

Chapter I

The Chief Executive Officer

Introduction

The chief executive officer (CEO) is the only executive at level 1 in the hierarchy of an organization (Carpenter & Wade, 2002). All other executives in the organization are at lower levels. At level 2, we find the most senior executives. Level 3 includes the next tier of executives. In our perspective of promoting the chief information officer (CIO) to be the next CEO, we first have to understand the role of the CEO. Therefore, the first chapter of this book is dedicated to the topic of CEO successions (Zhang & Rajagopalan, 2004).

Being a CEO involves handling exceptional circumstances and developing a high level of tacit knowledge and expertise; these characteristics and experiences contribute to the accumulation of firm-specific human capital. The time a CEO spends in the position represents a significant investment in firm-specific human capital for both the individual and the firm. The firm is investing its resources to compensate the CEO, and the CEO is investing his or her productive time. Both make these investments with the expectation of future return, so age is a major factor determining the level of firm-specific human capital investment (Buchholtz, Ribbens, & Houle, 2003).

Being a CEO means bearing full responsibility for a company's success or failure, but being unable to control most of what will determine it; having more authority

than anyone else in the organization, but being unable to wield it without unhappy consequences. Porter, Lorsch, and Nohria (2004) make this sound like a very tough job. They argue that this comes as a surprise to CEOs who are new to the job.

Some of the surprises for new CEOs arise from time and knowledge limitations—there is so much to do in complex new areas, with imperfect information and never enough time. Others stem from unexpected and unfamiliar new roles and altered professional relationships. Still others crop up because of the paradox that the more power you have, the harder it is to use. While several of the challenges may appear familiar, Porter et al. (2004) discovered that nothing in a leader's background, even running a large business within his or her company, fully prepare them to be CEO.

CEOs have long been recognized as the principal architects of corporate strategy and major catalysts of organizational change, and the extent to which CEOs can effect change in corporate strategy is thought to be determined largely by the power they possess and how they decide to wield it (Bigley & Wiersema, 2002).

Bigley and Wiersema (2002) argued that CEOs' cognitive orientations should influence how they wield their power to affect corporate strategy. On the one hand, predictions about a CEO's use of power require an understanding of the CEO's cognitive orientation toward his or her firm's strategy, because power is simply the ability to bring about a preferred or intended effect. On the other hand, hypothesized associations between a CEO's cognitive orientation and corporate strategy presupposes that the CEO has sufficient power to bring about the preferred or intended effects.

CEOs' strategic beliefs are likely to be instantiated to a significant degree in their firms' current strategies. When a top executive seeking advice confirms and/or restores his or her confidence in the correctness of strategic beliefs, the CEO will be less likely to change firm strategy. McDonald and Westphal (2003) theorized that relatively poor firm performance can prompt CEOs to seek more advice from executives of other firms who are their friends or similar to them and less advice from acquaintances or dissimilar others and suggests how and why this pattern of advice seeking could reduce firms' propensity to change corporate strategy in response to poor performance.

McDonald and Westphal (2003) tested their hypotheses with a large sample. The results confirm their hypotheses and show that executives' social network ties can influence firms' responses to economic adversity, in particular by inhibiting strategic change in response to relatively poor firm performance. Additional findings indicate that CEOs' advice seeking in response to low performance may ultimately have negative consequences for subsequent performance, suggesting how CEOs' social network ties could play an indirect role in organizational decline and downward spirals in firm performance.

In *MIT Sloan Management Review*, Johnson (2002) phrased the question: Do CEOs matter? To answer this, he cites two critical dimensions that influence the magnitude of a CEO's impact on a company. First, resource availability, which is dependent

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