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Searching for a Corporate Savior: The Irrational Quest for Charismatic CEOs

Rakesh Khurana (Princeton University Press, Princeton, NJ; 2002; ISBN 0-6910-7437-2) $29.95

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In this important work, Khurana focuses the spotlight on the high-risk dynamics of CEO recruiting—particularly in cases where a company has not been doing well and its former CEO has been terminated. He demonstrates that this drama is being played out with increasing frequency in the large corporations that play a major role in our economy.

He finds a pattern that has begun repeating itself in such situations: Boards of directors don't usually take action until a company has been deteriorating for a while, so by the time they begin the recruiting process, they are already under pressure to take bold and decisive action. This impels them to begin by rejecting inside candidates, since they are seen as part of the problem and thus incapable of breathing new life into the organization. Underlying this explanation is the fear that the press, investors, and media might not applaud a less-than-spectacular candidate such as a merely competent insider. Such lack of enthusiasm by all these onlookers might well lead to further erosion of the company's stock, which has probably already suffered. Thus, the directors embark on a quest for some outside candidate who seems to possess the magic powers to provide salvation. The rejection of inside candidates and the quest for some superstar who can pull a rabbit from the hat are, Khurana asserts, the first steps down a slippery slope that frequently ends in tragedy. The book describes the descent and how it has and will affect American business.

This is a fine book that presents a number of fresh insights about a critical issue in the world of large corporations. An article based on it was published in the September 2002 issue of the *Harvard Business Review.* The book is written cogently, with erudition, by an author who is rightfully passionate about his subject. Of the hundreds of management titles published in recent years, this description would apply to only a handful.

Khurana says that the shift from what he calls "managerial capitalism" to "investor capitalism" in recent decades explains the increasing number of CEOs who are being forced from their jobs. In the post–World War II era of managerial capitalism, continuity of management was a given, and each generation of management carefully selected and developed its replacements. This was true even when a company was not doing well. This has changed over the last 30 years as large institutional investors, investment analysts, and the media have come to play an increasingly dominant role in the life of corporations.

That shift—exacerbated by the economic slowdown of the past few years—is causing an increasing number of forced CEO vacancies. One chapter, appropriately called "Board Games," describes many of the flaws in the way boards go about the search for a new CEO—impelled by their need to find an outside hero. Khurana sums it up thusly: "Directors, we observed, gave surprisingly little thought at the beginning of the search process (or at any point thereafter) to the strategic situation and needs of the firm, focusing their time and energy instead on creating a list of ill-defined, often contradictory qualities to be sought in a candidate and then ignoring those supposed requirements throughout the rest of the search."

Since the forced departure of the old CEO and the initiation of a search for a new one usually occur well after a company's performance has begun to sink, there is a real sense of urgency among directors to complete the job. During the search, appearances can be as important as reality, both in terms of maintaining support for the company's share price and also (although Khurana doesn't mention this) to minimize the blame aimed at directors for the company's failure. Thus, the desire to project decisive board action and an image of the new CEO as a conquering hero are as influential in guiding action as are the qualifications needed by the new CEO to do the job that needs to be done (whatever those might be!). Thus, it doesn't take long in such a CEO search for a number of very unrealistic expectations to be established—that such a superman CEO actually exists, that the board will be able to find and recruit him, and that he will be able to work his magic on the company.

Once they are on the hunt for their superman, Khurana says, is it rare for directors to work diligently to define the nature of the cure that will be right for their company. They assume that if they hire the right CEO, he will take care of that. Because of the need for ultrasecrecy with high-level candidates who don't want to jeopardize their current job status, sounding candidates out and interviewing them must be a furtive enterprise. Beyond this need for furtiveness, and the lack of agreement on what candidates will really need to do if hired, the quality of the screening process is further weakened by the fact that most directors don't have either the experience or the motivation to conduct in-depth interviews. This also stems from the fact that, as the process begins to generate a sense of momentum, no director wants be responsible for turning off a possible winner through interviews that are too probing and potentially off-putting.

As the weeks roll on and anxiety among directors grows, the interviews with the top candidates gradually shift in purpose—away from screening and toward seduction; that is, making the job look appealing to the candidates. As this tone shifts, candidates awaken to the fact that board members appear desperate to capture them. That realization is an invitation for these high-profile stars to negotiate better deals for themselves, both in terms of compensation and in terms of autonomy on the job. The result of this flawed process, then, may not be only that the wrong person is selected and given an outrageous compensation package, but also that the power of the board to deal with the new CEO has been negotiated away even if he fails to perform well once on the job.

The climactic chapter of the book is appropriately titled "Crowning Napoleon: The Making of the Charismatic Candidate." Here Khurana sums up all the forces that lead to personal characteristics being dominant in CEO selection "rather than predefined skills or other attributes aligned with the strategic requirements of the position and capable of being objectively assessed." In addition to the reasons already cited, these include the fact that the search itself is usually a disruptive event, in which a previously quiescent board suddenly, and with little preparation, intervenes actively. He illustrates how the dynamics unfold, with many anonymous vignettes and identified cases. Directors under pressure begin the search by identifying friends and acquaintances, or certain CEOs with large reputations, as candidates. The ideal candidate must convey the image of a fearless leader who will be bold enough to reinvent the corporation, set new directions, and overturn the old patterns that led to failure. And it generally is a "he," because, given the circumstances, the selection process is based on what Khurana calls "social matching." That is, he explains, board members tend to name candidates who match themselves—white, male, Anglo-Saxon, and members of the right clubs.

In the pressure cooker environment of the CEO search, Khurana states, "it is no longer enough—or even of the first importance—that a CEO candidate have particular skills as a manager." What matters much more is that a candidate be a particular kind of person and exude an aura of charisma. Lee Iacocca, who was elected chairman and CEO of Chrysler Corporation in 1979, was probably the first such charismatic leader and serves as a model for those who want to follow in his footsteps. Khurana cites a number of examples of CEOs hired with this charismatic image as the driving force.

Khurana points out how ill-equipped most boards are to actually manage a change of CEOs. Nothing in the ongoing, somewhat routinized operations of most boards equips them for suddenly becoming an effective, decision-making, initiative-taking action group. He cites the American Express experience in which a "standard showcase board" sprinkled with celebrities suddenly had to become vigorously involved to remove James Robinson III as CEO. Robinson was not at all cooperative in his demise and played off various factions of the board against each other. Khurana details some of the other conflicts and missteps the board suffered in its search for a replacement.

After describing the overall dynamics of these CEO searches and illustrating them with a variety of cases, Khurana points out one of the great paradoxes of the process: the fact that the CEO labor market, devoted to selecting the heads of the largest enterprises in the capitalist system, is not even an open market, but rather a closed one with a very narrow range of candidates, mainly known to directors.

Khurana implies that unless there is a significant upturn in the economy, many companies will disappoint their constituencies in the coming years. There will be more and more forced removals of CEOs, and boards intent on reassuring investors, and other outsiders will rush to find corporate saviors from outside.

The book is essentially a report of extensive research that began as the author's Ph.D. dissertation. Some of the research is statistical—beginning with a database of all CEO turnover in the 850 largest American corporations from 1978 to 1996, and expanded since. There is an extensive bibliographic base with about 300 references. And there is a wealth of field research and interviews with a wide variety of individuals who play various roles in the CEO replacement process.

Given the depth and breadth of this background material, there was easily a thousand-page tome lurking in the shadows, and it is a credit to the author and his editors that the text of the book is confined to only 220 pages, augmented by 75 pages of notes, appendix, and bibliography.

One chapter focuses on executive search firms and their role in the process. Khurana asserts that these firms, whose participation seems to be a regular part of the CEO search ritual, do not actually play a major role in the process. They seem to function more as facilitators of the process—mediating between the parties, acting as a communications vehicle to ask questions that one principal might not be comfortable asking another (such as, "If you've been so successful, how come you're ready to leave your job and join our company?") and providing the mechanisms for discreet meetings and explorations. An additional role sometimes ascribed to these search firms is that of scapegoat. When a search doesn't work out, directors can always say they hired the best recruiting firm they could, and even they couldn't get the right CEO. But the key point here, perhaps, is that executive search firms do not play the significant and necessary professional role in chief executive searches—that is, defining job requirements, developing a comprehensive list of candidates, contacting them, and screening them to find the best.

It is interesting to compare Khurana's findings with those reported in the book *Good to Great* by Jim Collins (reviewed in *C2M,* September 2002). Collins describes a number of companies that outperformed their competitors by huge orders of magnitude. He found that the CEOs of these spectacularly performing companies were, with one exception, recruited from within, were definitely not "charismatic leaders," and were not expected to perform magic, walk on water, or provide instant cures. These findings certainly lend support to Khurana's assertions. The fact that one of Collins's "good to great" companies, Gillette, ended up as a Khurana case when its CEO was forced out of his position in 2000 suggests that any generalizations in this field must take into account the rapid changes in the business world today.

In a final chapter, Khurana attempts a description of some possible solutions to the severe problems he has identified. His main prescriptions are that the CEO job market be opened up and that more professional recruiting and evaluation processes be created for CEOs. These recommendations seem rather weak palliatives in the face of the dynamics Khurana has presented. The book's strengths lie in its portrayal of the way the CEO labor market is operating, the insights into why it is working that way, and its portrayal of implications for the future of large American corporations if the trends continue.

Moreover, his findings raise two fundamental issues that, though clearly beyond the scope of this book, must be dealt with in any search for amelioration.

First issue: When things are going well, boards of directors play very stereotypical and structured roles that rarely include in-depth managerial initiatives. The chances are virtually zero that a board of directors, could, once it becomes evident that a company needs new leadership, mobilize itself into an effective working group and then put in the time and energy to (1) decide why the company is in trouble, (2) sketch some of the remedial actions that are needed to cure it, (3) set out a rational professional search and bring in a new CEO in circumstances in which he or she might succeed, and (4) have the patience to permit a new CEO to effect a transformation. Thus, a realistic conclusion from the book's findings is that the chances of success in such a venture are so slight as to be not worthy of the attempt. And if that is the inescapable conclusion, then some solutions more drastic than Khurana's are called for. One example might be consultants who are dedicated to filling in some sort of interim CEO role during a transitional year or two in such situations, working with the board to evolve a strategy. I am not recommending such a step—merely suggesting that some new thinking is required.

The second issue, again assuming that success in CEO recruiting is a very high-risk game, concerns a board's responsibility for making certain it is never forced to undertake the impossible search. Instead of focusing on what boards have to do to improve their techniques for replacing the CEO, it might be more useful to ask whether it should be a primary responsibility of boards to ensure they don't need to replace their CEOs for poor performance. What mechanisms need to be built in for assessing managerial performance on an ongoing basis and for taking prompt action when performance is not satisfactory?

While these are important issues that need to be dealt with, I don't criticize Khurana for not dealing with them in his very fine book. He has done yeoman service in identifying the issues and, in that respect, has hit a bull's-eye.

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