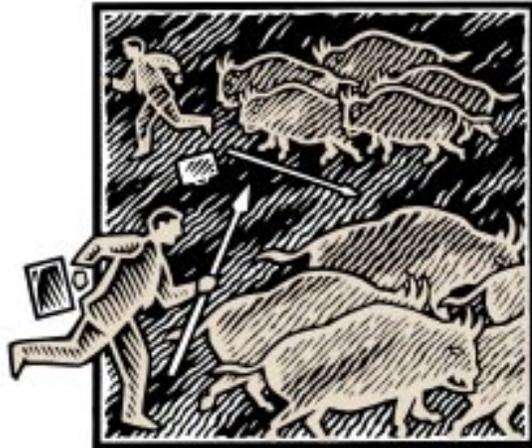# WHY C.E.O.'S SUCCEED (AND WHY THEY FAIL):

Hunters and Gatherers in the Corporate Life

BY EDWARD F. TUCK AND TIMOTHY EARLE

What are the factors that determine which C.E.O.'s succeed and which fail? Even in the high-tech world, the laws of the jungle still rule.

IT IS ENORMOUSLY destructive and expensive to change the chief executive of a growth company who stumbles in office. The human cost is high, as well: competent executives, used to success, fail without understanding why. They are branded with their failure. Some succumb to bitterness and despair; a few are suicides.

Why do these otherwise successful, competent, well-trained people fail? Why, in the face of good advice, do they do things that bring their ruin? Why, after they fail, can people of less training, skill and intelligence turn their failures into successes?

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Illustrations by Bryan Wiggins

The authors of this article are an early-stage venture seed capitalist and an anthropologist who specializes in leadership. We have examined the most common ways that C.E.O.'s fail by applying the findings and techniques of anthropology to business organizations. We have found that the cause of these systematic failures is not the C.E.O.'s lack of skill, nor even his psychology; it is the changing institutional context in which he must perform.

C.E.O.'s fail most often in these three situations:

➢ He or she has moved to a much smaller company, either as an entrepreneur or to take over a start-up or early-stage company;

➢ The C.E.O.'s small company has grown to middle size;

➢ The C.E.O. has been a successful vice president or chief operating officer and has been promoted to chief executive, or has been recruited as chief executive for another company.

These three modes of failure seem unrelated; they are not. Something changes when a company reaches a certain size that makes it somehow different to manage; also, running an independent company is different from running a division of a large company. In short, small-company C.E.O.'s fail in large companies, large-company C.E.O.'s fail in small companies and C.E.O.'s who have risen through the ranks can't work with their boards.

CAMP, CORPORATION AND COMMUNITY: THE VIEW FROM ANTHROPOLOGY

Every company is a polity: a "politically organized community." Even though employees may be hired and fired at will, and may be called "resources," "heads," "directs" or some other impersonal term, each director, officer, manager and employee of a company is a functioning member of the polity.

This is true regardless of the degree of democracy that exists in the company, regardless of an employee's position and regardless of whether he or she or the company's management wants it to be true. Everybody in a company is part of a politically organized community, a polity, and each person's role and behavior in that polity is determined by his or her inherited nature, upbringing and training. In a company, as in any polity, each person behaves according to his or her rules about behavior in groups. Some of these rules come from upbringing and training; half of them, according to recent research,[1] are inherited. They come from our ancestors, and to a great degree they are shared among the other members of our species. When we are born we are humans, and we know how to behave with other humans. When we try to succeed in a group,

we unconsciously call on those primitive patterns of behavior that have evolved over millions of years of living and working in groups; and the structure of our groups comes from the way we behave together.

Anthropologists study people, their cultures and their polities. They have often studied cultures that have not been exposed to modern ideas, techniques and values. When anthropologists find basic similarities across polities with no historical relationship, they believe that these similarities may come from behavior of biologically similar humans adjusting to the same organizational problems.

We have found patterns in these "primitive," isolated human polities that will help C.E.O.'s understand and solve difficulties in their relationships with their boards and their employees. We found that corporations and their boards have strong parallels in primitive polities, and that boards are organizationally different from the corporations to which they are attached. We learned that the founder who is ruined by his company's success, the captain of industry who cannot run a small company and the seasoned executive who cannot be promoted are all victims of the same simple and ancient effect, and we propose a reason for that effect.

> WHEN WE TRY TO SUCCEED IN A GROUP, WE...CALL ON THOSE PRIMITIVE PATTERNS OF BEHAVIOR.

[1] L.J. Eaves, H.J. Eysenck and N.G. Martin, "Genes, Culture and Personality: An Empirical Approach" (Academic Press, 1989).

First, let's compare organizations.

There are three primitive organizations that have counterparts in modern companies: the working group, the camp and the hierarchy.

THE WORKING GROUP

A "working group" is found in all cultures.[2,3] It is a temporary association of two to six people with useful skills, and it has a specific purpose: to hunt, to lay a section of railroad track, to right an overturned car, to catch a criminal. Working groups are variously called "hunting parties," "task forces," "work parties," "posses," "patrols," names fitting the purpose of the group and the group's societal context. They exist only for the purpose at hand, and they are organized quickly and informally.

When a hierarchical organization like a corporation or an army sets up a working group, a leader is named by the hierarchy ("chairman" or "squad leader"), although the real leader of the group emerges informally. Sometimes the group chooses its own leader by acclamation ("team captain") or by lottery ("straw boss"); usually, the leader arises without any special action as the work progresses, and leadership passes from one person to another smoothly as the nature of the work

WE HAVE FOUND PATTERNS…THAT WILL HELP C.E.O.'S…SOLVE DIFFICULTIES IN THEIR RELATIONSHIPS.

changes. A working group has a problem to solve, and works democratically, accepting suggestions from any member regardless of his or her status outside the working group. When the problem is solved or abandoned, the group disbands.

The result of the group's work has a strong effect on the mood of its members. If the work is successful, they are elated and often celebrate. If the work is a failure, its members are depressed and uncommunicative for

a time. Working parties are short-lived, have only a few members and are re-formed as needed.

THE CAMP

Hunting and gathering "camps" usually comprise about 30 people, from up to six families. The business of the camp — hunting, gathering, cooking, building — is done by temporary working groups as defined above. Though many jobs in a camp are separated by sex, little other specialization exists; today's hunter may be tomorrow's gatherer or hut-builder, although special skills such as stone tool making are recognized by all.

The hunting-gathering camp does not admit to having a leader; in fact, members of the camp will deny there is a leader. They will say, "We're all leaders." Nonetheless, a member of a nearby camp will say, "That's Joe's camp."

The camp thus does have a person who facilitates decisions. He or she does not command, but is respected because of knowledge, judgment and skill in organizing opinion. He or she does not give orders,[4] but focuses the decision-making process. Decision-making in a camp is a political, deliberative, consensual process. The camp's elders are expected to

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[2] Allen W. Johnson and Timothy Earle, "The Evolution of Human Societies" (Stanford University Press, 1987). This work includes observations on the structure and leadership of primitive polities; insights from this book and the following monograph are used throughout the remainder of this article without specific reference.

[3] Timothy Earle, "Chiefdoms in Archaeological and Ethnohistorical Perspective," from the "Annual Review of Anthropology" (Annual Reviews Inc., 1987).

[4] Andrew Bard Schmookler, "The Parable of the Tribes" (University of California Press, 1984), p. 92. This work, subtitled "The Problem of Power in Social Evolution," contains many strong parallels to modern corporate behavior.

choose courses of action that are acceptable to the camp, and to accept suggestions from everyone. The whole camp behaves in a consensual manner and there is strong social pressure to conform. (In functioning camps, all members are interested in the facts, are fully informed of them, continuously discuss them and are aware of the various alternatives being considered.) At no time are the people in the camp invited to solve a problem as a group, nor do they wish or expect to do so.

Where a consensus is not found and distrust and disagreement linger, the usual solution is for the smaller faction to leave, striking off on its own. This is a fairly normal event, as families frequently move from camp to camp; but it is not without risk. The faction that takes off risks its very survival if a new camp receptive to it cannot be found.

When a camp grows to about 50 people, it becomes unstable and splits into two or more camps. This pattern of size-related instability is repeated in organizations of all kinds across human society.

THE HIERARCHY

The tribe, which may encompass several camp-sized groups, is a hierarchy. Hierarchical organizations have a clearly defined leader, and often many strata of authority. They have clear lines of authority, and no inherent means to achieve

consensus. They evolved as a means of providing a mechanism for relations with other tribes (including commerce and war), for conducting religious observances and to allow occupational specialization. But they had the fortuitous result of solving the problem of instability in large organizations. The tribal hierarchy made it possible for more than 50 people to live and work together, at the cost of personal and group autonomy.

Simple tribes are organized into local groups of a few hundred, each with its own leadership. More complex tribes are organized into regional chiefdoms of several thousands, each with a hierarchy of leaders.

THE STATE

In the archaic world, states eventually evolved to organize much larger populations, often living together in cities and relying on market exchange. It was at this time that real bureaucracies emerged, both to solve efficiently the problems of large groups and to control those groups for the will of dictatorial rulers.

With industrialization and cheap transportation, people began to live together in even larger groups. The hierarchical society then developed fully and became the preferred method of managing any continuing enterprise employing more than a handful of people. At first, these were outright dictatorships, but

improvements in communication, education and the economy led to a revision of societal values so that now all members of hierarchical societies have some voice. This voice varies from union grievance procedures through election of leaders and managers through public approval of certain actions to formal consensus meetings; however, the structure of any stable organization of more than 50 to 100 people is some form of hierarchy.

SIZE DETERMINES STRUCTURE

Why are human organizations of different sizes structurally different? Why does a small organization become unstable as it grows? Why is the triggering size the same in different cultures?

It appears that six or seven is the largest number of relationships that one person can deal with continuously. We need the hierarchy, with its well-defined roles and patterns of behavior, to allow large numbers of people to work together without overload.

An important study [5] has shown that decision-making performance in egalitarian groups falls off rapidly as the group size grows beyond six. This is a result of a well-studied limitation of the human brain, which cannot simultaneously retain and process more than about seven "information chunks" at once. (One such study by the Bell System set the size of local telephone numbers at seven digits.)

[5] Gregory A. Johnson, "Organizational Structure and Scalar Stress," from "Theory and Explanation in Archaeology," edited by C.A. Renfrew, M.J. Rowlend and D.A. Segraves (Academic Press, 1982), pp. 389-421.

To make larger groups work while still retaining their egalitarian nature, six or seven groups form a "sequential hierarchy." In this structure, consensus is achieved first within small units — for example, nuclear families — and then is attempted among the formative groups themselves, with full consensus finally reached after a lengthy process of referring the issue back and forth from the smaller to the larger entities. The largest stable group in which this process has been observed contains about 100 people, and involves three levels of consensus; the usual maximum is about 50 people (7 times 7), and uses two levels of consensus.[6]

Two points to hold in mind are: 1) As group size changes, so must its organizational structure. This is as true for the long-term evolution of human society as it is for the short-term evolution of a company; 2) Within a single social system, groups of different scale exist and require different organizational structures. A major dysfunction occurs when an organizational structure appropriate for one scale is used for groups of other sizes.

THE CAMP IN THE HIERARCHY

At the top of every stable hierarchy there is a camp-like consensual group. Even in outright dictatorships there must be an egalitarian council,

CONSENSUS IS ACHIEVED FIRST WITHIN SMALL UNITS...THEN IS ATTEMPTED AMONG THE FORMATIVE GROUPS.

as Machiavelli advised 500 years ago:

"A prudent prince must … [choose] for his council wise men … he must ask them about everything and hear their opinion, and afterwards deliberate by himself and in his own way, and in these councils and with each of these men comport himself so that every one may see that the more freely he speaks, the more he will be acceptable."[7]

THE MODERN ORGANIZATION

Thus, four types of organization have

arisen when people live together and try to do something in common: the working group, the camp, the general hierarchy and the state bureaucracy.

The most primitive of these is the working group, up to six people. It is also the one that elicits the most profound emotional response. The camp, up to 30 to 50 people, is the next most primitive, and is a very old structure. Camp-like groups are found among non-human primates, and in all human societies.

The most modern organizations, and therefore the ones for which we are by nature least adapted, are the hierarchy and the bureaucracy. Behavior in a tribe, a company or a nation is not innate: it is learned, in contrast to behavior in camps and working groups, much of which is innate. An individual's success in a hierarchy depends on how well he or she has learned its rules, and to what extent his or her innate behavior allows that person to conform to those rules.

THE MODERN CORPORATION

A modern corporation employing more than 100 people is a hierarchy; a company of more than 1,000 is a bureaucracy. A camp-like board of directors is at the top, to offer guidance by diverse experience and to provide intercorporate information.

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[6] Gregory A. Johnson, op. cit. p. 402.

[7] Niccolò Machiavelli, "The Prince," translated by Luigi Ricci (The New American Library, 1952), p. 116.

The corporation's best work is done by working groups.

The advantages and satisfactions of recognizing the egalitarian nature of the working group are now understood; most traditional companies attempt to exploit this. Very little analysis in a similar vein has been done with boards of directors. Yet in corporations, the camp-like consensual group, the prince's council, is the board.

HOW BOARDS BEHAVE

Since boards are like camps, a successful C.E.O. must remember how camps behave.

A board is not a working party. It cannot solve problems, it can only approve or disapprove courses of action proposed by its leader. If it is forced to choose between alternatives, a crisis of leadership often arises.

The C.E.O.'s leadership role is not openly acknowledged by outside board members, who strongly assert their equality. The C.E.O. thus must reach consensus among board members before proposing important issues. This process is called "keeping in touch."

The C.E.O. is the natural leader of the board. Even when a board has a chairman who is not the C.E.O., a person close to the company will refer to "Joe's [the C.E.O.'s] board." If the chief executive refuses to lead, then the C.E.O. and board will flounder or another individual member will assume leadership. In either case, the C.E.O. must be replaced. This is because the surrogate leader cannot lead well unless he or she assumes the C.E.O.'s role inside the organization as well as on the board.

Board members expect the C.E.O. to be their leader and will treat him or her as such until they decide to fire the person. Anything the C.E.O. says or does will be dealt with by experienced board members in the context of C.E.O.-as-leader. If an act or utterance of the C.E.O. is unreasonable in this leadership context, the other members will believe at a deep level that he or she is incompetent or insane. Since in either of these cases the C.E.O. must be replaced, an extremely unpleasant and difficult task, a member will some-

THE C.E.O. THUS MUST REACH CONSENSUS AMONG BOARD MEMBERS BEFORE PROPOSING IMPORTANT ISSUES.

times opt for denial by assuming that a chief executive who exhibits such behavior is manipulative or evil, either of which is a disquieting but acceptable alternative.

THE WAYS C.E.O.'S FAIL

We can now examine C.E.O. failure modes by comparing modern companies with polities in primitive cultures, and by recognizing that much of our behavior is genetically determined and will be similar when working within groups of the same size. Our understanding of the short-term development of companies can thus be aided by knowing the long-term evolution of human society.

These comparisons confirm anecdotal evidence that successful management techniques are fundamentally different for companies above and below a critical size, and that techniques which succeed in a company above the critical size will fail below it, and vice versa.

The comparisons also explain why C.E.O.'s who are successful as division or subsidiary managers in large companies are unable to run independent companies. These failures are related to their inability to deal with their camp-like boards of directors.

Consider the following scenarios:

PROBLEMS WITH THE BOARD: THE NEW C.E.O.'S SURPRISE

Those few extraordinary individuals who succeed by climbing to the top of a hierarchy are surprised and sometimes quickly fail when faced

with the need to immediately lead the board. The new C.E.O. is in the same position as a camp leader, but without the useful experience of having lived in a camp.

The result is that the C.E.O. often arrives at his position as head of the board without realizing that his role has fundamentally changed. He assumes that he simply has an organization like his old division or function to command.

If his whole experience has been in hierarchies, he may define himself as one who gives and receives orders; he has always been told what to do, or has told others what to do. If he has had no experience with boards of directors, he may make the fatal error of regarding his board as his new boss, as a working group to solve his company's problems or as a part of his organization that he must supervise. If he is told that he must lead the board but not command it, and that he must work by consensus, he finds this incomprehensible. He may deny that it is true, and may either actively avoid assuming leadership of the board or try to manipulate it or dictate to it. He is further confused by his fellow board members, who insist either that the board has no leader or that the leader is the aging chairman.

If, in fact, the C.E.O. does not lead the board, the board's other members, who are operating out of their primitive, innate rule book, have little conscious insight into the situation. They are confused and become unruly. The C.E.O. and sometimes the organization itself then fail. Often, neither the board members nor the C.E.O. can explain the failure. They then go on to repeat the pattern until, in the case of the board, they get a C.E.O. who will lead, or in the case of the C.E.O., he accepts his leadership role or returns to a subsidiary role in another company.

PROBLEMS WITH BECOMING BIG: THE FALTERING FOUNDER

Unless he has access to an enormous amount of money, the founder of a company must first found a camp. In a camp, as we have seen, there is little specialization; in a new company, it is common to hear, "I wear a lot of hats." It is also common to operate by consensus: members marvel at the speed with which decisions are made, and at their feeling of mutual support, clear objectives and clean, unambiguous communication. Employees at all levels speak as though they know what is going on throughout the company. Most of the company's people work far more hours than a normal workday; they enjoy their work.

If the company succeeds, it grows. At first, the company's members are elated with the growth, and point to the company's new people as evidence of its success. Soon, however, typically when the company reaches 25 people, a few dissonant voices are heard: "He's trying to do my job," "I don't know what's going on anymore," and, as the company continues to grow, "We've lost something important. I don't know what it is, but it's gone. It isn't fun anymore." At this point, one or two key employees decide to leave, or simply begin to work 40-hour weeks.

If he doesn't understand what is happening, an insensitive C.E.O. will say that his people are ungrateful and will withdraw; a sensitive C.E.O. will redouble his efforts to communicate. Both will fail.

The appropriate action is to assemble a hierarchy, using experienced people, when the company's staff numbers more than 20. Some key people will be dissatisfied and will leave, because they left a hierarchy for the camp-like feeling of the small company; some will feel betrayed. Others will adjust. The C.E.O. must gradually abandon his role as consensus leader and take on the role of chief.[8]

This is a difficult transition even for C.E.O.'s who understand the problem. Often, a founder has chosen his role because of difficulties in a hierarchy; he sees the transformation of his company to a hierarchy as a personal failure. At best, he must deal with alienation and feelings of betrayal in people with whom he has worked closely, and with whom he shared the bonding and elation of a successful working party. Sometimes, even if his company succeeds, he is unhappy and unfulfilled.

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[8] Eric Flamholtz, "How to Make the Transition From Entrepreneurship to a Professionally Managed Firm" (Jossey-Bass, 1986).

PROBLEMS WITH GOING SMALL:
A CHIEF WITHOUT A TRIBE

The opposite occurs when a C.E.O. is recruited from a large company to run a young one. Such people often have no experience with consensus-based groups.

When the C.E.O. arrives at his new company and finds that everyone has a title and a place in an organization chart, he is pleased, and often begins the process of interviewing his people to see if they are well-qualified for their positions.

He is then usually dismayed. If he concludes that he has an incompetent staff, however, he will be wrong. If, on the other hand, he believes that the titles and the organization chart describe the real organization, and then attempts to operate the company accordingly, he will fail immediately.

There is no hierarchical organization; it is a camp. He cannot delegate; he must work by consensus.

CONCLUSION

The literature and techniques of anthropology and cultural evolution can be used to understand business organizations at different scales. We have explained three familiar failure modes of chief executive officers, derived from studies of primitive societies and their leadership. We have shown that these failure modes can be avoided if the C.E.O. and the company's employees understand and conform to the deep structure of their organization.

We have also shown that the board of directors of a modern corporation is a more primitive and intrinsically different structure from the organization it serves, and that C.E.O.'s must use fundamentally different techniques to work with their boards and with their companies.

Many failures of companies and their C.E.O.'s can be avoided by supplementing graduate business training, which now deals largely with the structure and management of hierarchies, with training in consensual organizations such as boards, "skunk works" and small companies. The goal is for the new C.E.O. to have the training to understand the differences between the organization he is entering and the one he is leaving.

In the absence of knowledge, people do the things that have worked for them in the past, and when they fail to work, simply do the same things more intensively, like a tourist in a foreign country who just shouts louder if he is not understood.

But new C.E.O.'s have staked everything on their new jobs and they desperately want to succeed. When they arrive in an unfamiliar organization, they are receptive to guidance they believe may keep them from failing. A man or woman who is entering a small company for the first time, and whose work has largely been in hierarchies, would be wise to find an insightful friend who has successfully run a small company, or a person with extensive board experience, to act as an adviser.

Venture capitalists, executive recruiters and board members of young companies who have a stake in the success of the people they fund or recruit can reduce their risks considerably by discussing consensual organizations with their candidates.

One of the authors of this article has made a recent habit of exploring the central issues that have been discussed here with company founders (who are frequently pro-consensus and anti-hierarchy) and with experienced candidates for top management jobs (who are dramatically the reverse). Candidates from one form of organization who are unwilling to admit the validity of the other will fail. When they are receptive to these new ideas, their chances, and that of their companies, improve.

In two cases, after such a discussion, a founder suggested that he take the role of a function manager in the new company rather than be its C.E.O., and that he and the investors go out together to recruit an experienced hierarchical C.E.O. to run the new enterprise when it grew to an appropriate size.

In both cases, the company was unusually successful. Perhaps more important, the founder happily remained with the company in a productive and rewarding role. $s+b$

> THE APPROPRIATE ACTION IS TO ASSEMBLE A HIERARCHY…WHEN THE…STAFF NUMBERS MORE THAN 20.