

Beware White Knights Who Wreck the Castle

William J. Holstein, The New York Times, September 22, 2002.

Corporate directors, Wall Street analysts and the business press are too easily smitten with the charisma and personality of chief executives who promise sweeping change when they take over, according to a new book that will surely intensify the already hot debate on corporate governance.

The book, "Searching for a Corporate Savior: The Irrational Quest for Charismatic C.E.O.'s" (Princeton University Press, \$29.95), argues that company directors rely too much on social connections when choosing a chief executive from outside, even when their companies face serious trouble. As a result, the book contends, boards have helped create a "distinctly American cult of the C.E.O." and encouraged extreme levels of executive compensation and other "self-interested decisions."

Much of the book, written by Rakesh Khurana, an assistant professor of organizational behavior at Harvard Business School, seems wonderfully rational, not to mention impeccably well timed. Hiring Jeffrey K. Skilling from McKinsey & Company to become chief executive of [Enron](#), for example, obviously didn't work for the company or its shareholders, Mr. Khurana writes. Nor, he says, did the appointments of C. Michael Armstrong at [AT&T](#), George M. C. Fisher at [Eastman Kodak](#) or Albert J. Dunlap at Sunbeam.

Recruiting a "savior" often doesn't work, Mr. Khurana contends, because the new executive doesn't necessarily have the right skills or the right understanding of a company's long-term strategy. A couple of decades ago, in a time of what Mr. Khurana calls managerial capitalism, chief executives selected their successors, with less board involvement. But in the current period of what the author calls investor capitalism, the boards, which presumably represent shareholders' interests, often make the decisions without involving a departing chief executive. Almost one-third of chief executives selected by large, publicly traded corporations can be classified as outsiders, he says.

But it is not always clear where his academic analysis stops and opinion begins. Mr. Khurana spent seven years conducting his research, examining 40 chief-executive successions. He spoke with chief executives, directors and headhunters and developed mathematical equations to describe his research, which no layman can possibly fathom. But it doesn't seem neutral to write, as he does, that corporate management practices in America today resemble a "secularized religion" or that selecting a chief executive is like "crowning Napoleon."

What's good about "Searching for a Corporate Savior," however, is so good that it merits a full airing. Mr. Khurana starts by exploring the market for chief executives, which many people might assume is a wide-open competition that works in the same way as other markets.

But Mr. Khurana doesn't think that it is a real market, as the word is generally understood. He offers the case study of the [Bank One](#) board's choice of Jamie Dimon, formerly of [Citigroup](#), as its chief executive, bypassing a candidate from within the company. Russell Reynolds, an executive search firm, placed only four external candidates on the board's short list, and it just so happened that board members had personal connections where all four candidates worked. They were able to get information about Mr. Dimon through these unofficial back channels, helping him win the job.

Mr. Khurana says the number of chief-executive candidates is quite limited and that social and professional connections are so essential that the search is a "social construction," not a market. He contends that major corporations are still dominated by the same class of Protestant, white males that was in charge a century ago, despite the rise to power of a relative handful of women, as well as members of other racial, ethnic and religious groups. The majority of chief executives and the directors who hire them may serve together on boards, belong to the same clubs and business groups or share educational backgrounds.

When a board looks for charisma in an outside candidate, its search is based on social values shared by everyone in the room, Mr. Khurana writes. The outsider has messianic appeal to directors who believe the new leader can heal what ails the company. That faith, Mr. Khurana writes, introduces "the first strain of irrationality into what — considering what companies believe to be at stake in the choice of a new C.E.O. — one might expect to be a rational, carefully considered process."

It is irrational, he writes, because the financial performance of a company is much more closely linked to other factors, like broad industry trends. He believes that chief executives are so constrained by internal politics, the company's investments and organizational norms that they can have little impact on performance in the short term.

Boards don't choose insiders because they are perceived as impediments to organizational change, the author says. Little value is placed on their experience, knowledge or relationships with other executives and employees. "Internal candidates, about whom the board knows more than it possibly can about external ones, are considered blemished while external candidates are easily idealized," Mr. Khurana writes.

So boards are tempted to go for glamorous "change agents" who promise sweeping reform and a pop in the share price. "In the era of investor capitalism, it is no longer enough — or even of the first importance — that a C.E.O. candidate have particular skills as a manager," Mr. Khurana says. "What matters much more is that a candidate have a particular kind of personality."

Many older executives from the era of managerial capitalism are understated in their comments, but "the new C.E.O.'s are more verbal, controlling and abrasive," he contends. "The new C.E.O.'s also display a brash self-confidence and even flamboyance that can be very seductive and inspiring," he adds.

A company must pay huge amounts in salary and stock options to attract a charismatic chief executive. Often, it must give the new chief the power to reshape the board, by adding more allies. Yet these chiefs ultimately fail, Mr. Khurana writes, because they are not supported by the institutions that they are supposed to lead and lack the power to deliver results by themselves.

"Charismatic C.E.O. succession is a well-proved route to disappointment," Mr. Khurana writes. Later, he rightly adds, "No single individual can save an organization."

Recent events, of course, should make people care about the problems he spotlights. Some chief executives have either looted their companies or mismanaged them in ways that have wiped out billions of dollars of shareholder value.

"Corporate boards, in their pursuit of charismatic C.E.O.'s through the external succession process, have transferred literally billions of dollars from organizations and

shareholders to the personal control of C.E.O.'s and ex-C.E.O.'s — too often with little, nothing, or even less than nothing to show in return," the author writes. In the future, he adds, "we will look back and marvel at the colossal folly of this chapter in American business history."

What Mr. Khurana's analysis does not take into account are cases in which hiring a charismatic outsider has worked. When a deeply troubled [I.B.M.](#) recruited Louis V. Gerstner Jr. from RJR Nabisco in 1993, some commentators howled that hiring a marketing man from the cookie industry would ruin Big Blue. They argued that Mr. Gerstner didn't move fast enough to articulate a vision. Yet few today would argue that Mr. Gerstner has not been a success.

Nor does Mr. Khurana directly discuss why executives who built their companies might engage in hurting them. He does not mention the executives who are under investigation in connection with such wrongdoing, such as Bernard J. Ebbers of [WorldCom](#), or those who have been formally accused, like L. Dennis Kozlowski of [Tyco International](#) or John J. Rigas of [Adelphia Communications](#). The extrapolation from Mr. Khurana's argument is that such executives, if guilty, got away with it by intimidating their boards.

The author does not offer a sweeping set of solutions. He seems to favor a tilt back toward the time when the emphasis was on developing chief executives internally. Obviously, he thinks that boards and search firms should focus more on a candidate's business acumen. And he is scathingly critical of Wall Street analysts and business journalists for fanning the flames of chief-executive worship.

Mr. Khurana, at 34, could be involved in the debate about corporate boards and C.E.O.'s for years to come. Born in India but raised in the Bayside section of Queens, he has offered a critique of corporate America that only a true outsider could offer. That, combined with the legitimacy conferred by his Harvard teaching position and Princeton publisher, will rattle corporate cages at a time when they sorely need rattling.