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The C-suite has become the hot seat. With CEOs under enormous pressure to deliver the outstanding performance investors demand—and to satisfy other, often conflicting constituencies—it is no wonder that the pace of CEO turnover is accelerating. The latest Booz Allen Hamilton CEO succession study found that 15.3% of CEOs worldwide and 16.2% in North America left office in 2005. That's an increase since 1995 of 70% globally and 54% in North America. What's more, a third of the departures in the most recent survey were "nonroutine"—that is, they occurred before the scheduled succession date, usually because of performance problems.

Typically, the early departure of a CEO leads to the recruitment of someone thought to be better equipped to fix what the last CEO couldn't, or wouldn't. The new leader arrives with a mandate to change course or, in the most extreme circumstances, to save a sinking ship. The board places its confidence in him because of the present dilemma's similarity to some previous challenge he dealt with successfully, such as reshuffling a portfolio, slashing costs, increasing market share, or negotiating with regulators.

Facing a familiar problem, the CEO can be expected to do what he was hired to do. Indeed, research presented in "Are Leaders Portable?" by Boris Groysberg, Andrew N. McLean, and Nitin Nohria (HBR May 2006), indicates that leaders succeed when the skills demanded in their new positions directly draw upon the executives' professional backgrounds and experiences. But familiar problems are inevitably succeeded by less familiar ones, for which the specially selected CEO is not quite so qualified. More often than not, the experiences, skills, and temperament that yielded triumph in Act I turn out to be unequal to Act II's difficulties. In fact, the approaches that worked so brilliantly in Act I may be the very opposite of what is needed to bring Act II to a happy resolution.

As the drama unfolds, the CEO has four choices: He can refuse to change, in which case he will be replaced; he can realize that the next

act requires new skills and learn them; he can downsize or circumscribe his role to compensate for his deficiencies; or he can line up a successor who is qualified to fill a role to which the incumbent's skills and interests are no longer suited. Hewlett-Packard's Carly Fiorina exemplifies the first alternative; Merrill Lynch's Stanley O'Neal the second; Google's Sergey Brin and Larry Page the third; and Quest Diagnostics' Ken Freeman the fourth. All but the first option are reasonable responses to the challenges presented in the second acts of most CEOs' tenures. And all but the first require a power of observation, a propensity for introspection, and a strain of humility that are, in truth, quite rare in the ranks of the very people who need those qualities most.

Act II's Four Variations

Remake your company into one that has no place for you. Carly Fiorina is a perfect example of a CEO brought in to address a specific set of problems because of her success in dealing with similar ones elsewhere. Hewlett-Packard's board began searching for a new CEO because the company had become stodgy, inbred, bureaucratic, uncompetitive, and demoralized. HP's last groundbreaking innovation, the ink-jet printer, had been introduced 15 years earlier, in 1984, and quarterly growth was almost nonexistent. Competitors threatened to encroach on every segment of HP's business—Dell in PCs, Lexmark in printers, Sun Microsystems in servers, and IBM in solutions. So the board sought a dynamic, first-class communicator who could revive morale, restart the innovation engine, cut through the bureaucracy, and justify the reputation on which HP had been undeservedly resting for too long.

Fiorina filled the bill. Having been president of Lucent's Global Service Provider Business, she had done these things before. She set out to market her vision for HP by making speeches and appearances at high-profile events such as the World Economic Forum, courting media attention, meeting with endless groups of HP managers, and, perhaps most dramatically, becoming the public face of the company by appearing in its commercials and other advertising. Contributing to her personal mystique and sharpening HP's image was her distinction as the first woman to lead such a large, well-known company.

As outsized as her image were the steps she took to recast the organization. She laid off thousands of people and consolidated well over a hundred product groups into about a dozen to reduce redundancies and speed decision making. But only a major acquisition, she concluded, could disrupt entrenched routines and catapult HP into a commanding lead in the personal computer industry. To accomplish this, she was forced to override a boardroom minority that objected to a merger with Compaq, and she ignored those who pointed out that mergers of large companies in the high-tech arena had never worked out.

Today, even her detractors admit that the Compaq acquisition made sense. Despite boardroom tensions that exploded into a spying scandal, HP is now enjoying a growing lead over its competitors, including what was supposed to be an unstoppable Dell. But integrating two organizations and boosting operating performance in the core businesses require very different skills from developing a vision, embodying it, communicating it, and driving it through—Fiorina's proven strengths. Her continued public exposure, even after the battle was won, led to accusations that she was an incorrigible publicity hound. In the end, her reluctance to delegate led to conflict with the board, which lost confidence in her.

Remake your company—then yourself. In 2003, Stan O'Neal was engaged in deep reflection. He was finishing his first year as the CEO of Merrill Lynch, and, despite his tremendous success, he sensed it was time for a change.

Two years earlier, in July 2001, he had been named president of the company. Six weeks later, he was managing in command-and-control mode, regrouping the firm after the terrorist attacks of September 11, which killed three employees and forced the company to evacuate its heavily damaged headquarters. Additionally, Merrill Lynch was still feeling the effects of the bursting of the tech bubble a year earlier (and it would soon be hit with a wave of negative headlines about the Wall Street research scandal). The challenges required immediate action; O'Neal made painful and unpopular decisions that would be criticized by some within Merrill Lynch and second-guessed from the sidelines.

Between 2001 and 2003, O'Neal worked hard to resize and reshape the firm, cutting costs to cope with lower revenue, reengineer-

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ing parts of the business to diversify revenue streams and neutralize the roller-coaster highs and lows of debt and equity trading, and reining in expansion plans that had failed to deliver.

O'Neal often found himself in a lonely position: He knew he had to rethink the firm's entire business model and challenge the "Mother Merrill" culture that had become more maternalistic than performance based. At the same time, he had to improve the morale of a shaken workforce and retain the attributes of the iconic franchise he had inherited.

By the summer of 2003, O'Neal's efforts had paid off, with Merrill Lynch posting the best first-half results in its nearly century-long history. With the firm on solid ground, he began to think longer term about what he would need to do to ensure that Merrill's future leaders would not have to face similar problems. He realized that new challenges would require Merrill's executives, himself included, to provide a substantially new kind of leadership. In other words, he understood the need to make a major shift in leadership skills in Act II, even though Act I had been a great success.

Working with an outside consultant and his senior management team, he led a process of feedback and coaching. Together they created the Merrill Lynch Leadership Model to clarify what they expected of themselves and other leaders at the firm. The model focuses on four areas critical to effective leadership: strategic thinking, business results, people leadership, and personal effectiveness.

The top 11 leaders (including O'Neal), followed by the next 200, then the next 1,000, received feedback and coaching. Changes were made in performance evaluation, rewards, talent reviews, and other mechanisms to support the new model of leadership. By 2006, objective measures revealed that Merrill's culture, which had been homogeneous, lenient, and clubby, had shifted significantly, becoming merit based, rigorous, and diverse.

Respect your limitations while growing your company. Larry Page and Sergey Brin founded Google when they were PhD candidates at Stanford. The uniquely effective Internet search engine they invented enabled their company to be one of the few healthy survivors of the dot-com crash. As their background might suggest, the founders' strong suit is writing computer code. But their ambitions for Google go well beyond spurring technical refinements of its core technology. Google now offers satellite mapping, digitalized libraries, and its own e-mail service, and its search capabilities extend to e-mail databases and company intranets. Although Page and Brin were committed to staying with the company they created, they knew they weren't professional managers or marketers or masters of strategy. So in 2001 they brought in a "grown-up," Eric Schmidt, to operate the company.

Schmidt had been the chairman and CEO of Novell for four years, and before that he was the chief technology officer at Sun Microsystems, where he led the development of Java. He is a skilled big-company executive, a seasoned marketer, and a renowned technology expert in his own right. With Schmidt as CEO, Page as president for products, and Brin as president for technology, the company has flourished beyond almost anyone's expectations. Indeed, Google provides one of the few examples of technology-oriented founders making a smooth handoff to a professional manager.

Implications for the Board

The near inevitability that a new CEO will face an Act II that puts his or her skills and assumptions to a severe test places special responsibility in the hands of boards of directors. This advice is addressed to them.

- In succession and selection, beware of stylized leaders or one-trick ponies who seem to have succeeded in one kind of situation but have had limited exposure to a range of leadership challenges. Look for evidence that the individual has developed or could adopt more than one leadership approach.
- Pay attention to the possible leading indicators of CEO ineffectiveness, such as failure to deliver on promises, excessive rationalization of failures, departures of valued executives, or the CEO's seeming out of touch with his organization or even his own team. Often, a CEO's inability to adjust to a new set of issues reveals itself only when problems become acute. By then, it may be too late to do anything other than remove him. The board should collect data with an eye toward determining the CEO's ongoing effectiveness. The board's sense of his progress should be shared with the CEO and the company's other leaders.
- Recognize that the board has a role to play in mentoring and coaching the CEO. Too often, the board takes a hands-off approach until it becomes apparent that the CEO is faltering.
- When faced with a crisis, recognize that you may need to think about a two-stage succession process. Consider bringing in a CEO specifically to handle the immediate problems. Make clear that once the crisis has been resolved, you may look for another CEO, one who is better suited to dealing with the next round of issues.

The approaches that worked so brilliantly for a CEO in Act I may be the very opposite of what is needed to bring Act II to a happy resolution.

Remake your company, then move on. In 1995, Ken Freeman was named chairman and CEO of Corning Clinical Labs, the ailing medical testing business soon to be spun off from Corning. Freeman had been a Corning "lifer," having risen through the financial side to become controller while still in his early forties. He then moved through a variety of roles, among them running the company's television-glass business and serving as CFO.

Freeman found a business in shambles. Receivables sat on the books interminably; cash flow was plummeting at an alarming pace. Questionable lab results and billing practices had made the company (along with others in the industry) a target of government investigations. Freeman's drastic mandate was not to rescue the business but to get it ready to be sold. However, the troubles were so pronounced that no credible buyer stepped forward, and Corning was forced to adopt a Plan B: a spin-off of the clinical labs as an independent public company with Freeman as its chairman and CEO.

Freeman made clear to his management team that billing practices that were common in the testing industry threatened the business's survival. He quickly installed a rigorous quality process, assembled a new board, and generally pulled the company together. Having created stability, he embarked on an expansion program that culminated in the acquisition of the lab's largest competitor, SmithKline Beecham Clinical Laboratories. When the dust settled, the now renamed Quest Diagnostics was the industry leader in size, geographic reach, market share, and quality. Its stock price soared. Then, in 1999, with Quest still gathering momentum, Freeman went out to find a successor and worked with the board to put in place an orderly succession process. In 2003, at the still youthful age of 53, Freeman passed the baton to Surya Mohapatra and left the company he had built.

Why, unlike Fiorina, did Freeman leave before he had to, when in fact the board, investors, and employees wanted him to stay? Reflecting on his decision later, Freeman observed that the company's future growth would have to be organic (for one thing, Freeman had exhausted the supply of major acquisition targets). A deep understanding of medical technology, which Mohapatra possessed and Freeman lacked, was going to be a more crucial qualification for leading Quest than a flair for turnaround situations or a gift for deal making, Freeman realized.

But if so, why didn't Freeman, like O'Neal, decide to turn himself into the kind of executive Quest required? The difference was that Freeman felt most alive in the high-pressure situations of crisis and M&A. Gently moving the tiller from side to side after he had prevented the vessel from capsizing was Freeman's idea of boredom. Being not only an effective executive but a wise one, he didn't invent or precipitate crises or make ill-considered acquisitions simply to keep himself engaged. Instead he went looking for a new arena where he could find excitement and success. Today he is with KKR, engineering turnarounds at companies such as Masonite International.

The Obstacles to Coping

CEOs often face enormous challenges in their first months on the job. In her Act I, Fiorina had to symbolize leadership, as well as lead effectively, in order to achieve the transformation she sought. In his, O'Neal had to be almost inhumanly tough to shatter the culture that was impeding Merrill's progress. In theirs, Brin and Page had to devise the algorithms that would produce the most germane search results on the Internet. And in his, Freeman had to envision a company that in no way resembled the existing one.

Each of these executives performed brilliantly, as do many other CEOs who are brought in to fix specific problems. But as predictably as in a play of Shakespeare's, a successful CEO's Act I will end, and a second act will begin, sometimes imperceptibly. It usually happens before the first two years are up. (Of course, there are plenty of chief executives who are unsuited to solving the problems they were hired to overcome and who fail within the first year and a half; see the article "When CEOs Step Up to Fail," by Jay A. Conger and David A. Nadler, in the Spring 2004 issue of *Sloan Management Review*.) A career-testing ordeal arose after two years in O'Neal's case, three years in Page and Brin's, and five years in Fiorina's.

Why do so many high performers—not just those mentioned here but hundreds of others too—meet their end when Act II begins? There are several reasons. First, some CEOs are simply oblivious to the shift in its early stages.

Some CEOs sense the shift to Act II but fail to understand how much damage they can cause by sticking to their original approaches.

The extraordinary commitment they must make to solving the first set of problems, and their tendency to attack those aspects most likely to yield to their proven methods, somehow blind them to less familiar realities, as well as to the new leadership approaches that are required. Second, some CEOs sense the shift but fail to understand how much damage they can cause by sticking to their original approaches. CEOs are notoriously poor observers of their own behavior, and they rarely notice its unintended consequences or invite feedback. Third, some recognize the new circumstances and thus the need for a change in their modes of leadership but are incapable of transforming themselves enough to make a difference. Finally, some don't change in Act II because they don't want to. Freeman may have been capable of leading differently in Quest's next phase—he certainly understood the need to do so—but making that transformation had little appeal for him.

Leadership style is a function of years of development and experiences, and it is an outgrowth of personality and character. Achieving a dramatic change in leadership style is difficult for anyone, but it's particularly hard for people in their fifth or sixth decade who have been responsible for a long string of successes. Personality and character aside, such people have developed systems for leading, so to speak, that they can't bring themselves to jettison. In fact, when faced with resistance during Act II to their customary modes of acting, some leaders hang on more tightly than ever to the devices that have long kept them afloat.

Another way of looking at this phenomenon is that these leaders' well-worn management techniques have become inseparable from their prevailing view of themselves. In a series of landmark studies, organizational psychologist Joseph L. Moses observed the different ways in which managers deal with emerging and unfamiliar challenges. "Stylized" leaders, as he called them, cling to old and discredited approaches that have become part of their identities as executives. These leaders believe that if they were to feel their way by trial and error to a new set of responses, they would sacrifice the skills and personal qualities that gave them their successes and reputations. "Adaptive" leaders, by contrast, spend time understanding the situations confronting them and contrive strategies and approaches that fit the circumstances. Stylized managers can be extremely effective until they encounter a situation that is too dissimilar to its predecessors to yield to the proven approach. Not surprisingly, Moses found adaptive managers to be more effective overall in a range of different situations.

Psychology and learned behavior, reinforced by experience, are only half the story, however. The limitations in executives' cognitive abilities also have a role to play in CEOs' Act II reversals. A longitudinal study published by Andrew D. Henderson, Danny Miller, and Donald C. Hambrick in May 2006 compared the tenures of 98 CEOs in branded foods, an industry that the researchers describe as comparatively stable, with 228 CEOs in computers. The food companies' performance tended to improve over the course of the CEO's tenure; in computers, performance tended to peak early and diminish steadily thereafter. The authors' hypothesis is that every CEO comes to the job with a "relatively fixed" approach—a view of the world and a matching set of skills. The more dynamic the business environment, the faster those worldviews and abilities become mismatched to present realities, both competitive and organizational, and "it will be the rare executive who can greatly transform his or her mind-set, aptitudes, and skills."

As the researchers suggest, a senior executive who has built her career on being the most effective mass producer of the lowest-cost products would find it extremely difficult to adopt a strategy based on providing luxury offerings. She would be hampered by her mental habits, her values, her understanding of and interest in particular kinds of customers, and her entrenched notions of what works. Executives in the publishing industry are experiencing those pains right now. Despite their grand visions of migrating content from print to digital platforms, the majority of longtime print executives are finding it difficult to make the wrenching decisions required to facilitate the transition.

Companies that successfully identify and develop talent recognize that stylized and otherwise limited managers can be effective if matched to the right situations. They also recognize that people often need to be moved laterally when situations change or when it becomes clear that an executive has been put in the wrong position. But there is no lateral position in the company to which a CEO can be

moved. When a chief executive is inflexible or unable to see a change in circumstances, the board must take actions that are inherently unpleasant and disruptive.

Four Steps to Renewal

Despite the personal and professional limitations that affect executives' ability to adapt, there are steps executives can take to discern that they have entered new territory and to respond accordingly. Here are the four essential ones.

Recognition. Evidence that your leadership style and approach are no longer working can take several forms. You may notice that people aren't responding as they once did to your speeches, especially those in which you lay out your vision for the next two or three or five years, and that your initiatives are faltering. You may also find yourself clashing with your team or with your board. You may start to feel fatigued and emotionally disengaged from your work, which has started to seem like a job rather than a calling. While none of the above by itself would be proof positive that the ground has shifted, an accumulation of these factors would be strongly indicative.

Acceptance. For a successful, confident, and assertive leader, it is tempting to see failure as the result of others' negligence or mistakes and to believe that poor performance merely calls for redoubled courage and persistence. But such beliefs are often self-deceiving and even delusional. It is therefore important that leaders rely on more than just their own impressions. Advice can come from a variety of sources: the full board, selected directors, or, as in O'Neal's case, outside consultants.

Analysis and understanding. Once you recognize that Act II has arrived and that it requires a new type of leadership, the next step is to understand the nature of the shift. What would an Act II of your own making look like, and what are its implications for your leadership approach? An objective evaluation is often beneficial.

Decision and action. I've seen CEOs employ a number of different strategies at this stage:

Personal change. In some cases, the CEO is able to step back, understand the requirements of Act II, and adjust his approach accordingly, as Stan O'Neal did. However, this modest-sounding goal requires a rare ability to reflect on one's own behavior and a willingness to reveal one's weaknesses and admit shortcomings. Then the leader must take on the task of self-transformation with all the determination and tenacity he formerly directed at pushing the organization forward. A CEO who can do that will no longer be the captive of strategies that have outlived their usefulness.

Structural change. Page and Brin's handoff to Schmidt can be seen as a classic case of redesigning the management structure to complement the strengths of the top people. Hewlett-Packard's board appears to have attempted the same thing with Fiorina. The board recognized the need for a change in leadership style and initially proposed not to remove Fiorina but to put in place a structure that would devolve some of her duties to subordinates better suited to overseeing day-to-day management. Fiorina, by most reports, rejected this approach, asserting that her own leadership style was best suited to institutionalizing the changes she had initiated.

Accelerated succession. Finally, a leader can acknowledge that the shift has begun and that it will call for a different chief executive. Such a decision requires a high degree of self- and situational awareness. Many CEOs suffer from a misplaced sense of obligation to stick it out and complete the mission, even when signs are plentiful that hanging around would actually imperil it. Frankly, in 30 years of working with CEOs, I've hardly ever come across an occasion in which people thought the CEO had chosen to leave prematurely. The consensus is usually that the CEO has stuck around too long.

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A smart board and a thorough search process will often turn up the right person to solve the company's immediate problems. But today's marketplace, in which buying patterns can suddenly shift and new technologies can materialize out of nowhere, will surely test a new CEO before long. Removing a maladaptive CEO before his time is messy and traumatizing for all concerned, including the ranks of employees. Consequently, boards have a duty to choose and cultivate leaders who can negotiate the transition from the first act to the second and, for that matter, from the second to the third, and so on. Moreover, boards can make sure that up-and-coming executives develop an awareness of, and receive training for, Act II transitions, so that if and when the individuals get to the C-suite, they are poten-

tially more adaptive. Boards can do this by seeing to it that promising executives rotate through various locations, functions, and businesses; after all, divisions and subsidiaries present their top managers with Act IIs that are similar to, if less wrenching than, the crises that face corporate CEOs.

Such an approach expresses the ideal. In reality, there's a scarcity of CEOs who can repeatedly refashion themselves. The board therefore must respect the limitations of the mere mortal who has served the company well, if only for a few years. By the same token, proud CEOs must come to recognize when their time has passed.

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