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## Strategic Management Consultants

### TERMINAL CEO'S DISEASE

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You read or hear about them every day in the business media. Those chief executives who award themselves huge amounts of compensation despite lagging corporate profits. Those CEOs whose would-be successors come and go - if successors have been designated at all. Those CEOs who build pricy new “trophy” headquarters, occupy the most expensive and lavishly decked-out offices, treat corporate assets (most visibly the corporate jet) as their personal property, and trade the embrace of the trophy office by day for that of a trophy wife by night.

They suffer from a malady we call “*terminal CEO's disease*”- which is both contagious and potentially damaging to companies of any size. They have forgotten - if they ever knew to begin with - that the primary responsibilities of any good CEO are to lead (best done by bringing out the talents of the key people in the organization) and to safeguard the assets of the shareholders. Unfortunately, this disease has grown increasingly prevalent and dangerous as the emphasis on and rewards for short-term performance create a business environment more conducive to the development of political prowess than true leadership skills.

In recent years, a bumper crop of CEOs have reached the critical stage of terminal CEO's disease. Dwayne Andreas of Archer-Daniels-Midland, who assumed that the major public company he led was his and his family's to do with as they saw fit and for his continencing of what can only generously be called “*ethical lapses*;” Bill Smithburg, until just recently the CEO of Quaker, who sacrificed a host of talented executives who could not turn around his personally led acquisition blunder, Snapple; Doug Lester, the CEO of Trans Financial of Kentucky, who brought terminal CEO's disease to that state by erecting a brick and mortar headquarters shrine to himself, shortly before his slumbering board awakened to the problem; Walter Connelly of the Bank of New England, whose autocratic style and insistence on being involved in every decision earned him the nickname “*WWW*” (whatever Walt wants); and, of course, Ron Perelman of Revlon, who made his clothes and sexual conquests key elements of his daily “*yes man*” staff meetings.

As with other diseases, there are common symptoms for the terminal CEO malady. We have isolated fourteen, although an intriguing management parlor game might be to add to this list. These symptoms include:

- The belief that the CEO's personal interests and the company's are one in the same and that corporate assets are there both for the CEO's personal use and aggrandizement (e.g. - Doug Lester of Trans Financial Inc.'s purchase and personal use of a corporate jet for a company with no operations outside of Kentucky; Allegheny's Robert Buckley's corporate, not personal, purchase of a hotel for his son to run; and United Way's Bill Amarony's rather lavish application of the adage that “*charity begins at home*”).
- The tendency to take care of oneself first and foremost - inordinately - and then to justify it in the name of increasing shareholder value (e.g. - Disney's Eisner's and Coke's Goizueta's enormous - if not irrational - compensation packages and Chrysler's and Allegheny International's boards purchasing personal homes for Lee Iacocca and Robert Buckley, respectively).

- Overt acquisition of the trappings of power, such as the building of expensive new headquarters, moving the company's headquarters to meet the personal needs of the CEO (forget the inconvenience to other people), and remodeling the CEO's office suite to new heights in ostentatiousness and limited access (e.g. - the most ludicrous example was Figgie International's Harry Figgie building an ostentatious, overly glitzy corporate headquarters and shrine to himself in suburban Cleveland and then duplicating the whole thing in suburban Richmond - which, for Harry's personal reasons, was never occupied).
- The tendency to surround oneself with "yes" men and women, whose management skills are less important than the ability to kow-tow (e.g. - Revlon's Ron Perelman's daily breakfast meeting with his key staff - embarrassingly detailed in a recent lawsuit - that had little to do with business, but was considered a "worship service" for Perelman to pontificate on his latest corporate acquisitions, clothing selections, and sexual conquests).
- An inability to delegate decision making and the desire to put his personal stamp on virtually everything the company does and the concurrent inability to avoid micromanaging and overcontrolling (e.g. - US Air's CEO Steven Wolf, while CEO at United, decided on the new colors of the airplanes - against fairly universal internal opposition and against the recommendations of the experts hired to do just that and Disney's Michael Eisner's reported involvement in any and all decisions).
- The replacement of the old model spouse (most often a wife) for a newer, younger, and blonder "trophy" edition - often from within the organization and from the close group of willing "yes" people (e.g. - Citicorp's John Reed successfully courting the corporate jet flight attendant and Joseph Kennedy - of the political Kennedys - dumping his wife for his appointments scheduler).
- Foul language, poor manners, and an overarching lack of civility in dealing with people in the organization - under the proviso that "I am the boss, I can say and do what I want" (e.g. - Paul Kazarian, "Chainsaw Al" Dunlap's predecessor at Sunbeam, was a particularly foul mouthed example of this symptom).
- The inability to admit mistakes, give credit, or to share the limelight - often manifested by the CEO's insistence on doing his own company's advertisements (e.g. - Disney's Michael Eisner, Chrysler's Lee Iacocca, and virtually every car dealer in North America).
- An inability to successfully designate and develop an heir apparent (e.g. - Armand Hammer and Lee Iacocca are very good examples, but there are more recent ones, most notably Bill Smithburg of Quaker and Robert Allen of AT&T - who just recently dumped John Walter, his latest hand-picked designated successor).
- A decided leaning to corporate growth by acquisition, rather than balancing acquisitions with solid internal growth - which plays primarily to the CEO's desire to be seen and described in the business press as a "dealmaker" (e.g. - again, Ron Perelman of Revlon, who saw himself as the consummate "dealmaker," as do Donald Trump and many other current CEOs).
- Hiring and using a specific public relations firm (or an internal PR executive) for one's own **personal** publicity, rather than the company's (e.g. - the late Michael Walsh of Tenneco did that and, as more recently reported, so has Gary Wendt, the CEO of GE Capital and rumored successor to Jack Welch, in dealing with the publicity surrounding his divorce).
- A continuing reluctance to share information with either the Board of Directors or key people in the organization (e.g. - ADM's Dwayne Andreas' refusal to make information available to the board, employees, and analysts and his and his inner circle's adherence to an espionage-like secrecy in decision making).

- The problematic appointment of “cronies” and guaranteed “yes men and women” to corporate boards of directors and the continued coddling of those board members to ensure their subservience (e.g. - Disney’s Michael Eisner’s appointing the director of his children’s Montessori School to the Disney Board and RJR/Nabisco’s F. Ross Johnson’s well chronicled expensive, but diabolically directed, wining, dining, and coddling of his Board to keep it compliant).
- An inability to make friends outside of work and within the company and to socialize and let off steam - in other words, a real loner (e.g. - Bill Agee of Bendix and then Morrison-Knudsen and most of the above examples).

If a company’s CEO exhibits four or more of the above symptoms - watch out, problems are on the horizon. While some of these symptoms are inherently humorous (e.g. - Paul Kazarian’s reported non-discriminatory verbal abuse of employees, suppliers, and customers was straight out of the Three Stooges), they are debilitating to their companies and, we believe, have a direct and major negative impact on long term company performance.

- Many of the CEOs mentioned - Smithburg, Agee, Iacocca, Figgie, Kazarian, Lester, Buckley, and Connelly - were either forced to resign by their boards considerably sooner than they wanted to or, as in the case of Dwayne Andreas, were publicly defanged. But, in most cases, these board actions were taken long after the terminal CEO disease symptoms were evident and, unfortunately in many cases, long after considerable damage had been done - in terms of reduced shareholder value, valuable employee turnover, and diminished future prospects.
- This disease may ultimately be most harmful to the talented people who work for the companies mentioned. Their careers are obviously at risk when terminal CEO’s disease occurs and many of these companies become models of management by fear and intimidation. The key people “*hunker down,*” unproductively, often for many years.
- This is further intensified by the rapidly growing distance between CEO compensation and the rest of the organization. As the humorist Dave Barry recently said in Fortune, “*you could probably prove on a graph that the number of things employees do to sabotage their companies, both psychological and physical, is directly proportional to the millions of dollars paid to the CEO.*”

We believe that terminal CEO’s disease is growing and becoming more of an epidemic, particularly as “*leadership*” and “*integrity*” become less valued than “*short term performance*” in CEO evaluations. Richard Hagbey, known for his research into CEO personality, underscores our opinion. Five years ago, he classified only half of his CEO clients as congenital loners; today, the figure is closer to 70%. He has found that “*under the short term pressure faced by many CEOs, they become reactive, listen less, and act impulsively without thinking.*” Add egocentrism (a key characteristic of many, if not, most CEOs - but of all CEOs in the advanced state of terminal CEOs disease) and you have the makings for the development and progression of terminal CEO’s disease.

Is there a cure? For those in the advanced state of terminal CEO’s disease, probably not - do you really picture Andreas, Iacocca, Eisner, or “*Chainsaw Al*” Dunlap gaining humility? But, there is a potential source of prevention and cure in those companies where early symptoms are beginning to show - corporate boards of directors.

- If boards are doing their primary job of carefully and frequently evaluating the performance of the CEO in a positive, constructive way, then these symptoms should be addressed and discussed as they appear.



