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Where to Find Hypergrowth

"FRONTIER ECONOMIES" MAY BE RISKY, BUT THEY OFFER BIG REWARDS

PAGE 40

SPOTLIGHT

Setting CEOs Up to Win

ARTWORK **George Byrne**
Hotel Pool #1, 2015
Archival pigment print

December 2016

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SPOTLIGHT ON SETTING CEOS UP TO WIN

ABOVE
George Byrne
Gower St.
2014, archival pigment print

dead; it had a bloated cost structure, and the pricing was wrong because the company didn't have the right people setting it. IBM didn't need to be broken apart; on the contrary, its ability to give customers a single access point for a mix of offerings was a competitive edge. Gerstner knew this from his years at American Express, a longtime customer of Big Blue's. He could also see that IBM needed to shift away from hardware toward software and services, allow compatibility with competitors' products, and reduce its bureaucracy so that it could execute better.

Gerstner acted quickly, announcing plans to cut prices by roughly 30% and costs by some $7 billion. The results were almost immediate. By the third quarter of 1993, solvency was no longer an issue, and by 1994 the bottom line had swung from an $8 billion loss to a $3 billion profit. The stock price doubled in less than three years. The firm's performance continued to improve year by year, creating enormous value, and IBM became a leader in U.S. business and in the global technology industry once again.

Clarity about the pivot also helped Apple get back on track after it ran into trouble in the 1990s. One morning in 1997, I got a call from Ed Woolard, the former CEO of DuPont who had just become Apple's lead director. In the 12 years since Steve Jobs had been pushed out, the company had suffered a string of disastrous product releases and seen its market share erode, and bankruptcy was becoming a distinct possibility—the sad result of three consecutive failed CEO selections. Woolard and I had worked together for many years. He wanted me to find out if Michael Dell was interested in purchasing the company.

The response from Dell was a flat no. Dell, in fact, would later tell a crowd of several thousand tech executives at the ITxpo97 that Apple should just shut down completely and give its shareholders their money back. Nobody—not Compaq, AT&T, or IBM—wanted to buy the company.

Apple's one last chance, Woolard figured, was a new CEO, and he began to ponder what the job would really require. The company had a soul, an exceptional brand, and a large contingent of die-hard customers even though it was in decline. Apple products were higher-end and higher-priced, and customers loved their ease of use and aesthetics.

Woolard identified the pivot: Apple needed a CEO who was imaginative with a flair for creating a highly differentiated experience that consumers wanted. The CEO had to be an innovator and a game changer. Searching for candidates who fit that description, he called me again. "Do you know of anyone?" he asked. I didn't. "What do you think of bringing back Steve Jobs?" he asked.

Jobs's mercurial behavior was legendary, and NeXT, another company he had started, had floundered. But his third venture, the computer-animated film pioneer Pixar, had pulled off a highly successful IPO. As we talked I could see that Woolard's instincts were right: Jobs had a strong innovative streak and a feel for the consumer.

Woolard stayed in close touch with his fellow board members throughout the process, sharing with them the data he gathered on how quickly the company was deteriorating. They eventually came around to fully backing the move to replace the incumbent CEO with Jobs. They even agreed to give up their board posts—a condition Jobs imposed. To ensure a smooth transition, Woolard became a mentor to Jobs, so much so that when Jobs called Woolard's home and Woolard's wife answered, she would call out, "Ed, your son is on the phone!"

We all know the outcome of the decision to bring Jobs back. The iPhone and the iPad are among the blockbuster innovations that followed, and Apple became the world's most valuable company, in part because its lead director understood the pivot.

What if you get the pivot wrong? Consider what happened at a large Chinese real estate company. Its chairman was a bold thinker with ambitions to grow quickly. He bought a lot of land by borrowing heavily and built offices and apartments at a very fast pace—too fast for the market to absorb. Quality was slipping, inventory was piling up, and cash flow was increasingly negative. Meanwhile, tensions were rising between headquarters and the field.

As he set out to hire a CEO, the chairman remained squarely focused on executing his growth vision, raising substantial funds from Hong Kong, and preparing the company for an IPO within two years. He hired an experienced leader with great contacts in Hong Kong who promised to raise the necessary money and ready the firm for the public offering.

Four months later it was clear that the CEO could not deliver the funding, and the internal problems had worsened. The chairman removed the CEO. He then revised the pivot: The company needed someone who could sell off inventory, cut costs, and get project managers to work with headquarters to generate cash. The IPO could wait. Shortly thereafter he hired a new CEO, who in his first few months improved execution by an order of magnitude and turned the cash drain into cash reserves.

Directors who excel at selection are willing to expand the lens, to look at leaders a few levels below the CEO.

Keeping an Open Mind

When drafting the final short list of candidates who might fit the pivot, skilled board members start with a clean slate. They realize that in a fast-paced business world, a company's needs can shift suddenly and the entire set of candidates their succession plan identified may now be irrelevant. They back off from longtime favorites and keep an open mind. They battle against hidden assumptions and biases—their own and other people's—as they home in on two or three prospects and, ultimately, a final choice.

Of course, at companies that take succession planning seriously, directors make a point of getting to know the company's top leaders over time. They observe them during boardroom presentations, talk with them over cocktails and dinner, and sometimes make site visits, where they see the leaders working with their teams. But along the way, directors often develop favorites, especially if they've coached someone in the succession pool. Those psychological bonds can be hard to break.

I've seen directors form definite opinions about a person in their first encounter and never change their views, be it positive or negative, even in the face of lots of contradictory evidence. I saw one director advocate for a particular individual who clearly lacked an important capability the board had agreed on, because he had been impressed by the sharpness of the person's boardroom presentations early on.

Directors who are great at selection strive for objectivity as they review candidates. They don't take the existing front-runners or the CEO's recommendations as a given. And they don't assume an insider or outsider is best. Many boards use headhunters to add a few external candidates to the final list, if only for the sake of due diligence. (That step shouldn't be perfunctory; the search firm has to understand the pivot so that it doesn't offer up just the usual accomplished CEOs.) When considering outsiders, astute CEO selectors don't let themselves be unduly influenced by a candidate's celebrity or the halo effect of having worked at a marquee company.

Ivan Seidenberg, the former CEO of Verizon, who is a veteran of more than half a dozen boards, including those at BlackRock, Boston Properties, Honeywell, and Wyeth, is decidedly good at picking CEOs. He has noted a recent trend toward thinking that only an outsider can do the CEO job. In my experience some directors go the opposite way, always favoring insiders. Seidenberg avoids such foregone conclusions. As he neared his own retirement, he made sure he gave the board lots of exposure to the handful of internal leaders he saw as top contenders. "My point was to give the board options," he recently told me, "so the board would feel comfortable with its decision, whether or not it decided to go outside. I always tried to keep the process dynamic."

Sometimes it's assumed that leaders must report directly to the CEO to be in the running. But directors who excel at selection are willing to expand the lens, to look at leaders a few levels below the CEO. Especially in this digital age, years of experience probably matter less than they once did, and they could even be an impediment to necessary change. We've seen many examples of leaders below the age of 35 who grew their leadership skills as fast as their companies, from Michael Dell and Bill Gates to Mark Zuckerberg and Larry Page. Frank D'Souza, who put Cognizant on a tear, was 38 when he was named CEO.

SPOTLIGHT

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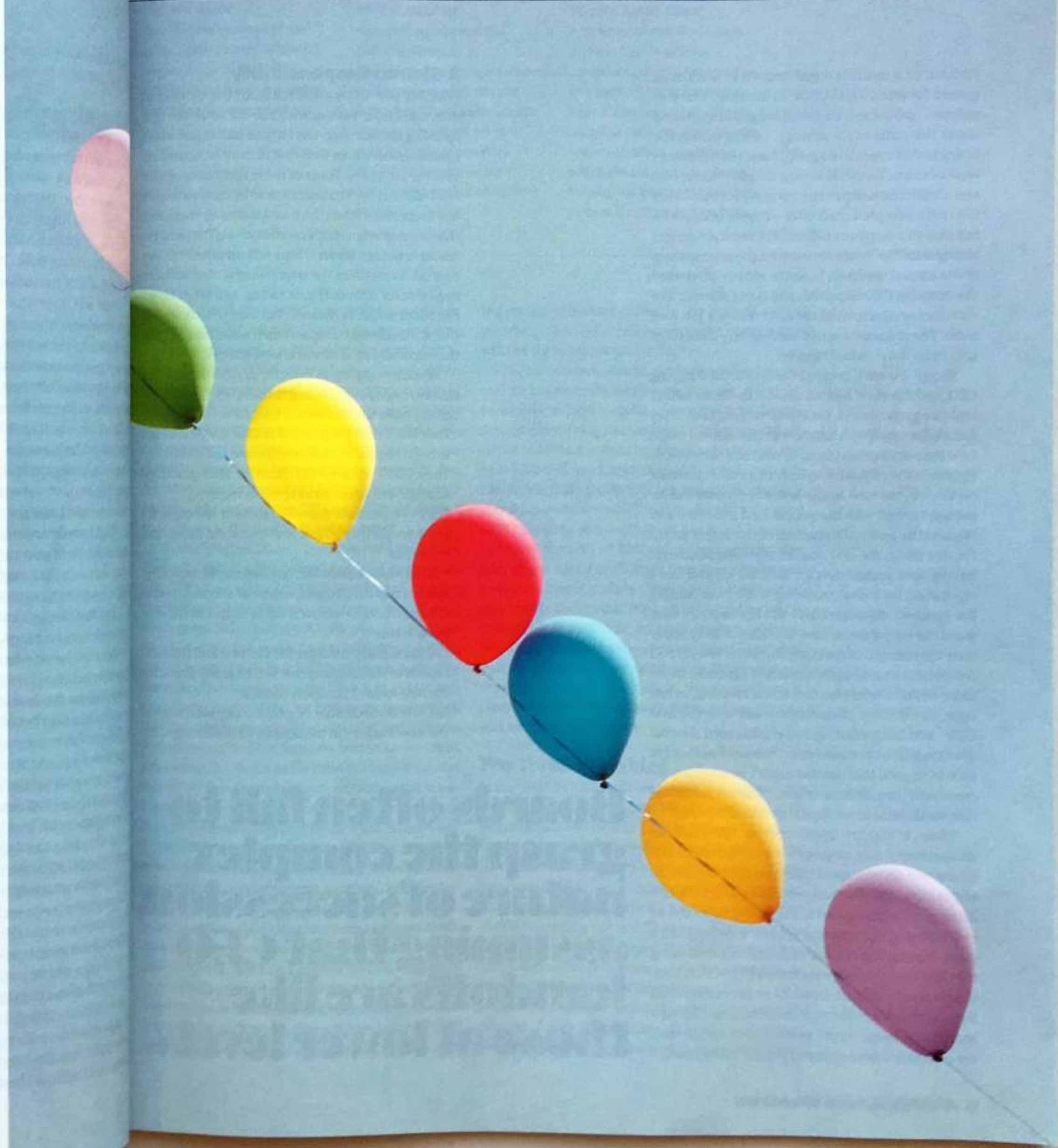
ARTWORK **George Byrne,** ***Melrose Ave,*** 2015
Archival pigment print



The mood inside the boardroom was celebratory. For months the directors of this multibillion-dollar industrial and consumer-goods company had been searching for a successor to their longtime CEO. After interviewing multiple candidates, they'd unanimously voted to make an offer. The outside recruit—let's call him Harry—had an exceptional record of growing sales while running a large

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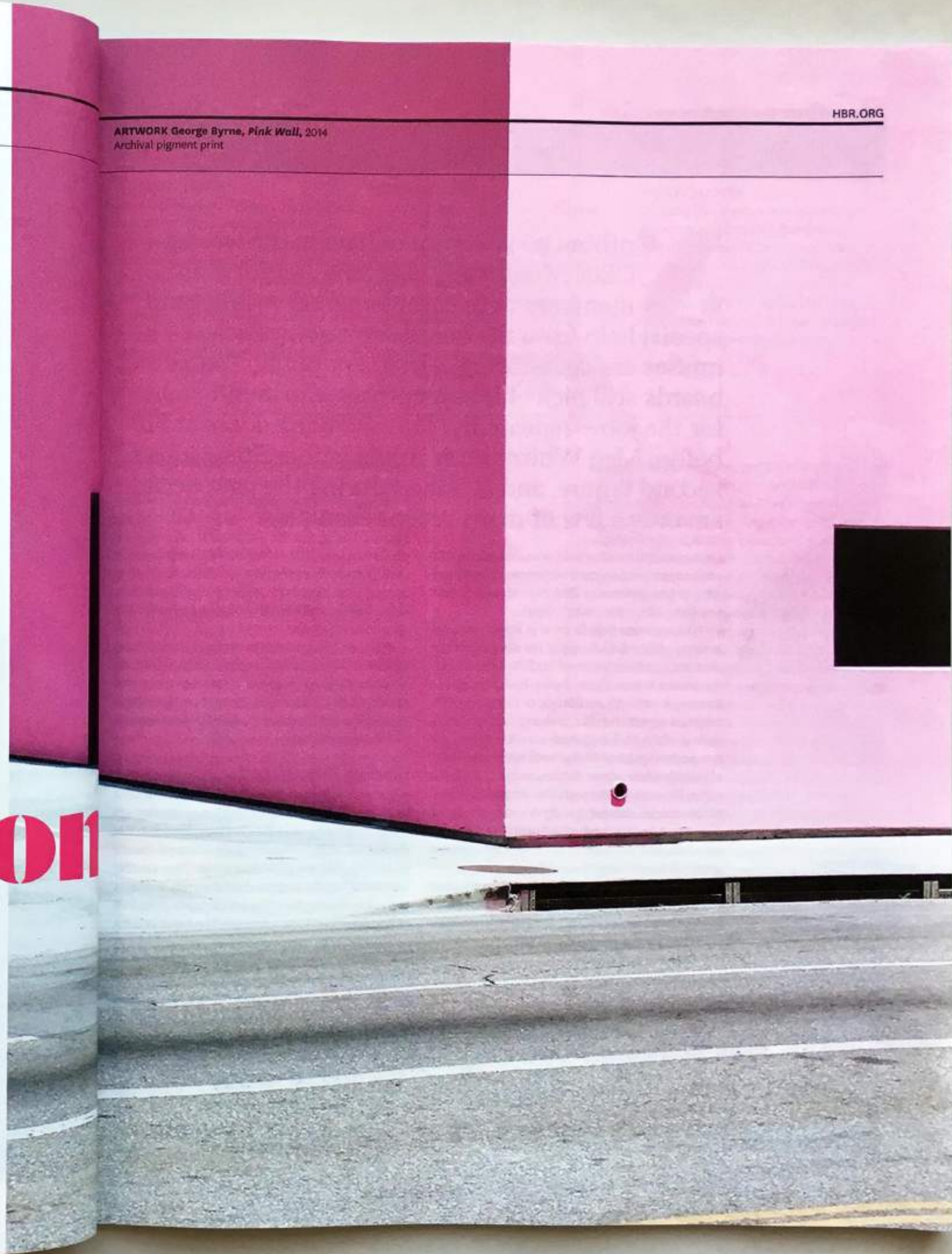
The Secrets of Great CEO Selection



ARTWORK George Byrne, *Pink Wall*, 2014
Archival pigment print

SPOTLIGHT

ARTWORK **George Byrne, *White Palm*,** 2015
Archival pigment print

Succession Planning: What the Research Says

BY EBEN HARRELL

All CEOs will inevitably leave office, yet research has long shown that most organizations are ill-prepared to replace them. In this article, we review the most salient studies of succession planning and offer context from experts on the process of picking new leaders for organizations.