Under pressure

BY WHY DO TODAY'S CHIEF EXECUTIVES FAIL TO HOLD THEIR POSITIONS FOR LONG, ASKS MICHAEL SKAPINKER

FT.com site; May 31, 2001

The financial rewards are extravagant and the perks luxurious, but there has never been a harder time to be a chief executive. Who says so? Nearly everyone, it seems.

Jeffrey Garten, dean of the Yale School of Management and former member of the Clinton administration, has declared the challenges facing the modern chief executive "almost intractable". Tom Silveri, chief executive of Drake Beam Morin, the human resources consultancy, says corporate leaders are under unprecedented strain. "Boards, shareholders and Wall Street are asking unrealistic goals of their top leaders today," he says.

Few chief executives manage to hold on to their jobs for long. An international survey last year by Drake Beam Morin found that nearly half of chief executives had held the job for less than three years. Two-thirds of companies had appointed a new chief executive in the past five years. A report published yesterday by Suntop Media, a consultancy, and FTdynamo, a sister company of the Financial Times, found that 119 US chief executives had left their jobs in February alone. "The role of CEO is becoming increasingly untenable," the report concluded.

Why are chief executives having such a hard time? Mr Garten points to three reasons: "The sheer difficulty of running a multinational company during a time of tremendous technological change, the great uncertainties of the global environment and the need for a CEO to be both a business leader and a global statesman concerned with everything from environmental protection to rules for cyberspace."

Are these concerns justified? Is leading an international company really harder than it has ever been? Physically, chief executives have never been as cosseted as they are today. The less fortunate travel the world in the pampered sections of the world's leading airlines, plied with free drinks and hot towels. The more privileged fly on executive jets, complete with leather upholstery, cosy beds and private bathrooms.

At home, they step out of their front doors to be greeted by chauffeur-driven top-of-the-range cars, the engine running and the morning's newspapers carefully laid out on the back seat. In the office, platoons of personal assistants do their bidding. The only physical discomfort a chief executive is likely to suffer today is a back spasm on the tennis court.

Technologically, what is the internet, the modern chief executive's principal technological challenge, compared with the great breakthroughs of the late-19th and 20th centuries? The implications of the internet appear puny compared with the immense changes wrought by the widespread generation of electricity, which deprived the nascent oil industry of its principal market. The car, which gave the oil business a new and enduring impetus, also transformed many more jobs and lives than today's technological marvels - as did the aircraft jet engine.

Intense press interest in chief executives is nothing new either. The journalist Ida Tarbell's early 20th-century exposure of John D. Rockefeller, carried for 24 successive months in McClure's magazine, played a substantial part in the enforced break-up of Standard Oil. Her verdict - "Mr Rockefeller has systematically played with loaded dice, and it is doubtful if there has been a time since 1872 when he has run a race with a competitor and started fair" - was as damning as any a modern corporate leader is likely to face.

Those who believe that there is something novel about chief executives having to add politics and international diplomacy to their business skills might consider the career of Cecil John Rhodes, who devised and conducted the expansionary Africa policy of what was then the world's leading imperial power while also creating De Beers, then, as now, the world's leading diamond company.

Yet there is one thing that has changed that does make the life of today's chief executive harder than ever: the power and impatience of investors. It is their incessant demands for sustained improved financial performance that makes the modern chief executive's hold on power so tenuous.

Many believe the job of chief executive should be redefined. They argue that the fortunes of companies employing tens or hundreds of thousands cannot rest on one pair of shoulders: the burden needs to be shared.

The idea of the chief executive needing assistance will not go down well with all company chiefs or the wider public. The idea of the brave, lone corporate leader is deeply embedded. "We in America have the image of the CEO as John Wayne on his white horse - all-powerful, all-knowing - and that has caught on in Europe too," says Jay Lorsch, professor of human relations at the Harvard Business School. "Some of this is put forward by the press, some by public relations people, but some by the CEOs themselves, who like that sense of self-importance and power."

Prof Lorsch does not recommend sharing the burden by having joint chief executives, however. There have been examples of such arrangements working. Gerard Pelisson and Paul Dubrule jointly ran Accor, the French hotel group, for decades. But there have been some notable failures too. The joint leadership of Sandy Weill and John Reed at Citigroup, the US financial services company, lasted only 18 months until Mr Reed stepped down. When Daimler-Benz and Chrysler merged in 1998, Jurgen Schrempp and Bob Eaton planned to run the company together for three years. Instead, Mr Eaton stepped down early last year.

Prof Lorsch believes successful partnerships at the top are rare. They depend on the personal chemistry being right and on strong individuals having a joint vision. It is impossible to come up with a formula for sharing the top job equally.

Instead, companies need to find ways of giving each member of the top team a different focus. David Finegold of the Centre for Effective Organisations at the University of Southern California's Marshall School of Business says there is increasing US interest in the British practice of splitting the jobs of chairman and chief executive, with the former concentrating largely on strategy and the latter on operations.

AOL Time Warner, the US media group, has adopted this structure, with Stephen Case as chairman and Gerald Levin as chief executive. However, the British model is no panacea. The Suntop Media/FTdynamo report found that 72 per cent of chief executives of the top 100 UK companies had been in the job for less than five years.

Mr Finegold argues that chief executives need to take the initiative themselves. They should constantly explain to fellow directors and investors how much or little they can achieve, how they are delegating responsibility and how they are developing managers who can succeed them. "The key is managing expectations. If they are really up-front with the board, if the board buys into their decisions, they are much more likely to weather a downturn. It is when things come out of the blue that both the board and investment community say, 'Why didn't you tell us about this?'"

It is a tall order, asking chief executives whose self-belief has propelled them to the top to begin explaining to others that they cannot do everything themselves. Jack Welch, the heroic chief executive of General Electric, doesn't do that, does he? Prof Lorsch says he does. He directs doubters to GE's annual report. GE's letter to customers, shareholders and employees is signed by four people: Mr Welch, Jeffrey Immelt, his designated successor, and the two other members of his executive office.

Some chief executives may worry that giving this sort of prominence to senior colleagues simply helps the board and investors identify those who could replace them. They should remember that Mr Welch has been in the job for more than 20 years.