Articles

Business Week
June 17, 2005

Career Insurance for CEOs

Chiefs with a good handle on what their constituents -- all of them -- want have a better chance of keeping the corner office

Why did Carly Fiorina lose her job at Hewlett-Packard (HPQ), while John Chambers seems secure at Cisco Systems (CSCO)? Why did Chief Executive Phillip Purcell at Morgan Stanley (MWD) find himself in the midst of a media firestorm that pushed him to announce his retirement on June 13, while Lee Scott at Wal-Mart's (WMT) position remains powerful? And why is Michael Eisner on his way out of Disney (DIS)?

An analysis of the companies' market performance suggests that the difference between the secure CEOs and those in danger wasn't the stock price. Cisco's stock is down more than HP's from its peak (74% vs. 69%). Wal-Mart is down 25% from its peak, while Morgan Stanley has fallen 49%. And while Disney has tumbled 33% from its 2000 peak of $42, its market value climbed 19-fold during Eisner's 20-year tenure.

Financial performance explains, in part, the difference in CEO job security. For instance, Cisco's revenues have risen 16% since 2000, and its profits have climbed 65%. Compare that HP's revenues, which rose 63% since 2000 (in the wake of its Compaq acquisition), while its profit shrank 5%.

CREATING VALUE. And at Morgan Stanley, revenues fell 13% since 2000, but its net income declined 18%. However, Wal-Mart's revenues grew 49%, on a 63% profit boost. Disney, whose revenues rose 22% over the last five years while climbing from a $158 million loss to a $2.6 billion profit, suggests that the financial-performance explanation doesn't wash.

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There's a deeper reason why some CEOs can survive a drop in stock price and others can't. We at Peter S. Cohan & Associates call it Constituent Value Creation (CVC) -- how well the CEO satisfies the specific requirements of the company's constituents: shareholders and the board, customers, employees, and the communities involved.

CEOs who want to increase their chances of keeping their jobs must excel at CVC. Cisco's Chambers is winning at CVC, but Morgan Stanley's Purcell -- who alienated a vocal group of former executives and tossed out high-performing bankers -- didn't do so well. Eisner lost his position by alienating parts of his board, key shareholders, top employees, and powerful community members. In short, Eisner destroyed constituent value.

DIFFERENT STANDARDS.

These examples raise a simple imperative for CEOs -- to increase their job security, CEOs must create value by identifying and exceeding the expectations of their business' core constituents. Most CEOs reach their leadership positions because they're infused with a desire to win. Value creation offers a robust framework that supports CEO decisions so they can lead despite the often conflicting and confusing ideas and demands of these core constituents.

By focusing on these constituents' CVC, the CEO can manage more effectively. To understand what motivates each group, and to "get out in front" of them, the CEO can offer something meaningful in exchange for their focused contribution to the company. Each constituent has specific, ranked value criteria that the CEO can use to make each

group happy and trusting -- thus creating a shared perception that the CEO is successful. A trusted CEO isn't hobbled by the near-constant scrutiny of distrusting constituents. Thus freed up, he or she can focus on competing for market share.

Of course, the CEO must recognize that each constituent uses different criteria to determine how much value they receive. Shareholders and boards care about stock-price appreciation, return on equity, revenue growth, and risk management. Employees seek a mixture of quantitative criteria, such as pay and bonuses, and qualitative criteria such as a feeling of making a difference, peer recognition, management respect, and career opportunities.

INDEPENDENT OBSERVERS. Customers assess a company based on factors such as product quality, selection, reputation, and price. Finally, communities look at how well a company supports local causes, abides by the wishes of government officials, and obeys laws and community standards.

Ideally, CEOs would be able to obtain all this information from their subordinates. As a practical matter, though, in many companies it's difficult for CEOs to rely on the objectivity of the information they receive from their employees. Some CEOs make it clear that they prefer to hear only data that confirms their views -- and anyone who insists on contradicting the CEO jeopardizes their career. It's also natural for the most honest and objective subordinates to interpret constituent information in ways that confirms their own thinking.

One way to understand how well the company meets these different value criteria is for the CEO to deputize objective

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observers who can interview the different constituents, analyze their responses, deliver a report in confidence to the CEO, and recommend actions, as needed, to fix any problems. We call it conducting a Constituent Value Analysis. A CVA would answer key questions that shape constituent perceptions of the CEO.

In the end, a CVA may not guarantee job security, but it could go a long way toward helping a CEO make sure his or her constituents are pleased with their performance -- a key step in keeping the job.

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