



The Succession Question at Tech Firms: When's the Right Time to Go?

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The recent resignation of Scott McNealy as CEO of Sun Microsystems, the company he founded 22 years ago, is another milestone in the succession process of a large technology company. But tech companies often pose unique succession issues, in part because of their unusually fast growth and young founders, according to Wharton faculty and technology experts. "If you look at the dominant companies in the technology industry, most of them are still led, or until recently were led, by a charismatic founder. By and large the companies that have made the transition have done a pretty good job of it," says [Kevin Werbach](#), professor of legal studies and business ethics at Wharton.



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In 2000, for example, Bill Gates turned his CEO position at Microsoft over to his first hire, Steve Ballmer, although Gates remains chairman of the company. Adobe Systems' founders John Warnock and Charles Geschke similarly turned over the CEO job to Bruce Chizen in 2000.

The industry is still young, however, and many of the best-known firms continue to be run by entrepreneurial founders, like McNealy, who have been in their jobs for decades and have grown to become corporate icons. Going forward, it remains to be seen what will happen at Oracle, which is still run by founder Lawrence J. Ellison after nearly 30 years, and at Apple, where founder Steve Jobs left the company once, but is now enjoying a second honeymoon with the success of the iPod and iTunes.

Celebrity Entrepreneurs

While succession is important at any company, it can be even more critical at a firm run by entrepreneurs, like Gates or Jobs, who are also celebrities. "In a situation where the CEO is also the founder, it's not just a succession event when he or she steps down," says Wharton management professor [Peter Cappelli](#). "These people are closely identified with the organization and it can be extremely traumatic when somebody like that [leaves]. They have to think carefully about what kind of person could step in."

Young start-ups flourish with creative, charismatic leaders who have a deep passion for, and understanding of, technology. But as the organizations grow, they need chief executives with a different set of skills, including the ability to delegate and to operate in a highly structured management system, says [Kartik Hosanagar](#), Wharton professor of operations and information management. "In the technology industry, you have entrepreneurs who have been running the show for a really long time. But as these firms start to grow, they need to be looking at seasoned managers who have broad-based management skills."

At the majority of technology firms, which never become household names, the transition from entrepreneurial founder to business-oriented CEO occurs early in the firm's evolution, often at the demand of venture capital investors, Hosanagar points out. For example, Larry Page and Sergey Brin founded Google in 1998, but by 2001 they had hired Eric Schmidt, the former CEO of Novell, as Google's chairman and CEO.

Only a handful of the largest firms have had founders with the ability to manage both the technology and business sides of their rapidly growing companies, Hosanagar says. "For the more successful companies,

there was not a reason for the investors to make the intervention earlier. That's why you have some of the biggest companies -- Microsoft, Sun, Apple -- run by the same people for 10, 20 or 30 years."

The rate of innovation in the technology industry also allows entrepreneurial founders to remain in charge longer than their management skills might warrant because fast growth at the firms can mask management weaknesses, Hosanagar says. As the companies mature, those problems are not so easy to hide, making succession more urgent.

Many entrepreneurs are happy to turn over the chief executive job, notes Joseph Griesedieck, vice chairman of the management recruitment firm Korn/Ferry International. "There are those who have a tough time letting go, but then there are those who are smart enough to know what their limitations are. Sometimes they want to move on and start new things." He points to Jim Clark, a founder of Silicon Graphics and later Netscape, as an example of an entrepreneur who did not linger in the CEO position. At Microsoft, in addition to his chairman job, Gates now carries the title of chief software architect and has been largely focused on new product development and strategy.

Hiring from the Outside, or Inside

Once the decision is made to appoint a new chief executive, boards must wrestle with whether to hire from the outside or choose someone from their own ranks. "Clearly there's a preference for managers who are in the industry, but the challenge is that because the industry is so young, you can't find as many seasoned executives who can run the show. We are at an inflection point where this industry, which had been run by technologists, is going to increasingly look to traditional business executives to take on more important roles," says Hosanagar.

When McNealy stepped down, Sun promoted president Jonathan Schwartz to the CEO position. Schwartz joined Sun in 1996 and was long considered to be McNealy's successor. While Sun's shares rose 9% after the announcement, some questioned whether Schwartz has enough perspective to lift Sun out of its doldrums. In a research note, Toni Sacconaghi of Bernstein Research said Schwartz remains unproven as a leader, and he expressed concern that Schwartz's ideas were "eerily similar" to those of McNealy.

Wharton management professor [Benjamin Campbell](#) notes that McNealy had come under sharp criticism for his management of the company, although recently he appears to have turned the situation around. Choosing an insider gives Sun employees and investors a greater sense of certainty about what to expect, he says.

Sometimes, Campbell notes, companies should shop outside for chief executives, particularly if the company is performing badly and wants to signal it is headed in a new direction. "If it's clear the firm's business model is flawed and it needs to implement dramatic changes, then hiring externally is the right way to go."

The timing of the Sun succession is interesting because McNealy had been under pressure to step down years earlier, Campbell adds. It was not until the company appeared to be back on the upswing that he announced the change. "It looks as if the company is trying to create a situation where the new CEO can be quickly successful, which would help get buy-in with the external world. It seems like this is exactly the right time to switch CEOs -- just when things are starting to perk up."

It has been difficult, Cappelli adds, for fast-growing technology firms to develop top managers internally. "The companies generally have not had a lot of systems in place, particularly for developing people, so that often makes it hard to find qualified people inside."

"Bill Is Back"

According to Werbach, the transition from Gates to his college buddy, Ballmer, was about as gradual as could be expected. The next succession, he says, will be a greater challenge for Microsoft. "There are a lot of great executives at Microsoft, but it will probably be a more traumatic transition from Steve Ballmer to the next CEO than it was from Gates to Ballmer. The next CEO, whoever it is, will not be someone who was around in the 1970s when the company got started."

Campbell suggests that Gates' celebrity will make it difficult for anyone else to occupy the chief executives' office. "Those are going to be extremely large shoes to fill. The probability that any CEO will lead the company with the success Bill Gates has had is extremely low." Yet according to Kendall Whitehouse, Wharton's senior IT director, one possible successor to Gates is Ray Ozzie, the principal creator of Lotus Notes, who joined Microsoft when the company acquired Groove Networks in 2005, a company which Ozzie founded in 1997. "Ozzie is clearly a tech visionary," states Whitehouse. "He may be just what Microsoft needs to lead it into the next generation of Internet-enabled software applications."

Meanwhile, Gates and Ballmer have been shaking things up at Microsoft lately. This week, the company announced it will introduce new initiatives for the Internet and Microsoft's game platform that will take on competitors like Google, Yahoo! and Sony. Announcement of the plans, which will cost the company \$2 to \$2.5 billion in the next year, sent shares down sharply.

Analysts say that the investment signals the beginning of a new era for Microsoft after a period in which the company was digesting the last decade's enormous growth, the maturation of the PC market and years of anti-trust litigation. "Bill is back. He's now thinking about the Microsoft that has to be built," Mark Stahlman, an analyst at Caris & Co. in New York, told *The Financial Times*.

At Apple, Steve Jobs has already passed through the succession process once. In 1983, Jobs and Apple cofounder Steve Wozniak selected a traditional business manager, John Sculley, then president of PepsiCo, to run the computer firm. By 1985, tensions had developed between Jobs and his hand-picked CEO. Sculley ousted Jobs, but 11 years later, long after Sculley had gone, Apple's board reinstated Jobs after acquiring his new firm, NeXT Computer. "The change in environment certainly helped Steve Jobs," says Hosanagar. "He came back in with a very different approach to managing the firm. The years away brought a certain amount of energy and fresh thinking."

According to Wharton management professor [Saikat Chaudhuri](#), Apple should be thinking about a successor to Jobs as the company celebrates its 30th anniversary. "Jobs is a visionary but, to his credit, after he left Apple the first time, he came back not just as a visionary, but he also implemented well. The iPod is the best example of that."

Even though Jobs is riding high now, the board should be careful not to become too comfortable with his ability to meld vision and execution. Sun may have fallen into that trap with McNealy, Chaudhuri suggests. "I think Sun got stuck. In some ways, the Sun succession should have come earlier. It could easily have come five years ago."

Oracle is another company that needs to be thinking about succession, Chaudhuri says. Ellison has recently become more hands-on at the firm, taking some aggressive steps in the company's Enterprise Resource Planning (ERP) systems and Customer Relationship Management (CRM) business, and has raised the possibility of acquiring a Linux provider, such as Red Hat.

Still, it will be difficult to meld Ellison's entrepreneurial vision with the business skills that will be necessary to carry out the strategy successfully. "It will be interesting to see [what happens] when Larry Ellison retires from Oracle, which may not be for another 20 years," says Werbach, adding that technology executives seem to stay on longer than executives in other industries because they were so young when they became successful. "What else are you going to do if you're Bill Gates and you're in your early 50s?" asks Werbach. "There's no other job for these people and they can live another 30 or 40

years. What would you expect them to say: 'I'm going fishing'?"

While technology company founders are among the most well-known business executives, they are often less ego-driven than CEOs in other industries, where elaborate hierarchies link power to position. "The tech industry is unique in many ways and it has to do with the strong meritocracy," says Hosanagar, who points out that technology executives work closely with employees at all levels to foster a sense of collaboration, which in turn leads to innovation. "In that culture, anyone at the firm feels like he or she has an important role to play in coming up with new ideas."

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