

IN THE LEAD

By CAROL
HYMOWITZ



Which CEOs Have The Skills to Survive New Year's Challenges?

With the year coming to a close, we'll start hearing predictions about how business will look in 2007. The hardest thing for these crystal-ball gazers to see is who will succeed or fail in the corner office.

Think about last year's predictions. Pfizer's former CEO Henry "Hank" McKinnell was lauded as a strong and secure corporate chief by recruiters, consultants and executives at other companies, while CEO Rick Wagoner of General Motors was expected to soon be shown the door.

Just the opposite occurred, of course. Mr. McKinnell was ousted as Pfizer's CEO in August, after investors complained loudly about the steep pay he earned while the value of their holdings fell by more than 40%. Mr. Wagoner, on the other hand, is still very much in charge at GM, after showing resilience through one of the company's worst crises.

Other predictions about business performance and reputation were equally faulty. No one guessed the many difficulties Dell's founder Michael Dell would face, or the dramatic ups and downs of Hewlett-Packard's CEO Mark Hurd.

In addition, no one could foresee how BP's CEO John Browne would see his reputation as a green supporter shaken following the shutdown of the Prudhoe Bay, Alaska, oil field because of corroded and leaking transit lines. That followed a deadly blast at a Texas refinery and other accidents in 2005. Lord Browne had broken ranks with other oil executives in 1997 by acknowledging the threat of global warming and invested in alternatives to fossil fuels. He traveled to Prudhoe Bay to talk with BP workers there, but the spate of accidents lowered BP's ranking among

environmental groups.

A management lesson here -- beyond the fact that everything is clearer in hindsight -- is how executives develop staying power. The true test of enduring leadership success is how well business leaders handle setbacks and failures. They can advance by outperforming others, but they can't always be in control.

"Given the collision of pressures and challenges in business today, you'll never be on top all the time," says Jeffrey Sonnenfeld, senior associate dean of the Yale School of Management. The real test, he adds, is who survives a challenge to a chief's business model or reputation.

Executives have a better chance of survival if they address problems directly, admit their mistakes and build alliances to make changes. They must seek advice from others but also feel secure enough to make decisive plans.

At Pfizer, Mr. McKinnell disregarded the growing ire of investors and the internal strife over succession planning until directors felt pressured to replace him. GM's Mr. Wagoner did just the opposite, admitting GM was in trouble. "I wouldn't be in this job if I didn't think I was the right guy to do it," he assured critics.

When he learned directors were considering replacing him, he told them he'd resign immediately if they didn't give him a public vote of confidence. Then, quashing rumors that GM was headed for bankruptcy, he sold 51% of the company's finance arm, GMAC Financial Services, for \$14 billion and cut costs by more than \$9 billion by buying out over 34,000 auto workers.

Mr. Wagoner, who still faces plenty of challenges, including fixing GM's unprofitable U.S. businesses, also withstood pressure from billionaire investor Kirk Kerkorian to forge an alliance with Japan's Nissan Motor and France's Renault. (Mr. Kerkorian, in a rare retreat, recently sold his nearly 10% stake in GM.) "A year ago, Rick Wagoner couldn't do anything right, but now he's on the ascension," says Michael Mankins, managing partner at consultant at Marakon Associates.

At H-P, Mr. Hurd survived his company's spy imbroglio. He profusely apologized about the board's efforts to obtain phone records of directors, reporters and employees. In addition, he is getting high marks for his efforts to improve sales through a bold business restructuring.

H-P recently reclaimed the No. 1 spot in world-wide shipments of personal computers from its biggest rival, Dell, which has had a series of setbacks this year. Among these: slower growth, falling profits and the recall of millions of laptop batteries that could potentially overheat and burst into flames.

Now Mr. Dell, whose business model of selling products mostly over the phone and Internet was once thought invincible, is in the hot seat to improve his company's fortunes. So are other big executives, such as Lee Scott, CEO of Wal-Mart. The giant retailer is being outpaced by trendier rival Target, has had to scale back expansion plans, and faces opposition from environmentalists, unions and others.

Unlike the heads of smaller companies, Mr. Dell and Mr. Scott can't avoid grilling by investors or the media as they tackle problems. "They're like celebrities and they have to get used to the fact that they're going to be hounded just as loudly during down times as up times," says Mr. Mankins.

Mr. Scott accepts that this is part of his job. He once avoided public appearances but now gives numerous speeches and media interviews in an effort to explain his company's strategy and improve its image.

• Email comments to inthelead@wsj.com¹. To see past columns, go to [CareerJournal.com](http://www.CareerJournal.com)².

URL for this article:

<http://online.wsj.com/article/SB116580109093246114.html>

Hyperlinks in this Article:

(1) <mailto:inthelead@wsj.com>

(2) <http://CareerJournal.com>