment and current market experience of the rank and file.

DaimlerChrysler's problems are the typical results in a company that operates in a top-down management style, especially when the top dog is new. Critics of top-down management also point to another prominent failure prevalent in every community: our nation's public school systems.

On the other hand, there are times when this style is not only preferred, but necessary. Few start-ups succeed without the drive and unwavering vision of the founder. Companies that become seriously bloated often need a firm hand to get back into shape.

A bottom-up (or at least "middle up") management style is frequently more popular as a company grows and becomes more established. While the CEO must set a mandate and rally everyone behind the big, major goals, the sloganeering rings hollow if it doesn't resonate throughout the organization. Companies that have mastered this style are generally the long-term industry leaders that have reinvented themselves several times over: IBM, Microsoft, Corning, 3M, and GE to name a few.

While Jack Welch is credited with GE's amazing growth and stability over the past two decades, he's quick to give credit to the people within GE who strive for constant improvement. His ability to create an environment in which the best ideas spread throughout the organization has led to extraordinary

results: an annual average growth rate of 18.9% and a share price appreciation of over 3,000%. By sharing responsibility throughout the organization, Welch has also created the world's finest breeding ground for executive talent.

So, bottom up or top down?

My rule: The CEO sets the guidelines of the strategy (direction, goals, timetable), that is, the "why," "where," and "when" of the strategy, while various levels in the organization participate while the "who," "how," and "what."

But top-down or bottom-up or somewhere in between, the CEO plays the most critical role in both the development and "selling" of corporate strategy.

Strategy: Never the Same Again?

No matter what causes a changeover in CEO, there are some short- and long-term implications. A study by NYU's Stern School found that the volatility of a stock increased 15% to 25% in the year following a forced departure. And there are few guarantees that the new CEO will lead the company to success. According to noted financial writer Jim Jubak, "So many once-sterling reputations, either for entire companies or for specific CEOs, have been tarnished or worse during this crunch. Average Joe or Jane CEOs and walk-on-water CEOs alike have stumbled badly during the last year and a half. And even companies that have never shown the slightest sign of strain in prior tough times have developed stress fractures in this crisis."

Beyond short-term stock fluctuations and tarnished reputations lies a very uncertain business future. The speed of change will not diminish. The global economy will not go away. Technology and product life cycles will only get shorter. Tough customers won't suddenly turn into pussy cats. Margins pressures aren't going to miraculously ease. No one will declare a truce in the "War for Talent." Wall Street won't turn into a benevolence society. All the pressures of the past three decades will be there in spades in the next three.

If ever there were a time for a deft hand on a firm's strategy, either as the principal architect or spiritual guide, it is now. But with the massive turnover of CEOs, strategy's future has never been more in doubt.

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