Why smart people make dumb choices of leaders

By and large, family companies lack systems of selection that reduce bias and political intrigue.

By Ivan Lansberg

The board of directors of Wang Laboratories opposed the choice of 36-year-old Frederick Wang as his father's successor in 1986. The computer manufacturer founded by China-born entrepreneur An Wang had been steadily losing market share, and the board did not believe Wang's oldest son was up to the job of turning it around. Some industry analysts, moreover, regarded Frederick as an impatient, contentious, and overbearing manager. Still, the aging and sick Dr. Wang insisted on promoting his son to head a worldwide company with over $2 billion in sales and 30,000 employees.

"He is my son. He can do it," the father insisted after hearing board members' pleas not to trust the company to Frederick. Soon after it was clear that Wang had made up his mind, John Cunningham, his most trusted non-family senior executive, who had also tried to talk him out of promoting Fred, secretly sold millions of dollars of his stock in the company. Three years later, with the company reeling from massive losses, An Wang was forced to fire Fred.

It would be unfair to blame the downfall of the giant computer maker, now barely a shadow of its former size, on Fred Wang's immaturity and lack of managerial savvy. Nevertheless, the promotion of a relatively inexperienced family member to the presidency at a critical juncture in its history was a strategic blunder that greatly diminished the company's chances of leadership in the marketplace.

An Wang is certainly not the only business founder who made an unwise choice of a successor. Other family companies, once household names—Schwinn bicycles, Steinway pianos, Lear jets—have fallen b the wayside in part because of successors who did not have the right stuff. This is a particular hazard in later-generation companies that have become huge, complex enterprises and require sophisticated, sure-handed leadership. But smaller family businesses probably make unwise choices just as often.

By and large, family companies pay too little attention to developing systematic methods of selecting successors that will minimize the biases and political intrigue that often surround the process. Why do some families who have been smart enough to build very successful businesses make notoriously poor choices of successors? The reasons are many, and vary from family to family.

The most obvious reason is that parents find it hard to be impartial when evaluating their offspring. Some parents have focused so many of their hopes and dreams on passing

down the business in the family that they are blind to their children's deficiencies. Ethnic traditions often power these dynastic dreams, as in the case of An Wang, whose Confucian heritage gives a special place to the oldest son.

Highly successful business families tend to develop a sense of invulnerability which can interfere with judgment. Because they have been right so often in the past, they think their decisions are immune to error. The narcissistic entrepreneur seeks to clone himself. But the skills and leadership style necessary to build a business in one generation may be a recipe for disaster in the next. Legendary entrepreneurs such as Henry Ford and Steven Jobs, for example, were not equipped to manage the enterprises they had built and take them to the next level.

More subtle group processes can distort the choice. The phenomenon of "Groupthink" identified by the psychologist Irving Janis certainly applies to the deliberations of families and management teams. Group think refers to the pressures in all groups to bow to authority, silence dissent, and refuse to face the truth for the sake of preserving unity and avoiding stressful conflict. The process usually leads to flawed decisions (one of the most famous cases being the Kennedy Administration's Bay of Pigs disaster). Some families refuse to face facts about the qualifications of successors out of fear of dividing the family. Family cohesion is, of course, a laudable goal, but not when it discourages a thorough questioning of the leadership capabilities of the candidates.

Many of these problems can, of course, be avoided by good planning, for example, by laying out long-term career development plans for young family members and testing them in real jobs with real accountability that will clearly show whether they have what it takes. But, in addition, there are things families can do in the last stages of the selection process to promote sound judgment.

First, before making the final choice, think carefully about the organizational and strategic challenges facing your business in the future. Then, make a list of the attributes the new leader or leaders will need to cope effectively with those challenges. If you envision a group of siblings leading the company in the next generation, you obviously want them to have complementary skills and be willing to share the limelight. If your company needs to develop new products and technologies, it is essential for the new leaders to have the requisite technical savvy and a track record of innovation. If the company must be downsized and restructured in order to survive, you better choose successors more concerned with getting the job done than being liked.

Second, develop multiple candidates so you do not limit your choices. To designate an "heir-apparent" too early in the game may prevent consideration of talented individuals and may undermine the successor's development by giving him or her a sense of entitlement. To be sure, setting up a "horserace" among the candidates can aggravate rivalries and result in destructive competition. But developing several candidates simultaneously builds a healthy degree of comparison into the process and helps you define the qualities the company will need most in the next generation. At the end of the

day, it also affords you the option of installing a team rather than one individual to lead the company—an alternative many family firms never consider.

Third, track the performance of the candidates as they move through various positions in the company, attaching numbers wherever possible (sales quotas achieved, financial goals reached, costs reduced). Then prepare a performance profile for each candidate and match it against the profile of the ideal candidate drawn up initially, to determine each person's strengths and weaknesses. If the company lacks sufficient documentation when the time for a choice nears, consider doing surveys or in-depth interviews with supervisors and even peers and employees who have worked with the candidates in order to obtain a fuller dossier on each person's performance.

Fourth, consider doing an external CEO search, if you can afford it, to parallel the internal selection process. Interviews with outside executives will allow you to assess more clearly, by comparison, the capabilities of the internal candidates and alert you to the questions you should be asking them. You will also be able to establish the marketplace value of the skills you are looking for and benchmarks for compensation.

Lastly, build checks and balances into the selection process. Consider, for example, involving your board. A strong board with three or more experienced outsiders can be the single most valuable source of impartial judgment in the process. In addition, some companies set up a succession task force of family and non-family executives to oversee the ongoing collection of performance data on the candidates, monitor their progress, and recommend additional training. Other companies send the candidates to outside assessment centers where they are evaluated for leadership potential on behavioral tests and standard exercises in team-building, sorting out priorities, and decision-making.

A maxim in the field of psychology says that, "The best predictor of future performance is past performance." Few family companies take the trouble to collect the data on past performance that is so useful in the final stage of the selection process. When the time to make a choice comes, it is thus not made on the basis of thorough assessments of what the candidates have done in the past but on romanticized and distorted notions of what they might be able to accomplish if given the opportunity.

The choice of a successor will probably be the most important decision you'll ever make. Too much is at stake to take risks. The approach of a leadership transition for any organization is fraught with uncertainties and tension. Only a systematic selection process can assure all stakeholders that the choice has been as rigorous and impartial as possible.

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