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Steve Jobs, Apple's ailing CEO, is scheduled to return to work this month after a six-month leave, but investors are feeling skittish. Every time he sneezes, shares of Apple catch a cold. Can a CEO—even one as talented and visionary as Jobs—really make or break a corporation? Many business scholars have grown skeptical of the idea of chief executive as superhero. Cutting-edge research reveals that while some CEOs clearly do make a big difference, many are merely the most visible cogs in complex machines.

by Harris Collingwood

Do CEOs Matter?

IMAGE CREDIT: TIM WAGNER/ZUMA PRESS

SPARE A THOUGHT, if you would, for the trials of the Apple shareholder. Like fretful parents at the bedside of an ailing child, investors have been wringing their hands over the health of Steve Jobs for nearly a year now—or even longer. The Apple Inc. CEO underwent surgery for a rare, treatable form of pancreatic cancer in 2004, and since then, the state of Jobs's health has nagged at shareholders, analysts, and cultists. To some observers, Jobs's fate and Apple's seem entangled beyond all untangling; last year, one analyst estimated that Apple would instantly lose a quarter of its market value were Jobs to leave, whether under his own steam or carried out on his shield. Jobs's doctors might as well append a chart of the company's stock price to his medical file, so closely do its spikes and dips track the chatter about his condition.

Chronic investor anxiety over the Apple CEO turned acute last June, when an emaciated Jobs publicly addressed Apple's software developers. His appearance fanned worries that his cancer had returned. Unimpressed by the company's assertion that Jobs was merely suffering from "a common bug," investors rushed to sell their shares, knocking more than $4 off Apple's stock price in a day. About six weeks later, *The New York Times*, citing anonymous sources close to Jobs, reported that he had informed Apple's board of directors that he was cancer-free and had undergone an unspecified surgical procedure to address his weight loss. Apple shares popped 2.6 percent on the news. But relief turned to alarm again in August, when some hapless soul at Bloomberg.com accidentally posted a canned obituary of Jobs, sending traders into a tizzy until Bloomberg put out a somewhat cryptic retraction of its "incomplete" story.

The ghouls and hustlers at play on the Web have been quick to exploit the interplay between Apple's stock price and its CEO's health. In October, one of CNN.com's volunteer "iReporters"—the network is experimenting with so-called citizen journalism—filed an entirely false report that Jobs had been rushed to a hospital after a massive heart attack. Traders suspected that this was a ruse by the iReporter to profit from a fall in Apple's stock price, though a subsequent investigation by the Securities and Exchange Commission concluded it was just a teen prank. In any case, Apple shares tumbled 5.4 percent before CNN corrected the report.

For sheer nastiness, though, it's hard to top the hackers who broke into the official Web feed of the annual Macworld developer conference in January. They interrupted the real-time play-by-play of the proceedings with the all-caps message

STEVE JOBS JUST DIED. The real bloggers quickly disavowed the message, only to be overridden three minutes later by the hackers: "Oh, wait, sorry. Steve did die. Our condolences." Shortly thereafter the conference organizers pulled down the live feed.

Apple's close-to-the-vest PR policy has opened ample space for rumors to grow. Jobs's instinct for concealment has spread throughout the company; reporters' inquiries into almost any corporate matter are routinely rebuffed. And even when Apple does make an official comment about Jobs's health, it manages to undermine its own credibility. In light of subsequent revelations, the company's brush-off remark that Jobs was suffering from a "common bug" at the June 2008 conference seems disingenuous at best.

Still, that statement wasn't as damaging to Apple's credibility as the January announcement that Jobs was suffering from a "hormone imbalance" that compromised his ability to absorb protein. The remedy, Jobs said soothingly in a letter released by the company, was "relatively simple and straightforward." The press release sparked another relief rally in Apple shares, but the good feelings ended abruptly nine days later, when Apple released another statement from Jobs admitting that his health problems were "more complex" than initially believed and that he would take a six-month leave from the company to address them.

You know what comes next. Apple shares fell almost $5 as soon as trading opened the following day—wiping out about $4 billion of the company's market value—although the stock retook some of the lost ground before day's end. After that whiplash experience, Apple investors could be forgiven for wondering which was less believable, the rumors or Apple's announcements.

As of this writing, Apple maintains that Jobs will be back on the job in June, though many observers are skeptical. Apple's stock price, meanwhile, has bounced back smartly from its January low, suggesting, perhaps, that investors are coming to terms with the idea of their favorite CEO's mortality.

However the matter of Jobs's return is settled, it prompts other, larger questions: Short-term stock swings aside, should it really matter to Apple whether Jobs returns? How much difference can a CEO make, anyway?

THE ANSWER DOESN'T seem as obvious today as it did a few years ago, before corporate scandals and worldwide financial catastrophe shook the cult of the heroic CEO to its foundations. That cult had grown steadily for more than a quarter century, beginning in 1979, when Lee Iacocca rode in to lead Chrysler—then in the midst of its first federal bailout—into a short-lived revival. A handful of corporate CEOs, including General Electric's Jack Welch, Microsoft's Bill Gates, and Berkshire Hathaway's Warren Buffett, later became full-fledged celebrities, lionized for single-handedly lifting their companies to stock-market superstardom—the companies' share prices prima facie evidence that the CEOs were worth all that a grateful board of directors could award them. According to this school of thought, when Charles de Gaulle said "The graveyards are full of indispensable men," he was just being a typically contrary Frenchman.

For believers in the CEO's supreme importance, even the presence of ruffians and scoundrels in the CEO ranks underscored the chief executive's outsize influence. CEOs could make great companies, and CEOs could break them. Dennis Kozlowski's fall from grace and into prison for looting Tyco International was inextricable from the company's disintegration. Enron's collapse was the inevitable consequence of Jeffrey Skilling's criminality. And before the autocratic Maurice "Hank" Greenberg left AIG under a legal cloud in 2005, he'd steered AIG into the credit-default-swaps business, precipitating the company's eventual descent into speculative madness and the global economy's unraveling. *Après moi, le déluge*, indeed.

This is Carlyle's Great Man theory of history, painted on a corporate canvas; and even amid the economic ruins through which we now wander, it still has its zealous adherents, not least among CEOs themselves. Former Merrill Lynch CEO John Thain reportedly believed that his contributions merited a $40 million bonus, even after spiraling losses forced the venerable brokerage house into the arms of Bank of America. (Bank of America thought otherwise; Thain took no bonus for 2008, and was sent packing in January.)

An exalted view of the boss is supported by a cottage industry of management gurus and executive-compensation consultants. They have good reason to sell boards of directors, investors, journalists, and CEOs themselves on the notion that the chief executive is inordinately valuable. Management gurus win new assignments through referrals from grateful clients, and they can expect no thanks for telling the CEO he's just another cog in the machine. Compensation consultants know that if they win big pay packages for their CEO clients, they'll be rewarded with lucrative contracts to administer employee-benefits plans and the like.

Yet those who have worked for superstar CEOs are not necessarily in agreement with the close identification, in the popular mind, between the CEO and his company. In a May 2006 article for *Stanford Business Magazine*, the management professors Robert Sutton and Jeffrey Pfeffer recount a conversation with Spencer Clark, a high-ranking General Electric executive during the Welch years. "Jack did a good job," Clark said, "but everyone seems to forget that the company had been around for over 100 years before he ever took the job, and he had 70,000 other people to help him."

Many academics share Clark's skepticism. The question of the indispensability of the CEO is one that has occupied business scholars for 70 years. And while the debate is far from settled, many of the most prominent and widely cited business-school professors and other experts believe that the American obsession with who sits at the top of the organizational chart has gone much too far.

THE DEBATE OVER the centrality of the CEO began in earnest in the 1930s, with the work of Chester Barnard, a onetime president of New Jersey Bell. Barnard was one of the first scholars to recognize that the corporation was, first and foremost, a social organization, and that social phenomena such as groupthink and the development of rival factions influenced a corporation's actions at least as much as coldly rational analysis and deliberation. According to Barnard, the chief executive was peerless as a social force within the organization; only the CEO could infuse working life with the values and aspirations that spurred people to do more than merely make a living.

Barnard's preoccupation with the CEO's meaning-making power issued from the same anxieties that run through the work of the historian Henry Adams and of the pioneering social theorist Max Weber. As the 19th century gave way to the 20th, and the power of the church and other established institutions waned, Weber worried in books like *The Protestant Ethic and the Spirit of Capitalism* that newer institutions, especially large business corporations, were incapable of imbuing people with a sense of purpose. Adams gloomily wondered, in *The Education of Henry Adams*, whether his classical knowledge had any value in a new century dominated by science and commerce. Both wondered how modern workers, in service to mammon, could summon the same passion that earlier generations had called upon to build Europe's great palaces and cathedrals. They feared that the human spirit would shrivel in the face of the coldly rational, impersonal demands of capitalism, and foresaw a future of ever-increasing anomie and social atomization.

Barnard was relatively optimistic, though, that the corporation could supplant religion as a repository of purpose and meaning. In fact, he thought that corporate survival depended on the CEO's ability to make work meaningful. "Even in purely commercial organizations," he wrote in his classic work, *The Functions of the Executive*, "material incentives are so weak as to be almost negligible except when reinforced by other incentives." Without inspirational CEOs, companies would ultimately lose sight of their higher calling and drift into failure.

Since Barnard's days, it has become conventional to think that a corporation, for better or worse, takes on the coloration of its CEO—Jack Welch turns GE into a tribe of aggressive, rigorously unsentimental alpha dogs; Jeff Skilling populates Enron with nihilists expert in gaming the system. One of Barnard's principal intellectual heirs is the management theorist Jim Collins. In the 2001 best seller *Good to Great: Why Some Companies Make the Leap ... and Others Don't*, Collins singled out 11 CEOs who were vital, he said, to the enduring success of their organizations. What they had in common was "extreme humility." Rather than throwing their weight around in the corporate hallways, barking orders, and crushing all in their path, Collins said, they quietly subordinated their personalities to the corporation, inspiring the rest of the company by the power of their example.

But how strong is this power—or any executive power? In their groundbreaking "Leadership and Organizational Performance: A Study of Large Corporations," first published in 1972 in *American Sociological Review*, Stanley Lieberson and James O'Connor argued that it's weak indeed. Perhaps reflecting the anti-authoritarian spirit of the times, the authors asserted that the CEO's influence was seldom decisive in a company's performance. They had the numbers to back up this view. Working with a database of 167 companies, they teased out the effects that various factors had on corporate profitability, from the competitive state of the industry to the size and structure of an individual company to the CEO's managerial decisions. "Industry effects," such as the amount of available capital and the stability of the market, accounted for almost 30 percent of the variance in corporate profits. "Company effects," such as the firm's historical place in the corporate pecking order, explained about 23 percent. "CEO effects" explained just 14.5 percent. And even this impact should be viewed skeptically: it unavoidably bundles CEO actions that were genuinely smart and skillful with those that were merely lucky.

Other scholars have attempted to replicate and extend Lieberson and O'Connor's findings, and many have likewise concluded that external forces influence corporate performance far more than CEOs do. Indeed, more-recent studies have tended to find a smaller CEO effect than Lieberson and O'Connor did—ranging from 4.5 percent to 12.8 percent of profit variance. (The scholar Alison Mackey, at Ohio State University, is a prominent dissenter. In a recent paper, she criticizes the number-crunching methods of Lieberson and O'Connor and, using a different methodology, concludes that CEOs have a dominant influence on performance that may well justify their high pay.)

James March, a management professor at Stanford, goes so far as to say that in any well-run company that's conscientious about grooming its managers, candidates for the top job are so similar in their education, skills, and psychology as to be virtually interchangeable. All that matters is that *someone* be in charge. "Management may be extremely difficult and important even though managers are indistinguishable," he writes. "It is hard to tell the difference between two different light bulbs also; but if you take all the light bulbs away, it is difficult to read in the dark."

This view has won support from some people who might be expected to see executive power in more expansive terms. Earlier this year, Jeffrey Immelt, the beleaguered successor to Jack Welch as CEO of General Electric, rather defensively told a gathering sponsored by the *Financial Times* that in the 1990s, "anyone could have run GE and done well." Warming to his theme, he added, "Not only could anyone have run GE in the 1990s, [a] dog could have run GE. A German shepherd could have run GE." Welch, to his credit, more or less agreed with this assessment. "It was an easier time to be a CEO in the 1990s," he told the *FT*. "The wind was on our backs." As they say on Wall Street, never confuse brains with a bull market.

ONE PROBLEM WITH the idea of the transformative CEO, able to reshape corporate culture or inspire workers to new heights, some scholars argue, is that people simply don't feel allegiance to large entities like corporations, no matter who's at the helm. Their loyalties are far more localized. Like infantrymen, their sense of belonging extends to their own platoon but no farther. And in these postmodern times, employees are mostly scornful of any grandiose rhetoric about higher purposes and the nobility of their cause. From this perspective, the CEO's power to affect performance, while strong within the immediate team of top executives, rapidly diminishes as it extends beyond that team.

J. Richard Hackman, a psychologist at Harvard, has done extensive work on leadership within small teams, and he has found that leaders do exert measurable influence on their team's success or failure. In his 2002 book, *Leading Teams: Setting the Stage for Great Performances*, he argues that small groups perform best when they operate collaboratively, and not merely as drones subordinated to a leader. The team leader's job is to establish the conditions that enable team members to collaborate competently; the leader needs to spell out exactly where teams should end up, but not dictate the step-by-step process of getting there. Leaders who act boldly and intelligently can make significant differences in teams' effectiveness—but no matter how the leaders act, teams become less effective as they grow in size. Ideal team size, Hackman says, is about six people; performance problems increase exponentially as team size increases beyond that, and the impact

of leadership becomes quickly diffused.

The highly localized nature of loyalty, some scholars argue, means that the real power to influence corporate performance resides not with the CEO but with middle management. In the recently published *The Truth About Middle Managers*, Paul Osterman, a professor at MIT's Sloan School of Management, contends that middle managers are neither "victims," robbed of the ability to act independently by some faceless bureaucracy, nor "villains" like *Dilbert*'s Bozo-haired boss, too clueless to do anything but gum up the works. In Osterman's view, the middle manager is the secret hero in the large corporation's rise to social and economic dominance. That rise "depended on middle managers," he says, "because you just couldn't achieve the scale that we have without people doing the kind of planning work that they do." As "craft workers," middle managers value their task, sense its importance to the larger cause, and feel great loyalty to the people they work with. But their loyalty to the corporation is fraying, largely because they see top management hogging all the rewards and glory. "There's more cynicism" in the middle-management ranks now, Osterman says. "There's less willingness to go the extra mile."

PERHAPS TO ASK whether the CEO really matters is to ask the wrong question. Three Harvard professors—Noam Wasserman, Bharat Anand, and Nitin Nohria—say in a recent paper that the right question is, *When* does leadership matter? Using advanced statistical techniques that go by a wonderfully *CSI*-style name, "variance decomposition analysis," the authors examine 531 companies in 42 industries and isolate leadership effects from other determinants of corporate performance. They conclude that leadership matters *sometimes*. It doesn't make much difference at electrical-utility companies, which are so constrained by government regulations and the cost of fuel that there's very little room for the CEO to exercise any discretion. The professors used the term "Titular Figureheads" for such CEOs. In addition to utilities, you'll find them in stable, old-line industries—paper mills, meat wholesalers—where the pace of change is slow.

At the other end of the spectrum, CEOs in some industries have a great deal of discretion. They're known as "Unconstrained Managers." In a company such as Research in Motion, Motorola, or, for that matter, Apple, the CEO is the one who decides which new cell phone to release to a waiting public, which chip company will supply the integrated circuits that make it work, and which phone-service providers to partner with. Those decisions can matter a great deal, as might be suggested by the diverging fortunes of Research in Motion, whose newest BlackBerrys are flying off the shelves, and Motorola, whose last hit phone was the Razr, introduced in 2004—a lifetime ago in that industry, where product cycles are measured in months.

In hotly competitive industries where new-product development is crucial and choices about which markets to focus upon are difficult—industries like communications equipment, computers, or aircraft—an Unconstrained Manager can have a big impact. Investors worry about Steve Jobs's health because they believe Apple needs his flair for making inspired choices. When Jobs returned to Apple in 1997, after being ousted in a 1985 boardroom revolt, he made the decision to throw the company's resources into the iMac, which had been languishing in the product-development lab, and the candy-colored, Internet-friendly machine reversed Apple's declining fortunes. He scored an even bigger coup when he decided that Apple's next signature product would be an MP3 player. Although the iPod was a late entrant in a crowded market, the elegant little machine took the world by storm.

Not every Unconstrained Manager is a Steve Jobs, of course. "It is worth reinforcing here," Wasserman, Anand, and Nohria write, "that a large CEO effect need not imply a positive impact." In fact, the CEO effect is sharply negative at least as often as it is positive. Donald Hambrick and Sydney Finkelstein, who coined the Titular Figurehead/Unconstrained Manager dichotomy in a 1987 article in *Research in Organizational Behavior*, even suggest that the world would be better off if leadership effects were always negligible. "If we had to choose as a society between doing away with Figureheads or Unconstrained Managers," they wrote, "clearly it is the Figureheads we would keep."

They might have been thinking of what happened to Beatrice Companies when two Unconstrained Managers, first Wallace Rasmussen and then James Dutt, took over as CEOs in the late '70s, after a succession of Figureheads. As recounted in an

absorbing study—no, really—by the Harvard professor George Baker in *The Journal of Finance*, their predecessors had followed a well-thumbed playbook to build Beatrice from a small Nebraska creamery into a money-spinning conglomerate that sold everything from Meadow Gold dairy products to Samsonite luggage. Most of its acquisitions were profitable, family-owned companies in need of additional capital. They were well-run, but their managers lacked polish and up-to-date technical skills. Beatrice supplied capital and intensive management training, but otherwise left them intact.

Rasmussen and Dutt changed all that. Instead of pursuing family-owned firms, they plunged into costly bidding wars for big public corporations. Dutt in particular centralized decision-making at Beatrice's Chicago headquarters, forcing units that had operated independently into six large divisions. Profits shrank, shareholders dumped their stock, and rumors began to swirl that Beatrice would fall to a corporate raider. After five of the company's top managers threatened to resign en masse if Dutt stayed on, the CEO was out. Leveraged-buyout titan KKR bought the company and broke it up. It took two CEOs nine years to wreck what 85 years of patient accumulation had built.

Maybe that's the ultimate lesson here: CEOs can matter, but we all might be better off if they didn't. "Good leaders can make a small positive difference; bad leaders can make a *huge* negative difference," Stanford's Jeffrey Pfeffer told *Fortune* in 2006. Many Americans, surveying the aftermath of eight years with an Unconstrained Manager as their chief executive, might be tempted to agree.

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