Varieties of CEO succession

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This article presents a conceptual framework that identifies four kinds of CEO succession processes. These are Crown Heir, Horse Race, Coup d'Etat, or Comprehensive Search. Examples of each type (Apple Computer, General Motors, Kodak and P&G) are presented to help understand each type of succession process.

Effective succession planning is a dynamic and creative process. CEO succession can fail because of inadequate differentiation among the processes by which CEOs are appointed. Crown Heir, Horse Race, Coup d'Etat, and Comprehensive Search are the four idealized types of CEO succession processes. They are illustrated here in the succession events that occurred at Apple Computer, General Motors, Kodak and P&G.

The purpose of presenting the four idealized types is to show differences in how successions occur. Table 1 summarizes each type. The answers to two main questions determine the type: Who rules? Are preferences known in advance? More specifically, the key attributes used to describe each type are whether the incumbent CEO dominates in decision-making, the length of time over which the process occurs, whether candidates know of their status as candidates, the number of sources tapped for information about candidates, the amount of time spent in decision-making, and whether there is more than one candidate.

Crown Heir: Scully to Spindler at Apple Computer

In the Crown Heir succession process, the incumbent rules, and preferences are known in advance. The primary decision-maker is the predecessor CEO, the span of time over which the process unfolds is great, and the heir apparent is identified and informed as to his or her status early on (there is information symmetry). He or she may, however, have to wait until the predecessor leaves office in order to assume control. In some cases, this provides an opportunity to train and prepare the successor and his or her management team. Alternatively, the wait may be frustrating and may lead to attempts by an appointed successor either to force the incumbent out prematurely or

Table 1: Four ways to choose a CEO

Who rules?	Are preferences known in advance? Yes	No
Incumbent	**Crown Heir** CEO dominated Long time span Information symmetry Few information sources Limited time spent Single candidate	**Horse Race** CEO dominated Long time span Information symmetry Many information sources Much time spent Multiple candidates
Non-incumbent	**Coup d'Etat** Non-CEO dominated Short time span Information asymmetry Few information sources Limited time spent Single candidate	**Comprehensive Search** Non-CEO dominated Short time span Information asymmetry Many information sources Much time spent Multiple candidates

to seek employment elsewhere. In the Crown Heir type of succession, information sources tapped by the incumbent are few, and the amount of time and energy spent in deliberations about criteria and candidates is limited.

The selection of Michael Spindler to replace John Scully as CEO of Apple Computer in June of 1993 is an example of Crown Heir type. The decision was strongly influenced by the predecessor (*Los Angeles Times*, June 19, 1993). The process took several years from the time the heir was apparently known until the formal selection was made, and it did not require extensive or expensive candidate searches. Both the predecessor and successor CEOs were aware of key aspects of the process as it unfolded.

Michael Spindler was with Apple 13 years before becoming CEO. He ran Apple Europe before being named chief operating officer and then president in 1990. At that time, Spindler replaced Albert Eisenstat as Scully's right-hand man. It was then speculated that Spindler was the heir apparent (*Wall Street Journal*, November 12, 1990); Scully stated in 1993 that about two years prior he had identified Spindler to the Board as the person most likely to succeed him (*New York Times*, June 19, 1993).

The working relationship between Spindler and Scully helped groom Spindler for the job. After ten years as CEO, Scully began focusing more and more on the big issues while he let Spindler take care of the day-to-day running of Apple. The pair was characterized as Mr. Outside and Mr. Inside (*Wall Street Journal*, June 21, 1993). The question became not who should be the next CEO, but rather when should Scully step down and let Spindler take complete control. This happened in the summer of 1993, a time when Apple needed to make some changes, including cuts in work force. Scully asserts that he had been considering stepping back from operations for some time and wanted to make a graceful exit. Board members were quoted as saying at the time that "the board had discussed the issue of succession in general terms in the last several years, but the decision to make the change was Scully's" (*New York Times*, June 19, 1993).

After the announcement, there was some disagreement as to whose plan Spindler would now follow. Some said that as CEO he would do what he had been doing and wanted to do all along (*New York Times*, June 19, 1993). Others (mostly outsiders), however, speculated that Spindler would implement a plan largely defined by Scully (*Los Angeles Times*, June 19, 1993). In either case, the succession process resulted in the appearance of a relatively smooth passing of the baton.

This example of the Crown Heir type shows how in some successions the replacement is identified long before taking office. Spindler was Scully's choice, and there was apparently no subsequently effort to search for other candidates. Instead, efforts were made to ease the transition to the new leader by gradually shifting greater and greater responsibility.

Horse Race: Smale to Artzt at P&G

A Horse Race pits several key insiders against each other as candidates who are told that they will be groomed, their progress will be observed, and that whoever performs best over a period of time will be chosen as the new CEO. It is characterized by incumbent rule and preferences about criteria that are unclear or unstable at the outset.

A Horse Race begins with an incumbent showing preferences for candidates to run for the top office

A Horse Race begins with an incumbent showing preferences for candidates to run for the top office. As candidates are observed and compared, priorities about selection criteria upon which to judge them emerge and often shift during the race. Multiple sources are tapped for information about candidates and how they score on selection criteria. Candidates may try to influence decision-makers through lobbying efforts and the cultivation of personal relationships during the evaluation period. Like the Crown Heir process, Horse Races take a long time. Only inside candidates are considered, and their status as candidates is often known to them. In this type of process the best candidate among those in the race succeeds.

A variation of the Horse Race occurs when a race is run but no one wins. That is, at the end of the race none of the candidates is deemed good enough for the job, so the process begins again, or an outsider is chosen in place of any one of the contenders. Another variation, the "fixed race," is equivalent to a Crown Heir succession process in that only one candidate is ever seriously considered. Pseudo-candidacies may be promoted as means of creating the appearance of a democratic process.

Procter and Gamble's (P&G) decision to name Ed Artzt as CEO in the fall of 1989 came as a surprise to many observers. Retiring CEO John Smale named Artzt over the presumed frontrunner, John Pepper, because of the strong performance of the international division Artzt headed. We consider this a Horse Race because the incumbent CEO dominated the process; it took place over a long period of time; there was more than one potential candidate; and extensive information was collected about candidates and criteria.

When the race began, Artzt was not expected to be the next CEO. It was speculated instead that Pepper would replace Smale when the latter retired in the early 1990s (*Wall Street Journal*, April 13, 1984). It had been the norm at P&G to select a CEO from the next generation of managers. In the 1980s, one of the leaders of the upcoming generation was John Pepper. In 1984, at the age of 45 he was named executive vice-president in charge of most of P&G's domestic consumer goods. Pepper was 11 years younger than Smale. At the same time, two other executives also received promotions: Ed Artzt took over responsibility for international operations, and Thomas Laco oversaw staff functions. Because both of them were in their early 50s, the prevailing view was that neither would become CEO; they would just continue at P&G until the next generation replaced them.

Over the next several years, the company's international operations expanded dramatically. By the late 1980s, the international division accounted for more than a third of total sales and was growing faster than domestic operations, achieving double-digit unit volume growth in many countries. International sales were projected to be 60% of total sales by the mid-1990s.

Even though Pepper was named president in 1986 and was still considered by outside analysts to be the likely successor, within the company Artzt and Pepper were considered equals. In October of 1989, Smale decided to retire three years earlier than expected in order to spend time with his family. Then he announced that Artzt would replace him. Up to this time there had been no public knowledge of the change.

Artzt's successful international experience was the reason stated for his selection (*Wall Street Journal*, October 11, 1989). This experience gave him the edge over Pepper, who then replaced Artzt as head of international operations. The result was an orderly succession, with some speculation that the timing of Smale's retirement had to do with his desire to give Artzt a long enough tenure to have an impact of his own before retiring and being succeeded by Pepper (*New York Times*, October 11, 1989).

The succession of Artzt in this Horse Race shows the process can be a long one in which viable candidates are evaluated over an extended period of time, and a decision is made after much data about criteria and candidates have been collected and considered. The result was a CEO-dominated choice and a smooth transition.

Coup d'Etat: Stempel to Smith at General Motors

Coups d'Etat are characterized by non-incumbent rule and preferences being known in advance

Coups d'Etat are characterized by non-incumbent rule and preferences being known in advance. Organization members and others (e.g., board of directors) who constitute a coalition of interests that differs from the incumbent's make the key decisions in this type of succession. The span of time over which the process unfolds is relatively short. Though the seeds of revolution may be sown well in advance, it is not until conditions change enough to empower a non-incumbent coalition that an overthrow can succeed. Information is not widely shared in this case. Knowledge of the insurgency is kept from the incumbent, because, if the plan becomes public it may be destroyed, or a viable counter-attack may be launched by the incumbent.

A coup begins with a minority faction asserting that the current leader is no longer adequate. Members of this insurgent coalition typically include a subset of top management in concert with the board of directors, or some subset of the board. This faction defines selection criteria that indicate a need for change in the qualities possessed by the CEO and nominates a single candidate, often the leader of the coup, who is then anointed as successor. There is relatively little time spent on debate over selection criteria and candidate nomination.[1]

The succession of Jack Smith as CEO of General Motors (GM) in October of 1992 came as a result of a Coup d'Etat in which the board of directors forced the resignation of Robert Stempel and then named Smith as the new CEO. In addition, the board appointed an outside director,

[1] *A takeover is a variation of the Coup d'Etat process. An outsider comes into power by acquiring majority ownership and deposes current administration. At the time the event is initiated decision-makers are non-management owners, usually bankers or large shareholders.*

retired P&G CEO, John Smale, as Chairman, de-coupling the positions of CEO and Chairman. This process occurred over a relatively short period of time and was characterized by an outsider's ascent to power. Information about the process was not widespread throughout the company, and only one candidate was apparently considered in choosing a successor.

First public signs of the uprising appeared in April of 1992, when outside board members, in what was described as a stunning shake-up (*New York Times*, April 7, 1992), took control of a key board committee and replaced GM's president. Unhappy with the company's financial crisis stemming from poor sales in the North American market, outside directors removed Stempel as head of the board's executive committee. This committee oversees company's actions between monthly board meetings. Smale took over control of the committee. Additionally, the Board demoted the president of GM, Lloyd Reuss, and replaced him with Jack Smith, who was the chief of GM's operations. Reuss, a close friend of Stempel's, was viewed by the board as failing to stem the tide of red ink. This shake-up was thought to be enough to break-up the "clubby" atmosphere at the top level of GM (*Wall Street Journal*, April 7, 1992).

This situation did not improve dramatically enough over the next several months. Speculation abounded, inside and outside of the company, about Stempel's tenure. In October, after months of uncertainty, the board reportedly asked for Stempel's resignation. Just days before, Stempel had again denied the persistent rumors, but according to reports, the board through an intermediary requested him to leave (*Wall Street Journal*, October 27, 1993). On October 26th he resigned.

The board accepted his resignation but requested that he remain in office until a successor was named. At the time, it was predicted that Smith would become CEO, and Smale would become Chairman (*New York Times*, October 27, 1993). Indeed at a board meeting the following week, Jack Smith was promoted to CEO, and John Smale was named Chairman. In what was a slight surprise to some analysts, Smith was now viewed as the person who could run GM, and Smale would take a lesser role (*Los Angeles Times*, November 3, 1993).

This example illustrates how a Coup d'Etat is a quick and turbulent succession. The CEO was forced to resign, remaining in an interim role only until a successor was formally named the following week. Although it took a week to name the successor, there was only one candidate seriously considered. Rumors were rampant because information about the intent of the board resided in a few individuals who did not openly share it, particularly with the outgoing CEO.

Comprehensive Search: Whitmore to Fisher at Kodak

In the Comprehensive Search process non-incumbents exert control, and preferences are not known in advance. Decision-makers seek a CEO whose background and skills match those required by an intended organizational reorientation. The process is comprehensive: Extensive effort is expended in data collection; many decision-makers are involved; and the procedure incorporates input and approval by individuals who are knowledgeable of both potential candidates and the future demands of the role.

In a Comprehensive Search, role requirements are derived from a systematic consideration of future demands on an organization, and candidates are selected on the basis of their ability to fulfill those requirements. Criteria may shift, however, to fit the available candidate pool during the course of the search among alternative candidates, because the perfect candidate (one who precisely matches preordained selection criteria and is available) rarely exists. Although the incumbent CEO may have some input to the decision, his or her preferences are outweighed by others, usually the board of directors. Coalitions compete for control in defining selection criteria and in evaluating candidates. Prospects may or may not be aware of their status as candidates, especially those who are not organization members but are employed elsewhere. Although the

search is intensive and extensive, it occurs over a relatively short span of time because it is motivated by a pressing need for change in organization strategy and direction.

Kodak's selection of George Fisher as CEO ended an extensive search for a successor to Kay Whitmore. This example of a Comprehensive Search shows how a board can dominate the selection process in trying to find a CEO who will lead the company in a new direction. In so doing, the company considered a large pool of candidates and devoted significant resources to the decision process.

It began when Whitmore, after being CEO for three years, was fired by the board of directors because of his ineffectiveness. Whitmore had risen to the position after many years at Kodak and was a product of its strong company culture. During his tenure he repeatedly feuded with the board over the company's direction. The board, dominated by outsiders, thought the company was under performing and wanted a stronger, clearer vision for the future. The board also objected to the too-few changes Whitmore had proposed to cut costs. They asserted that they might have fired him earlier but wanted to give him a chance to turn the company around.

After several years of frustration, the board decided to replace Whitmore at a meeting on July 23, 1993. Nine outside directors asked the CEO and three insider board members to leave the room. These outsiders then voted unanimously to replace Whitmore. He was told that he could remain in office until a successor could be named. This arrangement was not made public until early August (*Wall Street Journal*, August 9, 1993).

Until the firing, the heir apparent was an insider, Leo "Jack" Thomas (*Wall Street Journal*, September 9, 1993), but the board decided that the company needed an outsider in order to affect a strategic reorientation. The search for a new CEO was overseen by one of the outside directors, Roberto Goizueta, Chairman of Coca-Cola. Gerard Roche, Chairman of the executive recruiting company Heidrick & Struggles, headed the search. The stated qualifications for the new CEO were:

- Had to be an outsider, someone who would bring new ideas to the company,
- Had to have a strong marketing background (*Wall Street Journal*, August 9, 1993).

Additionally, it was stated that the ideal candidate would be able to serve for ten years, be energetic, and be diplomatic (in order to make the needed changes). The board knew this would not be an easy transition, as it was expected that additional turnover in the upper echelon would occur when the new CEO brought in new managers to help redirect the company.

A short list appeared in September (*Wall Street Journal*, September 9, 1993), and it was stated that at that time there was no clear favorite. In addition to Fisher, then Motorola's CEO, the list included:

- John Scully, Apple Computer's Chairman of the Board
- Stanley Gault, Chairman and CEO of Goodyear Tire and Rubber.
- Victor Pelson, an AT&T executive
- J Phillip Samper, former Kodak Vice-Chairman
- Richard Braddock, Kodak board member and former Citicorp CEO
- John Phelan, Kodak board member
- Charles Knight, Chairman of Emerson Electric

The recruitment process and criteria for selection were quite secretive. In fact, the board members who were not on the search committee did not know that Fisher was under consideration until the

day before he was selected (*Wall Street Journal*, November 1, 1993). The choice of Fisher was surprise, not only to the board but also to Motorola (*New York Times*, October 28, 1993[a]). He had been a finalist, however, in the recent succession at IBM (also a Comprehensive Search), and he was well known to Roche. Although he had a technical and a not marketing background he was relatively young, was noted for good judgment of business and technology opportunities, and had turned Motorola around. Further, analysts thought he was a good choice to rejuvenate Kodak (*New York Times*, October 28, 1993[b]). They had feared that the board might select an executive who was too marketing-oriented instead of one with a strong vision of the changing technological marketplace. Fisher assumed CEO responsibilities on December 1st at which time Whitmore stepped down.

This example shows a board of directors, and not the CEO, as primary decision-makers in the selection. The process of finding a successor took only a few months but involved an extensive effort, including hiring a search firm and actively considering many candidates. The result was the selection of a successor who would bring into the company skills to redirect it in meeting changing conditions.

Concluding note

Our main implication is that not all CEO successions are alike in the consequences they have for organizations and their members. There are predictable, systematic differences that have meaning and significance for how well organizations manage leadership transitions. HR executives, especially to the extent that they are knowledgeable about the politics and are involved in the candidate search, can support the move from one CEO to the next by attending to the different ways by which Crown Heirs, Horse Races, Coups d'Etat, and Comprehensive Searches affect people in organizations.

Authors' profiles

Stew has been on the Wharton faculty since 1984. He became the Management Department's first Practice Professor in recognition of his work on the application of theory and research to the real challenges facing organizations. As founding director of the Wharton Leadership Program, he initiated Wharton's required MBA and undergraduate leadership courses.

Stew recently concluded a two-year assignment as a senior executive at Ford Motor Company, where he was Director of the Leadership Development Center. In partnership with CEO Jacques Nasser, he launched a corporate-wide portfolio of initiatives designed to transform Ford's culture, in which over 2500 managers per year participated. He has published three books and numerous articles on work/life integration, leadership, and the dynamics of change, including the widely cited Harvard Business Review *article, Work and life: The end of the zero-sum game and, more recently, in the* Academy of Management Executive, *The Happy Workaholic: A role model for employees. His book,* Work and Family—Allies or Enemies? *(co-authored with Jeff Greenhaus, Oxford University Press, 2000), was recognized by the* Wall Street Journal *as one of the field's best. He can be reached at friedman@wharton.upenn.edu.*

***Paul Olk**'s current research interests focus on the formation and management of high technology, entrepreneurial alliances and on strategic alliance performance evaluation. His publications have appeared in several books and in such journals as* Strategic Management Journal, Journal of Personality and Social Psychology, Sloan Management Review *and* Research in the Sociology of Organizations. *He currently serves on the review board of* Organization Science *and* Group and Organization Management *and is a Representative at Large for the Western Academy of Management. He received his Ph.D. from The Wharton School of Business at the University of Pennsylvania and a Bachelor's degree from the University of Wisconsin. Prior to joining University of Denver, he was on the faculty of the University of California, Irvine. He can be reached at pmolk@du.edu.*

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INTERVIEW

"Two primary advantages of investing in leadership development are increased performance (near- and long-term) and higher rates of retention of talented employees".

In this interview, Steward D Friedman talks about fundamentals of succession planning and highlights the advantages of corporate leadership training.

☞ **What according to you is succession planning ?**

I define succession systems as the rules and procedures that form the context for a typical succession event (i.e., a change in job incumbency), including executive development and placement practices. All organizations have succession systems; they are ubiquitous. All organizations face the challenges and opportunities inherent in the need to replace current leaders.

☞ **Why succession planning is an important issue at the strategic level of an organization? When is the right time to do succession planning?**

Because leaders matter, the development and selection of the next generation of leaders is a critical success factor for organizations. There is no right or wrong time to engage organizational resources in the management of succession systems. Rather, it is best if this activity is continual.

☞ **"Choosing a CEO is probably the most important decision a Board makes". What aspects should the board members need to take before choosing a CEO? What is the board's role in CEO succession planning?**

Over the last two decades boards have become increasingly powerful and active in the management of succession systems. As we describe in our article on the succession process, organizations adopt different models and they have different consequences. If

commitment to the new leader by multiple stakeholders is important, then decision-makers should seek to include these stakeholders in the process of setting criteria and choosing candidates.

☞ **Are criteria for choosing CEOs in family managed businesses different from that of professionally run companies? Discuss.**

Naturally it's different because the interests of the family owners must be served. The downside risk, of course, is that outsiders, including market participants, might not agree with the expressed interests of the family owners, particularly if the latter are not active in the business but are only interested in returns on their capital.

☞ **Why succession planning fails?**

Succession planning can fail for a number of reasons. The most common is the failure to accurately assess the fit between person and position.

☞ **Why is the leadership training so important?**

Leadership training is important because we are experiencing a painful lack of leadership, and it shows. Further, we now know that leadership capacity can be increased if systematic attention is paid to doing so.

☞ **What according to you are the strategic advantages of leadership development in an organization?**

Two primary advantages of investing in leadership development are increased performance (near- and long-term) and higher rates of retention of talented employees.

☞ **You have been recognized worldwide as one of the eminent thought leaders in the field of Leadership. Your work has been appeared in reputed media such as the *New York Times, The Wall Street* Journal and *The Businessweek*. To what factors you attribute to your success?**

Working with smart, committed people and, learning as much as possible from them.

The interview was conducted by Rajesh Kumar Singh, Consulting Editor, Global CEO, *ICFAI Press.*