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Strategic Management Consultants

TERMINAL CEO DISEASE – A 1999 UPDATE

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Our experience as strategic planning consultants has convinced us that good CEOs can and should be beneficial to the shareholder value and longer term prospects of a company and outstanding CEOs can effectively multiply that positive impact. But, we also know that a bad CEO can, if not stopped, destroy a going concern (historically, Bill Agee's performance at Morrison-Knudsen underscores that) and wreck havoc on a company's shareholder value and its investors' expectations.

In the Fall of 1997, as a means of calling attention to poor CEO performance and suggesting ways to avoid it, Smock•Sterling Strategic Management Consultants developed a monograph that described the types of common, dangerous things CEOs do that should cause their corporate Boards and investors to stand up and take notice. That monograph was called "*Terminal CEO Disease*" and these common, negative behaviors were called "*symptoms*" of that disease.

- We identified fourteen symptoms and provided examples of each of those symptoms.
- We also identified some CEOs who had entered what we called a Terminal CEO Disease "*Hall of Fame*" (e.g. – Bill Smithburg at Quaker for foisting the blame for his own very bad Snapple decision off on a string of lower level executives, Bill Aramony of United Way for his egotistical pursuit of the adage that "*charity does begin at home*," and other highly visible CEOs).
- We suggested that the cure was better leadership by CEOs and closer scrutiny of CEO's behavior by governing boards (particularly when one or more of these symptoms popped up).

In the year-and-half since we published and distributed that monograph, two things have happened – the examples of poor CEO behavior have continued to pile up and, encouragingly, there has been an accelerating increase in boards of directors taking their responsibilities seriously relative to CEO performance and behavior. Thus, we felt it appropriate to again take a look at Terminal CEO Disease. We have simplified the symptoms – in fact, reduced them from fourteen to seven – and also noted very positive behavior by some CEOs, that we call "*antidotes*" to this fictional disease.

TERMINAL CEO DISEASE SYMPTOMS

Inordinately Taking Care of One's Self – First and Foremost

This is probably the most dangerous symptom. It is most often seen in the form of inordinate CEO compensation – salary, bonuses, options, cushy retirement deals, and severance packages (e.g. – Green Tree Financial's Lawrence Coss' \$179 million compensation in the last three years, while his company underperformed, and, unbelievably, CitiGroup's Sandy Weill's \$230 million 1997 compensation).

Because of the size of major companies, many have believed a single CEO's compensation could not actually affect financial results. But with these large numbers, this is no longer true. Inordinately taking care of the CEO first can severely damage the organization (e.g. – Computer Associates' Charles Wang's and two associates' payout of \$1 billion directly led to a 31% drop in the company's stock).

Inability to Designate a Successor and/or Motivate the Best People to Stay

This is the second most critical symptom of Terminal CEO Disease.

- It is typified by large turnover in the key executive positions reporting to the CEO, underscoring the conscious or subconscious desire of the present CEO to chase off potential competition (e.g. – the significant number of defections of key executives in the last two years at Disney).
- Typical of this symptom has been the dismissal of numerous “*heirs apparent*” in major companies before they are due to take over the helm, leaving the supposedly retiring CEO still firmly in the saddle (e.g. – the Quaker Oats situation mentioned earlier, but the best example was former AT&T CEO Robert Allen’s orchestrated removal of John Walter, the latest in a line of his designated successors, although fate ultimately did catch up with Allen).
- Also symptomatic is an inability to develop a successor (e.g. – the lack of direction and purpose to growing and naming a successor at General Motors).

Obsession with the Mega-Deal

In this symptom, the CEO does not focus on building the company’s business from within, but rather on “*doing the mega-deal,*” which, of course, garners considerably more publicity in the business press. Often major mergers and/or acquisitions can be remarkably strategic, but the great majority are not, they do not work, and they inevitably fail (e.g. – a recent example was the obvious poor culture fit between American Home Products and Monsanto, which was rightly called off at the last minute).

Often these mega-deals – because they have been sponsored by mega-egos – result in the truly irrational designation of co-CEOs. They invariably lead to the predictable fiasco (in every single case we are aware of) of the true sharing of power never occurring and the less strong of the two being dispatched well before his announced time (e.g. – John McCall of NationsBank did “*get*” David Coulter; the two supposed co-CEOs in the aborted American Home Products/Monsanto – John Stafford and Robert Shapiro – were as far away, personally and culturally, as they could possibly be; and one ought to do well going short on John Reed’s tenure as the co-CEO – with Sandy Weill – at CitiGroup).

Compliant Group of CEO Loyalists Masquerading as an Independent Board of Directors

One of the truly positive current business trends is board of director and governance reform and improvement impacting not just large publicly-held companies, but also smaller, privately-held ones. However, there are still some very visible holdouts that hark back to the days when the CEO named and controlled the Board (often in interlocking relationships) and there was little, if any, attempt at independence (e.g. – Anthony J.F. O’Reilly’s much publicized board of insiders and friends at H.J. Heinz and Michael Esner’s highly questionable board of loyalists at Disney).

Even if the Board is an independent one, it can have perks and privileges lavished on it by the CEO that, either in fact or appearance, alter the independence equation (e.g. – the proudly bragged about corruption of the RJR Nabisco Board by its then CEO, F. Ross Johnson – well described in Barbarians at the Gate).

Overreliance on Visible Trappings of Power

Although not as serious or as damaging a symptom as some of the previous ones mentioned, this is the one that is usually most visible within an organization and within the business press.

- It includes probably the most often seen sign of potential Terminal CEO Disease – the abuse of the corporate jet (e.g. – Bankers Trust’s Frank Neuman and his wife flying to Paris for a long weekend on the corporate jet, two days after the announcement of Bankers Trust’s much publicized \$350 million trading loss).
- It also includes the building of new headquarters as a monument to the CEO (e.g. – James Figgie’s new corporate palace in Richmond, which was never occupied).

- But, the examples are only limited by the imagination of the CEO and, often, that of the fawning corporate communications staff that work for the CEO (e.g. – Anthony J.F. O’Reilly’s “*Heinz 57 Phoenix Stakes*” in Ireland, supposedly for customers and friends of the company, but really a gala equal in scale to Caesar’s triumphant return to Rome).

Imprudent Marital Behavior (“A Guy Thing”)

Much has been recently written in the media about the sanctity of one’s private life and the supposed violation of it, as it relates to the Clinton scandal. Whether one likes it or not, how the CEO behaves relative to his marriage does have a direct relationship to how he behaves in his CEO role. From trophy wives – almost always blond – to messy divorces that damage the company (e.g. – the highly publicized Gary Wendt of GE Capital’s divorce; the divorce of Robert Goldman of Congress Financial, whose settlement resulted in the company having to buy back \$44 million worth of restricted stock; and Revlon’s Ron Perelman’s very messy and highly visible child custody battle).

While imprudent marital behavior is usually a function of a male CEO (that is why we call it a “*guy thing*”), a CEO’s spouse can provide another manifestation of terminal CEO disease – the “*Admiral’s wife syndrome*” (e.g. – Liz Neuman, Bankers Trust CEO Frank Neuman’s wife, reportedly had her own office and assistants in Bankers Trust’s headquarters and the priceless quote attributed to Hillary Clinton – “*we are the President*”).

Poor Manners, Lack of Civility, and Undisciplined Behavior

The business press has built up, as a positive attribute, the visible toughness of a CEO. Some CEOs, exhibiting this symptom of the disease, like to show how crude and tough they can be by displaying lack of respect for their employees, undisciplined behavior, and, just simply, bad manners and lack of civility (e.g. – Ron Perelman of Revlon and the infamous “*Chainsaw Al*” Dunlap are just two examples).

ANTIDOTES

While our discussion of the symptoms is done tongue-in-cheek for a serious reason, we recognize that not all CEOs demonstrate these symptoms of Terminal CEO Disease – in fact, the good ones do not. There are a number of CEOs that have recently displayed very positive behavior that might be considered antidotes to the disease.

CEO Pay Packages Tied to the Best Interests of Shareholders and Employees

Many of the CEO pay packages, discussed earlier in this paper, are of the “*heads I win, tails you lose*” variety, where the CEO is not at risk and usually does not provide anywhere near the value for the money paid. But, there are some solid exceptions where CEOs have, voluntarily, adjusted their pay package to line up with the best interests of the company and its shareholders (e.g. – Rick Belluzzo of Silicone Graphics, who rescinded his “*guaranteed*” compensation package to align more directly with shareholder and employee interests, and John Lauer of Oglebay Norton in Cleveland, who has been working without a salary and spending his own money to buy company stock).

Positive and Sincere Charisma Where the Followers Know the Leader Means What He Says

What may be the best antidote to Terminal CEO Disease is for the CEO to look the employees square in the eyes and tell them honestly what is important to the company’s future and what the CEO and the company are going to do about it and, then, very visibly, carry it out. A number of recent CEOs (John Bryan of Sara Lee, Stanley Gault of Goodyear, and Jack Greenberg of McDonald’s) all fit this bill.

Carrying Out a Meaningful and Powerful Vision

It is difficult to queue up to the corporate jet for weekends in Paris if the focus of the CEO is on carrying out a meaningful and powerful vision, rather than merely enjoying the perks of being a CEO. Some CEOs are consumed with carrying out their vision and have changed their industries, both in newer companies and in more established ones (e.g. – Michael Dell of Dell Computer and Helmut Mancher of Nestle).

Proper Time and Energy Devoted to Careful Development of a Successor

The antidote to not having a successor in place is to spend time and effort actually designating one. There have been also some recent examples of very, very good succession planning (e.g. – Coca Cola’s Roberto Goizueta’s visibly naming and grooming Doug Ivester, before Goizueta’s untimely death from cancer, and the recent Alex Trotman/Jacques Nasser succession at Ford Motor Company).

Accountability For Bad Results and Bad Events

Many of those with Terminal CEO Disease – regardless of which of the above symptoms are most visible – are unable, either intellectually or emotionally, to hold themselves accountable for happenings within their organizations. However, a number of boards of directors are doing a better job of holding the CEO accountable. It was recently reported by Neil Tichy that, in the last three years, 163 of the Fortune 500 CEOs were either fired or forced to resign.

SOLUTIONS

There are solutions and/or cures for this disease. Both boards of directors and CEOs need to recognize that Terminal CEO Disease is a result of common human frailties and virtually anyone can succumb, as described by Lord Acton’s famous dictum – *“power corrupts and absolute power corrupts absolutely.”*

Prevention and cure for this disease includes:

- First and foremost, the boards of directors (even within privately held or family held companies) must view their primary responsibilities as periodically evaluating and acting on the performance of the CEO and counseling the CEO so that his/her performance meets board and shareholder expectations. In many cases, this will require that the bar of performance expectation (not just in terms of financial indices) be raised if the CEO wants to earn those substantial rewards.
- One key element of the CEO’s evaluation has to be his ability to develop not only his own successor (which is critical), but a process by which there are orderly transfers of responsibility throughout the organization. It must be considered (much more than it is today) a clear *“failure”* if the board is required to retain an executive search consultant to conduct a search for a new CEO to come from outside of the company.
- The board has another responsibility – albeit a bit more fuzzy. It is the responsibility of the Board of Directors to make it very clear to the CEO and his key management reports what is expected of the company in terms of key *“soft”* cultural characteristics such as integrity, employee concern and participation, customer attentiveness, and civility – to name a few. Simply put, the culture of a firm should not merely be an extension of the CEO’s personality (which it surely will be if there is a vacuum); it must be a conscious decision of the governing board as to how the company is expected to behave.
- Term limits for CEOs should be mutually agreed upon by the CEOs and their boards and clearly established. We find it very hard to believe that a CEO, who has been in power for more than ten years, is not in an advanced stage of Terminal CEO Disease.

Terminal CEO Disease can be avoided and/or minimized – but the primary responsibility in corporate America must be that of the governing boards representing the best interest of the shareholders.

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