# ADAPTABILITY: A NEW IMPERATIVE

According to a November 2013 Bloomberg article, U.S. corporations are switching chief executive officers at the fastest pace in five years as companies from Wal-Mart Stores Inc. to Microsoft Corp. grapple with shifting customer tastes, competition from upstarts and restive shareholders.

This year, through the third quarter, 43 companies in the Standard & Poor's 500 Index were working under new CEOs, suggesting that 2013 will surpass the 49 of 2011, the biggest for turnover since 2008. Wal-Mart joined those ranks yesterday, saying Doug McMillon, head of its international business, will replace Mike Duke in February.

CEOs are required to master a broader range of skills than in the past, when top executives might have climbed the ranks with just one discipline. Companies are bigger, more global and increasingly complicated, and there's accelerating competition in countries such as China, India and Brazil. Executives must also adapt to quicker technological change, including shifts brought on by widening use of mobile devices.

"Companies in every industry are dealing with a new digital world where sales happen differently, the consumer is reached differently and products have to be made and moved around the world in a new way. CEOs that don't have a digital orientation are worried. We're in a new world.

2013 online holiday sales will increase as much as 15 percent to $82 billion this year, more than three times faster than the total retail sales gain of 3.9 percent to $602.1 billion, according to the National Retail Federation. It's against that backdrop that Bentonville, Arkansas-based Wal-Mart, the world's largest retailer, is bringing in a new leader.

CEO change at Wal-Mart and Microsoft has been propelled by the need for better strategies, said Michael Useem, director of the Center for Leadership and Change Management at Wharton School of the University of Pennsylvania. Wal-Mart needs to improve performance in some overseas markets where it has stumbled, while Microsoft needs to better tackle the Internet, he said. Microsoft Transition

"CEOs today have to think about where smartphones and the Internet are going, which no one had to do before," Useem said in an interview. "So you need leaders with the intellectual firepower to master new things who can also figure out how to grow huge global organizations."

Microsoft CEO Steve Ballmer has said he will retire as the Redmond, Washington-based company transitions from its roots as the world's largest software maker to focus on devices and services. Rivals Apple Inc. and Google Inc. have shifted the technology landscape away from Microsoft's mainstay personal-computer business to mobile computing.

Zynga Inc. this year hired Microsoft executive Don Mattrick as the San Francisco-based social-gaming pioneer faced challenges to shift from titles aimed at Facebook Inc. users toward customers playing games on smartphones. 'Digital Landscape'

CEOs who aren't comfortable around technology and digital trends will have difficulty setting strategy for the future, said Dawn Lepore, former CEO of Drugstore.com and a director at AOL Inc., TJX Cos. and RealNetworks Inc.

"If you don't understand the digital landscape, how will you make the right decisions about what your company will be for the next 10 years?" Lepore said. "Everything from cars to manufacturing plants have more computers in them."

It's not just the changes in technology that are driving the high rate of CEO turnover. The record stock market in the U.S. also makes it a very lucrative time for an executive to retire, said John Wood, vice chairman at executive recruiter Heidrick & Struggles in New York.

When a CEO retires, most of the payout comes from shares accumulated in the tenure, Wood said. The Dow Jones Industrial Average closed above 16,000 for the first time last week.

**Activist Shareholders**

When a company does stumble or slow, activist investors are increasingly willing to jump in, Wood said. "They are now willing to directly go to boards with what they believe to be a legitimate commentary on the CEO's performance," he said.

In this year's first half, activists' second-most-common strategy was the removal of a CEO, trailing only the quest for a board seat, according to data from Activist Insight, which tracks the industry. As recently as 2010, removing the CEO was sixth, the data show.

Activists this year have helped force out executives at Procter & Gamble Co., Chesapeake Energy Corp. and J.C. Penney Co. Investors have also put pressure on management at Microsoft and Sotheby's, among others.

At P&G, investor Bill Ackman pushed for changes after the Cincinnati-based company lost customers in such categories as detergents and had to scale back plans in emerging markets. Once known for inventing new categories, P&G hasn't had a $1 billion hit since re-imagining the household mop with the Swiffer a decade ago.

**Pressure Jobs**

With the added pressure of activists and the CEO job already requiring an executive to be plugged in 24 hours a day, seven days a week, there's more incentive to leave the job if the opportunity presents itself. The pressure is getting tougher and tougher. The digital shift is taking its toll on people in their 60s because it's not something they grew up with. These people are so well compensated that they don't need to be in the job for 10 years before they can afford to retire.

The CEO changes in the S&P 500 included 30 retirements and another 10 instances where the executive was ousted or stepped down; other changes were caused by the death of executives or mergers.

The confluence of circumstances is creating a real-life game of "musical chairs" for CEOs, said Peter Felix, president of the Association of Executive Search Consultants in New York, which tracks recruiter activity. Fees are rising, reflecting the increase in CEO and top executive searches, he said.

"Boards are saying we'd better make some changes now because it may be too late if we don't, the time is right and George, or Henry or Bill is ready to retire," Felix said. "It's the coming together of a whole bunch of forces and that can spell serious change."

**A Message for All of Us**

The bottom line is all of this has far reaching implications for all of us, not just CEOs and senior corporate execs.  Today more than ever, the attribute of adaptability must rise to the top of the list of attributes sought among business leaders and followers alike, in all business sectors.

At Allen Austin, a global retained search and leadership advisory firm, we have been engaged in the study of causes for success and failure among executive placements for close to twenty years. “We are hearing, with unprecedented clarity from CEOs and board members across virtually every industry sector, that adaptability, or lack thereof, is one of the single biggest reasons for failure among important executive appointments” reports Rob Andrews, the firm’s founder.

“We recently spoke to the CEO of one of Houston’s largest medical centers who lost three senior members of his leadership team. Two lasted less than six months. We asked if there was a common thread running through all three failures. His answer was unequivocal: their inability to deal with change and ambiguity. Another term he used was the inability or unwillingness to roll with the punches.”

“We’ve always screened executives for the most common causes for senior leadership failure such as arrogance, myopia, delusion and the like. Today’s business environment is like none other. All of us are in completely uncharted territory. The rate of technological change is but one source of angst. Regulatory changes, the political environment add to the list. Based on our observations, conservatively 60+% of present day executives are completely clueless in terms of how to deal with, manage, sell to and lead Generation Y, the largest, most educated, most diverse generation in history.

While adaptability has always been a highly desirable attribute, it has now risen to the level of non-negotiable.