"THE DARK SIDE OF CEO SUCCESSION"

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Nº 87 / 39

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Director of Publication:

Charles WYPLOSZ, Associate Dean for Research and Development

Printed at INSEAD,
Fontainebleau, France
ABSTRACT

This paper looks at the succession process reviewing some of the psychological forces which come into play at such times. Factors such as the denial of death, the need for a legacy, loss of power, unconscious sabotage and the need for reprisal will be discussed. The psychological ramifications of choosing between an insider versus an outsider will be another issue to be explored. Finally, in creating a smooth transition, the key role of the board is emphasized.
THE DARK SIDE OF CEO SUCCESSION*

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Most CEODs and most board members manage the CEO's succession well. In many companies, CEOs are bound by tradition or policy to step down at a certain age, and plan accordingly. Many have enough vision and insight to overcome any momentary desire to stay on, and indeed take pleasure in training and developing the next generation of managers. But some CEOs have a very hard time dealing with succession and retirement. And other key players, including members of the board and top managers—willingly or not—may also avoid taking real action or give only lip service to change, thereby sabotaging a succession. Consider the following actual (though disguised) cases:

-- At directors meeting of Wooten, a diversified paper products company, the agenda featured the selection committee report presented by Bob Reed, chairman and CEO. The board members had expected to receive a list of candidates to succeed Bob, who was past retirement age. Bob told the board, however, that despite an extensive search the selection committee had determined that no candidate was qualified: the three insiders needed at least four to six years more seasoning while the outsiders, in spite of their outstanding track records, lacked the expertise that would fit the future needs of the company. The board agreed that Bob should postpone his retirement another four years.

But several directors felt troubled. Something wasn't quite right here. Were there really no competent external candidates available? And why did no one in the company qualify? What had
happened to management development all these years? Or was it possible that the selection committee, knowing Bob's attachment to his job and his reluctance to release the reins, was colluding with the CEO?

-- After much discussion with his board and friends, Harold Jackson, the retiring CEO of a small-tool manufacturing company, decided to appoint his second-in-command, Phil Conti, to replace him. Phil understood the workings of the business, knew the small-tool industry inside out, and would continue with the plans Jackson had initiated. Jackson had considered bringing in an outsider recommended by a member of his board, but he had always felt very comfortable with Conti, in whom he saw a younger version of himself, and was confident he would carry on well.

Five years after Jackson's retirement, it became clear how well Conti had carried on. In that time no new product lines had been developed, the manufacturing plant was approaching museum quality, and the company was attracting very little young talent. Reluctantly, the board decided that Conti had to be replaced.

-- When Bill Hoffman picked up the top officer's reins at Jura, a computer company similar to the one where he had worked before, he knew just what he wanted to do. His subordinates, relieved that the ex-CEO was finally out to pasture, assured him they would help him further his ideas. For the first six months or so, Bill's
plans moved ahead nicely. Because he knew all the right ropes to pull and backs to pat, he had little difficulty launching some fairly radical changes that he saw as necessary to come up with innovative new products in the ever-changing computer industry.

Some time into the second half of that year, however, Bill noticed a subtle change in the way his lieutenants were treating him. They were resisting his ideas for reasons he couldn't fathom. Then he discovered that some of them were holding meetings he didn't know about and they were managing things around him. As these incidents increased, Bill began to see himself losing control of the situation and unable to push through his ideas. By the end of his first year as top executive, Bill was seriously considering looking for another job.

As these examples show, the succession process is not always smooth. Underlying each disruption I've described is a psychological drama of which the key actors were unaware. A leadership change in a company may trigger a number of psychological forces with which these players—the CEO, board members, and other top managers—must cope.

I'll examine here some of these forces—the hidden dreams and fears that usually lie dormant but that can emerge first, when a CEO becomes aware of the necessity to step down; second, when the CEO and the board select a successor; and finally, when the new CEO takes up the task of managing the enterprise. To grasp what is taking place, it is important that the players understand some of
the forces driving them. People can correct only what they can reflect on and name.

Stepping down

The first point at which the CEO and the board should be alert to possible trouble is when the CEO approaches retirement age and, for the first time, must acknowledge that some day the association with the company will end. To accept this truth gracefully, the CEO must overcome some hidden fears that plague us all.

The denial of death

The realization that one must give up power threatens the deep-seated wish to believe in one’s own immortality. In a case I know of, the president of an apparel company who was also its founder refused to accept his physical decline. He had suffered a minor stroke, but it was taboo in the company to talk about it and the need for his replacement. Fearful of his violent temper, senior executives didn’t dare bring up the matter. The board was
made up of loyal friends who were unwilling to tackle the problem. Eventually a second stroke permanently incapacitated the president. At the time, even the number two man was not ready to step into his shoes. After a lengthy period of upheaval, during which the company suffered serious financial losses, a competitor acquired the company at a bargain basement price.

Founders who see their companies as symbols of their success and as extensions of their own personalities—like the apparel company president—often have a particularly hard time letting go. Relinquishing power is a kind of death for executives long accustomed to great power. So they avoid thinking of it, and senior subordinate and board members may oblige by avoiding the issue too. They may fear that the boss will interpret their talk of succession as a hostile act, evincing a none-too-subtle desire for the CEO's demise, and retaliate.

Another reason for his refusal to deal with succession may have been a profound wish to leave a legacy. To leave behind a reminder of one's accomplishments can amount to defeating death. Although the legacy can take physical form, like an office building or factory, most often it is an intangible of corporate culture like a management philosophy, an idiosyncratic interpretation of organization policy, or a particular way of doing things. When the time comes to hand over power, the outgoing CEO may worry that a successor will disrespect the legacy and destroy what he or she has painstakingly built up over the years.

To ensure the legacy's survival, the CEO may seek a successor
who will carry on in exactly the same way. This search for a clone often carries the seeds of its own failure. Given the changing needs of the company, what is right for the present may be a disastrous course in the future.

Some CEOs of my acquaintance have actually secretly nourished the hope that their successors will fail. Failure would be further proof of their own indispensability. They may even take steps, unconsciously or not, to set the successor up for failure.

After a lot of beating around the bush, the CEO of a large consumer products company decided to promote one of his group vice presidents to chief operating officer and heir apparent. The new COO soon was conspicuous for his visibility and energy. The boss, threatened by the attention the COO was commanding, became increasingly irritated.

Eventually, he gave his designated successor an assignment in a failing division that would have been difficult to handle even under favorable circumstances. Unfortunately, that particular segment of the industry then suffered a slump. Soon, the division was awash in red ink. The CEO told the board that, regrettably, his deputy was not right for the job. After very little discussion, the board asked the COO for his resignation.

CEOs are wise to spread the responsibility for choosing their successors. Acting alone, they are apt to sabotage the process and choose badly. Consequently, the board has a grave responsibility to oversee the whole procedure.
Loss of power

Sometimes the best interests of the company are no match for the need to stay in control. Some CEOs change their minds about stepping down and launch a campaign against a chosen successor. While the attack has all the earmarks of rationality, in truth it is based on the fear of losing power.

Such was the case with Peter Lawrence, the very successful president of a chain of supermarkets. Realizing that he was getting on in age, he recruited Fred Pine from another company to head up the chain’s major divisions. The board supported Peter’s notion that Fred would be the logical person to lead the enterprise into the next decade. Everyone commended Peter for his foresight.

Not long after his appointment, Fred began to dominate the operations committee meetings. Soon he was making far-reaching alterations in the company’s fabric—now it was a much leaner, more efficient operation. Productivity and profits soared. Peter became increasingly annoyed; not only was Fred receiving most of the credit for the resurgence of the company, but also he was not subtle about his desire to take over Peter’s job.

Finally, the two men became engaged in a tug-of-war for control of the company. After considerable arm-twisting, Peter persuaded the board that, after all, Fred was not the right person
to run the business. He argued that Fred was destroying a
corporate culture that for years had been a great source of
strength to the company. As proof, he reminded the board that a
number of executives had quit after Fred's arrival. The board
asked Fred to resign.

Working with an officially designated successor can be too
difficult a task for some CEOs. The deep loss the successor
represents may be much too painful to bear. One response is to
keep the situation ambiguous and maintain the boss's power base. A
symptom of this stonewalling is the rapid entrance and removal of
crown princes in an organization. Although William Paley of CBS,
Peter Grace of W.R. Grace & Company, and Armand Hammer of
Occidental Petroleum Corporation are special cases--they are
either founders or inheritors--they tenaciously held onto power
(or are holding), thus making succession very difficult.

Shakespeare's King Lear is literature's most famous foolish
player of the succession game. The play lays out the dangers of
letting go of power, and indeed the consequences of Lear's
decision to retire and divide his kingdom are devastating. Lear
was naive about questions of politics and power. When he gave up
the throne and passed his kingdom to his daughters, he expected to
retain his privileges but give up his responsibilities. Lear's
folly was the belief he could still command the dignity and
respect that go with the office after handing over its powers.

The psychology of power is peculiar. When subordinates learn
that a new person will soon take up the reins, they shift their
loyalties quickly. Subtle changes occur in relationships. New power networks spring up. Suddenly, the outgoing CEO no longer feels in control. When a CEO comments that—in spite of overwhelming evidence to the contrary—the succession problem has been resolved, one can be sure that these powerful psychological forces are at work. Such comments are often mere rationalizations to cover up a reluctance to let go.

Selecting the successor.

When inevitably the CEO must decide who will be the new star, a key question arises: An insider or an outsider? On the surface, chief executives make this choice according to what they think the company needs in the future, e.g., financial security or a new marketing orientation, and which candidate they perceive as most likely to meet those ends. The choice between an insider or outsider, however, is largely determined by the forces of self-interest.

High-ranking corporate officers and board members may lobby to influence the decision and may even covet the position themselves. These executives will keep in mind that an insider is less likely to replace them than an outsider. Compromise, the containment of group conflict, and maintenance of the informal
social network may be their prime concerns. Whether this preoccupation with stability and conservation is wise depends on what is happening in the company's environment. But apart from these more rational forces, hidden psychological forces also affect the choice and carry on the succession drama.

Fear of reprisal

The ties that bind leaders and followers are based on the tendency of people to identify with those around them. Followers see their peers as similar to them but they also identify with their leaders. This is what creates a group. Seeing others as alike nourishes a feeling of unity and belonging and provides a sense of direction of purpose, and a reason for doing things. The precondition for the successful operation of this identification process is the illusion that it is mutual and that the leader hands out favors equally and "loves" everyone the same way. To single out someone from the group as a successor may look like favoritism, which promises to shatter the illusion of togetherness that all have relied on. To avoid making the painful decision and dealing with the anger of the group--not to mention disappointment of the candidates not chosen--CEOs often try to maintain this illusion at all costs. The head of an electronics company had surrounded himself with a group of executives with
very uneven talents. Although it was easy for outsiders to spot the stars, the CEO could not face the necessity of making a choice of one of them as heir apparent. He would smooth over the more incompetent ones' mistakes and resist praising the stars for stellar performance. Disgruntled about this treatment, several of his best people left the company. Why they left remained a puzzle to the boss; he thought he had been fair treating everyone equally. To avoid favoritism, he eventually went outside the company for a successor.

Usually, however, the political forces inside the company favor selection of an insider. In large, complex corporations, an insider causes less disruption to the structure than an outsider. An insider is less likely to build a whole new executive team.

Insiders also may have the inside track because of the CEO's need to leave a legacy. An insider knows how things work in the organization and already has a commitment to the predecessor's way of doing things. As in the case of Harold Jackson in the beginning of this article, some CEOs pick an insider simply to perpetuate their connection with the company.

The wish for the perfect solution

Selection of an outsider often signals the board's wish for a radical change in the company's direction. Sometimes the wish has
a good reason behind it, like an industry shake-up or an economic shift. But sometimes the wish for a different kind of leader is based on psychological forces like jealousy or resentment on the part of known successors. Rather than hand over the reins to a known quantity, boards (and the chief executives who control them) have been known to fling their companies into the hands of near strangers.

The CEO of the financially battered Cantrel Bank & Trust Company had nearly driven himself and the board crazy with his inability to choose an heir. No insider measured up to his standards. Furthermore, as he had been chosen to be the superior of every one of them, they must not have the stuff to succeed in that office. Finally, in desperation, the board convinced the CEO to bring in an outsider, Tom Langdon, who the board knew would impose stringent controls to improve the quality of the loans, which were the source of the trouble.

Langdon came on board but lasted only three years. He ignored all the company's social traditions, and his rigidity and obsessiveness in upgrading loan quality led to the loss of several important customers. His poor performance, plus the resentment of some senior managers, became the basis for his removal from the presidency.

The board should play a key role in deciding whether the new CEO should be an insider or an outsider. If planned well, an insider's succession will hold fewer surprises for the
organization. Unfortunately, none of us is loved at home as much as we are abroad. And the board may likewise stress an insider's weaknesses while taking the virtues for granted. Thus even if there are capable insiders around, the board may not choose them.

Not surprisingly, failing companies go outside more often than successful enterprises do. In these cases, pressure from other constituencies like governments, banks, and shareholders may have become so strong that board members and even the outgoing CEO feel compelled to acquiesce.

The final act

Eventually the succession takes place, initiating a period of change. The status quo is disrupted. As might be expected, the new management orders strategic replacements that affect the organization's structure and transform reporting relationships. But here too, psychological forces come into play that can derail a new CEO's ability to manage the transition period and take firm control.
Romancing the past

One powerful force facing the new CEO is the tendency of people to idealize the past. We are all inclined to screen out painful, anxiety-provoking thoughts or events. Pleasant memories sometimes function as a shield to conceal a related painful memory. People under stress become victims of a struggle between the defensive process of denial and forces of memory.

The sociologist Alvin Gouldner calls this phenomenon the "Rebecca myth." In the Daphne Du Maurier novel Rebecca, a young woman who marries a widower is haunted by people's idealized memories of his first wife's endless virtues. In truth, however, the dead wife was a vixen. Replacing or superseding an absent person can be a formidable task for the person attempting it. The newcomer has to replace a person whom everyone else remembers as perfect and who represents an ideal that the outsider fears can never be met. When people remember an absent person, any fantasy becomes the truth.

A strong conservative force influences people's behavior. Wary of the new, we cling to the familiar. We would "rather bear those ills we have than fly to others that we know not of." Like those who remembered Rebecca, corporate executives and board members may block out the excesses of the old regime and maintain that things were much better before. The successor is in for an uphill battle to overcome this handicap.
Unacceptability of reality

Inevitably a crisis atmosphere accompanies even a well-planned succession. People have to sort out many changes and ambiguities. The uncertainties make them long for direction and leadership. Now the CEO's symbolic role becomes very important. The new executive feels suddenly transformed into some kind of messiah, a person who is expected to solve all problems. Understandably, not many CEOs can live up to these ideals of perfection.

The tendency of people to need strong leaders explains why CEOs usually have more influence during a crisis than during normal times, and why incoming bosses enjoy a honeymoon of enthusiasm and commitment. Some of them take advantage of the momentum to very good effect.

But how long can a honeymoon last? Leaders, being merely mortal, cannot meet exaggerated expectations. The outcome is predictable. As we saw in the example of Bill Hoffman, after a while people shifted their attitudes toward him. Naturally, the more unhappy people were with a predecessor, the higher their expectations of the new chieftain and the greater their eventual disappointment. What was once idealization or infatuation can quickly turn into disillusionment, born of disappointment that the new CEO failed to live up to their ideals of perfection. Those who
had been passed over for the position may now be the leaders in orchestrating this mood swing. They may finally see an opportunity to act out their lingering resentment. Thus as happened in Bill Hoffman’s case, the new CEO may be rapidly devalued and no longer perceived as the long awaited messiah, but rather become a scapegoat who is blamed for all the company’s problems, past and present.

This is exactly the time when the newcomer most needs the help and advice of board members (who, though not dependent on the CEO and thus less psychologically attached, may also feel let down). The transition period is a time when the board has extraordinary power to shape the future of the company. To help the new CEO, it has to be especially aware of the forces affecting its views. The board can be particularly helpful in soothing the disappointment of those key contenders who lost out. In those instances where collaboration seems impossible, the board can help those unfortunates find new positions, and the new CEO can help further the process.
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