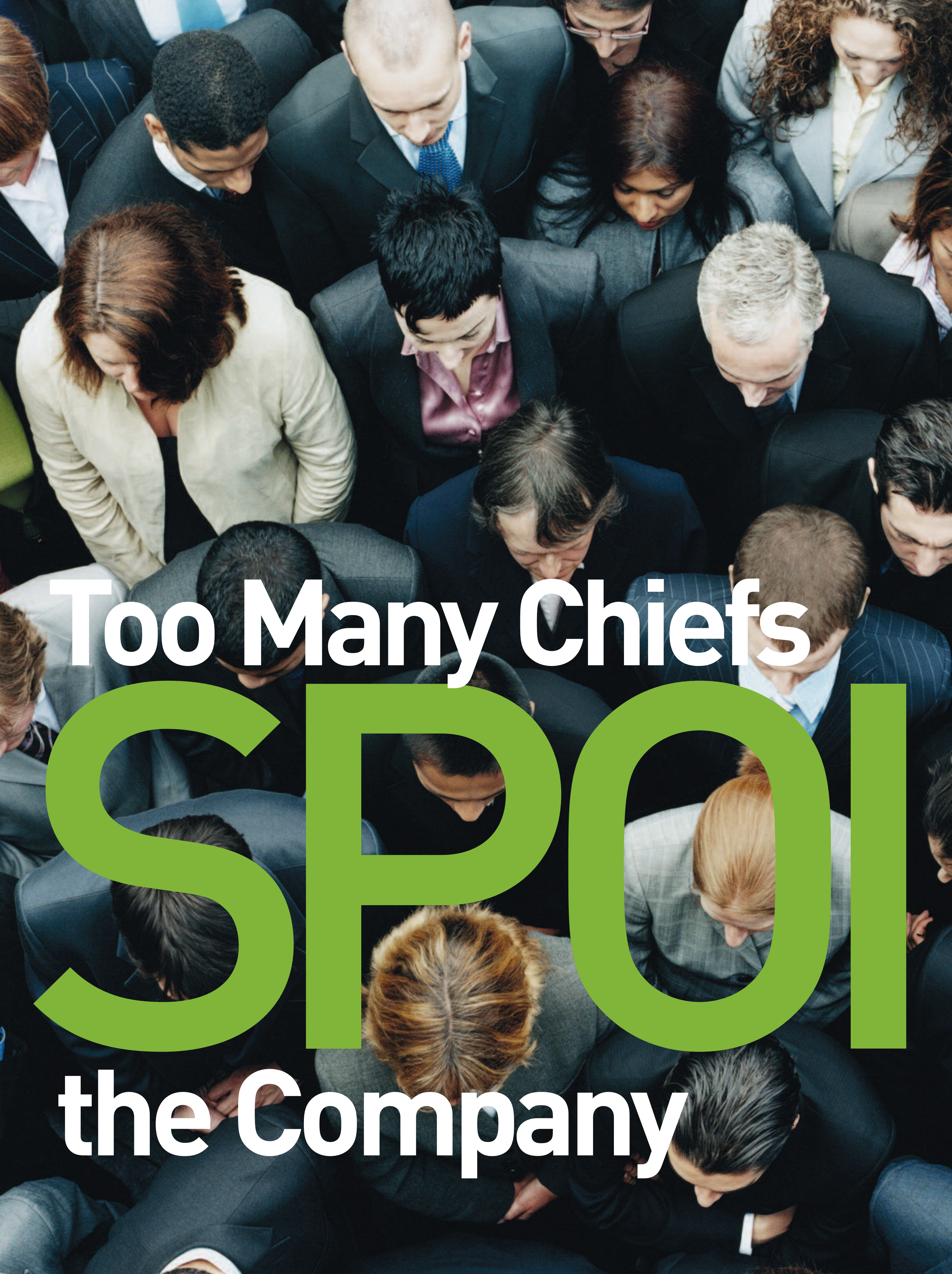
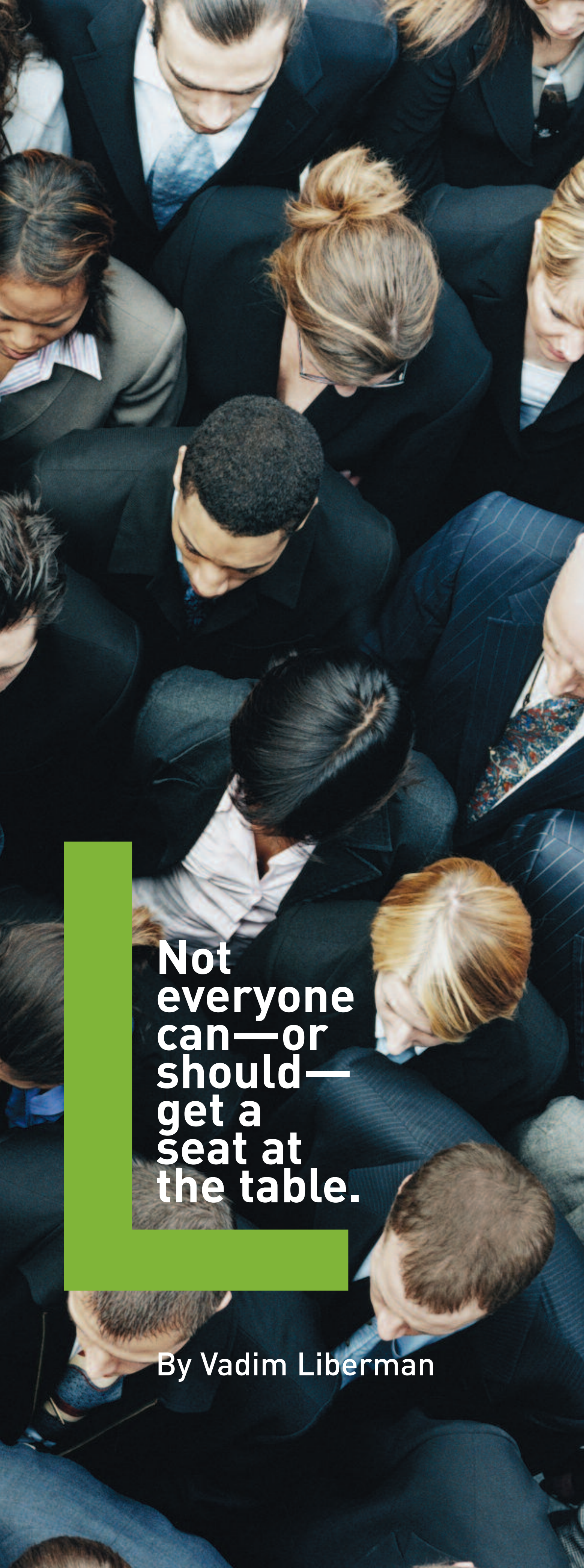
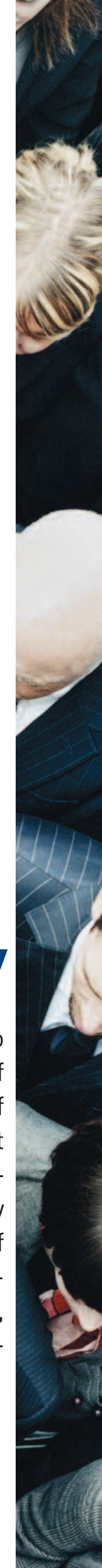


Too Many Chiefs SPOI the Company



Not everyone can—or should—get a seat at the table.

By Vadim Liberman



How many

CEOs does your company have? One is no longer enough—these days there's a chief ethics officer, chief experience officer, chief environmental officer . . . and that's just the E's. Today's top echelon of management is brewing an alphabet soup of new or elevated positions: There are chiefs of learning, innovation, performance, sustainability, branding, culture, reputation, risk, marketing, growth, ethics, diversity, technology, privacy, vision, meaning.

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If any of these give you pause—or perhaps elicit a despondent sigh—you're not alone. "It's starting to get a little nuts," remarks Jeanne Bliss, former leader of customer experience at Lands' End. When you have to ask whether a CTO manages talent or technology, maybe it's time for a chief-of-reining-in-a-bloated-C-suite. Presumably, that's the CEO—yes, *that* CEO—but for better or for worse, chief executives continue adding more direct reports. (Titles vary, but let's stick with "chiefs" for now.)

Executive inflation has been picking up speed for some years: Researchers at the Universities of Chicago and Pennsylvania found that at large, publicly traded companies, the average number of direct reports to CEOs increased from 4.4 to 7.2 between 1986 and 2000—notably striking given a drop in the total number of employees at the core firms they tracked. And observers are certain that the number of direct reports has climbed even higher over the last decade.

The more a CEO engages with his senior executives, the better. Yet it's one thing to meet *more* with subordinates and another to meet with more *of* them. At the same time, *of course* diversity deserves a seat at the table, says the diversity consultant. *Naturally*, marketing warrants a seat, says the marketing expert. *Obviously*, technology must be there, says the IT geek. And don't forget to save a chair for . . . well, you get the point.

In the end, the adult table can be only so big. How many Cs does an organization really need? Whom do you bump to the kids' table?

"Adding a CEO report should not be taken lightly," instructs Anthony Politano, management consultant and author of *Chief Performance Officer*. "You need to think about whether you really need the position before you add another chief fad officer." Indeed, many newer titles are responses to trends and events. For example, after Enron stripped corporate America of any good standing, it seemed that doing the right thing meant creating the right position—chief of ethics/compliance. Meanwhile, an Accenture review of the business press reveals that until 1997, there were only seven announcements of chief strategy officers at large companies (the first was at Colonial Penn Life Insurance Co. in 1976), compared to thirty-nine announcements over the following six years (the dotcom era). Likewise, the 9/11 attacks prompted the creation of chief security officers; public anger over lapses in protecting consumer data led to chief privacy officers; Sarbanes-Oxley produced chief risk and chief audit officers; attacks by bloggers, reporters, and everyone else brought about chief reputation officers; and, of course, when one organization, then another, then another installs a head of diversity, you've got to demonstrate similarly that you share the same commitment to a varied workforce—above and beyond what's legally required.

You might be tempted to dismiss some of these high-level appointments simply because they're trendy. Or maybe the cynic in you sees right through the public-relations BS. But it would be a mistake to confuse *trendy* and *politically correct* with *irrelevant*. A position's ultimate worth depends not on its popularity or PC value. Rather, we must judge a C-post based on how well it serves the business (provided it's given necessary resources). Why a firm creates a post matters less than what happens afterward.

"Prior to Enron, organizations underestimated the workload and specialized knowledge governance required," Politano explains. "So some companies jumped on board by hiring chief ethics officers because they felt they needed them. Others created the position to shut the press up. But in gaining PR savvy, they were also gaining the operational excellence of knowledge involved in the position."

COPING WITH COMPLEXITY

You hear it all the time: Business is more complex these days. The truth is that it's always been complex. The issues with which organizations struggled decades ago remain alive and well. Volatile markets, demanding economic environments, government regulations, ambiguity, pressure from NGOs and stockholders, changing technology—when have these *not* affected business? When has the list of functions in this article's first paragraph *not* been crucial to corporations? And yet corporations in years past didn't reserve office space for, say, a top-level technology officer to manage telephones, fax machines, and calculators.

But maybe they should have. Perhaps companies are finally discovering better management through greater, specialized oversight of areas. At least that's how boards prefer it. "Several years ago, CEOs were very comfortable playing multiple roles, but not anymore. Boards want subject-matter experts," says Mike Myatt, author of *Leadership Matters . . . The CEO Survival Manual* and managing director and chief strategy officer at N2growth, a Delaware-based professional-services firm. "They don't just want a cowboy CEO who handles things as they come along."

Boards may be onto something. The Holy Trinity—CEO, CFO, COO—can no longer directly manage everything and, arguably, never should have tried doing so in the first place. Today's work itself may not be harder, but completing it is, given the increased volume and rapid pace of change. "Yesterday's CEOs probably couldn't compete in today's environment," claims Ron Sims, professor of organizational behavior at the College of William & Mary's Mason School of Business and co-editor of *Executive Ethics: Ethical Dilemmas and Challenges for the C-Suite*.

A downsized economy has further stressed execs as companies pile extra hats atop their heads. Instead of more hats, firms might consider more heads. Sure, it's possible for a business to focus extra on, say, innovation by entrusting it to a COO or some other CEO direct report, but you have to wonder: By assigning an overburdened executive yet another responsibility, is an organization missing opportunities to innovate?

Yes, according to the Accenture survey, which showed that respondents at companies with a single person leading innovation were twice as likely to report higher innovation performance and capabilities. "When a responsibility starts to dominate a person's time and compromise other areas, then you need to break it out into its own role. Part-time efforts yield part-time-quality performance," Myatt suggests. By splitting departments or creating new ones to report to the CEO, a corporation benefits by giving execs more time to specialize in their areas of expertise—provided the firm doesn't hand over innovation to a bean-counter from accounting.

None of which answers the question of exactly *who* warrants a direct line to the CEO. So let's ponder who might not—the COO. If you're surprised by that, many COOs aren't. More like C-Uh-Ohs, they are watching their positions erode as companies are naming micro-COOs: chiefs of supply chain, logistics, production, sourcing, procurement, etc. "With so much splitting going on," says Jo Bennett, a partner at executive-search firm Amrop Battalia Winston, "it's hard to say what value a COO brings."

Why a firm creates a post matters less than what happens afterward.

Meanwhile, the CFO isn't leaving, but his subordinates are—namely, the CIO (information, in case you're wondering). Five years ago, one-third of CIOs reported to the CFO, according to a recent *CIO Magazine* study. Today, it's one-fifth. That any CIO should answer to a CFO has long irked IT professionals. "What makes a CFO uniquely qualified to be heading up IT?" asked management consultant Don Rekko on a CIO.com members forum. The reporting relationship may have made sense in the early days of IT when the department's main work involved

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tinkering with accounting's computing systems, but today, a CIO's duties extend well beyond upgrading your desktop to Microsoft Office. In fact, tasks have ballooned so much that many companies have a chief of information *and* a chief of technology. Nonetheless, some CEOs still stack CIOs, CTOs, and others under the CFO, expecting the head of finance to cut costs. But if everything boils down to numbers, why not just cram all departments under the CFO?

That's one extreme. At the other end, if everyone down to the chief mail-sorting officer were to report to the chief executive, a CEO's efforts to supervise everyone will leave him unable to supervise anyone. Surely there must be some middle ground.

BRANCHING OUT

Unearthing that ground begins by scrutinizing your tree. We want to think that companies have some well-defined strategy when drawing up their org charts, that there's a tree of logic branching into every office and cubicle. As any corporate veteran who's risen—or fallen—through the ranks might tell you, the reality is muddier. It isn't just that businesses occasionally have no clue where to place someone, so they opt for perhaps the easiest (laziest?) option, directly below the CEO. Rather, titles and reporting relationships often jumble uncomfortably with office politics—so much so that managing such politics is the strategy.

Putting aside any politicking, the more direct reports to the CEO, the flatter the company. If you install chiefs who answer to other chiefs, the organization stays hierarchical—only more confusing. "As organizations become flatter, unless there's someone with the actual title describing the responsibility, it's really hard for people to understand who has accountability for a particular function," says Jo Bennett. "These titles are a way to establish more clarity in organizations."

However, with more C-departments, you risk erecting more silos. "Companies have already become so accustomed to working in silos," says Jeanne Bliss. "Many of these Cs are an outgrowth of exasperated chief executives who want to see the whole picture. We need to have people representing departments that knit together other departments." Such as a chief customer officer, says Bliss, author of *Chief Customer Officer*. "The customer role is about building collaboration around the organization, especially since the customer doesn't experience the company in silos." She cautions that the C-suite can become its own silo if its members fail to connect with employees.

"Silos aren't created at the top level but lower down," counters Tamar Elkeles, author of *Chief Learning Officer*. If anything, bringing extra departments into the room might facilitate greater cross-communication to break down silos.

Additionally, ladders don't rise very high in flatter organizations. Without rungs for execs to scale, companies often reward employees with ever-grander titles. The tactic may have advantages in mid-management, but should businesses transform C-suite entry into a mere job perk?

Titles are cheaper than raises or bonuses in more ways than one, Bennett complains. "It used to be that companies were miserly with their titles," she says. "VP was a huge title. Today, it's one step up from being a clerk at a bank. A cheapening of titles is now happening with chiefs. Scarcity creates value."

True enough, not everyone deserves a trophy, but here's how to rationalize the title-as-perk approach for those who do. Organizations tend to think first about which departments to establish, then pick whom to manage them. Instead of fitting people into departments, why not develop positions for and departments around executives' strengths? You'd retain star employees and demonstrate that people, not titles, are most important.

Individuals who otherwise might have been trapped in their divisions now might one day earn a glowing middle "E" in their title—since whom you seat *around* the table also impacts whom you eventually seat at the *head* of it. "CEOs should always be thinking about succession," says John Parry, CEO of New Jersey-based process outsourcing firm Solix Inc. "I can make every decision in the company, and my inclination is to do that, but that doesn't do anybody much good. I want my reports to be part of the decision-making process."

The more C-players in the room, the more room to find a successor. The chief administrative officer—think White House chief of staff—wasn't created at a growing number of corporations just to coordinate a C-suite's goings-on. It's also to groom CEO hopefuls, particularly those who don't fit neatly into the company's existing structure.

SHOW BUSINESS

A premise behind establishing any C-title is this: If you value X, then you should have a CXO answering to the CEO. Given the swelling number of Xs, there seems to be a lot of valuing—and who wants to argue that learning or diversity or strategy *doesn't* deserve a seat at the table? But it's far from clear that all that valuing leads to greater value for the company.

A title and CEO reporting relationship is a simple way to send a message to stakeholders that a position is not just operational but strategic. There's authority, accountability, responsibility—there's a budget!—so that people will take the department seriously. But we all know what happens when you plunk more big fish into the pond. If only three officers previously had the ear of the CEO and now there are eight, you've raised the stature of the five new ones but lowered that of the original three. The more important people you add, the less important each one becomes. So when creating a table of equals—

Hold on. The chairs may be the same size, but some people filling them will always be more equal than others. As the saying goes: There's the org chart you show in a presentation, and then there's the one that reflects how things actually work. "Being in the room may signal to others that your function is important, but it does not make you part of the CEO's inner circle," points out Nate Bennett, professor of management at Georgia Tech University and founder of C-Suite Research, a management think tank. In other words, there are kids sitting at the adult table.

"It's like deciding whom to invite to a dinner party," Bennett continues. "If you invite the Smiths and not the Joneses, the Joneses will feel slighted, so you'd better invite them. If you invite the Joneses, then you should invite the Wilsons. Except there's no room for the Wilsons."

Time and again, corporate America's Wilsons are the mushrooming HR sects. Add these chiefs of learning, talent, recruiting, retention, diversity, and so on with the sprouting micro-COOs and -CFOs (of tax, audit, accounting) and you're back to the macro-question: These divisions may be important, but are they *that* important?

Despite public rhetoric, chief executives consider many of these to be second-class chiefs. Some critics—those relegated to the kids' table—may grumble that a CEO "just doesn't get it." But to that CEO, "it" is a solid business case, far easier for a CFO than a chief strategy officer to prove. Therefore, CEOs naturally gravitate toward traditional officers who have validated their worth.

The catch-22 is that some executives are unable to demonstrate usefulness when companies fail to provide them with enough resources, which only shows that C-suite membership is one of numerous list items (staff, budget, equipment) that signify a person's relevance. For example, at Qualcomm, the CEO has ten direct reports. Tamar Elkeles, the company's VP of learning and organization development, is not one of them—her boss is the head of HR, who reports to the CEO. "I'm OK with that," she says. "Reporting means nothing. You can have a person report to the CEO so that people think the job must be important, but that person doesn't really talk or work on projects with the CEO. The key is to have resources to do your job, access when you need it, and authority to make decisions. I have all that."

Sometimes a decision to create a position in name only is more deliberate. Consider the chief diversity officer. (Was there ever an executive who had to work harder to validate her presence?) By having her report to him directly, a CEO sends the message that black, white, and everyone in between matter. But suppose the actual truth isn't so black and white. What if he really considers diversity a mere box to check off on the list of positions that he thinks are minor but make his company look good? Is the tokenism a justifiable tradeoff because of the illusory positive message it sends?

"I've actually had this conversation with colleagues," reveals Bob Moore, CEO of Dead River Co., a New England distributor and installer of petroleum products. It's not that Moore, who has four direct reports, considers any job inconsequential, but "despite any message sent, I think what my company would gain would not outweigh what we'd lose by having more than four people report to me."

"There is a short-term benefit when you convince people you're serious about a position," adds Kevin Cashman, a senior partner at executive-search giant Korn/Ferry International, "but if your behavior doesn't align with the image, you'll erode long-term trust and credibility in your leadership."

IT BEGINS WITH NUMBER ONE

Speaking of leadership, what does the number of C-players say about a CEO's capabilities?

Nothing, says Anthony Politano. "It doesn't change the basic ways a CEO makes decisions." An autocratic leader will seriously confer with the same few people, if anyone, regardless of his "team" size. Likewise, an apprehensive chief executive might seek advice beyond his immediate circle. Nonetheless, Politano points out that "you should measure someone's knowledge not by what they know but by what they don't know. It's not a sign of weakness to acknowledge you need specialized help."

"People who don't know CEOs believe they are all pretty good at their jobs," adds Steve Tappin, author of *The Secrets of CEOs*. "But two-thirds of CEOs are struggling and probably shouldn't be in their roles." Tappin attributes the continuing reliance on a hub-and-spoke model of leadership, in which the chief executive informs rather than consults with his top people—who, deep down, he mistrusts. Instead, Tappin advocates for what he calls "the fellowship of the CEO," a close-knit team in which the CEO disperses trust, power, and authority.

There's something else more easily dispersible in a larger C-suite: blame. CEOs today are under a microscope, with critics peering into their companies, scrutinizing every decision. "There's a big bull's-eye on the chest of every CEO right now," Mike Myatt explains. "The public sentiment and perception of what a CEO is and what a CEO does has been vilified. More people in the room is risk management on his part, but at the end of the day, if he brought an idiot into the room, he can't blame the idiot." Here's another way to look at it: Given that everyone in the room helps make a decision, then *everyone* is to blame. Besides, if you're looking only for someone at whom to wag an accusing finger, hire a consultant.

Whom a CEO enfolds in his inner circle is also a product of his CV. For instance, a leader coming from finance will feel more comfortable surrounding himself with numbers people. And it's not uncommon for a CEO to have a chief information officer report to anyone *but* him because he's barely comfortable using Excel, let alone analyzing reports about company servers. On the other hand, if the company head religiously reads *Wired* on his iPad, he might keep a CIO close by to exert greater control over IT.

These explanations, however, are poor approaches to constructing an effective management team. CEOs would be better off satisfying their need to engage others with shared interests by requesting Facebook friends, not appointing C-suite executives. Research shows that diverse groups generate better decisions—though they require more skill in bringing forth consensus. "The more people a CEO brings into the room, the better he needs to be at listening, facilitation, and rapid synthesis," advises Kevin Cashman.

"CEOs aren't skilled enough to facilitate a group of fifteen people," adds Steve Tappin. "Lots of people on executive teams behave differently, jockeying for

positions on the stage, and there are very few CEOs with the leadership skills to manage that."

"E" FOR EVERYONE

So what's the magic number of C-suite members? Five or seven, says much of the research on team-building. Any more and the group becomes unwieldy. Any fewer and you risk a dearth of opinions to make informed judgments. And why not six? Because someone has to break a tie. Even so, says Mike Myatt, "I'd rather have ten brilliant people on a decision than five average ones."

You *can* have ten people—or more—whomever they are, by rethinking the purpose of a C-suite and why you bring any group into a room.

"Getting someone's input and letting him have a vote are not the same thing," Nate Bennett explains. Indeed, there's a difference between informational and decision-making meetings. The former can successfully fit far more people at the table, but even in decision-making meetings, decisions pertaining to one area need not involve an executive from another. "If you're a CEO about to testify on some ethical issue, then the ethics guy should be in the room," Jo Bennett says. "If you are sued for destroying the environment, then you will listen to your environmental and legal heads." By rotating who sits at the table, you're far likelier to maximize everyone's time and expertise. And by assigning seats based on projects, *everyone* might deserve a seat—just not all at once.

Except those who shouldn't have a seat. Period.

To determine who, first ask: Should a function exist to begin with?

For example, just because fewer companies are clearing office space for chief knowledge officers these days doesn't mean that companies take knowledge management less seriously than they did. It's that the discipline is now more ingrained companywide. "When knowledge management was brand new, companies needed to bring C-level attention to it and add the oomph behind it to get it off the ground," recalls Anthony Politano. "Now most organizations have it as part of their culture and don't need the department." Most executives' expertise isn't so narrow that you can't rotate them into other roles.

Perhaps it's time to eliminate other embedded disciplines. "Companies should not have an ethics officer. Ethics is the responsibility of all employees," argues Tamar Elkeles. "Same with diversity, which is more punitive—you don't always need someone looking over your shoulder. And quality officers? *Everyone* should be in charge of quality." Solix CEO John Parry also questions the relevance of a chief strategy officer, asking, "Since when is strategy not everyone's responsibility? *Since when is it not the CEO's*?"

If only it were that simple. "CEOs lack the courage to reduce the suite," Elkeles says. It's easier to add than to subtract. Or as Ron Sims puts it: "People need to go back to Organization 101 so that there won't be a need for all these C-level positions. You can find something for everyone—how ridiculous will you get?" ■

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