

"Across the Board"



Boards and the Long-Serving CEO

By Phil Khoury, Joint Managing Director, Cameron Ralph Pty Ltd, a consultancy which assists boards to provide effective leadership, improve their performance and build positive reputations.

The recent retirement of David Murray from the Commonwealth Bank after some 40 years at the bank and 13 years in the CEO role is a stark reminder of just how unusual the 'long-serving' CEO has become. We are told that the average time in the top job for a CEO of an Australian listed company is now only a little over 4 years.

That incredible shrinking tenure brings new and different problems for the board – but it does not free boards from the challenges of managing the challenges of the long-serving CEO. First, whatever the average might be – there are still a number of long-serving CEOs. Second, the issues that boards have to manage are not simply a reflection of time in the job. For the board, it is a question of the imprint the CEO has made on the company – a very dominant CEO without the right strong talent in their second row of executives may well create as much of a 'personal imprint' problem in five years as another does in fifteen.

Although the range of issues that a board may have to deal with are as varied as there are organizations, the two big ones are: When is long enough? and of course - How to transition?

A brief review of how long-serving CEOs came to be long-serving immediately highlights the problems for the board. By definition they are (or have been) successful. They have often built the business from small beginnings or transformed it from some former purpose into what it is today. They may have been the founder/owner or the hero manager whose vision drove the organisation's success. They have a command of every detail of the organisation's operations and of the industry. They have probably personally selected the potential successors amongst the executives and may have personally chosen most of the directors.

They will have strong personal relationships throughout the business, with investors, competitors, regulators and government. The market may strongly associate the business with the CEO – and they probably love him or her.

Dangerously, they may also have an unconsciously lazy board.

Even the best of boards will have learned to accommodate the strengths of the CEO, deferring in sometimes very subtle ways to the CEO's likes and dislikes and seeking out ways to add value outside the CEO's areas of primary interest or domination.

When is long enough?

Clearly it is when the 'fit' between the environment's challenges, the organisational challenges and the CEO is no longer optimum. The more important question for the board with the long-serving CEO is 'how will we know?'

Despite the obvious wisdom of the old show-biz adage "always leave them wanting more!" - few boards will err by ending the CEO's term too early. The respect, the relationships, the existing strengths of the CEO, the fear of loss of market confidence and so on mean that most boards will err on the side of allowing the CEO to stay too long.

There are no easy answers, but no better way of preparing for this difficult decision than for the board to thoroughly understand the business environment, understand the strategy, understand the organisation's strengths and maintain a respectful but rigorous performance management relationship with the CEO. Difficult as it may be, the question of CEO tenure must be discussable.

"Across the Board"



Transition

Once that decision is made, the management bookshelves provide plenty of evidence of the difficulties organisations go through in transitioning from the long-serving CEO. Frequently the successor CEO fails in the role and it is only the next replacement CEO who is able to pick up the pieces.

Boards who experience these difficult transitions often report on the unpredictable nature of the problems confronted. They express surprise at previously hidden problems that surface on the exit of a long-serving CEO. Seemingly competent executives seem unable to adjust; long-suppressed ideas and hobby-horses re-emerge from within the organisation; the new CEO starts bringing critical impressions of the organisation to the board; staff resist change; the new CEO wants to change the reporting and KPIs; etc. Worse, the board discovers gaps in its own ability (skills, information, processes) to oversee the organisation's management.

Unfortunately little is written about what boards can do to prepare for transitioning from a long-serving CEO. Clearly, the integrity and self awareness of the CEO and the relationship of mutual respect between the CEO and the board members are paramount. However, the competent board cannot rely on a warm feeling about this, it must be worked at.

In addition to the rigorous board practice mentioned above, the competent, well prepared board has strong relationships with company executives below the CEO; has visited frontline operations; understands the culture within the organisation. It has a sound grasp of its own strengths and weaknesses and understands how its own habits have adapted to the current CEO's style – and is prepared to adjust to a new era.