



Leadership in the Corner Office

The Board's Greatest Responsibility and Challenge

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The most important responsibility of the board of directors of a publicly traded company is to ensure that the right CEO is leading the corporation. To meet its primary responsibility, the board must grapple with three questions: Does the organization have the right CEO? Does the organization have a robust process for developing incumbents? And if it's necessary to go outside, how can the board ensure that it picks the right candidate? There are proven practices to help the board answer these questions and meet its most important obligation.

After World War II, the U.S. economy experienced a period of unfettered growth and development. Most people enjoyed lifelong careers with the same company. Succession to the CEO position took many years and generally was given to the most senior executive who maintained that term of office until retirement. As the U.S. economy entered the 1970s, global competition arrived and

the circumstances in organizations changed. White-collar ranks and the executive suite became as susceptible to reductions in force as workers on the plant floor. Lifelong employment was no longer assured, CEO longevity became less certain, and the long-serving, most senior person was no longer the given choice. The question became, Who is best equipped to lead the organization at this time under these circumstances?

The turnover rate of CEOs is not just a U.S. issue. In fact, Europe, with its strict governance standards, is an even more difficult environment for CEOs, as the ten-year average rate of CEO successions shows:

- United States, 27 percent
- Europe, 37 percent
- Japan, 12 percent (“Succession Planning,” 2008)

These trends show what’s at stake as organizations work to secure the right leader to install in the top position. In response to that interest, discussions of leadership abound. It is hard to find a business book, magazine, or newspaper today that doesn’t touch on or address some aspect of leadership: how we define it, how we identify it, how we teach it, whether it is nature or nurture—all parsing the secrets of leadership that can aid and abet the process of developing the most effective leaders. One thing we have learned since Plutarch’s *Parallel Lives* reported on the strengths and flaws of Greece’s and Rome’s leaders almost two thousand years ago is that the right person in the right place at the right time makes all the difference. Some individuals have a way of overcoming obstacles and difficulties that plagued their predecessors and can reach goals that previous leaders were unable to accomplish.

Another lesson we have learned is that leadership comes in all shapes, sizes, personalities, gender, and colors of skin. As Peter Drucker (2004) wrote, “An effective executive does need to be a leader in the sense that is now most commonly used. Harry Truman did not have an ounce of charisma. Some of the best business and non-profit CEO’s I’ve worked with over a 65-year consulting career were not stereotypical leaders. They were all over the map in terms of

their personalities, attributes, values, strengths, and weaknesses. They range from extroverted to nearly reclusive, from easy going to controlling, from generous to parsimonious” (p. 59).

Despite these years of observation, erudition, ink, and evolving views on what constitutes leadership, we may know it when we see it, but we unfortunately see it only with the benefit of hindsight. Training programs, job rotation, industrial psychologists, and all the other means at our disposal are not litmus tests for prospective CEOs that provide certainty when it comes to putting the right leader in the right spot. Only time spent in office will tell if the right choice sits in that chair. You are never likely to hear board members use the words Matthew J. Paese (2008) suggests: “I am still waiting for the true realist to emerge from the board room and announce, ‘We are making this CEO succession decision recognizing that it probably won’t work out and that next year at this time we will be looking for a replacement.’ Of course, it is absurd to imagine any board openly condemning an incoming CEO but if board members were appointed purely to make accurate predictions, that’s precisely what many of them would be compelled to do. The data supports it: Over the last decade CEO turnover has increased by over 50% and performance related departures by over 300%” (p. 19).

THE HIGH COST OF FAILED CEO LEADERSHIP

The price for failed leadership at the CEO level, whether the candidate is internally developed or hired from the outside, is almost incalculable (see, for example, Stoddard and Wychoff, 2008).

What can happen when choices go wrong? The saga of Bob Nardelli’s tenure as CEO of Home Depot remains fresh. Although Nardelli had an outstanding record of accomplishment and success at GE, becoming one of three finalists to succeed Jack Welch, in less than five years, in a number of well-documented ways, Home Depot’s market capitalization fell and its debt rose. The organization became a poster child for bad governance and failed leadership.

The story is instructive for all of us. After a storybook run of success, the two founders of Home Depot, Bernie Marcus and Arthur Blank, who were considering retirement, realized they had not developed an internal successor. Once Bob Nardelli became available, the board acted quickly (in retrospect, too quickly) to bring in this proven leader from the company many experts viewed

as a paragon for developing leadership talent. As it turned out, Nardelli was the wrong person in the wrong job at the wrong time.

Organizations can quantify the cost of failure in terms of loss of shareholder value, but the cost associated with employee turnover, low morale, loss in productivity, and the time it takes to turn around the business—call them opportunity costs—are equally extraordinary. These penalties clearly reinforce the importance of making the right choice. What lessons, insights, and knowledge can boards of directors draw from to deal with this risk?

In 1990, John Kotter extolled a view of leadership that described powerful personas providing extraordinary vision, coalescing and exciting the people in their charge to create profound change. Clearly Kotter was influenced by dramatic changes in the U.S. economy during the 1980s. In that period, annual reports carried vision and value statements, and the general and trade press printed hundreds of stories that focused on the charismatic CEOs who led these changes. The elevation of leaders who possessed “the missing ingredient” carried into the 1990s, when the bubble burst, and suddenly many of those bigger-than-life personalities revealed feet of clay. Organizations like Enron, WorldCom, and Tyco, and the people in them and the people who did business with them, suffered incredible damage. Regardless of the size of the institution, it is not difficult for the wrong person in the CEO’s chair, over a short period of time, to destroy significant shareholder value and to wreak havoc on hundreds, even thousands of lives.

Since then the focus of the conversation has shifted to examining the understated natural “leader of men.” Jim Collins captured that stereotype in 2001: “Compared to high profile leaders with big personalities who make headlines and become celebrities, the good to great leaders seem to have come from Mars. Self-effacing, quiet, reserved, even shy, these leaders all produce a blend of personal humility and professional will. They are more like Lincoln or Socrates than Patton or Caesar” (pp. 12–13).

What kind of leader is right for the organization? What is the right model of leadership practice? Should a board use a one-size-fits-all perspective, or should it follow the latest business fashion? The truth is, for any senior leader, most often he or she never performs quite as well, or as badly, as the numbers indicate. When things are going well for the company and the industry, it produces a halo effect on a leader: he or she can do no wrong. Extraordinary leaders may possess capabilities that create extraordinary results, and perhaps such leaders

can replicate those results in almost any organization. Or maybe such leaders are the consequence of the board's putting the right person in the right place at the right time.

THE CHALLENGE TO THE BOARD

After forty years of experience in the business world, starting as a sales trainee and rising through responsibilities as division president of two different businesses and finally to CEO of two different publicly traded companies, and having served on boards of directors for eleven different publicly traded companies, I have developed a keen interest in the questions and issues of leadership at the CEO level. So I am familiar with the challenge of CEO turnover. In fact, since January 2000, I have served on the board of directors of six companies that have made a change of CEO at least once.

Wachovia Corporation is an example. In this instance, the board asked the CEO to step down and brought in his replacement from the outside. In the case of EnPro Industries, when the incumbent CEO retired, the board search for a successor also brought in someone from outside the company. In the remaining four examples, Acuity Brands, Lowes Companies, Nucor Corporation, and Phoenix Companies, the CEO's successor came from within—in some cases as the clear candidate and in other cases after discussion and review of several prospective internal candidates.

After the sad sagas of Enron, Tyco, WorldCom, and other organizations, the responsibility of the boards of directors of publicly traded companies is increasingly scrutinized. You can find almost as many articles on the subject of board governance as on leadership. Some of these growing expectations are well founded, but others reflect a lack of understanding about what a board can or cannot do. As Jack and Suzy Welch (2009) note, "The real fallacy of corporate governance in this crisis is not what boards did or didn't do but what was expected of them. The [board's] job is to hire and fire the CEO based on his performance, values, the quality of a team and the coherence of his business model" (p. 102).

Without question, among the board's many obligations, its most important is selecting the CEO, followed by supporting a process to ensure the selected leader is effective. Despite the ultimate responsibility for the enterprise, the board does not run the organization: the CEO and the executive leadership team run the company, and the stakes in terms of performance are the highest.

THREE QUESTIONS A BOARD MUST ANSWER

How does a board fulfill its most important obligation and responsibility to ensure it has the best person possible leading the organization? It might be helpful to look at this problem from three perspectives:

1. Does the organization have the right CEO?
2. When a change of succession is at hand, how does the board select the best candidate?
3. If it is necessary to search outside the organization, how does the board find the optimal candidate?

Before addressing these issues, I want to consider several points. First, my operating definition of *leadership* is the capacity to elicit the willing collaboration of others toward a worthwhile goal over an extended period of time with sustainable outcomes. Although the wrong person in the wrong place at the wrong time can destroy significant shareholder value alone, regardless of the size of the organization, the right person in the right place at the right time cannot right the ship alone. Senior executives require the help of others, and securing that help takes leadership. It is, to put it simply, “the quality that persuades others to follow” (“Tough at the Top,” 2003). No less than William Shakespeare tapped that essential capacity to lead, when in *Henry IV Part I*, Glendower boasts, “I can call spirits from the vasty deep,” to which Hotspur replies, “Why so can I, or so any man, but will they come when you do call for them?”

Second, the operating assumption for approaching these three questions is that there is no single missing ingredient or set of ingredients that every successful leader must possess. CEOs fail or succeed for different reasons: the wrong choice for the organization (as with Nardelli at Home Depot), circumstances in an organization or in the environment outside the organization change, what previously worked for a leader works no longer, staying too long in the job. The board must continually assess the situation. The evidence for deciding one way or another may not be clear or definitive (it seldom is), and in most cases the board waits too long to effect change.

The Right CEO

Despite the challenges and difficulties described, boards do reach effective and appropriate decisions regarding the CEO. They must do several things on an

ongoing basis. First, the board must establish a process for interacting with the CEO. This includes board meetings where the CEO is seen with the senior team answering questions and leading the discussion. Such meetings for reviewing and discussing strategies with the CEO and the executive team can take several forms: annual or biannual events, for example, spread out over a couple of days, outside the boardroom.

Another important component is a regularly scheduled session between the board and the CEO alone, with an open dialogue on any or all issues. These issues might include long-term and short-term successors, problems with direct reports, and strategic issues. There is no better way for a board to begin understanding how the organization's top leader thinks than through such conversation. In addition, the entire board should engage in a robust annual assessment of the CEO. Observations and recommendations that emerge from that assessment should be communicated to the CEO by at least two board members, including the lead director or a proxy.

An executive session of the board, where it meets only with the independent directors, should occur at every board meeting. This is another opportunity for the board to review and discuss performance. During these discussions, the role of lead director is critical to ensure constructive discussions that address the individual or collective concerns of the board so that members can build confidence that the organization has the right leadership or, if faced with a problem, decide how best to address it.

An example of the dilemma presented to boards when considering whether the organization has the right person in the job can be found in the story of GE's board of directors and its choice of Jeffrey Immelt as a successor to Jack Welch (Table 13.1 summarizes the story's facts). As reported in *Business Week*, "Along with the burden of replacing the most celebrated CEO of his generation, Immelt inherited an inflated stock price—the so-called Welch premium fostering unrealistic expectations. Yet he has still managed to produce 14% growth in annual earnings and 13% annual revenue gains" (McGregor, Jespersen, and Zegel, 2008, p. 36). The article goes on to highlight the leadership eras of five GE CEOs over fifty years and to provide a measurement of GE's stock price performance during each of their tenures.

What should the board of GE do in Immelt's case? Does GE have the right leader? Does Immelt possess the right mix of ingredients, or is it time for change? Boards of directors face similar dilemmas every day. A CEO is never quite as

Table 13.1
GE Leaders, 1958–Present

CEO	Tenure	Stock Price Return
Ralph Cordiner	1958–1963	45.1%
Fred Borch	1963–1972	7.5
Reg Jones	1972–1981	–28.8
Jack Welch	1981–2001	140.2
Jeffrey Immelt	2001–present	–30.2

Source: McGregor, Jespersen, and Zegel (2008).

good as the numbers and never really never quite as bad. Reg Jones, during his tenure as the leader of GE, was considered the consummate CEO, developing a rigorous strategic planning process adopted by most corporations and beginning the globalization of GE's business. The company doubled sales and earnings yet suffered negative stock returns.

During Jones's tenure, the Dow Jones fell below 1000 and never returned to that level. As Jones prepared to retire, he pushed the selection of a controversial maverick GE manager, Jack Welch, arguably the most celebrated CEO of his era and the archetype of the strong, bold, bigger-than-life corporate leader. During Welch's tenure, GE's market cap grew from \$14 billion to \$410 billion, and GE Capital expanded from contributing modestly to the organization's income to contributing close to 50 percent of earnings. During this period, the Dow grew from below 1000 to 11,000. Immelt guided GE to 14 percent average growth in earnings between 2005 and 2009, but also saw GE's stock price decline more than 30 percent (McGregor et al., 2008). With the financial services industry in turmoil, what should the GE board have done? What conclusions can we draw in considering a board's ongoing task of determining whether it has the right person—a leader with all the ingredients for meeting the challenges at hand? From this perspective, it is fair to argue that had Jack Welch remained at the helm of GE, the financial outcome and circumstances would be no different.

Developing and Selecting from the Inside

From the board's point of view, the development of one or several successors from inside the institution to succeed a current CEO is the clear preference between selecting an insider or an outsider (Gribben, 2008). Although there never has been

and never will be a perfect process for developing internal talent, the opportunity for the board to watch, observe, judge, measure, and assess individuals over a long period of time offers a significantly lower risk than bringing a leader in from the outside, no matter what that leader's track record shows. Critics of CEO compensation often point to the failed internal development of a successor as leading to inflated compensation because it costs more to hire from the outside.

For example, Equalar (a company that tracks executive pay) found that during the period 2007 to early 2008, the median compensation of external hires was 65 percent higher than the median compensation for internally promoted CEOs. Among bigger organizations, the discrepancy was more pronounced: outside hires were compensated at a rate 75 percent higher than internal hires (Tuna, 2008).

Given that an inside candidate is a known quantity, that hiring an outsider is considerably more costly, and that a board of directors' most important responsibility is to ensure that the organization it governs has the right CEO, how should the board approach the succession issue?

First, it is important to distinguish between succession of a successful CEO and replacing a failed one. With rare exceptions, the successor for the successful CEO leading a consistently high-performing institution should come from within the organization. Understanding the culture, values, successful operations model, and key people are critical to the continuous success of a high-performing enterprise and a newly selected CEO. According to John Gabarro (1987), the challenges and successes that internal candidates face are decidedly different from those faced by external candidates. For one, the challenges are greater and the failures more likely for an external candidate. The lack of experience with the organization and the effect of that inexperience on carrying out the CEO assignment, in addition to undeveloped relationships with important players in the organization, contribute to those bigger challenges and higher failure rates. Risk rises when boards recruit from outside the organization. There is no substitute for allowing an individual with increasing responsibilities to lead through the crucible of good times and bad and to demonstrate the development of all the ingredients that are right for the organization at that time. Different circumstances or environmental changes can require different skills.

When a business is not doing well or its CEO has failed as part of a challenged culture, environment, or team, then often the board's best option lies outside the organization. To use a sports analogy, it may be time for a coaching change. The board should be aware, however, that there may be a talented leader in the

organization who knows the business, values, and people but was held back by the incumbent CEO. New CEOs of troubled companies need to hit the ground running, and some advantages accrue to promoting from within a dysfunctional organization if the right person is available.

The question remains, How does the board help select the best candidate? In times past, the incumbent CEO would recommend his successor to the board, and there would be easy and ready concurrence. Times have changed. For a number of reasons, not the least of which are the New York Stock Exchange listing requirements, with the rising tide of performance expectations, and requests of boards to be directly involved, circumstances have dramatically altered. So if expectations of board engagement and responsibility for CEO succession have changed, how should the selection process work?

The answer is that the selection process requires a robust organization with a fully developed and active performance management system. There is no one form, no singular approach to developing leaders other than one led by the CEO and the CEO's direct reports, supported by a strong human resource department. Such a system should operate proactively to identify and develop talent across the organization. The top leaders in the organization put this process on display not by what they do but by what they say. Whom they hire, fire, pay, and promote—these decisions say everything about the true values of the institution and its commitment to developing leaders. An organization that aligns these elements with careful and thoughtful sorting of those who can and do deliver results the right way from those who are not and cannot deliver possesses a truly robust system. The outcome of that system should significantly improve the odds for selecting the best possible candidate for continuing the success of the institution.

Companies develop the best leader by creating an environment that permits developmental learning over time. The quality of development does not depend so much on whether that learning to lead comes from a business school or an executive training. Most learning comes from on-the-job experience. As Noel Tichy puts it, “Leadership is a clinical art and people need experience. You don’t train a physician by getting a researcher to perform open heart surgery” (quoted in “Tough at the Top,” 2003, p. 11). Still, no matter how robust an organization’s development process is and no matter how confident the board is that it has selected the perfect person, the truth of how an individual will perform when standing alone in the CEO office will not be visible until that person has been

in the job for a period of time and the board can assess if the potential and capabilities it saw during the selection process are evident in its choice.

Managing succession is hard work, requiring the board and CEO to be actively engaged in an ongoing dialogue and discussion through an agreed-on process. Every time the board meets alone with the CEO, which should take place at every board meeting, the board should be comfortable that they are in agreement with the CEO on who should succeed the CEO in case of a disaster. The board and the CEO should also revisit, as needed, appropriate prospective successor candidates to build a consensus on backup succession and prospective succession.

Looking Outside for a New CEO

How does the board fulfill its most important obligation and responsibility in ensuring the best person possible is leading the organization if, after careful deliberation, a suitable candidate cannot be found within the company? Under these circumstances, the tried-and-true method is to select an executive search firm. Boards can work specifically with an individual in that firm that the chairman of the governance committee or chairman of the search committee determines can best understand the needs of the organization. It is essential to work with someone who can provide effective give-and-take communication. The role of the lead director and nonexecutive chairman, in the event they are not the designated head of the search committee, is to work openly and together with the full board to ensure that all board members have an opportunity to participate constructively and thoughtfully in the selection of the next CEO.

The challenge to finding the right leader outside the organization rests in how the board moves beyond very strong and powerful résumés of prospective candidates (because they will all look good) to determine to the best of its ability that the candidate has the right skills and chemistry necessary to take on the job at hand.

Two examples from my own experience might prove useful here. In the case of Wachovia, after the decision was made to ask the incumbent CEO to step down, the board decided that the best course was to look inside and outside the company to ensure the appropriate and necessary experience was found to lead the organization through its financial crisis. Ultimately, after considerable board discussion and deliberation, it was decided that the best candidate under the circumstances would be found outside the company.

Another example is EnPro Industries, a company created through the spin-off of a series of disparate businesses, including asbestos claims and insurance from

its parent Goodrich in 2002. Over a six-year period, the CEO who had been executive vice president over these businesses at Goodrich did an effective job of creating a new culture, effecting necessary change so that the new company was able to grow profitably. As he approached retirement age, it was determined after careful review and consideration by the board that finding his successor from within the company would be unlikely. A search was initiated, led by the nonexecutive chairman and the chairman of the compensation committee, who worked with the board, and a successor was selected in spring 2008.

A different kind of story about outside selection emerges from how the board of Hewlett-Packard (HP) struggled with Carly Fiorina's fate. The board brought Fiorina in from the outside with much fanfare (she had led AT&T's successful 1996 spin-off of Lucent Technologies), and for some time the business press reported positively about her tenure, even lionizing the way she led HP. But dissension emerged on the board when she proposed acquiring Compaq Computers. A very public dispute with certain members of the board leaked to the press, showcasing the board members' differences and the governance transgressions on the part of some members. These events culminated in Fiorina's termination, although in hindsight, it appears that the Compaq acquisition was the right strategic move.

Even when a board believes it has the right leader in the right position at the right time, the board's choice may be susceptible to forces beyond its control. Consider the case of General Motors. After announcing record losses for the second quarter of 2008, George Fisher, lead director for General Motors, said, "We are absolutely convinced we have the right team under Rick Wagoner's leadership to get us through these difficult times and on to a bright future" (Vlasic, 2008). In April 2009, under pressure from the U.S. government, Wagoner was asked to step down.

These examples illustrate the dimensions of the challenge that faces a board of directors when it must determine if it has the right CEO in place or should select a successor. That challenge has never been more daunting. As Luke Johnson (2008), one of the leading partners in Risk Capital Partners, a private equity firm, recently said, "This is the eternal question in business: When a company succeeds or fails, is management or the business itself responsible? There is a touching faith among many that certain gifted individuals are superstars who single-handed make everything wonderful. I am much more impressed by companies where the founder steps back but the operation continues to thrive."

Here is another example from the field. In 1981, I was given my first responsibility as general manager of a division of the Continental Can Company. The business had lost money for four consecutive years and was doing so poorly an effort to sell it was unsuccessful. The only option left was to close it down or perform a high-risk radical surgery. The company closed plants, reduced the division's sales organization from over one hundred people to ten, and made other severe cuts. Survival was the only objective.

That was the scene I stepped into. Immediately a number of simultaneous actions took place. The first was deliberate overcommunication. We held meetings every six months with each shift in the two remaining plants (one union and the other nonunion) and in the home office. We used question boxes to elicit concerns that arose while the division addressed the strategic effect of those meetings. Second, because its workforce had been reduced so dramatically, the division was allowed to select the fittest and, as needed, the best additions that it could find. Third, the division placed a strong focus on product quality, innovation, and improvement, and it combined that focus with an intense effort to build relationships with all key customers. All of these actions were combined by open, aggressive leadership on the part of the five key members of the management team.

During this period, the business environment was undergoing its own transformation. The paper disposables industry was in turmoil. Our competitors, Dixie Cup, Lily Tulip, and Sweetheart, had their own problems. But our new team was in the right place at the right time with the right strategy. Not only were we able to turn the business around; it grew by taking significant market share from our competitors and eventually by looking for acquisitions. At first, no one believed it could survive, let alone prosper. The CEO sent auditors, the head of corporate human resources, and made personal visits to find out if the change was real.

The next thing I knew, I was being asked to give speeches on the turnaround, to answer questions about what I did—not what *we* did. People looked for some secret ingredient or unique approach that they could emulate, but there really was none. The point is that too often we look for simple solutions or formulas when in fact the answer is much more complex. Successful outcomes quite often are due to a much larger series of inputs than a single individual. When a board is considering candidates for the CEO position, the challenge is to sort through circumstances and outcomes so in order to truly measure the impact and capability of the person it is considering for a leadership position.

OTHER CHALLENGES TO BOARDS SEEKING TO FILL THE GAPS IN LEADERSHIP

Another difficult challenge a board can face is determining when an extraordinary leader, loved and admired by all, has stayed too long. The board's group dynamics, which can shift over time as members join or leave, also poses a challenge. Changing circumstances in the external environment can also create difficulties for boards trying to choose the right leader.

One of the examples of the “good to great leaders” that Collins (2001) cites in his book is Ken Iverson of Nucor. For over forty years, Ken led the creation of a unique and powerful culture that combined risk taking and innovative manufacturing processes to help Nucor change the very landscape of the domestic steel business. Although Ken stepped down as CEO in the mid-1990s, he remained a very influential chairman. Ultimately the board, consisting of only one independent member, voted him out of office and off the board, causing Collins to write a postscript on Nucor and Ken, speculating that maybe he wasn't the “level 5 leader” Collins writes about because of that failed transition.

However, what happened at Nucor might be attributable to more than a lack of level 5 leadership, as Collins calls it. In Nucor's case, although Ken and the board had participated in the selection of his successor, Ken remained powerful, influential, and involved in the day-to-day activities of the company as the executive chairman in his early seventies. It took courage, determination, tears, and considerable debate to reach the point where the board could vote to remove him from his responsibilities.

Following his departure, a transition of leadership involved the incumbent CEO and the promotion of a director to executive chairman. During several years of transition, the renewed board, now with a majority of independent directors, was able to establish a process for selecting the next generation of leadership. Today Nucor is bigger and stronger than ever, maintaining the extraordinary culture Ken created. The next generation of leadership has taken the company to new heights. Over the past nine years, Nucor and its CEO, Dan DiMicco, have been cited again and again as leaders in the steel industry, and the company's stock price rose substantially.

Another challenge to consider is the simple fact that no two boards are the same; each board has its own unique dynamics, and so there is no universal best way for any board to put a leader into place. Differences are attributable to many factors, including the culture of the company, the personality and character of

the CEO, and the character and personality of the board members. When things are going well, the question of board dynamics and process is not nearly as important as when a critical strategic issue emerges, questions regarding selection arise, or the board is faced with managing a succession. The key role of the lead director or nonexecutive chairman in working with fellow independent board members to ensure constructive ongoing dialogue during the best and worst of times cannot be overemphasized. It is critical that board members' voices are voiced and opinions aired so that constructive discussion can take place.

Group dynamics always pose a challenge to consensus within a group around its most difficult decisions. That challenge can sometimes take the form of groupthink, where the pressure for unanimity offsets the motivation to pursue difficult alternative action. Another way of describing the challenge was articulated by Jerry Harvey (1988): "The inability to manage agreement is a major source of organization dysfunction" (p. 18). Jason Swzeig (2009) put his finger on it when he wrote that well-performing groups are better than their individual members, but badly performing groups are worse than their individual members. "Committees and other groups tend to either follow the leader in a rush of conformity or to polarize into warring camps" (p. B1).

Somehow, over time, board members must develop the capacity to learn how to work together in a way that permits them to overcome these dysfunctions so that they are capable of effectively addressing the critical issues that come before them. Part of the answer, when it comes to selecting an organization's leader, is to have an appropriate mix of perspectives and points of view and individuals who can be effective in raising uncomfortable questions and in disagreeing with the group in a way that fosters constructive debate.

As a consequence, the right lead director, nonexecutive chair, or presiding director (call it what you want) is paramount. A board cannot function well if the board's lead director thinks he or she has more answers than the CEO or aspires to leadership of the business. What is needed is someone who is deft at allowing all views to emerge while moving critical discussions toward a satisfactory conclusion so that the board feels that it has had sufficient opportunity to reflect together toward the best outcome.

While internal group dynamics create internal challenges for a board, keep in mind that external circumstances can also change, creating different kinds of challenges. A rising tide lifting all boats can provide the illusion of significant success and outstanding leadership, but that tide can suddenly go out and leave

the organization grounded when economic and industry environmental factors turn sour. And not only the circumstance, but the leader the board selects can also change over time. Skills once thought of as unique and extraordinary seem to no longer exist or are unhelpful in current circumstances.

For better or worse, unless the outcomes are egregiously bad, it takes time to truly determine whether it is the leader, the environment, or circumstances that bring on a lack of performance or even failure. For all of Bob Nardelli's publicized mistakes, he inherited a very difficult circumstance: the transition in leadership from the Home Depot founders was not handled well, a PE ratio in the thirties at the time of Nardelli's succession could not be sustained (the law of large numbers), and the company was much too decentralized to sustain itself given its size and a new, focused competitor with a better model. There are reasons that it took the Home Depot board almost five years to sort through the question of whether it had the right leader. The length of time it took to decide to have Nardelli step down also reflects how difficult the process and decision making can be.

CONCLUSION

What are we to conclude? Are there missing ingredients for extraordinary leadership that boards can look for and measure when placing leaders in the CEO's chair? Absolutely. But those gaps present themselves in different ways and at different times, depending on circumstances. Clearly the wrong person in the wrong place at the wrong time can have a dramatically deleterious effect on an organization's morale and effectiveness, putting the very security of the enterprise at risk, regardless of its size. Conversely, the right person in the right place at the right time—the person with the capacity to select the right team and to bring people together around purpose and strategy—can outperform any peer. Regardless of the strength of experience, résumé, credentials and reference, and regardless of whether a leader is selected from inside or outside an organization, a board will not know if it has chosen the right mix of leadership skills until time has passed in office.

Despite these uncertainties, difficulties, and challenges, the practices that I have described in this chapter can reduce risk and increase certainty on the board that it has the best possible person running the business or that it has selected the right leader to succeed a CEO who is leaving the post. Finding and selecting

the right person to lead has been and always will be hard work, requiring the members of the board to work together constructively and thoughtfully. After all, the study of leadership has been with us since the writings of the first historian Herodotus in the fifth century B.C.E. Even across the chasm of twenty-three hundred years, the strengths and flaws of leaders remain a source of powerful gaps that can undermine extraordinary leadership. Like Diogenes' unending quest for the "honest man," to borrow from another ancient author, putting the right person, at the right time, into the right place remains a challenge of utmost concern for boards and the organizations they serve.

