



RTRS-FEATURE-Scandals Make Executive Search Firms Work Harder

By Arindam Nag

NEW YORK, June 24 (Reuters) - When Samuel Waksal, former boss of biotechnology firm Imclone, was handcuffed and led from his New York home this month it was yet another sign of the deepening leadership crisis in Corporate America.

Such a boardroom vacancy might normally be viewed as pure good fortune by the executive search firms that get new work whenever chief executives lose their jobs.

But the string of corporate scandals is causing new worries for recruiters as well. The arrest of Waksal on insider trading charges came after charges of tax evasion led to the downfall of Tyco International Ltd's <TYC.N> Dennis Kozlowski, one of a string of disgraced chief executives forced out at companies ranging from Enron to Worldcom.

The rising concern over corporate accountability is forcing search firms to carry out deeper background checks and broader screening of job candidates for each opening. Indeed, some see it leading to a total rethink of what kind of executives and directors will succeed in the future, and how and where search firms find them.

"The imperial CEO of the nineties has left the building," said Nell Minow, co-founder of The Corporate Library, a Washington D.C. corporate-governance watchdog.

Minow said that the present crisis will ultimately weed out executives who might put his or her own gain ahead of shareholders or the soundness of the company.

That could mark a shift from the independent, hard-driving style that was popular in the 1990s to a more accountable, team-oriented personality.

Kozlowski converted his company from a small, sleepy manufacturer to a behemoth that was valued at over \$120 billion at its height. But he was forced to quit after 12 years of dazzling Wall Street for an alleged tax scam that showed a successful corporate executive dealing with his company as if it were a personal fiefdom.

"What we are seeing is a serious lack of integrity, a lot of which is mindless," said Warren Bennis, founding chairman of The Leadership Institute at the University of Southern California.

THICK, OLDER SKIN

"We are now forced to go back to the basics. Looking for older people with a demonstrative record of success," says Russell Reynolds of Directorship Search, a regular recruiter for Fortune 500 firms.

Executive search firms like Reynolds' are gearing up for an uphill struggle: Are there enough untainted candidates to fill up the CEO and director positions that are becoming vacant every day? So many directors have resigned from their jobs in the past three months that U.S. corporations could find it tougher than before to fill open positions.

"You have to have a pretty thick skin to subject yourself to such a high level of scrutiny," says Mark Rozeen, senior vice president of Golin Harris, a research and public relations firm that has come out with a survey showing nearly two-thirds of Americans now hold CEOs personally accountable for restoring trust and confidence in American business.

Among the resignations have been corporate chieftains who were responsible for creating billions of dollars of equity-derived wealth during the 1990s. The shares often have often dropped in lock-step with an executive's fall.

"There is huge amount of pressure among these people. Sometimes it is self-imposed. Sometimes it is imposed by stakeholders too," said Lorraine Segil, author of "Dynamic Leader, Adaptive Organization" and a management consultant in Los Angeles.

LOOKING OUTSIDE

Companies now are more frequently looking outside their own boundaries for fresh faces to fill chief executive positions or independent-director seats.

The New York Stock Exchange and Nasdaq have both urged placement of more outside directors on company boards to sharpen scrutiny of governance.

"There is a surge in demand for external people from outside the company," said David Lord, head of Executive Search Information Services, a New Hampshire consultant.

Reynolds said his firm has 15 percent more active searches for directors going right now than it did one year ago.

"Corporate governance is playing a role today. We are hiring more directors than ever," he says.

Companies are seeking more independent directors to serve on their boards at a time when the pool of talent has contracted, search firms said. In part, that's because some candidates are no longer going into the pool of available talent.

"A lot of companies are now unwilling to spare their chief executives to sit on boards of other companies. They don't want their CEOs to lose focus," says John Gardner of Heidrick & Struggles, another top-ranking recruiter for corporate America.

"Our board work is going up significantly. Finding qualified candidates is increasingly difficult because of demand," said Gardner.

AND LOOKING DEEPER

Recruiters like Gardner and Reynolds are also devoting more resources on background searches of potential candidates.

"We are going an extra mile on reference checks today," says Gardner.

Recruiting executives are spending more resources, most of which is being borne by their clients, on finding right candidates.

"We will not touch directors at companies like ... Enron because we don't want any baggage," says an executive at a recruitment firm.

Recruiting executives say it all adds up to a more time in the office and more pressure to ask more questions, widen their network of sources and spend more time cross checking background to get the successful candidates their clients require.

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