



## CEO Network Chat

### Q&A: Peter Crist

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What follows is the transcript of a Nov. 17 online chat on the **Forbes.com CEO Network** featuring recruitment expert **Peter Crist**. The subject was a new Crist Associates study of certain employment trends for C-level positions in large-cap firms.

**FDCEEDITORS: Welcome, everyone. Peter is here and we're ready to get started. Peter, what's your "Volatility Report" all about?**

PETER\_CRIST: We did a study over the summer after identifying a number of large cap companies did not have a COO position. We decided to use the Fortune 500 and S&P 500 to check over the last seven years which companies had COOs and which companies decided to promote from within or go outside when change occurred. We also tried to determine a volatility index for the CEO, CFO and COO roles. This was intended to show us the frequency of movement for these positions over that seven-year period.

As you might determine, there was a spike of volatility as we entered 2000, but we also found some interesting corollaries. The first was the fact that more CEOs were promoted from within when change occurred at the CEO level. As contrasted to when change occurs at the CFO position, companies tended to go outside more than two to three times more frequently.

**FDCEEDITORS: What's going with the COOs? They're not replacing themselves after they're promoted to CEO?**

PETER\_CRIST: Nature abhors a vacuum. When you remove the COO position from the triangle of the CEO, COO and CFO, the resulting partnership between the CEO and the CFO not only becomes stronger, but the CFO has taken more of that slack.

**Gazza: Who is handling the responsibilities of the COO?**

PETER\_CRIST: By removing the COO, the CEO is also pressed to become a stronger operator and therefore become more intimately involved in the running of the enterprise. It is our observation that going forward, strong CEO-CFO partnerships will fill the void when the COO is not in the company.

**CedarCreek: Do you have a sense if this is a cyclical or permanent trend?**

PETER\_CRIST: Interestingly, our data goes back to 1995, at which point we observed a low end of the cycle for companies lacking COOs, whereas we saw in present-day companies lacking COOs. As our data does not go pre-1995, it could be that we might have identified cyclical patterns.

Having said that, we actually believe the pressures from the external constituents including the board on CEOs today suggest that going forward the span-breaker role of the COO will not be allowed because boards want their CEOs involved in managing the enterprise. The younger the CEO, the more prevalent it will be to not have a COO; as you move into succession situations, the greater the need for COOs.

**FDCEEDITORS: Can you cite some firms that have left the COO slot unfilled after promoting the incumbent to CEO?**

PETER\_CRIST: General Motors, Wal-Mart, Procter & Gamble, Home Depot, McKesson, IBM and NCR.

**FDCEEDITORS: When change happens at the CFO level, are companies more prone to go outside? (As opposed to with CEOs.)**

PETER\_CRIST: Our study strongly suggests that companies tend to look outside when there is change at the CFO position. We believe there are several reasons for this. If you accept the fact that the CFO role has grown in its sign over the last five to ten years, than it is also easy to suggest that the role has become more complex and demanding. When given the opportunity to either upgrade or bring in a stronger player to this discipline, we see companies going outside with more frequency.

In fact, over the last 24 months, we believe there have been more CFO assignments than CEO assignments in the market. Although this data is difficult to quantify. We also believe that there is a stronger willingness on the part of board to consider CFOs for the CEO role (witness **Ed Liddy** at Allstate, **Alan Lacy** at Sears, **Tom Falk** at Kimberly-Clark, **Harry Kraemer** at Baxter), and therefore companies are looking for succession prospects when filling the CFO chair.

**FDCEEDITORS: Is this related to the trend of companies preferring to hire younger CEOs from within? Or rather, to promote them from within.**

PETER\_CRIST: Yes. We have observed that if a board feels there is an internal candidate for the CEO role who is close, the board is more prone to promote a person who they feel might not have all the tickets rather than taking the risk of bringing in someone from the outside. It also suggests that given the prolific number of CEO searches at the end of the century over the last 3-5 years that were not successful, boards are pragmatic about promoting from within if they feel the person has the potential to grow quickly into the CEO chair.

**FDCEEDITORS: Is there significantly greater volatility at the CFO level than at the CEO level? Why is that?**

PETER\_CRIST: If you measure volatility by change in each respective position, the answer is yes. If you measure volatility by the frequency of companies going outside for either role, there is definitely greater volatility in the CFO role. The proclivity for companies to change more frequently at the CFO level than the CEO has much to do with how boards address risk. It is far riskier to change out your CEO than your CFO and we believe Boards recognize this.

**FDCEEDITORS: What about the recent spate of "aggressive accounting" scandals -- Enron, etc. Has that put more pressure on CFOs, creating more volatility?**

PETER\_CRIST: Definitely more pressure. We believe that the "in the chair" time for CEOs and CFOs is about five years. And we think the CFO average time could go to four years within the next year or two due to all of the external pressure points. This not only includes the scandals which cause greater scrutiny, but all of the follow-on regulatory obligations, which are so time consuming and time demanding. Boards are very skittish right now and we believe that nervousness manifests itself in requiring more communication from the CFO (and the CEO) than ever before. So, net net, the CFO chair is more demanding. And we believe going forward will have a higher failure rate given these demands. We suspect in next year's Volatility Report, we will be able to confirm this statement.

**FDCEEDITORS: Your report indicates that CEO volatility did not increase during the recent recession, which seems counterintuitive. Why was that the case?**

PETER\_CRIST: It actually was flat. We believe what this indicates is the overall risk aversion that companies move into in a down cycle. In the three big recessions that I've seen over the past 27 years, you tend to see a great deal of risk aversion by boards and senior leaders of companies. If people believe that they cannot control their own destiny either through the markets or because the economy is in a down cycle, human nature being the way it is, risk aversion tends to rise to the top. In other words, unless you've crossed the line, which gets you fired, you tend to sit tight.

**FDCEEDITORS: That's all we have time for today. Thanks to all for participating.**