

# Forget CEO Pay, First You Have to Pick the Right Candidate

Where was Merrill Lynch's board when CEO Stanley O'Neal was sweeping the decks of the firm's paternalistic, nurturing culture — not necessarily a bad move — and of many senior executives, some of whom, if developed, might have proven his ideal successor?

**W**ith the recent departure of two high-profile, underperforming chief executive officers (CEOs) within one week — both of whom earned millions for leadership that ultimately could cost their shareholders billions — the issue of CEO performance once again tops the news. And again, much of the attention is focused on pay.

Unfortunately, the debate on CEO compensation, although important, overshadows an even bigger issue: ineffective selection and succession processes that, with increasing frequency, are leading to poor and very costly top executive hires.

The choice of CEO is probably the most important decision any board will make. The price paid for the wrong choice can be staggering, so one would assume that organizations the size and status of Merrill Lynch and Citigroup would have had well-thought-out selection and succession strategies in place for their top leadership. But clearly that was not the case.

Where, for example, was Merrill Lynch's board when CEO Stanley O'Neal was sweeping the decks of the firm's paternalistic, nurturing culture — not necessarily a bad move — and of many senior executives, some of whom, if developed, might have proven his ideal successor?

The board's quick appointment of a nonexecutive interim chairman, and its

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final choice of an outsider to lead the firm for the first time in its 90-year history, revealed a critical breakdown of its accountability for maintaining the continuity of the business. It's a breakdown that could easily have been avoided if the company had put in place a robust succession plan that identified and groomed one or more of its own executives. That way, a new leader would be ready and waiting to step into the breach.

Not that Merrill Lynch and Citigroup should be singled out for their sins. While they may be the most recent, highest-profile organizations to struggle with finding the right leader, they certainly aren't the first. Nor will they be the last. One only has to look at the growing ranks of frustrated boards, unhappy shareholders and prematurely

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departed CEOs to see the extent of the problem.

Indeed, many boards seem to have taken a page from the U.S. presidential selection process, relying on a mix of past performance, popularity and politics without considering whether these are relevant factors given the company's character. It's an equation that, considering its somewhat spotty record in democracies, is sure to spell disaster in the corporate world.

So why are organizations having such a difficult time finding good CEOs? More often than not, it is because the selection and succession processes they've traditionally turned to have not kept up with the changing nature of the top roles. Many organizations continue to assess and study the possible candidates in detail but overlook key specifics in the role they will have to fill in terms of the unique demands put upon the role by externally driven changes in the industry and market, or by changes in organizational structure as a response to the former. They assume, usually incorrectly, that because senior executives have been anointed "high potentials" based on their success in previous leadership roles, they will be equally successful when they reach the top job.

Take Citigroup's Charles Prince, for example. Although a well-regarded corporate attorney, he had little real operating experience as a banker. Yet he was chosen to manage what is considered to be the world's most complex financial institution. Merrill Lynch's O'Neal, who made a successful ascent through the company's management ranks, also appears to have lacked the necessary qualifications for the top job.

While industry experience and a clear track record in addressing relevant strategic challenges are important, a more thorough review of the business' future direction may make all the difference in successfully targeting the right candidate.

"Cold, aloof, and uninspiring," as one profile described him, are not competencies that serve CEOs well.

Most boards begin their succession planning by agreeing on a job description for the future CEO. But in the process, they frequently fail to conduct a truly comprehensive analysis of the role in the context of the company's strategy and business model.

While industry experience and a clear track record in addressing relevant strategic challenges are important, a more thorough review of the business' future direction may reveal unique aspects in the job's accountabilities that make all the difference in successfully targeting the right candidate.

Depending on the state and strategy of the organization, the top leader may need to be a visionary who can reshape the company, a turnaround pro, someone with deep operational

credibility or an individual with not only the savvy to work with investors and Wall Street, but also the ability to quickly build trust and confidence.

Prince, for example, has been acknowledged for his ability to shepherd the organization through a shaky period, taking the lead in cleaning up a number of troubling business issues. But given the recent losses, and the company's ongoing lackluster performance, his successor no doubt needs to bring with him/her the operational strategy and vision to quickly create value and grow the business organization.

Merrill Lynch, however, has been laid low by major losses and must quickly turn around its performance. Thus it chose John Thain, who is known for his ability to rescue and revitalize struggling organizations — most recently the New York Stock Exchange.

Only time, of course, will tell whether Merrill Lynch's decision was a good one. It may indeed be, given Thain's proven record as a turn-around artist. Then again, the firm might not have needed "turning around," had the right leader been at the helm in the first place.

Even within similar CEO roles, there often are subtle differences that call for a unique set of skills. Yet many boards also overlook these sine qua nons in their search for the right organizational fit. Thain may be the ideal candidate for turning around Merrill Lynch's operations, given the detailed, analytical approach for which he is known. But can a leader who is also described as a staid technocrat also capture the hearts and minds of his employees and the investing public? Does he even need to? Both are questions the board presumably answered.

Organizational kingmakers must remember that unlike the business world of yore, a high-potential Prince or Princess Charming who has been battle-tested and proven worthy can no longer casually assume the throne and be expected to continue delivering greatness.

In addition to these specific demands and requirements, boards must also take into consideration the more general changing nature of the CEO role across industries and markets. Never simple, the top role, we found from our research and work within the C-suite, continues to grow increasingly complex and broader in scope, fueled by industry consolidation, globalization and ever-mounting pressure from shareholders to perform.

All too often, top executives aren't prepared for the span of power they are expected to wield, or the variety of audiences they are expected to influence: from board members to investor, to analysts, to customers. Nor are they adept at navigating the increasingly complex nature of the business.

Ironically, at a time when the challenges and demands of the top job spill beyond

the capability of a single individual, many CEOs find themselves struggling to develop and lead effective senior teams that can help them. Although they quickly surround themselves with a cadre of talented, hard-charging senior executives, often strong performers in their own specific area of expertise, they struggle to pull these organizational thoroughbreds together into a real, interdependent team with a single vision, purpose and direction.

Which brings up another, often overlooked, element of successful succession processes — onboarding. No matter how talented, experienced or well-aligned with the role, most new CEOs need some help settling into their new role. It may include coaching targeted to mitigate specific risks uncovered during the assessment process or helping them assess, select and develop the right senior leadership team.

If nothing else, the saga of Merrill Lynch and Citigroup's leadership provides frightening lessons about the importance of CEO selection and succession planning.


Prince's and O'Neal's problems began with a fundamental lack of alignment between the unique demands of the top roles and their ability to be successful in those roles. Such mismatches, as we've learned, are extremely costly, not only in terms of diminished organizational performance and potential, but also in the expense of replacing these leaders should it become necessary.

So, before boards and investors again start tossing about the issue of CEO pay, they should also take a hard look at just who they're paying and how they're selecting them.

They need to have a strategic succession management plan in place long

before it's needed. It should not be shelved to collect dust, only to be opened in the event of a CEO departure, but continually revisited as part of a process that reflects changes to the business and organization. It should, of course, include the potential successors, the strengths and risks they bring to the table, and plans for onboarding them should the need arise.

But even more important, those potential top leaders should be selected not just in terms of their past experiences and successes, but in the context of the unique challenges that the role brings with it. And those challenges can only be identified by studying the strategic trajectory of the organization — where it is today, where it is headed and the demands it will place on top jobs.

In the end, organizational kingmakers must remember that unlike the business world of yore, a high-potential Prince or Princess Charming who has been battle-tested and proven worthy can no longer casually assume the throne and be expected to continue delivering greatness. As investors and directors have learned the hard way, it takes more than a “kiss” from the board to turn a successful CFO or corporate attorney into a high-performing CEO. 

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