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What Does it Take to *Stay* at the Top?

The fast-changing business climate demands a whole new CEO skill set.

BY DAYTON OGDEN AND TOM NEFF

Through the years, the ideal qualifications for a CEO have undergone evolutionary changes. Never has the menu of required skill sets changed as much as it has in the past five to 10 years.

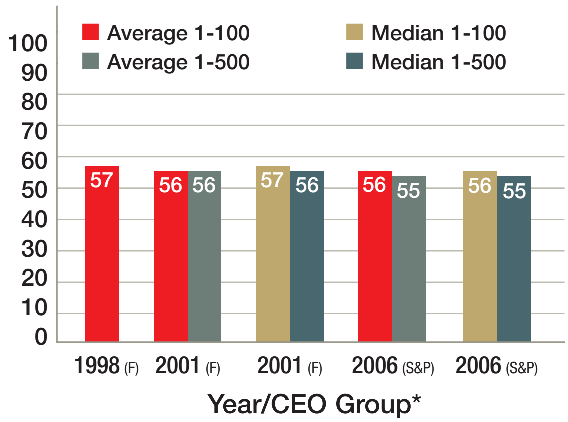
In fact, in a recent survey conducted by Spencer Stuart, one of the world's leading executive search consulting firms, more than 95 percent of recruiting consultants at the company agree that leaders appointed to the CEO post in the U.S. today must have a different approach, skill set and set of experiences than those of their brethren who took the helm a decade earlier. Among the changes cited are the need to serve and interact directly with a wider range of audiences; tolerate intense pressure and scrutiny from regulators and shareholders; champion ethics and integrity throughout the organization; and relinquish the outdated command-and-control approach with the board and the organization.

Previous criteria dealt with factors like the technology revolution, industry consolidation, globalization and increasingly persistent customer demands. But newly empowered boards of directors, rigidly enforced and ever-intensifying regulatory requirements, and zero tolerance for unethical behavior significantly changed the rules of the game.

Leadership requirements of the past were difficult enough, but mounting pressures resulting from events in the past decade continue to amplify the stress of the job. China and India have captured a previously unimagined share of software development, manufacturing and customer support; disasters like the fraud and financial collapse of Enron and WorldCom and the white-collar theft at Tyco tarnished the entire corporate world's image; and Sarbanes-Oxley, born of good intentions, placed new time and money burdens on all public companies.

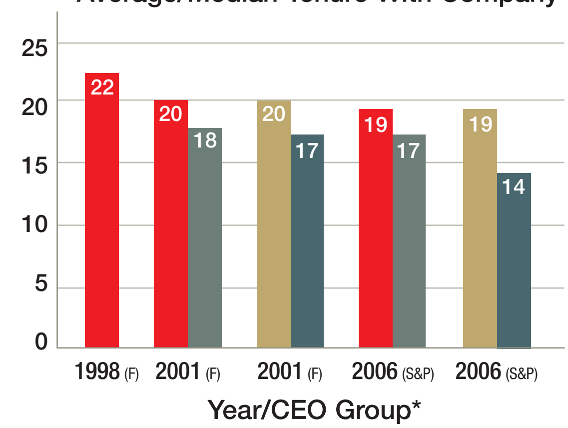
An annual analysis of CEOs, by Chief Executive and Spencer Stuart.
12th Edition

CEOs are Getting Younger…



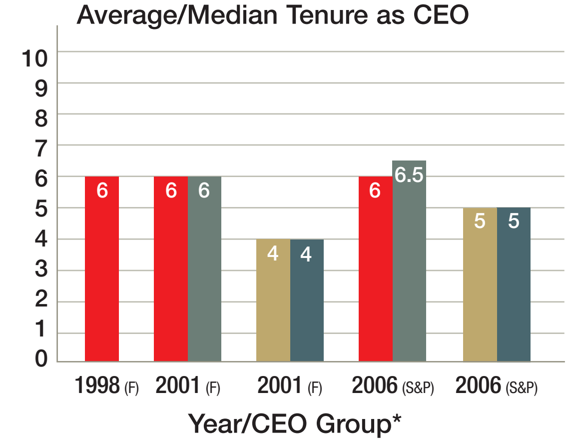
With Declining Tenure at Their Company…

Average/Median Tenure With Company



But with Stabilizing Tenure as CEO

Average/Median Tenure as CEO



*Note: *Fortune* lists were used in 1998 and 2001; the S&P 500 was used for the 2006 study. Source: Spencer Stuart

The SOX Factor

While a variety of factors combined to create the new CEO demands, the most frequently cited factor was the introduction of the Sarbanes-Oxley regulations, which precipitated a dramatically changed relationship between the board and the CEO. "We have seen a shift in the balance of power, from a time when the CEO was often all-powerful to an era of partnership with a focused, diligent and highly independent board," one of the survey participants noted. "The CEO still needs to be skilled in the traditional leadership attributes, but now must devote dramatically more time preparing for board meetings and consistently maintaining relationships with the lead director and chairs of the board committees."

These comments are borne out by the survey results, which show, for example, that boards are now deeply involved in areas like finance, human resources, strategy and succession planning—functions formerly almost entirely controlled by the CEO. This means the CEO has to pay a lot more attention to his or her board—a constituency that is sharing in leadership and compliance issues, issues that historically received little attention from boards.

Of course, there is a reason for the board's new level of involvement. Directors face reputational as well as personal liability so they are digging deeper into the companies or associations they formerly monitored on a relatively arm's-length basis. Today's boards do more work than ever before.

"You could be a good CEO seven or eight years ago with four to five board meetings a year," asserted one respondent. "There now is a continuous relationship with directors, not only by the CEO but also by senior executives of key functional or administrative areas like human resources, finance, legal and technology. While this takes some of the time pressure off the CEO, it also means that the CEO must find heavy, world-class talent for the C-suite roles."

This delegation works its way through the executive staff. An HR head now spends much more time with the board committees dealing with executive compensation and succession planning, which means there must be a strong and capable No. 2 in the HR department.

Dealing with Sarbanes-Oxley has been a critical element for the new CEO's skill set, but it certainly isn't the only new-age factor boiling the pot. Globalization, a consideration for decades, has reached new levels. CEOs must have a robust international perspective to understand the worldwide competitive issues, with powerful competitive challenges coming from unexpected directions and legal and regulatory mandates arising from various corners of the globe.

Still, CEOs continue to do almost everything they used to do. Most of what is different is additive rather than replacement. The CEO job is more time-consuming, complex, international, tech-related, more involved with regulatory issues and more customer-centric.

Ranking CEO Competencies

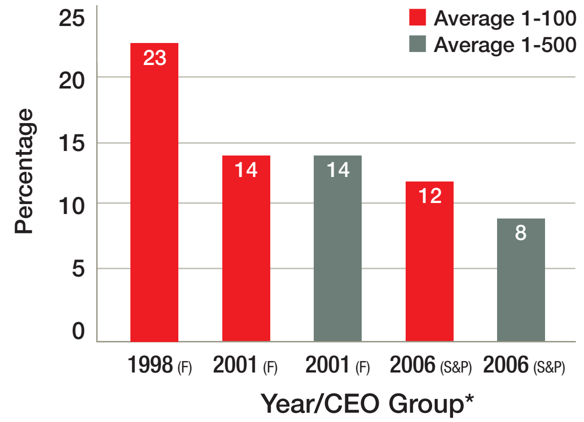
While a performance/results orientation still is essential, a number of nontraditional requirements ranked high in a section of the survey dealing with CEO competencies. These include international experience with a global perspective, board governance knowledge/experience, vision/strategic orientation, team building, communications skills and, reflecting the new demands of the global marketplace, unimpeachable professional and personal ethics and character.

It's becoming increasingly challenging to find CEO candidates who meet the new criteria. Some of the traditional candidates with largely operational, technological or financial skills may make the transition, but there are new opportunities for other executives who have the leadership basics, but also have mastered the skills of shared management.

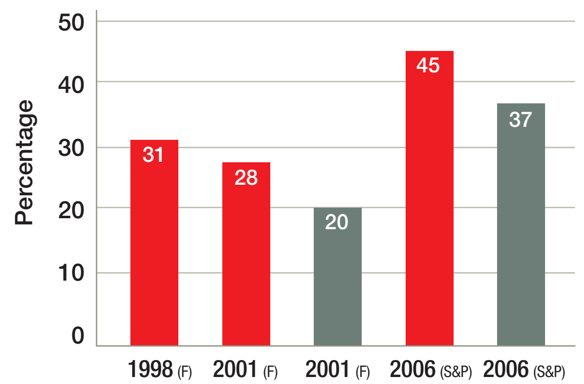
The challenge of CEO retention also has increased. CEOs often leave after five years or so, frequently because the company is doing well and the CEO wants to go out on top, or the company is troubled and the CEO is either dismissed or wants to leave before a bad situation compounds. Adding to the retention challenge, CEOs often spot lucrative private equity opportunities rather than the increasingly intense pressure of running a public company.

"The sheer complexity of the CEO job stems from a vast number of moving parts from every corner of the globe that can either positively or negatively impact the performance of the business," a survey respondent noted in the essay section of the study. "These variables include low-cost countries, changing demographics in North America and elsewhere, and the free movement of human capital. There is, as well, an abundance of financial capital sparked largely by the growth of private equity, changing geopolitical forces and a focus on short-term results. Adding to the challenge is intense scrutiny of public companies, the velocity of the rate of change, the fact that all

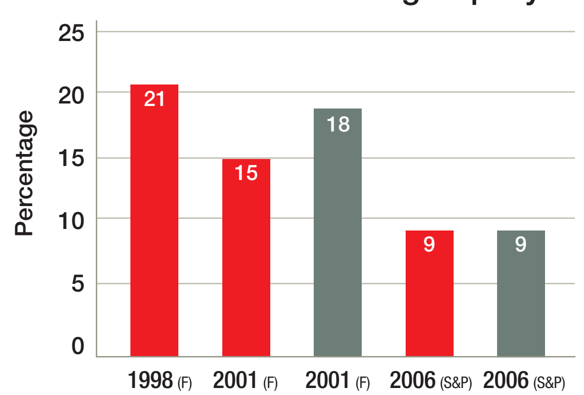
CEOs with Military Experience are All But Extinct...



But Those with International Experience are on the Rise...



While CEOs Who Have Stuck with One Functional Path Their Entire Careers are Declining Rapidly



Note: *Fortune* lists were used in 1998 and 2001; the S&P 500 was used for the 2006 study. Source: Spencer Stuart the players have access to 'perfect' information via widely available advanced technologies, and the recognition that killer applications, like the iPod, can change an entire business overnight."

Articulating and aligning three important "value propositions"—addressing customers, employees and shareholders—is a difficult task, and personally exhausting, but it's a required skill for the CEO in the new era of business. He or she must balance the tremendous demands of governance and regulatory processes and deftly deal with all of the interrelated constituencies with the unending demands of running a company effectively, operationally and strategically.

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The CEO Talent Pool

The qualifications for entry to the CEO level are huge, but they are not unattainable. Excellent CEO prospects exist. The richest fonts for such talent remain the big "factories" of corporate leadership, where people get general management expertise in the early years of their career. These are companies that give people in their mid to late 30s a shot at running big units. These companies—the GEs, Emersons or United Technologies—do an excellent job of developing multiple talents.

Of course, nobody is ready to be a CEO superstar the day he or she steps into the job. The post is far too difficult, no matter how skilled the executive may be. In the new business world, there is rigor, discipline and the absolute requirement to be grounded in each segment of activities, while in the old days a CEO might get by with a lesser understanding of each component of a business.

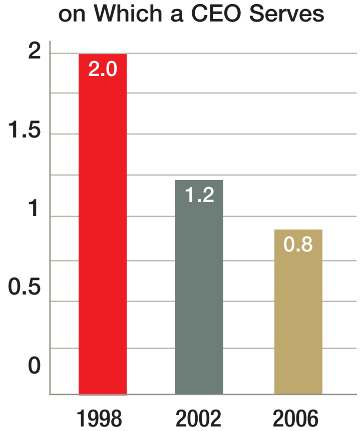
As for outside board involvement, company directors now rarely allow a new CEO to sit on another board until he or she has been in office for one or two years. A recent Spencer Stuart study shows that CEOs now serve on an average of only 0.8 outside boards (see bar graph), while five or 10 years ago it was not uncommon for a CEO to serve on four or five outside boards.

In effect, the CEO's job has become more time-consuming, complex, international, tech-related, customer-centric and engaged with regulatory issues. New skills are needed, but the need for traditional leadership acumen has not been diluted. It's a Herculean challenge, calling for a metamorphosis of management skills, but new leaders that meet the changed criteria are out there—and ready to take the helm to navigate companies through the latest change. ▲

Falling CEO Participation on Outside Boards

An unintended consequence of the post-SOX environment is that CEOs serve on fewer boards and have less exposure to general governance practice than before. The average number of outside corporate directorships held by CEOs of S&P 500 companies has fallen to 0.8, from 2.0 in 1998. Active CEOs now comprise only 29 percent of new independent directors in the S&P 500, down from 47 percent in 2001.

Average Number of Outside Company Boards on Which a CEO Serves



Source: Spencer Stuart

As chairman of Spencer Stuart U.S., **Thomas J. Neff** focuses on CEO succession and corporate governance and has conducted more than 150 CEO and more than 400 board searches. Having served as CEO of Spencer Stuart for nine years and chairman for seven years, **Dayton Ogden's** search practice focuses on senior executive and board recruiting for a broad range of international clients.