

Leadership

Pick A CEO Who Truly Fits The Company

Nat Stoddard with Claire Wyckoff 04.09.09, 2:00 PM ET

If the experience of previous recessions is any guide, we should expect companies that had the right leaders in place at the start of the downturn to fare better, by and large, than ones that didn't. However, a great many didn't. Turnover of chief executive officers--a prime indicator of wrong leadership--was 50% higher coming into this recession than at the start of the previous one, in 2001. Several statistics cited in the new book *The Right Leader: Selecting Executives Who Fit* (co-written by one of the authors of this article) likewise indicate that as we entered the current recession, more and more companies were discovering that they didn't have the right leaders to guide them through normal economic conditions, let alone those we face today.

Among them: Some 40% of new CEOs are fired, or "retired," within their first 18 months, and 64% of them never make it to their fourth anniversary on the job. The average cost of replacing a CEO after 18 months ranges from \$12 million for small-cap firms to \$52 million for large ones. And not having the right leaders costs American industry an estimated \$14 billion a year, not even counting the price to shareholders in lost market capitalization and increased stock volatility, and to businesses themselves in being left demoralized, floundering and ripe for the picking.

Surprisingly, the problem is not that such leaders can't do the jobs for which they were hired. On the contrary, everyone in the final slate of candidates for any top leadership position invariably possesses all the abilities, knowledge, skills, experience and personality to do what is needed.

The reason so many of them fail and are replaced so quickly is that they don't fit well enough in their new organizations' cultures--or one of their powerful subcultures--to be able to do what is needed in ways that will be accepted by the people they're supposed to lead. That lack of fit, not a lack of competency or capability, is what causes failure.

Take Bill Perez, who for many years contributed significantly to the successful growth of S.C. Johnson, the maker of cleaning products, before he signed on as of Nike. Perez was a proven leader with an exemplary record of success. Yet within 13 months he was gone from Nike, simply because, in the words of Nike chairman Phil Knight, "the cultural leap was too great."

The day after his departure was announced, *The New York Times* ran a story under the headline "Another Outsider Falls Victim to Nike's Insider Culture," and it identified several aspects of the Nike culture that would have pointed to Perez's difficulty fitting in, had they been fully considered. These included the company's insistence on very clear lines of authority, certain kinds of change being considered off-limits, and a widespread resistance to outsiders. But none of these make-or-break cultural concerns was rigorously explored, clearly stipulated or purposefully considered--nor would they be at most companies looking for CEOs today.

Until American companies change their selection processes to empirically examine a candidate's fit with their cultures, the current rate of leadership failures will continue, and at a rising cost. The time to fix the process is now, to ensure that every corporation has the leadership for tomorrow in place today, when we need it.

At Crenshaw Associates, a New York-based consulting firm that specializes in senior executive leadership development and transitions, we have devised a process for defining the essential elements of leadership fit, and we've worked up a number of ways to fix the flaws in the typical selection process. Fit comes down to the degree of alignment between the values, beliefs and business philosophies in an organization's cultures and those of its prospective leader. As the management expert Peter Drucker pointed out several decades ago, if a leader's values don't align with his organization's, people won't trust the leader. Without trust, they won't follow. And if they don't follow, he or she will fail.

To ensure that a leader fits--and doesn't become yet another short-term statistic like Bill Perez--two key changes to the traditional selection process must be introduced. The first is to rigorously define and measure the organization's overall culture, including two critical subcultures that every leader must contend with: that of the team the new leader will head, and that of the team he'll be a member of (i.e., the board of directors for the corporate CEO or the CEO's direct reports for a group or divisional president).

The second change is to carefully assess the final candidates' characters--their values, beliefs and business philosophies. Both qualitative and quantitative research methodologies can be used to produce a clear picture of exactly where and how well an individual will fit in with the prevailing cultures, before that individual is immersed in them.

The mantra that if you can't measure it, you can't manage it applies just as much to the soft stuff of culture and character as it does to any Six Sigma management program, and such rigor is needed in the evaluation of corporate leadership. Crenshaw measures and compares corporate culture and individual candidates' characteristics for a long list of attributes, including decision-making techniques, style of communication, expectations of rewards and recognition, structural flexibility, trust, respect and more.

The question to ask at every company right now is, "What are we doing today to improve the selection process and analyze and define our company's culture so we can be in a position to select the right leaders for tomorrow?" After all, if we don't make the needed changes now, we greatly risk getting it wrong in the future--and the costs of failure are huge

Recession be damned. Get your leadership for tomorrow right today.

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