CARNAHAN, George Richard, 1935-
ORGANIZATIONAL STABILITY IN MANUFACTURING
CONCERNS IN THE UNITED STATES.

The Ohio State University, Ph.D., 1967
Business Administration

University Microfilms, Inc., Ann Arbor, Michigan
ORGANIZATIONAL STABILITY IN MANUFACTURING
CONCERNS IN THE UNITED STATES

DISSERTATION

Presented in Partial Fulfillment of the Requirements for the Degree Doctor of Philosophy in the Graduate School of The Ohio State University

By
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* * * * * *

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ACKNOWLEDGMENTS

No doctoral dissertation can be completed without the assistance and inspiration of many persons. I would first like to thank Professor Emeritus Ralph Currier Davis of The Ohio State University, who provided inspiration and knowledge throughout my doctoral program, and who served as the original chairman of my dissertation committee. I would also like to thank Professor Charles B. Hicks of The Ohio State University, who served as chairman of my final reading committee, for his patience and assistance. The other members of my final reading committee, Professors Frederick Kindig and Leo Stone, provided considerable help throughout the project. Professor Ralph Stogdill provided valuable advice concerning the construction of the questionnaire. Professor Michael J. Jucius, of the University of Arizona, and Professor William Schlender of the University of Texas also served as members of my dissertation committee before their departure from The Ohio State University. Many other individuals at the Ohio State University and Northern Michigan University deserve thanks for assistance and inspiration, as do the many businessmen that cooperated with the survey and aided in the collection of data.

Last, but foremost, I would like to thank my wife and children for their patience and understanding throughout the last five years. No assistance or inspiration was as meaningful or important as that received from my family—an assistance and inspiration of a different type than that mentioned above, but without which no success is possible.
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CHAPTER I

INTRODUCTION

Reasons for the Study

Beginning approximately at the start of the Twentieth Century, management of organizations has been studied as a separate field of inquiry, due in part to the initial work of such pioneers as Frederick Taylor, Frank Gilbreth and Henri Fayol. Since this time, much has been written concerning the subject of management. Many theories of management have been advanced, and many problems have been "solved," at least in the light of the situation in which the problem was considered. Hundreds of problem areas, however, have been introduced but not considered in any degree of depth. This research is designed to consider one of these problem areas, that of organizational stability; how important to an organization is the loss of a key executive?

Each year, thousands of businesses fail in the United States. During the year 1966, for example, 13,061 businesses failed.¹ Thousands of other businesses struggle through, operating much less efficiently and less profitably than is possible. One of the primary reasons often given for these business failures is

simply "poor management." This is a very broad, general term, which, when analyzed, could mean the lack of ability of the management personnel to plan, organize, and control the work of others in the organization, and the lack of ability to motivate subordinates to work at their full capacity. "For example, Nickerson states that in a survey of 76 large corporations, nearly 90% of executive dismissals were due to lack of wisdom and skill in leading people."\(^2\)

This indicates that there are certain skills an individual must possess before he can become a successful manager.

This particular definition of "poor management" could be argued; this is not important. What is important is that poor management is, at least partially, responsible for below-standard operation of an organization. The purpose of this paper is to determine whether turnover of executives, through death, retirement or resignation, can result in situations that can lead to inefficient operation. The position vacated, particularly if vacated suddenly, may be filled by individuals who are not qualified. It is also the purpose of this paper to determine whether executive turnover does occur often enough to be of concern to business organizations.

This study is not meant to be conclusive. It is meant to raise some questions and to provide information indicating the seriousness of the problem of executive turnover. It is an

empirical study, and, as such, contains the weaknesses of an empirical study.

According to Koontz the "empirical" school of management thought "includes those scholars who identify management as a study of experience, sometimes with intent to draw generalizations but usually merely as a means of teaching experience and transferring it to the practicioner or student." This is what the present study is meant to be—an indication of the existence of a problem of executive turnover and the possible results of a lack of planning for the loss of a key executive. It is not meant to suggest solutions to these problems. Often, it is necessary to study the present situation on an empirical basis to find out where we are before we can proceed.

Background of Organizational Stability

In the writings of management authorities, so-called characteristics of a good organization are often seen, or at least implied. One authoritative source in the area of administrative management lists the characteristics of a good organizations as follows:


1. Effective executive leadership

2. Sound business objectives and policies, based on competent analysis of customer needs and desires, that have been made with due regard for the public interest

3. Sound functional relationships, as determined by objectives

4. Adequate logistical support of operations with money, materials, equipment, plant and other physical implementation

5. A complement of abilities, both executive and operative, that is capable of accomplishing the mission

6. Organizational stability

7. Organizational flexibility

8. Organizational capacity for growth

9. Organizational balance

10. Good organizational morale

It was the general purpose of this study to investigate empirically one of these attributes, organizational stability. As defined by the author of the above characteristics, organizational stability is "that quality of an organization to adjust itself promptly to personnel losses without serious loss of economy or effectiveness." The specific purpose of this study, as indicated in the first section of this chapter, was to determine the importance of this attribute of a good organization in business practice.

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5 Ibid., p. 118.
A mention of organizational stability is found in the writings of many management authorities and business executives; some of these will be considered at a later point in this chapter. In other writings, however, there is no direct reference to organizational stability in considering the characteristics of a good organization. This may mean one or more of the following:

1. The importance of this attribute is assumed.

2. Organizational stability is important to an organization; however, it does not deserve special mention because, if an organization is otherwise well-structured, organizational stability will automatically follow.

3. Organizational stability is not important.

How important, then, to an organization is organizational stability? How much consideration should be given to this attribute by those comprising the executive leadership of the organization? This, of course, is dependent upon the frequency of loss and the nature of the events following a loss.

Preliminary investigation indicated that there is a lack of information on the subject. Books and articles in the area of administrative management and personnel management mention that it is important to have well-trained subordinates in order to provide an orderly line of succession. Nowhere was empirical evidence found to indicate the actual importance of this—whether it is merely an academic problem or a problem that must be of concern to
conscientious executives in actual business situations. Common sense would indicate that this is a very real problem; however, common sense alone may be a dangerous base for a managerial decision.

Statement of the Hypotheses

To accomplish the specific purpose of this study, therefore, the following hypotheses were formulated and investigated:

1. The loss of a key executive occurs sufficiently often to be an important consideration to management of all sizes and types of business organizations.

2. When the loss of a key executive does occur, much time may be involved in filling adequately the position left vacant.

3. When the loss of a key executive does occur, there are certain adverse effects upon the economy and effectiveness of a business organization. Some of these effects may be:
   A. Greater employee turnover (at either or both of the administrative or the operational level).
   B. Greater administrative expense (due to the necessity of hiring more than one replacement, larger salaries paid, etc.).
   C. Decline in sales.
   D. Decline in per cent of profit as related to sales.
   E. Decline in the market value of the stock of the organization (assuming that the stock of the organization is for sale in the open market).
4. The problems involved are related inversely to the size of the organization.

5. The magnitude of the problems will vary depending on the type of loss (anticipated or unanticipated, death, retirement, or resignation).

6. The magnitude of the problems will vary depending on the type of ownership of the corporation (closed versus open corporation).

Importance of the Problem

The possible loss of a key executive is a constant problem to any organization. Losses may be of several kinds: death, retirement at regular retirement age, "early" retirement, or resignation. Reasons why companies may not wish to be concerned with the problem may be: (1) the planning for such an event as this may seem like an unnecessary expense, (2) there is often too much pressure for the solving of present problems and, (3) the loss of an important individual is usually an unpleasant thought, as mentioned in the following quotation:

To many executives, the certainty of a fixed retirement date, the probability of disability and sickness and the certainty of death, all factors to be considered in planning for management succession, are unpleasant thoughts.6

Most of the severances of executives are unpredictable. Only retirement at the regular retirement age for the organization is predictable, and often this event is not properly anticipated since in many cases it is one of the above-mentioned "unpleasant thoughts," particularly to the individual who will be retiring.

Possible Types of Loss

Sudden accidental death caused by executive travel is always an unpleasant possibility. Business organizations are becoming more concerned with this problem now than ever before due to increased mobility of executives and the necessity for extensive travel by executives. According to a recent survey by the National Industrial Conference Board of 217 manufacturing concerns, about 67% impose specific restrictions on group travel by key personnel, as compared with 44% of the companies in a similar survey six years ago. Another 17% of the companies urged "prudence" in selecting travelling companions. According to a recent Business Week article,

Most big companies spell out acceptable corporate travelling companions. Usually president and chairman must travel separately; the Number One and Number Two men from any division or department can't fly together; no more than four company officers can take the same flight; and men lower down the line must fly independently of their backup men.

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8Ibid.
Less spectacular than sudden death by accident but undoubtedly important to organizations are sudden deaths of other types. There is a much greater awareness of this possibility now than in the past, primarily because of the increase of heart disease, and the belief, right or wrong, that executives are more prone to this disease than other individuals because of the tension and pressure put upon them. One authoritative work states, "Attention to the health of executives has noted the strains that are presently inherent in these positions and has suggested the need for special preparation to meet them."  

Some organizations have taken steps to combat the increase in deaths and incapacitation by heart attacks by encouraging, or even forcing, executives to take vacations, by providing a greater amount of staff assistance, and by requiring regular physical examinations. A "Heart in Industry" conference was held in Dayton, Ohio, in January, 1966, sponsored by the Montgomery County (Ohio) Heart Association; the conference was for the purpose of making the businessman aware of the danger of heart disease and of what he could do to limit this danger. Businesses and industrial organizations should be commended for such efforts. However, there are two weaknesses to these efforts. First, there is naturally no guarantee that particular companies or individuals will be

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successful in their attempts to combat illness and, second, the vast majority of firms (smaller firms in particular) do not participate in these efforts for various reasons. The basic problem of planning for executive loss, therefore, remains.

Death of a key executive is not the only reason an organization may become unstable. Resignations because of internal disagreements, poor health, or for another more attractive position pose a constant threat to business organization. Resignation for another position deserves special consideration at the present time, as there is now, and will undoubtedly continue to be, an excess of demand for good executive talent over the available and projected supply. An official of Booz, Allen and Hamilton commented as follows:

In addition to the normal aging process (which will be discussed later in this report) that inevitably weeds out his top management team, the chief executive constantly faces the internal pressure of executive turnover for reasons of illness, death, poor performance, or loss to another company. With the shortage of executive talent and an ever-increasing number of positions available to current executives, mobility of top executives has been on a rapid upswing and executive turnover has become a fact of corporate life.10

Retirements, as distinguished from resignations, present a somewhat different type of problem. Retirement is inevitable for all executives who remain with a company until retirement age. Since this is the case, it is only common sense and good business

practice that retirement at retirement age should be planned for by management. Retirement is one of those problems that may seem far in the distance at any one particular point in time, and it may appear to an executive that too much expense may be involved in attempting to plan adequately for it. However, the problem is an extremely important one. "By 1970, some 60% of today's company presidents will have retired if stated retirement policies at age 65 are adhered to."\(^{11}\) Note that this figure includes only company presidents, not other key executives. Booz, Allen and Hamilton report that "in the next ten years, nearly 65% of today's top executives will have to be replaced if 'normal retirement' at age 65 takes place." In addition, Booz, Allen and Hamilton show the following median ages for executives.\(^{12}\)

**TABLE I**

**Median Ages for Executives**

<table>
<thead>
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<th>Position Title</th>
<th>Median Age</th>
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<tr>
<td>President</td>
<td>56</td>
</tr>
<tr>
<td>Executive Vice-President</td>
<td>55</td>
</tr>
<tr>
<td>Top Financial Officer</td>
<td>54</td>
</tr>
<tr>
<td>Corporate Secretary</td>
<td>51</td>
</tr>
<tr>
<td>Controller</td>
<td>51</td>
</tr>
<tr>
<td>Top Sales and Marketing Officer</td>
<td>54</td>
</tr>
<tr>
<td>Top Manufacturing Officer</td>
<td>54</td>
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\(^{12}\)Monroe, p. 38.
Both of the above statements refer to "normal retirement age" of 65. Although life span and productive years are both increasing, there paradoxically seems to be a tendency for retirement before an individual reaches the age of 65. This tendency increases the problem of executive loss.

The Handbook of Personnel Management and Labor Relations states, as one of the reasons for the emphasis on management development, "Widespread adoption of the idea of compulsory retirement has called attention to the fact that a heavy proportion of executives is made up of those close to retirement limits. Replacements must be found within a short time."\textsuperscript{13}

Businessmen have not completely ignored the problem of organizational stability. "One of the most familiar tragedies of the business world is the company that falls apart after its founder dies because he failed—or refused—to develop competent successors."\textsuperscript{14} In 1952, William A. Lyons, banking superintendent for the State of New York at the time, commented:

For some years now top officers of the biggest stockholders of some small and medium sized banks have stopped by the department's office to say they were thinking of merger because there was no one in sight to take the place of the aging or recently retired or deceased official. It usually transpires

\textsuperscript{13}Yoder, p. 10.

\textsuperscript{14}R. J. Cordiner, Chairman of the Board of General Electric Co., in a speech to the International Management Congress, September 16, 1963.
during the discussion that no replacement is in sight because the board has made no real effort to find one.\textsuperscript{15}

This particular problem does not appear to have been solved, at least in the banking business; J. Howard Laeri, Vice-Chairman of the First National City Bank of New York, stated in early 1966 that the wave of bank mergers over the past decade has stemmed largely from "the failure of one of the two parties involved to provide for managerial succession."\textsuperscript{16}

John R. Suman, of the Standard Oil Company of New Jersey, stated in 1953:

Corporations have a life far longer than the men who serve them, and that life is guaranteed only if a new crop of efficient managers is constantly being sown. So of all the responsibilities that management owes to the stockholders of a business, probably first comes that one of developing executive replacements.\textsuperscript{17}

Other businessmen less well-known than Cordiner recognize and are interested in the problem of organizational stability. Some comments received from both small and large businessmen during the course of this study will be discussed in a later chapter.

Professor Ralph Currier Davis has written an extensive and exhaustive discussion of organizational stability. He appears


\textsuperscript{16}\textit{Duns Review and Modern Industry}, "How Do You Keep Executives?" (July, 1966), p. 35.

to be more convinced of the importance of the subject than any other writer in the field. Davis lists four reasons why an organization should be concerned with developing stability. A stable organization will have (1) a minimum of loss or dilution of the organization's skill and knowledge content as a result of personnel changes, (2) a minimum of expense in connection with the loss, realizing that some such expenses are inevitable, (3) lower executive salary costs because the organization is less likely to have to purchase executive ability in the open market, and (4) better morale because of a higher degree and greater equality of opportunity within the organization—promotion from within.\textsuperscript{18} It should be noted that Davis relates the problem of organizational stability to all levels within the organization, not just to the top levels.

Dalton E. MacFarland also comments on the subject, and in his comments refers to two possible problems resulting from a lack of organizational stability.

Through death, resignation, retirement or discharge, positions in the structure become vacant from time to time. Vacancies at the top are particularly important with respect to structure. One of the most frequent reasons for major changes in company structure is a change of executives at the top. New executives at the top usually begin by examining the structure below them to see if it corresponds to their idea of what will be needed to do their job. Upon taking over a new position in the top region, it is not surprising to see

rather sweeping changes made in the structure. Moreover, some who opposed the appointment are likely to resign.19

The two problems mentioned are (1) a possible change in the organization structure (which is not in itself a problem but which can lead to problems) and (2) the possibility of more personnel losses as a result of the loss of the executive.

Most management writers assume that organizational stability is a problem, but little empirical information is available to support their assumption. Although executive turnover figures are impressive, they are not the type of data that are needed to convince businessmen of the importance of the problem, nor do they usually separate large firms from small firms, nor do they indicate the effects of losses.

Related Research

Two studies in the area of frequency of loss and the problems involved were located. In 1953 Professor C. Roland Christensen, working with the Division of Research of the Graduate School of Business of Harvard University, conducted a case study of this problem. This study was concerned with management succession in small and growing enterprises. He relates several types of problems that can result from a lack of concern with the problem

of organizational stability and a lack of planning for management succession. His conclusions are based on a survey of over 100 small firms engaged in various types of work. Even though his study was concentrated on small businesses, his conclusions would seem to apply to large businesses as well. He believes the problems are basically four in nature.

1. The most serious by far is the possibility of liquidation of the enterprise.

2. Not quite as serious, but nevertheless to be avoided if at all possible, is the possible consequence of a forced sale of the organization.

3. There may be a period of unsatisfactory operations due to the necessity of using inadequately trained managers.

4. There may be a hurried selection of new managers, the selection made under less-than-favorable circumstances.20

Although these are some of the problems encountered by Professor Christensen during the course of his study, they certainly are not all the problems that could result from an unstable organization, as is indicated by this study.

Professor Christensen also lists four warning signs—indications to management that problems may be faced in the future if a key executive were to leave.21

20C. Roland Christensen, Management Succession in Small and Growing Enterprises (Boston: Division of Research, Graduate School of Business Administration, Harvard University, 1953), pp. 21-28.

21Ibid., p. 29.
1. All major decisions are made by top management. In other words, there is a lack of delegation of authority and responsibility within the organization.

2. The management group has grown old together—a common occurrence in small businesses.

3. There is an unwillingness to use outside help in the solving of problems. This may result from a lack of willingness in a small, closed corporation to reveal information concerning the corporation, or because the small business cannot afford outside help.

4. There is a stockpile of unsolved problems. Sometimes, as executives reach retirement age, they are inclined to ignore certain problems. This creates many problems for an executive who assumes the position in the future.

Professor Christensen also indicates several obstacles to a good succession program and to the development of organizational stability.22

1. There is a limited number of people in the management group. The reason for this being an obstacle is obvious. There simply are not enough people involved in the management of the company to take over in case of an emergency.

2. Those in the management group have similar backgrounds and interests. Therefore, no one is available who is qualified to administer to the entire organization.

22Ibid., pp. 33–44.
3. The corporation is closely held. (Statistics concerning this as an obstacle will be presented later in the report, supporting hypothesis number five.)

4. There is a great amount of secrecy, as is sometimes found in a closed corporation.

5. There is no one available to help decide in the case of death or accident. (This would appear to be more of a result of a poor succession program rather than an obstacle to one.)

6. A good succession program may affect the financial status of the owner. This would happen if the owner were financing the business and if it were his capital used in financing the succession program.

Professor Christensen's approach to the problem of executive succession is limited to small businesses (although, as mentioned above, some of his conclusions could readily apply to medium-sized and large businesses as well). No statistics are presented to indicate the importance of the problem of executive loss or of the many types of problems that may arise after the loss of an executive. Also, no consideration is given to the fact that the effect of a loss on the organization may be favorable, not unfavorable. The present study provides some of this information.

Only second-hand information could be located concerning the second study. This study was conducted by Booz, Allen and Hamilton management consulting firm and was published in 1953 under
the title, "The Growing Problem of Executive Turnover." Conclusions from the study follow.

Executive turnover had increased, at the time of the study, by 29% since prior to World War II. The turnover of executives will vary from industry to industry, although one group of supposedly "blue-chip" firms studied averaged an executive turnover of seven to eight per cent per year. The basic causes for turnover were (1) deaths and retirements, 56.0 per cent; (2) lay-offs and discharges, 6.6 per cent; (3) resignations, 34 per cent.23

Nature and Source of Data Required

It was necessary for the data compiled to answer two general questions if the above hypotheses were to be satisfactorily investigated. First, how often do organizations lose key executives; and, second, when they do lose key executives, what are the consequences to the organization? In order to investigate the hypotheses and to answer the above two questions, it was necessary to sample business organizations of various types and sizes in all areas of the United States. For the study, the type of organization sampled has been limited to manufacturing concerns and to a study of executive losses during the time period January 1, 1962, through December 31, 1963. (The rationale for these limitations will be

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23 Yoder, op. cit., pp. 10-4, 10-5.
explained later in this chapter.) The methodology used in compiling
the sample is explained in detail in Chapter II.

Limitations to the Study

1. It is impossible in this type of study to prove an
exact cause-and-effect relationship. That is, it is not possible
to state that problems occurring after the loss of an executive stem
directly from the loss. There may be other factors involved that
would have caused the problems to arise even if the executive had
not left the organization. It may be necessary, instead, to say
that "in X per cent of the cases where an executive left the com-
pany, A happened," and from this draw certain conclusions or
generalizations. Due to the dynamic nature of the economy, all
variables cannot be held constant in a study of this type.

2. An obvious limitation to the study, or to any study,
is inaccuracy in the basic data used in sample compiling. Of
course, any corporations not listed in the sources used would not
be included in the original survey. Spot checks and cross-checks
with other sources, particularly the telephone book, indicated that
this would be a minor source of error.

3. As mentioned above, the study would be limited to
manufacturing concerns in the United States. Manufacturing con-
cerns are those defined as concerns that are engaged primarily in
the creation of form utility, although they may (and in most cases
do) perform other functions as well. There are several reasons for
limiting the study to this type of organization.
The extension of the study to include financial and distributive concerns would needlessly complicate the classification procedure and would yield, it is believed, basically the same results. Although no proof of this assumption can be offered without extending the study to these other types of concerns, the assumption is based on a familiar concept in the study of management: that all organizations have similar characteristics, of which organizational stability is one.

4. The study is limited to corporations primarily for the practical reason that data are readily available for this type of organization. Also, although a study of partnerships and proprietorships may yield slightly different results in some cases, due to the usual combination of ownership and management and the more personal factor involved, the data concerning corporations would be of more general interest because of the economic impact of this type of organization.

5. The study has been limited to the key executives as defined above. The term "key executive" as used throughout this study refers to the chief executive officer, president, executive vice president, or any subordinate reporting directly to one of these three classes of top executives. In other words, it refers to those on the first three organizational levels (or possibly the first four organizational levels, if the chief executive officer and the president are different individuals). Although it is recognized that the problem of organizational stability is pervasive
throughout an organization, the task of surveying all levels in the organizational hierarchy would be gigantic. This is not to infer that the loss of lower-level executives or even the loss of operative employees in some cases would not have an adverse effect on the operation of the organization or of a segment of the organization; it certainly may. However, the executive level represents the leadership of the organization, and most management authorities agree that good executive leadership is a necessity for the continuing efficient operation of an organization. Therefore, problems occurring at this level may acutely affect the operations of the entire organization.

6. There were firms in the sample of corporations for which detailed financial statements could not be located. This created a problem since asset size was the primary basis for classification. There are, logically, two approaches to the handling of this problem. First, these "unclassified" firms may be ignored and not sampled in performing the research. Second, these "unclassified" firms may be sampled in the same manner as the other classifications and replies to the questionnaire inserted into the proper asset size classifications when they are returned.

The second approach to solving this problem appeared to be the most satisfactory. It was believed that the majority of the "unclassified" firms would fall into the second or third classification. This assumption is based on the idea that most of Moody's and Standard and Poor's listings consider the public interest
factor and that the majority of firms with over $100 million in assets would have enough public interest to warrant their listing. By following the second procedure in surveying these concerns, it was believed that a more accurate sample may be obtained and much valuable data compiled concerning the smaller organizations.

7. The two-year time period January 1, 1962, through December 31, 1963, was chosen for the following two reasons: enough time would have elapsed since the loss of the executive for the short-term results of the loss to be reasonably well analyzed, and not so much time would have elapsed since the loss that the memory of what actually occurred would have become distorted or faded completely.

8. Information received from this study has been limited to short-term effects. The analyzing of the long-term effect of losses of executives would be most interesting and valuable, but, the only way this could be satisfactorily accomplished, however, would be to survey the same companies several years after the loss had occurred.

9. Due to the above-mentioned lack of literature concerning the subject of organizational stability, little opportunity exists for comparison with past studies.

10. The corporations chosen were limited to United States corporations for the same two reasons noted in limitation number four above: the availability of data and the general interest in United States corporations.
11. As noted later in this report, a second survey was conducted of a portion of the 500 largest United States industrial concerns as determined by *Fortune Magazine*. Although this survey was not in keeping with the sampling procedure described below, it was believed that the second survey could accomplish two purposes: (1) The survey could substantiate or refute data received during the first survey; (2) The second survey could provide an opportunity to compile more information concerning the larger corporations.

It appeared to be more important to collect the data from the second survey than to adhere to the geographical basis for sampling, as no geographical bias was noted in the returns from or the results of the first survey. In general, the results of the second survey are presented combined with the results of the first.

**Classification of the Data**

The first classification of data was the separation of those concerns that suffered a loss of a key executive during the specified time period from those that did not. This classification considered the number of losses suffered, should there have been more than one.

The second classification was the separation of those companies that had suffered a loss during the specified time period and had encountered difficulties from those companies that had suffered a loss but had not encountered difficulties.
Third, the data from those organizations that had encountered difficulties were classified basically in the following ways:

1. Sudden losses and the problems involved, classified by size of company.

2. Sudden losses and the problems involved, classified by type of ownership. "Type of ownership" as used here, means a large number of stockholders versus a closely held corporation.

3. Anticipated losses and the problems involved, classified by size of company.

4. Anticipated losses and the problems involved, classified by type of ownership.

These classifications which were proposed at the outset of the study were basic and, undoubtedly, incomplete. Types of problems as revealed by the questionnaire were analyzed to determine the most prevalent. Consideration of the size of company might take different forms, such as, asset size, number of stockholders, and number of employees. Returned questionnaires were coded by industry to make it possible to eliminate general industrial trends, if necessary, before forming conclusions. This also made it possible to classify the data by industry if determined important for the study. (Based on the number of returns and the wide variety of industries involved, this classification procedure was not used in the analysis of the data.) In addition, the data could be classified according to the organizational level of the executive who
left the company. It was not known at the outset which classifications might or might not be used in the final analysis. The exact type of classifications could not be determined until the results of the questionnaires were analyzed. Data processing equipment was available in order to facilitate the analyzing of the questionnaires.

Significance of the Study

This study, if the above hypotheses were proven to be correct, would indicate to businessmen the importance of planning for the sudden loss or retirement of a key executive by illustrating both the frequency of occurrence and the types of problems involved. The study would also indicate through comments of the respondents, possible action that might be helpful in resolving the problem. If the hypotheses were proven to be incorrect, then the problem could be considered to be an academic one, rather than a practical one.
CHAPTER II

METHODOLOGY

Choosing the First Sample

As noted in Chapter I, the firms chosen to be investigated were profit-making, incorporated manufacturing concerns in the continental United States. After determining this, the next step was the choosing of the locations of the concerns to be included in this survey.

A geographical bias could possibly be present in the survey. To eliminate this possible bias necessitated the investigation of firms located in all areas of the continental United States. The thirty-six cities which are locations of Federal Reserve Banks or Federal Reserve Branch Banks seemed to be logical choices for locations of the firms to be surveyed. The cities are located in twenty-three states and represent some of the larger, economically prominent areas of the United States.

The next step was to obtain a listing of all incorporated manufacturing concerns in these thirty-six cities. This listing would serve as the population from which the sample would be drawn. A letter was sent to the United States Department of Labor requesting the source of the information compiled by them concerning working hours and wages in manufacturing concerns. The reply from
the Department of Labor indicated that their samples were drawn from listings furnished by the State Governments of establishments covered by State Unemployment Compensation laws and were available to the Bureau of Labor Statistics on a confidential basis. The implication was that these listings were not available to the general public.

The next best source of information available was Standard and Poor's Corporation Register. This register lists, supposedly, all corporations in the United States, arranged geographically by state and by major city within the state. The word "supposedly" is used above because there was some indication that not all corporations in all cities were listed. A completely accurate listing of this type would appear to be virtually impossible to compile.

The following statement is found in the Register:

The information in Poor's Register of Corporations, Directors, and Executives and its supplements of which the Geographical Index is one has, with few exceptions, been obtained directly from the individuals and companies themselves. The nature and magnitude of the work, however, makes it impossible to guarantee complete accuracy.24

The assumption has been made that any corporation eliminated from the listing in the Register would not significantly affect the study.

The listing published by Fortune Magazine of the 500 largest industrial firms in the United States was considered for

use as a population from which the sample would be drawn. The use of this listing would have eliminated the possibility of any small concerns being included in the study. In effect, this would have changed the format of the study. The Fortune listing was used for part of the task of classification of the firms by asset size, described later in this chapter, and was later used as the basis for the second sample, described below.

Poor's Register lists all corporations. This, of course, includes distributive and financial concerns as well as manufacturing concerns. Therefore, since the study was to be concentrated on manufacturing firms, those in this category had to be distinguished from the other classifications, or, conversely, financial and distributive concerns had to be eliminated from the listing. Some of this elimination could be accomplished simply by noting the name of the concern. Some were obviously of one type; those firms with the word "manufacturing" in the name were considered to be manufacturing concerns. (Some replies to the questionnaire were received which indicated that even this was not a completely safe assumption.) Some firms could be classified as manufacturing, distributive, or financial by previous knowledge of the firm and the type of work in which it was engaged. The firms which could not be classified in one of these two ways, or approximately 90% of those listed in Poor's Register, were checked with the Thomas Register of Manufacturers, 1964 Edition, Volume IV. If the firm was listed in the Thomas Register, it was assumed to be a manufacturing concern. If
it was not listed, it was assumed not to be a manufacturing concern, unless there was information to the contrary. Any errors in compiling the listing (distributive or financial concerns considered to be manufacturing) to which questionnaires were sent were corrected by sending a questionnaire to another concern to replace the one that was incorrect.

All firms in the thirty-six cities were classified into five categories of asset size and a sample drawn from each category in each location. The five categories of asset size used in the study were as follows:

1. Classification "1"—Under $1 million
2. Classification "2"—$1 million to $25 million
3. Classification "3"—$25 million to $100 million
4. Classification "4"—$100 million to $500 million
5. Classification "5"—Over $500 million.

The classification of the firms into these groups was a difficult task which was accomplished in the following manner.

The first classification, under $1 million of assets, was taken from information given in the Thomas Register. This reference classifies all manufacturing concerns into the following groups, using the symbols indicated.

1. AAAAA—over $1,000,000 in assets
2. AAA —over $500,000 in assets
3. AA —over $300,000 in assets
4. A —over $100,000 in assets
5. B —over $50,000 in assets
6. C —over $25,000 in assets
7. D —over $10,000 in assets
8. E —over $5,000 in assets
9. F —over $2,500 in assets
10. G —over $1,000 in assets
11. H —over $500 in assets
12. X —no estimate made of asset size.

From this information the first asset size classification for the study could be made. All corporations identified as being in any but the highest Thomas Register classification were designated as classification "1" on a copy of the Poor's Geographical Index. All corporations designated in the Thomas Register as "AAAA" or "X" were noted on the listing from the Geographical Index and checked further in Standard and Poor's Corporation Index, Moody's Industrial Manual, or Fortune's "500" listing to determine a more exact asset size. A portion of the corporations already classified into the first category from the Thomas Register were rechecked in the above references to determine the accuracy of the classification. Few misclassifications were discovered; those that were found were corrected.

The criteria for listing in Standard and Poor's and Moody's Industrial Manual is general investor interest. Since many of the corporations under consideration for the study were too small in size or too closely held in ownership to be of general investor
interest or to be listed in Fortune's "500," the exact asset size, or even an approximate size for many, could not be determined. These firms were designated "unclassified" and were inserted into the proper category when the questionnaires submitted to them were returned. This procedure was not entirely satisfactory. The only alternative was to eliminate these "unclassified" firms from the study. By doing this, it is believed much interesting and valuable information pertaining to the smaller organizations would have been excluded. The results of the classification procedure are shown in Table 2, page 33.

The next step was to list, in abbreviated form, all corporations classified as above. A number was assigned to each firm, beginning with "1" in each of the six classifications within each of the thirty-six cities. The sample was then determined by the use of a random number table. A sample of ten per cent of each category of asset size in each location was chosen, with a minimum of one firm, where at least one firm existed. To determine the number to be chosen, the total number of firms in each category was rounded to the nearest ten, and ten per cent of this number was chosen. The only exception to this process was noted above: a minimum of one firm from each category in each location. For example, if there were fourteen or fewer firms in one classification, one firm would be chosen for the sample. If there were fifteen to twenty-four firms in one classification, two firms were chosen. The total number of firms to be included in the sample was determined
### TABLE 2

CLASSIFICATION OF FIRMS BY ASSET SIZE IN EACH LOCATION

<table>
<thead>
<tr>
<th>Location</th>
<th>Total Firms</th>
<th>Asset Size Classification</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td><strong>Alabama, Birmingham</strong></td>
<td>41</td>
<td>20</td>
</tr>
<tr>
<td><strong>Arkansas, Little Rock</strong></td>
<td>11</td>
<td>7</td>
</tr>
<tr>
<td><strong>California, Los Angeles</strong></td>
<td>223</td>
<td>106</td>
</tr>
<tr>
<td><strong>San Francisco</strong></td>
<td>96</td>
<td>37</td>
</tr>
<tr>
<td><strong>Colorado, Denver</strong></td>
<td>41</td>
<td>19</td>
</tr>
<tr>
<td><strong>Florida, Jacksonville</strong></td>
<td>10</td>
<td>4</td>
</tr>
<tr>
<td><strong>Georgia, Atlanta</strong></td>
<td>44</td>
<td>22</td>
</tr>
<tr>
<td><strong>Illinois, Chicago</strong></td>
<td>942</td>
<td>509</td>
</tr>
<tr>
<td><strong>Kentucky, Louisville</strong></td>
<td>65</td>
<td>25</td>
</tr>
<tr>
<td><strong>Louisiana, New Orleans</strong></td>
<td>25</td>
<td>11</td>
</tr>
<tr>
<td><strong>Maryland, Baltimore</strong></td>
<td>111</td>
<td>67</td>
</tr>
<tr>
<td><strong>Massachusetts, Boston</strong></td>
<td>148</td>
<td>84</td>
</tr>
<tr>
<td><strong>Michigan, Detroit</strong></td>
<td>251</td>
<td>144</td>
</tr>
<tr>
<td><strong>Minnesota, Minneapolis</strong></td>
<td>95</td>
<td>36</td>
</tr>
<tr>
<td><strong>Missouri, Kansas City</strong></td>
<td>65</td>
<td>35</td>
</tr>
<tr>
<td><strong>St. Louis</strong></td>
<td>190</td>
<td>87</td>
</tr>
<tr>
<td><strong>Montana, Helena</strong></td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Nebraska, Omaha</strong></td>
<td>19</td>
<td>6</td>
</tr>
<tr>
<td><strong>New York, Buffalo</strong></td>
<td>78</td>
<td>35</td>
</tr>
<tr>
<td><strong>New York</strong></td>
<td>1119</td>
<td>475</td>
</tr>
<tr>
<td><strong>North Carolina, Charlotte</strong></td>
<td>29</td>
<td>11</td>
</tr>
<tr>
<td><strong>Ohio, Cincinnati</strong></td>
<td>147</td>
<td>67</td>
</tr>
<tr>
<td><strong>Cleveland</strong></td>
<td>307</td>
<td>144</td>
</tr>
<tr>
<td><strong>Oklahoma, Oklahoma City</strong></td>
<td>17</td>
<td>6</td>
</tr>
<tr>
<td><strong>Oregon, Portland</strong></td>
<td>44</td>
<td>25</td>
</tr>
<tr>
<td><strong>Pennsylvania, Philadelphia</strong></td>
<td>248</td>
<td>146</td>
</tr>
<tr>
<td><strong>Pittsburgh</strong></td>
<td>169</td>
<td>77</td>
</tr>
<tr>
<td><strong>Tennessee, Memphis</strong></td>
<td>31</td>
<td>18</td>
</tr>
<tr>
<td><strong>Nashville</strong></td>
<td>29</td>
<td>18</td>
</tr>
<tr>
<td><strong>Texas, Dallas</strong></td>
<td>44</td>
<td>18</td>
</tr>
<tr>
<td><strong>Houston</strong></td>
<td>44</td>
<td>16</td>
</tr>
<tr>
<td><strong>El Paso</strong></td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td><strong>San Antonio</strong></td>
<td>13</td>
<td>9</td>
</tr>
<tr>
<td><strong>Utah, Salt Lake City</strong></td>
<td>13</td>
<td>8</td>
</tr>
<tr>
<td><strong>Virginia, Richmond</strong></td>
<td>31</td>
<td>15</td>
</tr>
<tr>
<td><strong>Washington, Seattle</strong></td>
<td>39</td>
<td>19</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>4781</td>
<td>2325</td>
</tr>
</tbody>
</table>
by this method to be 539. This does not represent exactly ten percent of the population. The discrepancy is due to the rounding process and the qualification that at least one firm would be chosen from each classification. The results of the process of taking the sample are shown in Table 3, page 35. When the sampling process was completed, the firms chosen represented a sample of various sized concerns in all geographical areas. Later in the study, 200 of the 500 largest United States industrial organizations were contacted by questionnaire and included in the results of the survey. The reasons for this are discussed below. Tables 4 and 5, pages 36 and 37, are summarizations of the results of the above procedure, indicating percentages to the total population, percentages to the total sample, and percentages to the total in each asset size classification.

The Second Sample

Upon reviewing the results of the first sample, described above, it was decided that more information was necessary from larger organizations in order to reasonably compare large and small companies. It was also decided that no geographical bias was evident in the returns of the first sample or in the responses received from the first sample. Also, because of the above-mentioned lack of previous studies in this area, some means of verification was desirable.
<table>
<thead>
<tr>
<th>Location</th>
<th>Total Firms</th>
<th>Asset Size Classification</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Alabama, Birmingham</td>
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</tr>
<tr>
<td>Arkansas, Little Rock</td>
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<tr>
<td>San Francisco</td>
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<td>Colorado, Denver</td>
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<tr>
<td>Florida, Jacksonville</td>
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<td>1</td>
</tr>
<tr>
<td>Georgia, Atlanta</td>
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<td>2</td>
</tr>
<tr>
<td>Illinois, Chicago</td>
<td>95</td>
<td>51</td>
</tr>
<tr>
<td>Kentucky, Louisville</td>
<td>8</td>
<td>3</td>
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<tr>
<td>Louisiana, New Orleans</td>
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<tr>
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<td>4</td>
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</tr>
<tr>
<td>Montana, Helena</td>
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<td>0</td>
</tr>
<tr>
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<td>1</td>
</tr>
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<td>New York, Buffalo</td>
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<td>4</td>
</tr>
<tr>
<td>New York</td>
<td>113</td>
<td>48</td>
</tr>
<tr>
<td>North Carolina, Charlotte</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Ohio, Cincinnati</td>
<td>16</td>
<td>7</td>
</tr>
<tr>
<td>Cleveland</td>
<td>32</td>
<td>14</td>
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<tr>
<td>Oklahoma, Oklahoma City</td>
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<tr>
<td>Oregon, Portland</td>
<td>7</td>
<td>3</td>
</tr>
<tr>
<td>Pennsylvania, Philadelphia</td>
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<tr>
<td>Pittsburgh</td>
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<td>Tennessee, Memphis</td>
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<td>Nashville</td>
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<td>Texas, Dallas</td>
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<td>2</td>
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<tr>
<td>El Paso</td>
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<td>1</td>
</tr>
<tr>
<td>San Antonio</td>
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<td>1</td>
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<tr>
<td>Utah, Salt Lake City</td>
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<td>1</td>
</tr>
<tr>
<td>Virginia, Richmond</td>
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<td>2</td>
</tr>
<tr>
<td>Washington, Seattle</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>539</strong></td>
<td><strong>241</strong></td>
</tr>
</tbody>
</table>
### TABLE 4

**NUMBER OF FIRMS IN EACH CLASSIFICATION**

<table>
<thead>
<tr>
<th>Classification</th>
<th>Number</th>
<th>Per Cent To Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under $1 million assets</td>
<td>2325</td>
<td>48.6%</td>
</tr>
<tr>
<td>$1 million to $25 million assets</td>
<td>476</td>
<td>10.0</td>
</tr>
<tr>
<td>$25 million to $100 million assets</td>
<td>251</td>
<td>5.2</td>
</tr>
<tr>
<td>$100 million to $500 million assets</td>
<td>173</td>
<td>3.6</td>
</tr>
<tr>
<td>Over $500 million assets</td>
<td>65</td>
<td>1.4</td>
</tr>
<tr>
<td>Over $1 million assets, otherwise unclassified</td>
<td>1491</td>
<td>31.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>4781</td>
<td><strong>100.0%</strong></td>
</tr>
<tr>
<td>Classification</td>
<td>Number Sampled</td>
<td>Per Cent to Total</td>
</tr>
<tr>
<td>--------------------------------------</td>
<td>----------------</td>
<td>-------------------</td>
</tr>
<tr>
<td>Under $1 million assets</td>
<td>241</td>
<td>10.4%</td>
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<td>58</td>
<td>12.2%</td>
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<td>17.5%</td>
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<tr>
<td>$100 million to $500 million assets</td>
<td>28</td>
<td>16.2%</td>
</tr>
<tr>
<td>Over $500 million assets</td>
<td>155</td>
<td>23.1%</td>
</tr>
<tr>
<td>Over $1 million assets, otherwise unclassified</td>
<td>153</td>
<td>10.3%</td>
</tr>
<tr>
<td>Total</td>
<td>539</td>
<td>11.3%</td>
</tr>
</tbody>
</table>

Note: Percentages are not 100% of total in each class due to the choosing of a minimum of one firm in each location.
To provide additional information and verification, a second set of questionnaires was mailed, to 200 of the firms listed in Fortune's "500," the 500 largest United States industrial organizations. The firms were randomly selected. Since no geographical bias appeared to be evident in the first sample, this was not a consideration in the second sample.

The same questionnaire was mailed and the same procedure followed as in the first survey, with one exception; no follow-up letter was mailed. The same classification and analysis procedures were followed. Data are presented, in most of the tables, as a combination of the results of the first and second survey.

The Questionnaire

The results of the loss of an executive is not a subject which lends itself completely to a structured, multiple-choice type of questionnaire. The questionnaire was constructed so that it would be primarily a multiple-choice type, allowing the respondents simply to check the appropriate response. Also included in the questionnaire were three open-end questions which would allow the respondents to express themselves and their opinions, first to specific problems or lack of them following the loss of an executive and then to the subject of organizational stability in general. These questions were numbered thirty-seven, thirty-eight, and thirty-nine. (A copy of the questionnaire may be found in Appendix I.)
The questionnaire was designed with the aid of individuals at both Northern Michigan University and The Ohio State University. Hopefully, it was constructed in such a way that only questions were asked that related directly to the problem of organizational stability and executive succession or that were determined to be necessary for classification purposes. Even after careful editing, the questionnaire was ten pages in length, one page of which consisted of open-end questions. The length of the questionnaire may have had an adverse effect on the number of returns, as will be illustrated later in this report.

A few comments are necessary concerning the questions on the questionnaire and the necessity for asking them.

The respondents were asked to indicate the asset size of their organizations, even though this classification was the basis for choosing the first sample. This information was necessary to classify the firms that fell into the "unclassified" category discussed above and to check the original classifications.

Questions numbered one through seven, with the exception of question number two, were for classification purposes only. Question number two was inserted into the questionnaire to determine the length of service of the respondent. This information could possibly relate to the knowledge of the corporation possessed by the individual.

Questions nine through eleven were included to determine the type of severance of the former executive. This information
was necessary in order to relate the type of problem to the type of
severance and to determine the frequency of the various types of
losses.

Questions twelve through twenty-two were designed to reveal
information concerning the replacement for the former executive,
qualifications of the replacement, and the expense involved in obtain­
ing him and placing him in his position and training him.

Questions twenty-three through twenty-seven sought informa­
tion concerning the general feeling throughout the organization re­
sulting from the loss of the executive. Obviously, the answers to
these questions are based somewhat on the opinion of the individual
completing the questionnaire. This is the section of the question­
naire where personal bias may have become involved, particularly if
the individual completing the questionnaire was the replacement for
the departed executive. Nowhere on the questionnaire was the respon­
dent required to state his position within the organization or his
relationship to the former executive. This was purposely done so
that the individual completing the questionnaire would not feel as
though he himself were being investigated and so that more factual
replies might be obtained. Many respondents, however, voluntarily
stated their positions.

Questions twenty-eight through thirty-two were designed
to determine quantitative information concerning the organization
during a period of time following the changeover from one executive
to another. An attempt to determine the exact amount that profits
or sales or market value of stock had increased or decreased during the time period following the loss of the executive was decided to be useless because of the many variables involved. General trend in these areas was thought to be sufficient for the purposes of the study.

Question thirty-six was another question requiring the respondent to state an opinion. This question proved to be one of the most valuable on the questionnaire, as will be illustrated later.

As mentioned above, the last three questions were open-ended. The comments in this section by organizations which had lost an executive and those which had not lost an executive proved to be invaluable in studying the problem of executive loss and indicated that there was a significant interest in this problem on the part of business executives. Some of the comments made will be discussed in the chapter concerning the analysis of the data, and all comments are reproduced in Appendix II.

A test questionnaire was used to receive a general reaction to the questionnaire itself from those who completed it. The test questionnaire was mailed to twenty-one companies on February 10, 1966. These companies were of various types and sizes and were companies which were not to be included in the survey. As of March 31, 1966, nine of these questionnaires had been returned completed. This response was gratifying, considering that there was no follow-up to those firms that did not reply. If this percentage remained
the same for the actual survey, this would mean that approximately 230 questionnaires would be returned completed, if there were no follow-up. Since a follow-up was planned, it seemed reasonable to expect a return of at least 300. As will be indicated later in this report, this estimate was optimistic.

The replies received to the test questionnaire were valuable to the study and to the construction of the final questionnaire. As a result of this test, some of the original questions were eliminated, some questions were added, and several were reworded when it was obvious that they had been misinterpreted by the respondents. In addition, the open-ended questions on the test questionnaire revealed some problems not previously considered.

The questionnaire was revised, taking into consideration the results of the test mailing. On March 22, 1966, the revised questionnaire was mailed to the 539 firms, as indicated in Table 2. A cover letter was enclosed with the questionnaire, explaining the purposes of the study. An addressed stamped envelope was also included in order to encourage replies. The prospective respondents were requested to complete and return the questionnaires by April 8, 1966. A copy of the cover letter is included with a copy of the questionnaire in Appendix I.

On April 18, 1966, a follow-up letter was sent to those firms which had not replied as of that date. A copy of this follow-up letter may also be found in Appendix I.
A few organizations replied that they were not manufacturing concerns and, therefore, did not feel that they should complete the questionnaire. When this occurred, another firm was chosen by the same method employed in choosing the original sample and a questionnaire sent to the new company.

When returned, the questionnaires were coded by industry by use of Poor's Register of Corporations, Directors, and Executives, 1966 Edition. This source gives the Standard Industrial Classification for all companies listed. This code consists of four digits, breaking down all corporations into several hundred groups. For the purposes of this study, only the first two digits were used. This reduced the number of classifications of organizations to 74, not all of which were applicable to this study since not all were manufacturing concerns. This broad classification gave a general industrial grouping which was considered sufficient for this investigation. This grouping could have been used to analyze the returns of the questionnaire by industry.

The data from the questionnaire were punched into IBM cards. The cards were then processed through data processing equipment to facilitate analysis of the data.
CHAPTER III
ANALYSIS OF THE DATA

Responses to the Questionnaire

In Chapter II, it was mentioned that some of the firms surveyed would have to be reclassified by asset size, based on the information in the returned questionnaire. This was correct. Table 6, page 45, indicates the total number sent out after correction. The 134 remaining in the "over $1 million, otherwise unclassified" category represent 125 which were not returned, two which were returned, but stated that the asset size was confidential information and consequently was not revealed, and six in which no information was given.

It was also mentioned in Chapter II that an assumption was made that the majority of those firms in the original "unclassified" category would be inserted into the first or second asset size classification when the questionnaire was returned and accurate asset size information was determined. This assumption, too, was correct. All of the firms removed from the "unclassified" category were inserted into the first or second classification.

Returns on the questionnaire were adequate for the purposes of the study, after the second mailing of the questionnaire,
### TABLE 6

**TOTAL OF FIRMS SAMPLED BY ASSET SIZE AFTER RECLASSIFICATION**

<table>
<thead>
<tr>
<th>Asset Size</th>
<th>Number of Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under $1 million</td>
<td>208</td>
</tr>
<tr>
<td>$1 million - $25 million</td>
<td>105</td>
</tr>
<tr>
<td>$25 million - $100 million</td>
<td>98</td>
</tr>
<tr>
<td>$100 million - $500 million</td>
<td>143</td>
</tr>
<tr>
<td>Over $500 million</td>
<td>41</td>
</tr>
<tr>
<td>Over $1 million, otherwise unclassified</td>
<td>134</td>
</tr>
<tr>
<td>Returned undelivered</td>
<td>10</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>739</strong></td>
</tr>
</tbody>
</table>
but were not as great as originally anticipated. Table 7, page 47, indicates the number and percentage of responses in each asset size classification. There are two reasons why the response was not greater. First, the questionnaire was lengthy. However, removing some of the questions would have necessitated eliminating much valuable information. Second, the response to the follow-up letter indicated that many firms did not receive the questionnaire, or, possibly, had received it but it had been misplaced or destroyed before it reached the proper person for completion.

Much more cooperation in completing the questionnaire was received from the smaller companies (less than $25 million asset size) than from the larger companies (over $25 million asset size). Table 7, page 47, indicates this. This fact was disturbing, not only because of this study, but also because of certain implications. It would seem that the larger and supposedly more progressive companies would be willing to cooperate with universities in studies of this type. Although a response was received from over 50% of the companies in the largest asset size classification, the majority of these declined to provide any information pertinent to the study. The reason usually given for the lack of response was that the company was approached hundreds of times per year with requests such as this and it would be too time-consuming for it to cooperate in all cases. Another reason given was that the experience of that particular company would not be valuable for the purposes of the study, which, of course, was incorrect in the majority
### TABLE 7
RESPONSES TO QUESTIONNAIRE, CLASSIFIED BY ASSET SIZE

<table>
<thead>
<tr>
<th>Asset Size</th>
<th>Responded Information Given</th>
<th>Responded No Information Given</th>
<th>Did Not Respond</th>
<th>Total from Table 6</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>%</td>
<td>No.</td>
<td>%</td>
</tr>
<tr>
<td>Under $1 Million</td>
<td>33</td>
<td>15.9</td>
<td>7</td>
<td>3.4</td>
</tr>
<tr>
<td>$1 Million - $25 Million</td>
<td>61</td>
<td>58.1</td>
<td>1</td>
<td>1.0</td>
</tr>
<tr>
<td>$25 Million - $100 Million</td>
<td>9</td>
<td>9.2</td>
<td>3</td>
<td>3.1</td>
</tr>
<tr>
<td>$100 Million - $500 Million</td>
<td>19</td>
<td>13.3</td>
<td>14</td>
<td>9.8</td>
</tr>
<tr>
<td>Over $500 Million</td>
<td>8</td>
<td>19.5</td>
<td>9</td>
<td>22.0</td>
</tr>
<tr>
<td>Over $1 Million, Otherwise Unclassified</td>
<td>2</td>
<td>1.5</td>
<td>6</td>
<td>4.5</td>
</tr>
<tr>
<td>Total</td>
<td>132</td>
<td>18.1</td>
<td>40</td>
<td>5.5</td>
</tr>
</tbody>
</table>

*a "Percentage" refers to percentage of total sent out.

b Total does not correspond to "Total Sent Out" in Table 2 because of ten questionnaires returned undelivered.*
of cases. Consequently, some information is lacking concerning the larger companies. Enough in the "over $100 million" bracket responded, however, to make it possible to compare the large organizations with the small (considering the $100 million asset size as a "break-off" point between large and small) and to generalize concerning the importance of the problem of executive loss to large companies.

Those that did respond to the questionnaire were, in general, most cooperative in revealing information requested and a considerable amount of information not directly requested. This additional information was received through the answers to the open-end questions on the questionnaire. Seventy-four responses to open-end questions were received. This information was, in general, very pertinent and interesting. Much of it will be discussed later in this chapter.

One of the concerns upon reviewing the returns was that there may have been a geographical bias in the questionnaires returned. Upon review, however, this does not appear to be the case. Table 8, page 49, indicates the number and percentage of returns from each location.

In general, although the returns were not as great as anticipated, it is believed that they were adequate for the purpose of comparison and for indicating problems that occurred.
<table>
<thead>
<tr>
<th>Location</th>
<th>No. Sent</th>
<th>No. Received</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alabama, Birmingham</td>
<td>7</td>
<td>1</td>
<td>14.3</td>
</tr>
<tr>
<td>Arkansas, Little Rock</td>
<td>2</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>California, Los Angeles</td>
<td>23</td>
<td>7</td>
<td>30.4</td>
</tr>
<tr>
<td>San Francisco</td>
<td>12</td>
<td>5</td>
<td>41.7</td>
</tr>
<tr>
<td>Colorado, Denver</td>
<td>6</td>
<td>4</td>
<td>66.7</td>
</tr>
<tr>
<td>Florida, Jacksonville</td>
<td>3</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>Georgia, Atlanta</td>
<td>5</td>
<td>3</td>
<td>60.0</td>
</tr>
<tr>
<td>Illinois, Chicago</td>
<td>95</td>
<td>26</td>
<td>27.4</td>
</tr>
<tr>
<td>Kentucky, Louisville</td>
<td>8</td>
<td>3</td>
<td>37.5</td>
</tr>
<tr>
<td>Louisiana, New Orleans</td>
<td>4</td>
<td>1</td>
<td>25.0</td>
</tr>
<tr>
<td>Maryland, Baltimore</td>
<td>12</td>
<td>2</td>
<td>16.7</td>
</tr>
<tr>
<td>Massachusetts, Boston</td>
<td>15</td>
<td>3</td>
<td>20.0</td>
</tr>
<tr>
<td>Michigan, Detroit</td>
<td>26</td>
<td>10</td>
<td>38.5</td>
</tr>
<tr>
<td>Minnesota, Minneapolis</td>
<td>11</td>
<td>6</td>
<td>54.5</td>
</tr>
<tr>
<td>Missouri, Kansas City</td>
<td>8</td>
<td>3</td>
<td>37.5</td>
</tr>
<tr>
<td>St. Louis</td>
<td>20</td>
<td>3</td>
<td>15.0</td>
</tr>
<tr>
<td>Montana, Helena</td>
<td>0</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>Nebraska, Omaha</td>
<td>4</td>
<td>1</td>
<td>25.0</td>
</tr>
<tr>
<td>New York, Buffalo</td>
<td>10</td>
<td>2</td>
<td>20.0</td>
</tr>
<tr>
<td>New York</td>
<td>113</td>
<td>20</td>
<td>17.7</td>
</tr>
<tr>
<td>North Carolina, Charlotte</td>
<td>4</td>
<td>1</td>
<td>25.0</td>
</tr>
<tr>
<td>Ohio, Cincinnati</td>
<td>16</td>
<td>2</td>
<td>12.5</td>
</tr>
<tr>
<td>Cleveland</td>
<td>32</td>
<td>12</td>
<td>37.5</td>
</tr>
<tr>
<td>Oklahoma, Oklahoma City</td>
<td>5</td>
<td>2</td>
<td>40.0</td>
</tr>
<tr>
<td>Oregon, Portland</td>
<td>7</td>
<td>2</td>
<td>28.6</td>
</tr>
<tr>
<td>Pennsylvania, Philadelphia</td>
<td>27</td>
<td>2</td>
<td>7.4</td>
</tr>
<tr>
<td>Pittsburgh</td>
<td>18</td>
<td>2</td>
<td>11.1</td>
</tr>
<tr>
<td>Tennessee, Memphis</td>
<td>5</td>
<td>2</td>
<td>40.0</td>
</tr>
<tr>
<td>Nashville</td>
<td>6</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>Texas, Dallas</td>
<td>6</td>
<td>2</td>
<td>33.3</td>
</tr>
<tr>
<td>Houston</td>
<td>7</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>El Paso</td>
<td>2</td>
<td>1</td>
<td>50.0</td>
</tr>
<tr>
<td>San Antonio</td>
<td>3</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>Utah, Salt Lake City</td>
<td>4</td>
<td>1</td>
<td>25.0</td>
</tr>
<tr>
<td>Virginia, Richmond</td>
<td>7</td>
<td>6</td>
<td>85.7</td>
</tr>
<tr>
<td>Washington, Seattle</td>
<td>6</td>
<td>2</td>
<td>33.3</td>
</tr>
<tr>
<td>Second Survey</td>
<td>200</td>
<td>35</td>
<td>17.5</td>
</tr>
<tr>
<td>Total</td>
<td>739</td>
<td>172</td>
<td>23.3</td>
</tr>
</tbody>
</table>
Number of Firms Incurring Losses of Executives

As mentioned in Chapter I, the first breakdown of the data was between the firms that had incurred a loss of an executive and those that did not incur a loss during the specified time period. Table 9, page 51, indicates the results of this breakdown by asset size of the organization, Table 10, page 52, by number of employees, and Table 11, page 53, by method of distribution of the stock of the organization. (Table 10 is the only table that will be presented indicating results of the study classified by number of employees. The information received is basically the same, whether presented by asset size or by number of employees, as number of employees generally relates to size.)

Table 12, page 54, indicates what appear to be more significant figures than the above for the purposes of the study. This table shows the total number of executives lost during the specified time period as determined by both surveys. It can be seen by reference to Table 12 that a large percentage (37%) of the companies reporting the loss of an executive reported more than one loss. The total number of executives lost during the specified time period was, therefore, increased to eighty-two (37 x 1, 11 x 2, 5 x 3, 2 x 4; refer to Table 12, page 54). The implications of this figure will be considered in the next chapter.

A chi-square test was applied to the data in Tables 9, 10, and 11 as an indication of whether there was any significant
### Table 9

**Number of Companies Incurring Loss of an Executive Classified by Asset Size**

<table>
<thead>
<tr>
<th>Asset Size</th>
<th>Loss</th>
<th>No. Less</th>
<th>Total from Table 7</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>%</td>
<td>No.</td>
</tr>
<tr>
<td>Under $1 Million</td>
<td>9</td>
<td>27.3</td>
<td>24</td>
</tr>
<tr>
<td>$1 Million - $25 Million</td>
<td>25</td>
<td>41.0</td>
<td>36</td>
</tr>
<tr>
<td>$25 Million - $100 Million</td>
<td>3</td>
<td>33.3</td>
<td>6</td>
</tr>
<tr>
<td>$100 Million - $500 Million</td>
<td>11</td>
<td>57.9</td>
<td>8</td>
</tr>
<tr>
<td>Over $500 Million</td>
<td>7</td>
<td>87.8</td>
<td>1</td>
</tr>
<tr>
<td>Confidential</td>
<td>0</td>
<td>0.0</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>55</td>
<td>41.7</td>
<td>77</td>
</tr>
</tbody>
</table>

*a* "Per cent" refers to per cent to total completing questionnaire.
### TABLE 10
**NUMBER OF COMPANIES INCURRING LOSS OF AN EXECUTIVE CLASSIFIED BY NUMBER OF EMPLOYEES**

<table>
<thead>
<tr>
<th>Number of Employees</th>
<th>Loss</th>
<th>No Loss</th>
<th>Total from Table 7</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>%</td>
<td>No.</td>
</tr>
<tr>
<td>Less than 100</td>
<td>6</td>
<td>19.4</td>
<td>25</td>
</tr>
<tr>
<td>100 - 1000</td>
<td>25</td>
<td>46.3</td>
<td>29</td>
</tr>
<tr>
<td>1001 - 5000</td>
<td>7</td>
<td>35.0</td>
<td>13</td>
</tr>
<tr>
<td>5001 - 10,000</td>
<td>8</td>
<td>53.3</td>
<td>7</td>
</tr>
<tr>
<td>Over 10,000</td>
<td>9</td>
<td>75.0</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>55</td>
<td>41.7</td>
<td>77</td>
</tr>
</tbody>
</table>

*a"Per cent" refers to per cent to total completing questionnaire.*
### Table 11
NUMBER OF COMPANIES INCURRING LOSS OF AN EXECUTIVE CLASSIFIED BY METHOD OF STOCK DISTRIBUTION

<table>
<thead>
<tr>
<th>Method of Distribution</th>
<th>Loss</th>
<th>No Loss</th>
<th>Total from Table 7</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>%</td>
<td>No.</td>
</tr>
<tr>
<td>Sold Publicly, Listed on Stock Exchange</td>
<td>22</td>
<td>57.8</td>
<td>16</td>
</tr>
<tr>
<td>Sold Publicly, Over-the-Counter</td>
<td>12</td>
<td>60.0</td>
<td>8</td>
</tr>
<tr>
<td>Not Sold Publicly</td>
<td>21</td>
<td>28.4</td>
<td>53</td>
</tr>
<tr>
<td>Total</td>
<td>55</td>
<td>41.7</td>
<td>77</td>
</tr>
</tbody>
</table>

*"Per cent" refers to per cent to total completing questionnaire.*
<table>
<thead>
<tr>
<th>Asset Size</th>
<th>Number of Losses</th>
<th>Total from Table 7</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Under $1 million</td>
<td>24</td>
<td>6</td>
</tr>
<tr>
<td>$1 million – $25 million</td>
<td>36</td>
<td>17</td>
</tr>
<tr>
<td>$25 million – $100 million</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td>$100 million – $500 million</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Over $500 million</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Confidential</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>77</td>
<td>37</td>
</tr>
</tbody>
</table>
difference in frequency of losses of executives due to differences in asset size, number of employees, or method of distribution of stock. The results of this test are presented in Table 13, page 56; conclusions are discussed in Chapter IV. The process of the chi-square test is discussed in Appendix III.

In addition to the losses indicated in the tables presented, eight companies, in comments on the questionnaire, stated that they had incurred a loss during other time periods or would be facing the problem of executive loss in the near future.

Type of Loss Incurred

The type of loss incurred by an organization should logically have some effect on the number of problems and possibly types of problems that would be encountered after the loss. Death and sudden resignation are probably not as well anticipated as retirement or resignation with adequate notice. "Adequate notice," for the purposes of this report, is considered to be more than three months. To analyze this, it was necessary to break down the data by the type of loss incurred. These data are presented in Table 14, page 57. These data are interesting, not as much for the size classification breakdown, but because only eleven of the companies reporting losses during the time period reported this loss to be the regular retirement of the executive. Forty-four, or about 80%, indicated that the loss was not anticipated, as a regular retirement should be. Also, in four of the cases where
# TABLE 13

RESULTS OF CHI-SQUARE TEST, BASED ON DATA IN TABLES 9, 10 AND 11

<table>
<thead>
<tr>
<th>Method of Classification</th>
<th>(X^2_{.05})</th>
<th>Degree of Freedom</th>
<th>(X^2)</th>
<th>Approximate (X^2) Rejection Point</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset Size (Table 9)</td>
<td>9.488</td>
<td>4</td>
<td>8.83</td>
<td>.08</td>
</tr>
<tr>
<td>Number of Employees</td>
<td>9.488</td>
<td>4</td>
<td>10.87</td>
<td>.035</td>
</tr>
<tr>
<td>(Table 10)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Method of Stock</td>
<td>5.991</td>
<td>2</td>
<td>10.40</td>
<td>&lt;.01</td>
</tr>
<tr>
<td>Distribution (Table 11)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
TABLE 14

TYPE OF LOSS INCURRED CLASSIFIED BY ASSET SIZE

<table>
<thead>
<tr>
<th>Asset Size</th>
<th>Death</th>
<th>Resignation &gt; 3 Month Notice</th>
<th>Resignation &lt; 3 Month Notice</th>
<th>Regular Retirement</th>
<th>Early Retirement</th>
<th>Total from Table 9</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under $1 Million</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>1</td>
<td>9</td>
</tr>
<tr>
<td>$1 Million - $25 Million</td>
<td>8</td>
<td>2</td>
<td>11</td>
<td>3</td>
<td>1</td>
<td>25</td>
</tr>
<tr>
<td>$25 Million - $100 Million</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>$100 Million - $500 Million</td>
<td>4</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>3</td>
<td>11</td>
</tr>
<tr>
<td>Over $500 Million</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>3</td>
<td>0</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>16</td>
<td>7</td>
<td>16</td>
<td>11</td>
<td>5</td>
<td>55</td>
</tr>
</tbody>
</table>

Percentage*  
29.1% 12.7% 29.1% 20.0% 9.1% 100.0%

"Percentage" refers to per cent of those firms incurring a loss of an executive.
the resignation was sudden, the executive took away other employees from the organization.

Problems after the Loss of an Executive

Two basic types of analysis were conducted concerning the problems faced by an organization after the loss of a key executive, as previously defined. One analysis was of the number of companies completing the questionnaire which reported they had encountered problems and those which did not. The other analysis was of "problem areas" encountered by the organization.

Before either of these analyses could be made, it was necessary to devise some reasonable criteria to determine what would be considered a "problem" and what would not. The questionnaire was reviewed and certain responses (see below) were determined to indicate problem areas.

Although it would have been possible to analyze each one of these problem areas separately, it was felt that this would not be practical and would create a considerable amount of unnecessary data. Instead it was felt that a logical grouping of the problem areas into broad classifications would be more efficient and important for the purposes of the study. The groupings of the problem areas and the responses to inquiries on the questionnaire
indicating existence of these problem areas within an organization are as follows:

1. There was some difficulty in replacing the executive. This grouping includes (1) requiring over one month to replace the executive (question 12, responses 3, 4, 5); (2) not being able to find a replacement (question 12, response 6); (3) the necessity for appointing an executive to perform the duties of the former executive temporarily, until a permanent replacement could be located (question 13, response 1); (4) the inability to find individuals to fill other vacancies within the organization indirectly created by the loss of the executive (question 15, response 1); and (5) the necessity for going outside the organization in order to find an adequate replacement (question 16, responses 2, 5).

Several of the items in this grouping could be argued. Requiring more than one month to replace an executive may not necessarily be adverse to the operations of an organization. A hurried replacement that is not qualified is, of course, much worse than a considered selection requiring more time. However, there cannot be too much argument that the necessity of requiring more than one month to replace an executive indicates a lack of manpower planning and a lack of the proper training of subordinates, as is found in the "three position plan." The same comments apply as well to numbers three and five above, the necessity for appointing a temporary executive and the necessity for going outside the company to locate a competent replacement for the former executive.
2. The replacement was not adequately trained for the position. This problem was indicated by a direct statement to that effect from the respondent (question 17, response 2), or by the necessity for the replacement to participate in a formal training program after taking the position (question 18, response 1).

3. There was an increase in expense incurred by the organization after the loss of the executive. This was indicated by the necessity for paying the new executive a higher salary than the former executive was receiving (question 19, response 1); the necessity of providing the new executive with additional incentives, such as stock options (question 20, response 1); or a direct statement from the respondent that in his opinion there was an increase in the general administrative expense of the organization after the executive left the company (question 21, response 1). It will undoubtedly be noticed that there are assumptions made in designing this grouping. For example, this implies that there is a direct relationship between salary of the executive and executive expense. A greater cash outlay does not necessarily mean greater actual expense to the organization. However, if the productivity of the new executive were greater than the productivity of the former executive, the true expense may be less even though the salary of the new executive may be greater. Conversely, a lesser salary could result in greater actual expense, depending on the productivity of the new executive. Therefore, conclusions drawn from this must be qualified.
4. Other executives left the company after the departure of the key executive. This grouping is self-explanatory (question 19, response 4; question 23, responses 1, 3; question 24, responses 1, 3).

5. There were changes downward in organizational morale. There was an attempt to determine this by asking the respondent for his opinion concerning the reaction of the direct subordinates of the former executive after his departure (question 26, responses 2, 5, 7) and for any feeling that there might have been throughout the entire organization (question 27). The above responses would indicate, although not prove, that the level of morale of the employees had been lowered. Other responses to questions 26 and 27 would indicate an increase in morale. As will be noted later in the report, the reaction to the departure of an executive takes basically two forms: regret and relief. Both were found during the course of the study.

6. There were adverse changes in certain financial indicators. This grouping concerned the profit performance (question 29, response 3) and trend in the market value of the stock of the organization, assuming it was an open corporation (question 32, responses 2, 3).

7. There was greater employee turnover at lower organizational levels. There was an attempt to indicate this by asking the respondents if there was any change in turnover of personnel at the lowest organizational level since the loss of the executive
(question 33, response 1) and if there was any change in turnover of first-line supervision since the loss of the executive (question 34, response 1).

8. There were other problems than those mentioned above. These were indicated partially by question 36, responses 4 and 9, and by other comments on the questionnaire, as discussed immediately below.

In addition to the problem areas indicated in the main body of the questionnaire, other comments from the respondents revealed that several types of problems not previously considered had been encountered.

1. There was an attempt by the executive leaving the company to entice other employees away from the organization to join the former executive. In the one case specifically indicating this to be a problem, the executive was successful in his attempt. Although another question reveals turnover encountered after an executive loss, this type of turnover should be considered as a specific type of problem.

2. The former executive had made oral arrangements with customers, leaving no written records of the arrangements. This caused some confusion and difficulty for the executive's replacement.

3. In one case it was stated that it was difficult to replace technical skills of the executive which had been built up
over a long period of time and had not been communicated to a subordinate.

4. There was a lesser expansion of product lines than there would have been had the executive stayed with the organization. This, of course, was an opinion of the respondent.

5. The executive who left the company took several other employees with him in order to form a similar business of his own. (This differs from number one above, as in the former case the employees went with the former executive to another organization, whereas in this case a completely new competitive company was formed.) This occurred during a period of recession for the organization, and there was a feeling among those remaining with the organization that the executive and the other employees who left the company had knowledge of something undesirable that was going to happen to the company in the future. This feeling was unjustified but nevertheless caused a particular type of morale problem among the employees, primarily due to poor communication.

6. Although all of these problems arose because there was no one to replace the former executive adequately, one company stated that the problem occurred because the former executive had over-utilized a committee form of management in his functional area. Consequently, no one individual had gained the experience necessary in order to perform competently the managerial functions.

7. In one case, expansion of International Operations was slowed down.
8. One organization was in the position in which all of the top executives and their logical successors were approximately the same age. This meant that there would be a fairly constant turnover of top personnel for a period of time, as each one in turn retired. Consequently, no one individual would remain in the position long enough to become proficient in it.

These problems and problem areas will now be analyzed.

Problem Areas

Although the number of companies encountering difficulties after the loss of an executive is significant (see Tables 15 and 16, pages 65 and 66), for the purposes of this study, even more significant is the number of problems encountered by all companies suffering a loss. To consider this aspect of the study, each of the responses indicated in the above section was considered to be a problem area, and the companies were analyzed by asset size and method of distribution of stock in order to determine the number of problem areas encountered and the relationships of this number to the criteria.

The total number of problem areas encountered by the 55 companies incurring the loss of an executive during the specified time period was 157. The distribution of the problem areas by asset size of the company, type of loss incurred, and method of distribution of stock are indicated in Tables 17, 18 and 19, pages 67, 68 and 69.
### TABLE 15

**NUMBER OF FIRMS ENCOUNTERING PROBLEMS CLASSIFIED BY ASSET SIZE**

<table>
<thead>
<tr>
<th>Asset Size</th>
<th>No. of Firms Losing Executives and Encountering Problems</th>
<th>No. of Firms Losing Executives and Not Encountering Problems</th>
<th>Total from Table 9</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under $1 Million</td>
<td>8</td>
<td>1</td>
<td>9</td>
</tr>
<tr>
<td>$1 Million - $25 Million</td>
<td>23</td>
<td>2</td>
<td>25</td>
</tr>
<tr>
<td>$25 Million - $100 Million</td>
<td>2</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>$100 Million - $500 Million</td>
<td>9</td>
<td>2</td>
<td>11</td>
</tr>
<tr>
<td>Over $500 Million</td>
<td>5</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>47</strong></td>
<td><strong>8</strong></td>
<td><strong>55</strong></td>
</tr>
<tr>
<td>Method of Distribution</td>
<td>No. of Firms Losing Executives and Encountering Problems</td>
<td>No. of Firms Losing Executives and Not Encountering Problems</td>
<td>Total from Table 11</td>
</tr>
<tr>
<td>------------------------</td>
<td>--------------------------------------------------------</td>
<td>-------------------------------------------------------------</td>
<td>---------------------</td>
</tr>
<tr>
<td>Sold Publicly, Listed on Stock Exchange</td>
<td>18</td>
<td>4</td>
<td>22</td>
</tr>
<tr>
<td>Sold Publicly, Over-the-Counter</td>
<td>10</td>
<td>2</td>
<td>12</td>
</tr>
<tr>
<td>Not Sold Publicly</td>
<td>19</td>
<td>2</td>
<td>21</td>
</tr>
<tr>
<td>Total</td>
<td>47</td>
<td>8</td>
<td>55</td>
</tr>
<tr>
<td>Asset Size</td>
<td>No. of Firms Encountering a Loss</td>
<td>% to Total Firms Encountering a Loss</td>
<td>Number of Problem Areas</td>
</tr>
<tr>
<td>------------------</td>
<td>----------------------------------</td>
<td>--------------------------------------</td>
<td>-------------------------</td>
</tr>
<tr>
<td>Under $1 Million</td>
<td>9</td>
<td>16.4</td>
<td>28</td>
</tr>
<tr>
<td>$1 Million - $25 Million</td>
<td>25</td>
<td>45.5</td>
<td>88</td>
</tr>
<tr>
<td>$25 Million - $100 Million</td>
<td>3</td>
<td>5.4</td>
<td>12</td>
</tr>
<tr>
<td>$100 Million - $500 Million</td>
<td>11</td>
<td>20.0</td>
<td>19</td>
</tr>
<tr>
<td>Over $500 Million</td>
<td>7</td>
<td>12.7</td>
<td>10</td>
</tr>
<tr>
<td>Total</td>
<td>55</td>
<td>100.0</td>
<td>157</td>
</tr>
<tr>
<td>Type of Loss</td>
<td>No. of Firms Encountering a Loss</td>
<td>% to Total Firms Encountering a Loss</td>
<td>Number of Problem Areas</td>
</tr>
<tr>
<td>-----------------------------------</td>
<td>----------------------------------</td>
<td>--------------------------------------</td>
<td>-------------------------</td>
</tr>
<tr>
<td>Death</td>
<td>16</td>
<td>29.1</td>
<td>40</td>
</tr>
<tr>
<td>Resignation, More than 3 Months Notice</td>
<td>7</td>
<td>12.7</td>
<td>30</td>
</tr>
<tr>
<td>Resignation, Less than 3 Months Notice</td>
<td>16</td>
<td>29.1</td>
<td>58</td>
</tr>
<tr>
<td>Retirement at Regular Retirement Age</td>
<td>11</td>
<td>20.0</td>
<td>22</td>
</tr>
<tr>
<td>&quot;Early&quot; Retirement</td>
<td>5</td>
<td>9.1</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>55</td>
<td>100.0</td>
<td>157</td>
</tr>
</tbody>
</table>
TABLE 19
NUMBER OF PROBLEM AREAS ENCOUNTERED,
CLASSIFIED BY METHOD OF DISTRIBUTION OF STOCK

<table>
<thead>
<tr>
<th>Method of Distribution</th>
<th>No. of Firms Encountering a Loss</th>
<th>% to Total Firms Encountering a Loss</th>
<th>Number of Problem Areas</th>
<th>% to Total Number of Problem Areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sold Publicly, Listed on Stock Exchange</td>
<td>22</td>
<td>40.0</td>
<td>47</td>
<td>29.9</td>
</tr>
<tr>
<td>Sold Publicly, Over-the-Counter</td>
<td>12</td>
<td>21.9</td>
<td>23</td>
<td>14.6</td>
</tr>
<tr>
<td>Not Sold Publicly</td>
<td>21</td>
<td>38.1</td>
<td>87</td>
<td>55.5</td>
</tr>
<tr>
<td>Total</td>
<td>55</td>
<td><strong>100.0</strong></td>
<td><strong>157</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>
The average number of problem areas faced by the 55 companies losing an executive was 2.9. This figure in itself is not significant but becomes significant when compared with the average number of problem areas encountered, classified by the size of the company. This information is shown in Table 20, page 71. This comparison indicates that the smaller companies (assets less than $25 million) encountered a greater-than-average number of problem areas, and the larger companies, in general, encountered fewer than the average. A chi-square analysis was made to determine if the difference between the large and the small firms, method of distribution of stock, or type of loss, was significant. The results of the test are shown in Table 21, page 72. The percentages indicated in Table 17, page 67, support this.

Another interesting and important classification of the data was the average number of problem areas faced by a company after the loss of an executive, classified by the type of loss that was incurred. These data are presented in Table 22, page 73. The results of this analysis are not surprising. An above-average frequency of problem areas was found in companies that had lost an executive by resignation with less than or with more than three months notice. A frequency of problem areas slightly less than the average was found in companies that lost an executive through death, and a below-average frequency of problem areas was found in companies that lost an executive through retirement, either early or at the regular retirement age for the organization. Obviously,
<table>
<thead>
<tr>
<th>Asset Size</th>
<th>Average Number of Problem Areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under $1 Million</td>
<td>3.1</td>
</tr>
<tr>
<td>$1 Million - $25 Million</td>
<td>3.7</td>
</tr>
<tr>
<td>$25 Million - $100 Million</td>
<td>4.0</td>
</tr>
<tr>
<td>$100 Million - $500 Million</td>
<td>1.7</td>
</tr>
<tr>
<td>Over $500 Million</td>
<td>1.4</td>
</tr>
<tr>
<td><strong>Average for All Companies</strong></td>
<td><strong>2.9</strong></td>
</tr>
</tbody>
</table>

Note: Compiled by dividing number of firms encountering a loss into number of problem areas (Table 17).
TABLE 21

RESULTS OF CHI-SQUARE TEST, BASED ON DATA IN TABLES 17, 18 AND 19

<table>
<thead>
<tr>
<th>Method of Classification</th>
<th>$X^2$ .05</th>
<th>Degree of Freedom</th>
<th>$X^2$</th>
<th>Approximate $X^2$ Rejection Point</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset Size (Table 17)</td>
<td>9.488</td>
<td>4</td>
<td>13.77</td>
<td>.01</td>
</tr>
<tr>
<td>Type of Loss (Table 18)</td>
<td>9.488</td>
<td>4</td>
<td>14.40</td>
<td>&lt;.01</td>
</tr>
<tr>
<td>Method of Distribution of Stock (Table 19)</td>
<td>5.991</td>
<td>2</td>
<td>19.09</td>
<td>&lt;.001</td>
</tr>
</tbody>
</table>

### TABLE 22

**AVERAGE NUMBER OF PROBLEM AREAS ENCOUNTERED CLASSIFIED BY TYPE OF LOSS INCURRED**

<table>
<thead>
<tr>
<th>Type of Loss</th>
<th>Average Number of Problem Areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Death</td>
<td>2.5</td>
</tr>
<tr>
<td>Resignation, More than Three Months Notice</td>
<td>4.3</td>
</tr>
<tr>
<td>Resignation, Less than Three Months Notice</td>
<td>3.6</td>
</tr>
<tr>
<td>Retirement, Regular Retirement Age</td>
<td>2.0</td>
</tr>
<tr>
<td>&quot;Early&quot; Retirement</td>
<td>1.4</td>
</tr>
<tr>
<td><strong>Average for All Companies</strong></td>
<td><strong>2.9</strong></td>
</tr>
</tbody>
</table>

*Note: Compiled by dividing number of firms encountering a loss into number of problem areas (Table 18).*
retirement allows the company more time to plan for the loss, thereby foreseeing and attempting to avoid potential problems. Death, although a sudden loss, may, in some cases, be anticipated because of advancing age of the executive or because it is recognized by others within the organization (or by himself) that the executive is in poor health.

Another analysis was that of the average number of problem areas, classified by method of distribution of stock. This analysis is presented in Table 23, page 75. The companies without public sale of stock encountered a much greater-than-average number of problem areas, possibly due to the closeness of control sometimes associated with a privately-held company and the corresponding lack of willingness of the owner to reveal information concerning the company. Consequently, employees are often uninformed.

Analysis of Grouping of Problem Areas

The grouping of the problem areas was presented above. The results of the analysis of these groupings of problem areas is presented in Tables 24, 25, and 26, pages 76, 77, and 78. Each grouping will now be considered and further analyzed when believed necessary for emphasis and clarification.

Some difficulty in replacing the executive—As Table 24 indicates, this was by far the most important of the problem areas encountered. Of the fifty-five companies reporting the loss of an executive, seventeen required more than one month to replace him
### TABLE 23

**AVERAGE NUMBER OF PROBLEM AREAS ENCOUNTERED, CLASSIFIED BY METHOD OF STOCK DISTRIBUTION**

<table>
<thead>
<tr>
<th>Method of Distribution</th>
<th>Average Number of Problem Areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sold Publicly, Listed on Stock</td>
<td>2.1</td>
</tr>
<tr>
<td>Exchange</td>
<td></td>
</tr>
<tr>
<td>Sold Publicly, Over-the-Counter</td>
<td>1.9</td>
</tr>
<tr>
<td>Not Sold Publicly</td>
<td>4.1</td>
</tr>
</tbody>
</table>

*Note: Compiled by dividing number of firms encountering a loss into number of problem areas (Table 19).*
### TABLE 24

**TYPE OF PROBLEM AREAS ENCOUNTERED CLASSIFIED BY ASSET SIZE**

<table>
<thead>
<tr>
<th>Asset Size</th>
<th>Problem Area</th>
<th>Total from Table 17</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1  2  3  4  5  6  7  8</td>
<td></td>
</tr>
<tr>
<td>Under $1 Million</td>
<td>13 2 4 3 1 4 0 1</td>
<td>28</td>
</tr>
<tr>
<td>$1 Million - $25 Million</td>
<td>22 10 7 10 7 13 6 13</td>
<td>88</td>
</tr>
<tr>
<td>$25 Million - $100 Million</td>
<td>3 0 1 2 0 0 2 4</td>
<td>12</td>
</tr>
<tr>
<td>$100 Million - $500 Million</td>
<td>7 1 0 2 1 1 1 6</td>
<td>19</td>
</tr>
<tr>
<td>Over $500 Million</td>
<td>3 0 0 3 0 0 0 4</td>
<td>10</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>48 13 12 20 9 18 9 28</strong></td>
<td><strong>157</strong></td>
</tr>
</tbody>
</table>

Note: Problem area classifications are as follows:

1. Difficulty in replacing
2. Replacement inadequately trained
3. Increase in expense
4. Increased executive turnover
5. Lowering of organizational morale
6. Adverse financial indicators
7. Increased turnover at lower levels
8. Other
TABLE 25
TYPE OF PROBLEM AREAS ENCOUNTERED
CLASSIFIED BY TYPE OF LOSS

<table>
<thead>
<tr>
<th>Type of Loss</th>
<th>Problem Area</th>
<th>Total from Table 18</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1 2 3 4 5 6 7 8</td>
<td></td>
</tr>
<tr>
<td>Death</td>
<td>18 2 3 5 2 2 1 7</td>
<td>40</td>
</tr>
<tr>
<td>Resignation, more than three months notice</td>
<td>9 1 2 3 0 5 2 8</td>
<td>30</td>
</tr>
<tr>
<td>Resignation, less than three months notice</td>
<td>15 8 4 8 5 6 5 7</td>
<td>58</td>
</tr>
<tr>
<td>Regular Retirement</td>
<td>3 2 3 4 1 4 1 4</td>
<td>22</td>
</tr>
<tr>
<td>Early Retirement</td>
<td>3 0 0 0 1 1 0 2</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>48 13 12 20 9 18 9 28</td>
<td>157</td>
</tr>
</tbody>
</table>

Note: Problem area classifications are as follows:
1. Difficulty in replacing
2. Replacement inadequately trained
3. Increase in expense
4. Increased executive turnover
5. Lowering of organizational morale
6. Adverse financial indicators
7. Increased turnover at lower levels
8. Other
<table>
<thead>
<tr>
<th>Method of Distribution of Stock</th>
<th>Problem Area</th>
<th>Total from Table 19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sold Publicly, Listed on Stock Exchange</td>
<td>11 3 3 12 3 1 5 9</td>
<td>47</td>
</tr>
<tr>
<td>Sold Publicly, Over-the-Counter</td>
<td>9 3 1 2 2 3 2 1</td>
<td>23</td>
</tr>
<tr>
<td>Not Sold Publicly</td>
<td>28 7 8 6 4 14 2 18</td>
<td>87</td>
</tr>
<tr>
<td>Total</td>
<td>48 13 12 20 9 18 9 28</td>
<td>157</td>
</tr>
</tbody>
</table>

Note: Problem area classifications are as follows:

1. Difficulty in replacing
2. Replacement inadequately trained
3. Increase in expense
4. Increased executive turnover
5. Lowering of organizational morale
6. Adverse financial indicators
7. Increased turnover at lower levels
8. Other
and four had not replaced him at the time the questionnaire was completed. Since the specified time period for the study was the years 1962 and 1963, and the study was begun in 1965, this means that at least two years had passed since the executive had left and no replacement had been found.

Thirteen companies reported that it was necessary to appoint a temporary executive to fill the position until a permanent replacement could be found. This would result in an increased workload for the individual temporarily performing the duties of the executive and possibly decreased efficiency of operation in both the executive position and the position normally occupied by the temporary replacement. Another effect can be decreased morale on the part of the temporary replacement because of overwork or because he believed his superiors did not think he was well enough qualified to take the position on a permanent basis. (This has occurred in a university situation, where "acting," or temporary, positions are common.)

Seven companies reported that positions within the organization still remained vacant as a result of personnel changes in other areas within the organization after the loss of the executive. This, of course, is caused by not having adequate back-up men in all positions within the organization. Often, a position remaining vacant or inadequately filled in the middle or lower management positions can be just as potentially crippling to an organization as a vacancy or incompetency in a top-level position.
Organizational instability can be caused at any level within a company.

Of the fifty-five companies, twelve reported that it was necessary to go outside the company to obtain a replacement for the lost executive. By "outside the company" is meant primarily another, unaffiliated company. It would be possible, although unlikely, to go to the "open market," unlikely because few individuals are available in the open market at this organizational level. The necessity for going outside the company would indicate a lack of planning and/or a lack of training of subordinates to assume a position when vacated. It was interesting to note that eight of these twelve cases occurred in companies with asset sizes of less than $25 million. This would indicate that the larger companies had personnel in adequate numbers so that promotion of capable personnel from within was possible.

The replacement was not adequately trained for the position—Eleven of the fifty-five companies reported that, in the opinion of the respondent, the replacement for the former executive was not adequately trained for the position before taking the position. Ten of these eleven companies were in the under $25 million classification. Again, this would indicate that the smaller companies were not adequately prepared for the loss of a key man, or were not able to train replacements properly. Several comments were received from organizations concerning this subject and will be discussed in a later section of this chapter.
A figure of eleven executives, or 20% of the total, not adequately trained appears to be significant, especially when considering that in some cases the individual completing the questionnaire may have been the replacement for the former executive. If this were the case, he possibly did not want to state that he himself was not adequately trained. It is possible that had individuals other than the replacement completed the questionnaire in all cases this figure would have been higher, although this is only conjecture.

In only one of the cases reporting an inadequately trained executive was the replacement required to participate in a formal training program. This would certainly indicate an inefficient operation for a period of time for the others, since it can be assumed that any training received by the others was on-the-job training, which can be an expensive method for training inadequately trained individuals in a high-level executive capacity. Of the eleven inadequately trained executives, all were promoted from within the company. This figure of eleven was approximately one-third of those promoted from within. A little imagination can allow for some interesting conjecture concerning this.

**Increases in expense incurred by the organization**—In eight cases reported, the organization was required to pay a higher salary to the replacement than was received by the former executive. In only two cases was the replacement given additional incentives. In eight cases the salary given to the replacement was the same as that received by the former executive. The average change in salary
was a decrease of $4,000. It is possible that even when the salary received was the same, there would still be an increase in organizational expense because of losses due to poor decisions, consumption of time, etc., at least for a period of time until the executive became more acclimated to his position. However, only three respondents stated that, taking all factors into consideration, they believed there was an increase in general administrative expense after the executive left the company.

Losses of other executives—Table 27, page 83, indicates turnover resulting from the executive loss. There were very few cases reported where an executive leaving the company took other employees with him or caused other employees to resign because of his departure. Therefore, this problem is not considered significant for the purposes of this study. An analysis of long-run effects of losses of executives could, however, indicate that this was much more of a problem. Often policy differences and personality conflicts do not result in resignations for a period of time. The following comment was received from one of the responding organizations:

The problems of executive succession, short range, are probably minimized in an organization our size where functional specialization has not been carried very far. The long range implications are far more severe as there tends to be less professionalism and more personality involved in leadership. This frequently means a gradual but extensive turnover of top personnel, somewhat akin to what takes place in the
<table>
<thead>
<tr>
<th>Description</th>
<th>No.</th>
<th>% to total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss of other key executive&lt;sup&gt;a&lt;/sup&gt;</td>
<td>7</td>
<td>12</td>
</tr>
<tr>
<td>Loss of direct subordinates</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Greater turnover on lowest organizational level</td>
<td>5</td>
<td>8</td>
</tr>
<tr>
<td>Greater turnover of first-line supervisors</td>
<td>3</td>
<td>5</td>
</tr>
</tbody>
</table>

<sup>a</sup>"Loss" refers to loss other than that due to illness or regular retirement.
Executive Offices in Washington when a vice president accedes to the presidency. However, as mentioned previously, this report does not investigate long-run effects.

Changes in organizational morale—Organizational morale is, at best, a difficult thing to determine. It concerns the worker's attitude toward the company and its executives, as well as his willingness to work first for the organization and second for himself. This study could make no claim as to its ability to determine adequately any changes in organizational morale after the loss of an executive. This could be done only by a complete "morale survey" before the loss and after the loss which, of course, is impossible. To complicate the analysis, the questionnaire reveals only what one individual believes the reaction of others to be. Consequently, it would be difficult, if not impossible, to reach definitive conclusions concerning any change in morale due to the loss of the executive.

"Regret" was the most common reaction of the direct subordinates of the former executive, occurring in thirty-five of the cases reported. This reaction was, understandably, most prevalent in the case of loss by death or retirement. In twelve of the cases, the respondent reported a willingness of other employees to work harder to compensate for the loss. One of the reactions which was not anticipated but which was common was "relief" upon losing

25 From questionnaire.
the executive. Thirteen of the companies responding reported this, although some that reported "relief" also reported "regret." The "good side" of losing an executive will be discussed in a later section of this chapter.

Another reaction of the direct subordinates was "uncertainty," reported in eight of the cases. This was due primarily to the fact that the subordinates did not know what to expect from the new executive or in a few cases, did not know for a period of time who the new executive would be.

The general reactions described above were supported by comments made on one of the open-end questions on the questionnaire. Such comments as "believed he was a competent man, so sorry to see him go." "He was well-liked and definitely missed." "Loss of a friend." "Replacement was not identified—so much conjecture by potential candidates, others." "To a great majority a sense of relief—to a few possible fear of change in new executive." "Some relieved, some displeased." The most interesting comment made by any of the respondents to this (or any) of the questions was by an organization which destroyed the code number on the questionnaire, thereby making any identification impossible. The remark was simply "they could care less."

Financial indicators—This was another area in which it was difficult to form definitive conclusions because of the many factors which must be held constant. The majority of firms reported that the sales performance, profit performance, and trend
of stock prices either remained the same as the period immediately preceding the loss of the executive or improved over the previous period. Seven firms reported that the relationship of profit to sales was less than that of the industry during the twelve-month period immediately following the loss of the executive, while fifteen reported it was approximately the same as the industry and twelve reported it was greater. Eight firms reported that the profit performance for the organization decreased during the period following the loss of the executive, while thirty-six reported an increase or no change. Two reported a decrease in sales volume, while thirty-two reported an increase or no change. Only one reported that the market value of stock was steadily downward, but twenty-seven reported a trend upward.

It could possibly be argued that only an increase in these indicators would be considered not to be a problem; that an organization is in trouble if it remains stable. However, as stated above, there are many outside factors that would enter into this analysis. A long-run investigation would be the most satisfactory method of attempting to correlate this type of indicator with executive loss. However, enough companies did have some sort of financial difficulty during the period following the loss of the executive to indicate to a manager that there is a possibility of this happening.

Greater employee turnover—Five companies reported greater employee turnover of personnel on the lowest organizational
level and three companies reported greater employee turnover at the first-line factory and office supervision level. Although this number of companies is not large, it is large enough to indicate that it possibly should be considered by managers as a potential problem if plans for executive succession are not made. Like executive turnover, this would probably be a greater problem in the long run than in the short run, as adjustments are made throughout the hierarchy of the organization.

Other—Several of the problems in this group were indicated earlier in this chapter by the use of quotations from questionnaires. Perhaps the most serious of the other problems was an increase in communication problems, reported by seven of the companies responding. Eleven of the organizations reported less decentralization of authority after the executive had left the company. Although management fundamentals generally state that decentralization is needed in most organizations, it would not be possible to state unqualifiedly that this was an adverse reaction to the loss of the executive. Sometimes, less decentralization of authority is more beneficial to the organization. It is also possible that this was only a temporary reaction, necessitated by the executive wanting to check very closely on the operations of the business until he became more familiar with his job.
Reasons for Encountering No Problems

As stated above, only eight of the companies losing an executive encountered no problems. Although the main purpose of this study was to determine the type and frequency of problems encountered, the respondents were given the opportunity to state the reasons they believed no problems occurred. Two of the eight companies made comments, as did several others which believed there were no problems (although problems did occur, according to the criteria of this report) and several which were going to face the problem of executive loss in the near future. A few of these comments follow, with remarks concerning them when warranted.

1. The replacement was well versed in the duties of the deceased executive and he was getting old on the job.

2. Training of our supervisory and executive personnel in good business practices and administration.

These comments were from two of the companies which incurred no problems. They indicate little except the following of good personnel policy which dictates the training of a back-up man in critical positions. The first comment is interesting, however, because it indicates one of the cases where the company was better off for the loss of the executive.

26 From questionnaire.
3. Anticipating and providing for the need of qualified and responsible personnel to succeed to positions of higher levels has been a basic and primary practice throughout the Corporation for many, many years.

4. Our contacts indicate that most large companies have very extensive programs for management development. Replacement of key personnel is one of the major concerns for nearly all of these firms. It is unlikely, therefore, aside from a very few cases, that the sudden loss of top officers will change the company's fortunes to any marked degree.

5. Subordinates are trained to take over without a pause when a key executive is lost because of retirement or death.

The preceding three comments were from large companies and state their philosophies concerning management development. Two of these companies declined to complete the questionnaire, but replied by letter. The third company incurred three losses during the specified time period, but encountered only one problem area, an increase in communication problems through the organization.

6. Prompt replacement with younger man.

This comment is interesting, not because of its content but because the company encountered problems in four areas. It took from one month to three months to replace the executive; it was necessary to appoint a temporary executive; some of the direct subordinates of the former executive left the company; and turnover on the operative level had been greater than normal. The analysis of the questionnaire does not exactly correspond with the comment! Often an executive does not realize he has any problems until it is too late to solve them.
Other remarks could be noted here, but they are basically the same: no problems resulted (or will result) because of adequate training of subordinates and back-up men. It is beyond the scope of this study to attempt to determine the methods of training used by these companies.

Favorable Reactions after a Loss of an Executive

Earlier in this chapter, it was mentioned that there were certain occurrences following the loss of an executive which could be considered as favorable to the operations of the organization. As with the problems considered, however, it is impossible to state an exact cause-and-effect relationship between a loss of an executive and favorable occurrences after the loss, since many other factors, both internal and external, would be involved. It is interesting to note these reactions, however, and particularly interesting to note the respondents' comments to the open-end questions concerning favorable reactions.

Although financial indicators and turnover of personnel could be considered as indicators of favorable reactions, it was decided to elaborate on only four categories: relief upon losing the executive, a willingness to work harder after the loss, a decrease in communication problems, and an increase in productivity. Table 28, page 91, indicates the frequency of these reactions. Each will now be considered separately.
TABLE 28

NUMBER OF "FAVORABLE OCCURRENCES" FOLLOWING
THE LOSS OF AN EXECUTIVE

<table>
<thead>
<tr>
<th>Occurrence</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relief</td>
<td>13</td>
</tr>
<tr>
<td>Willingness to work harder</td>
<td>12</td>
</tr>
<tr>
<td>Decrease in communication problems</td>
<td>19</td>
</tr>
<tr>
<td>Increase in productivity</td>
<td>27</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>71</strong></td>
</tr>
</tbody>
</table>
Relief—As noted in Table 28, thirteen companies noted "relief" upon the loss of the executive. This represents almost 10% of the companies responding to the questionnaire. Of course, there could be several reasons for this relief. The executive may have been competent but disliked, well-liked but incompetent, or possibly both disliked and incompetent. Whatever the reason, the possibility of a welcome loss of an executive cannot be ignored.

Several of the additional comments received during the course of the study indicate that the respondents, while not exactly relieved by the loss of an executive, believed very strongly that a loss at the executive level can be beneficial to an organization. Two of these comments follow.27

It is difficult to generalize—in many instances top executives have not kept pace with changing conditions—new markets—dying markets—use of data control. Small companies often led by one man who refuses to chart a course and delegate authority. More often than not, a new personality, strong in marketing, brings the company to new heights.

Obviously, the individual making the above statement has had some experience with an incompetent executive.

Usually the death or retirement of a chief executive is the best thing that can happen to a company—as men age they become more static and less imaginative. There is usually a top limit to where a chief executive will carry a company. When the top is reached it is beneficial to the company to replace the chief. The new man will make the former executive's ceiling the floor for future growth.

27From questionnaire.
The preceding statement is logical; it is impossible, however, to state that this would be true in all situations, as is implied in the statement.

**Willingness to work harder**—This was a common reaction, reported by twelve companies. A willingness to work harder could come from one or both of two reasons. An individual may be more willing to work because an executive recognized as incompetent has left the company and this encourages him, or because he realizes that the company has suffered a loss and he is willing to help compensate for this loss. In only one case was the feeling of relief combined with a willingness to work harder, but in eleven cases the combination of regret and a willingness to work harder was found.

**Decrease in communication problems**—This reaction was reported by nineteen organizations. Problems of communication within an organization can develop over a period of time without the individual responsible realizing that the problems are present. Often an individual new on the job, especially if he has been the recipient of the poor communication, can correct the problem.

**Increase in productivity**—This reaction was reported by twenty-seven of the companies responding. An increase in productivity could be caused by any of several factors such as increased morale, a willingness to work harder, and a decrease in communication problems. In other words, this is not as much a reaction to a loss of an executive as it is a reaction to a reaction.
Table 29, page 95, indicates the occurrences discussed above, classified by the type of loss incurred. Because of the very small figures involved, a chi-square test was not attempted. The most significant comparison within the table is in the "relief" column. It should be noted that the feeling of relief is found three times as often in resignations as in deaths and retirements, although deaths and retirements outnumber resignations thirty-two to twenty-three (see Table 14, page 57).

Other Occurrences Following the Loss of an Executive

There were some occurrences after the loss of an executive which could not be considered either as a problem or as an occurrence favorable to the organization. These are indicated in Table 30, page 96.

Comparison with Previous Studies

On page 17, Chapter I, are listed the four basic problems that Professor C. Roland Christensen found to be prevalent. Table 31, page 97, is an attempt to compare the findings of his study with the empirical findings of the present study.

This table appears to support Professor Christensen's findings, either directly or indirectly. Since the conclusions of this study are based on responses from organizations of various size, the conclusions of Professor Christensen would seem to apply to large as well as small organizations.
<table>
<thead>
<tr>
<th>Type of Loss</th>
<th>Relief</th>
<th>Willingness to Work Harder</th>
<th>Decrease in Communication Problems</th>
<th>Increase in Productivity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Death</td>
<td>2</td>
<td>5</td>
<td>4</td>
<td>9</td>
</tr>
<tr>
<td>Resignation, more than 3 months notice</td>
<td>4</td>
<td>0</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Resignation, less than 3 months notice</td>
<td>6</td>
<td>3</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>Retirement at regular retirement age</td>
<td>1</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>&quot;Early&quot; retirement</td>
<td>0</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total</strong> (Table 27)</td>
<td>13</td>
<td>12</td>
<td>19</td>
<td>27</td>
</tr>
<tr>
<td>Occurrence</td>
<td>Frequency</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>----------------------------------------</td>
<td>-----------</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Greater decentralization of authority</td>
<td>20</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less decentralization of authority</td>
<td>11</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in company objectives</td>
<td>13</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expansion of product lines</td>
<td>25</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retraction of product lines</td>
<td>3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Affiliation with other company</td>
<td>10</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>82</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Table 31

**Conclusions of Christensen's Study and Supporting Data**

<table>
<thead>
<tr>
<th>Christensen's Conclusions</th>
<th>Supporting Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Possibility of liquidation or forced sale.</td>
<td>I.A. Ten companies became affiliated with another organization.</td>
</tr>
<tr>
<td></td>
<td>B. There were sixteen unfavorable financial indicators that would indicate the possibility of an eventual forced sale or liquidation.</td>
</tr>
<tr>
<td>2. A period of unsatisfactory operations due to inadequately trained managers.</td>
<td>2.A. Eleven companies reported the replacement was inadequately trained.</td>
</tr>
<tr>
<td></td>
<td>B. Seven companies reported profit performance less than the industry.</td>
</tr>
<tr>
<td></td>
<td>C. Seven companies reported profit performance less than for the similar period prior to the loss.</td>
</tr>
<tr>
<td></td>
<td>D. Two companies reported a decrease in sales volume.</td>
</tr>
<tr>
<td></td>
<td>E. It was necessary in thirteen companies to appoint temporary replacements.</td>
</tr>
<tr>
<td>3. A hurried selection of new managers.</td>
<td>3.A. Eleven companies reported the replacement was inadequately trained.</td>
</tr>
<tr>
<td></td>
<td>B. Twelve companies reported that it was necessary to go outside the company for the replacement.</td>
</tr>
</tbody>
</table>
Table 32, page 99, shows the relationship between the findings of the present study indicating types of executive loss within an organization as compared with the previously-mentioned study by Booz, Allen and Hamilton. Also shown is the executive turnover as computed in both studies. Turnover was computed in the present study by assuming a span of control of three at the first three levels within the organization, making a total of thirteen executives. This is an extremely conservative figure, as the majority of these companies are too small to support this number of executives. Thirteen was then multiplied by the number of companies responding to the questionnaire, and this figure divided into the number of losses. The result would indicate turnover during a two-year period. Consequently, the two-year turnover was divided by two to provide a comparison. No indication was given as to the method of computing turnover in the Booz, Allen and Hamilton study.

Analysis of Responses to Open-End Questions

Sixty-six companies replied to one or more of the three open-end questions included in the questionnaire. There were a total of eighty-three responses from these companies. Since these responses cover various topics and are of interest at varying points throughout this report, they are mentioned at those points. (See, for example, the sections entitled "Problems After the Loss of an Executive" and "Importance of the Problem.") Although the
<table>
<thead>
<tr>
<th>Type of Turnover</th>
<th>Per Cent to Total - 1953 Study</th>
<th>Per Cent to Total - Present Study</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deaths and Retirements</td>
<td>56%</td>
<td>58.2%</td>
</tr>
<tr>
<td>Resignations, Lay-offs and Discharge</td>
<td>40.6%</td>
<td>41.8%</td>
</tr>
<tr>
<td>Total Turnover</td>
<td>7%-8%</td>
<td>2.5%</td>
</tr>
</tbody>
</table>
responses are, individually, important to the conclusions of the study, they are also, when considered together, indicative of the interest shown by the respondents to the problem of organizational stability and executive succession. In order that the reader may review all of these comments, if desired, they are reproduced in Appendix III. A brief analysis of the responses to the questions follows.

Question One: "Do you believe any problems other than those specified above evolved after the executive left the company? If so, please specify the nature of these problems." This question is reviewed in detail in the above section entitled "Problems After the Loss of an Executive," which reveals eight problems not previously considered. Eight companies replied to this question, indicating six additional problems. The other two additional problems were discovered through answers to the other open-end questions.

Question Two: "If no problems evolved, what do you believe to be the reason?" (See also the section of this report entitled "Reasons for Encountering No Problems," beginning on page 88.) Twenty companies replied to this question. Of the twenty companies, five had not experienced any loss during the specified time period, but answered in relation to losses suffered at some other time. Particularly noticeable in analyzing the remaining fifteen responses was that, even though the companies were explaining why they had had no problems, the majority did have problems according to the criteria devised for analysis of the
questionnaire. Table 33, page 102, indicates this. This would indicate that often there are difficulties within an organization even if the management of the company does not recognize them, or, in some cases, may recognize them but refuse to admit their existence. This would not apply to problems of executive succession only, but to other problems as well.

**Question Three:** "Please use the following space for any comments you may have concerning this questionnaire, this study, or the general problem of executive succession." Twenty-nine companies replied to this question. The replies were general, stating whether, in the opinion of the respondent, the loss of an executive is or is not a major problem. There were also comments concerning such items as other losses which occurred outside the specified time period and some personal opinions concerning executive succession.

Whether many occurrences mentioned would benefit or harm the organization depends to a great extent on the situation of the organization before the occurrence. All of them are part of a philosophy of management, which, of course, may change with new management.

**Importance of the Problem**

In Chapter I, an attempt was made to indicate the importance of the problem of organizational stability by quoting authorities in the area of management. Several of the respondents
<table>
<thead>
<tr>
<th>Number of Problem Areas</th>
<th>Number of Companies Replying to Question Number Two</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>15</td>
</tr>
</tbody>
</table>
to the questionnaire also stated their viewpoints on the general subject. 28

1. Executive succession or replacement is a serious problem. Must be done to benefit company and to make this apparent to employees. If employees think a bad choice was made serious morale problems can develop.

2. Every executive owes it to his superior to have a clearly defined replacement to himself designated.

3. The loss of any good executive in a company would be felt. But unfortunately most companies do not have good executive talent. With all our technical progress and excellence in education I find one of the scarcest commodities is good executive talent—conclusion: no man is indispensable but a good man (in any capacity) will surely be missed.

Other respondents indicated that they did not believe that organizational stability was a particularly important problem.

4. We had the problem in 1964 and it is no more than an expected occurrence which is handled in the manner dictated at the time of the occurrence.

5. In a large progressive company the loss of an executive should not present many problems. This is anticipated by the use of manning tables and management development.

6. Not too difficult if planned for. Lower or intermediate executive personnel is the problem.

Experience of the respondent undoubtedly affects the opinion concerning executive replacement.

Although the results of the study, as discussed in the next chapter, appeared to indicate that the problem of executive

28 From questionnaire.
succession was more important in small firms than in large firms, there was some disagreement among the respondents to the questionnaire. These comments follow. All are logical and interesting, and all require consideration when attempting to determine the importance of the problem of organizational stability.

1. Since authority and responsibility are likely to be spread more diffusely in a large corporation than in a small one and because of the probable availability of candidates for new positions in a large corporation, changes in key personnel are probably not as potentially crippling as in a small corporation.

2. In the case of a very small company like the problem is how much depth in executive jobs the company can afford.

3. Obviously, the problem of replacement will increase considerably for smaller companies since small firms cannot afford to hold within their ranks for many years the type of gifted individuals who have recognized capabilities for industrial leadership.

These remarks generally support the findings of the study. One company, however, disagreed. The respondent stated, "Small companies if they have few key people and trained assistants are in better shape than large ones." Although there is some logic to this statement, there is also one great weakness. When there are few key people, it means that the ones that are in key positions must make more decisions and perform more functions; efficient delegation of authority and responsibility cannot take place. The more decisions an executive is required to make, and the more functional areas in which he becomes deeply involved, the more important his loss
becomes to the organization. It is more logical that in this situation the problem of executive succession would be even greater.

Comments Concerning Organizational Stability in Other Types of Organizations

Although the present study concentrated on manufacturing concerns, it was believed that it would be interesting to make a few comments concerning the problem of organizational stability and executive succession in other types of organizations. No empirical data are available to support many of the comments below; however the similarities can readily be seen. This is as it should be, if managerial skills and organization theories apply to all types of organizations, as management theory states.

Social Groups--Most social groups have the practice of electing executive officers periodically, usually as often as every year. Everyone has seen the problems that can result when the time comes for election of officers and no one is qualified to assume the executive positions. This problem is particularly noticeable in educational institutions, since the academic year does not correspond with the calendar year. The usual practice is to elect officers at the beginning of each academic year, therefore providing no continuity of leadership during the summer months. A new practice is to elect officers from January to January, therefore providing opportunity for training of prospective officers during the period September to January.
It would appear that in social groups, which are, in most cases, an avocation for those participating, there is neither the time nor the desire to prepare members for leadership positions. The organization often revolves around the leaders, which implies that objectives and policies may be continually changing. Consequently, there is a lack of enthusiasm and initiative on the part of the members. Definite objectives, adequate planning, and indoctrination and training of the members could do much to improve the quality of many social groups.

Labor Organizations—Labor organizations are, in many respects, similar to business organizations. They have definite objectives, and the leaders, or managers, perform basically the same functions as the managers of private corporations. Since the group being managed is, in many cases, very large and geographically dispersed, and may be led by emotion rather than facts, it is imperative to have a well-planned line of succession in case of emergency. If this is not done, power struggles may emerge and the support of the rank-and-file members may be lost, or at least split between two or more factions. This can also happen in business organizations but usually not at the lower operative levels.

The recent arrest, conviction and imprisonment of Jimmy Hoffa, president of the Teamsters Union, is a case in point. The event was anticipated and an individual was chosen to perform the duties of Hoffa during his absence. The individual was temporarily appointed, awaiting the return of Hoffa. Consequently, he does not
have the power to make decisions that may be necessary, and other factions are possibly planning on taking advantage of the situation in order to gain control of this large organization. It is as yet too early to determine what the outcome of this struggle will be. However, the situation does indicate two things pertinent to this study; the necessity for having an individual ready and willing to assume the duties of a departed leader and the disadvantages of a temporary or interim leader.

**Educational Institutions**—Educational institutions have a peculiar problem concerning instability and succession. First, there is a scarcity of qualified personnel, at both the administrative and operative levels. Second, individuals employed by educational institutions are peculiarly independent. Third, turnover of personnel is extremely large and is an accepted thing. In addition, the operative level of worker in an educational institution, the instructors, are often well-enough qualified and interested to proceed uninterrupted when a crisis does occur in the administration.

Experience has shown the following things occurring at an educational institution:

1. The appointment of many individuals on a temporary basis occurs quite often. This causes a great deal of instability. The individual appointed has neither the power nor the influence necessary to perform his function as it should be performed. This results in lack of progress and a lowering of morale among those involved.
2. Turnover of both administrative and operative personnel occurs at a high rate. This results in a lack of continuity of programs from one academic year to the next and uncertainty on the part of individuals affected.

3. The organization is sometimes operated around individuals rather than around objectives. Consequently, as administrative personnel changes, objectives change. Temporary objectives rather than permanent objectives are found. As individuals leave the institution, and ideas change, other people leave, at all levels, sometimes going with the individual who departed and sometimes not. Again, an unstable situation results as well as a lack of continuity of programs.

4. Operative employees depart unexpectedly and classes must be taught by those not qualified to teach them. This results in dissatisfaction on the part of the instructor and a below-standard quality of work. Neither of these results is conducive to high morale, particularly for a professional worker.

5. There is a delay in appointing anyone to replace a departed administrator. Consequently, there is a period of time in which there is no authority over one particular functional area. Only routine work is accomplished; this is not done by any one appointed individual but rather by anyone who happens to be in the vicinity at the time. Again, below-standard work and uncertainty results.
All of the above occurrences, although seen in educational institutions, are considered in the present study as related to manufacturing organizations.

**Marketing Organizations**—Marketing organizations, although having basically the same problems as any other type of organization, have one peculiar problem. There is a possibility that the departure of an individual may result in the loss of a number of customers. This is true in cases where the customers are customers of an individual, not of the company. The writer is aware of one case in which the organization was quite aware of the fact that if one of the sales managers would leave the organization, many customers would be lost. Consequently, the individual had much greater power within the organization than should have been warranted by his position. Had the individual been made aware that one of his functions was to prepare another individual to assume his position in case of his departure, this problem could have been alleviated. Of course, this was not the fault of the individual involved, but rather of the company, because of a lack of control and discipline over the employees.

**The Federal Government**—Although the Federal Government is often cited for general inefficient operation, executive succession and orderly transfer from one individual to another seems to prevalent, particularly at the higher levels of administration. (Perhaps this is because it is a common-place occurrence.) Perhaps the best example of this is the extremely orderly change-over after
the assassination of John F. Kennedy. No interruption of command was noticed, at least by the general public (which could, in some respects, be compared to the operative level within an organiza-
tion). Policy changes were made, but this was done over a period of time, in a well-ordered manner. Several administrations ago this would not have been the case. It was during the administra-
tion of Dwight D. Eisenhower that the necessity for training the vice-president to assume the duties of the president was discovered, due to ill health on the part of the President. This is a case where instability due to a sudden loss could have been disastrous to the organization, in this case the United States. The awareness of this situation has also caused some concern relating to the qualifications of those individuals in the line of succession for the President of the United States.

In lower levels within the government, where changes are made as political fortunes change, orderly succession is also in evidence. Ordinarily, there is a period of time in which it is possible to educate, train and indoctrinate the new office-holders into the position and its duties. Business organizations could learn from the practices of the United States Government concerning executive succession. It is necessary for the Government to pro-
vide an orderly line of succession in order to avoid "competition" within the "organization" and to keep the confidence of the "operative workers."
As can be seen, these types of organizations face the problem of executive succession, as well as do manufacturing concerns. The problems that are encountered are similar and have basically the same results. The solutions to the problems are, also, similar.
CHAPTER IV

CONCLUSIONS AND RECOMMENDATIONS

Restatement of the Hypotheses

Before attempting to form conclusions based on the data compiled during the course of the study, the hypotheses stated in Chapter I, page 6, will be restated. Each hypothesis will then be considered in relation to the data compiled.

1. The loss of a key executive occurs sufficiently often to be an important consideration to management of all sizes and types of business organizations.

2. When the loss of a key executive does occur, much time may be involved in filling adequately the position left vacant.

3. When the loss of a key executive does occur, there are certain adverse effects upon the economy and effectiveness of a business organization. Some of these effects may be:

   A. Greater employee turnover (at either or at both the administrative and the operative levels)

   B. Greater administrative expense (due to the necessity of hiring more than one replacement, larger salaries paid, etc.)

   C. Decline in sales

   D. Decline in per cent of profit as related to sales
E. Decline in share of market of the organization

F. Decline in the market value of the stock of the organization

4. The problems involved are related inversely to the size of the organization.

5. The number of the problems encountered will vary, depending on the type of loss (death, retirement, anticipated, unanticipated).

6. The number of the problems encountered will vary, depending on the type of ownership of the corporation (closed versus open corporation).

Analysis of Data as Related to Hypotheses

Hypothesis I—As mentioned in the preceding chapter, fifty-five of the 132 companies responding to the questionnaire reported the loss of at least one executive during the specified time period and of these fifty-five, eighteen reported the loss of more than one executive. It will be recalled that the time period January 1, 1962, through December 31, 1963, was chosen for the study. The reasons for this choice are noted in Chapter II. The time period appears to be a typical one for industry; this was not one of the reasons for the choice, but helps in the support of the data received. During this period industrial production and gross national product were following the same gradual upward trend that they had been following for several years. There was not any
noticeable indication of either a boom or depression during these years.

This hypothesis was tested to determine the frequency of loss of a key executive in the companies surveyed and thereby to provide other managers with information concerning the frequency of this occurrence. Plans may then be formulated, minimizing any difficulties within their own organizations. Statistically, it is not possible to state whether a loss suffered by 41% of the companies surveyed is enough to warrant the concern of managers. Intuitively, however, 41% would appear to be a significant figure. It would also seem significant to state that in 11% of the cases studied more than one executive was lost during a relatively short time period.

These figures become even more impressive when reformulated to state that approximately forty-one manufacturing concerns out of 100 will face the problem of a loss of a key executive on the first three organizational levels every two years, or to state that the average manufacturing concern will face this problem every 4.8 years, or every 1.6 years on one of the first three organizational levels. Of course, not every manufacturing concern in the United States will suffer a loss as these figures indicate. Some firms continue for many years with no losses of key executives, while others suffer several losses within a relatively short period of time, as is indicated by the 11% incurring more than one loss during the specified time period of two years. The figures should indicate to a manager,
however, that executive loss is a very common problem and should be properly anticipated.

Reference to Table 13, page 56, indicates that there is no significant difference in losses due to size of the organization, whether measured by asset size or by number of employees. However, there appears to be a significant difference in number of losses due to method of stock distribution. There seems to be less turnover of executives in closely-held corporations, probably because many of these are family-owned and controlled, and many executives are also owners and hesitate to leave the organization.

Hypothesis 2—In 31% of the cases reported, more than one month was required to find a replacement for the former executive and in approximately 10% of the cases (included in the 31%) the executive had not been replaced at the time of the study. One month is a longer period of time than most organizations would want to operate without a key executive or with another employee performing temporarily the duties of a former executive. Although again there is no statistical proof, the indication is that in 31% of the cases the organization had not planned adequately for the departure of the executive. Otherwise more than one month would not have been required to find an adequate replacement (assuming the replacement that was found was adequate, which did not appear to be true in all cases reported).

It should be realized, also, that in seven of the cases other positions within the organization still remain vacant because
of personnel changes due to the loss of the executive. This would indicate that although the departure of the key executive may have been planned for, somewhere further down in the organizational structure the same type of planning was not performed.

A realization of the length of time that may be involved in attempting to replace a key executive should reinforce the conclusion reached in testing hypothesis one and stated in the next section of this report.

Hypothesis 3-A—The results of the investigation of this hypothesis did not indicate, in general, turnover within an organization results from the loss of a key executive. Table 27, page 83, indicates the results.

Hypothesis 3-B—The expense factor in the replacement of an executive was considered to some degree in Chapter III. It was not indicated by the study that direct expense was, in most cases, higher after the loss of the executive. ("Direct expense" relates only to the salary of the new executive as compared with the salary of the former executive. It will be recalled that in only six of the cases was the salary of the new executive higher.) As stated in a previous section of this report, the average salary change was a decrease of $4,000. Indirect expense, however, can take many different forms, such as inadequately trained replacements performing high-level decision-making duties; resignation of other executives and consequent expense (direct or indirect) involved in replacing them; greater personnel turnover on lower organizational levels,
causing possible poor performance and necessitating training and replacement costs; decrease in productivity, either because of the above-mentioned inadequately trained operative employees or because of decreased level of organizational morale; and an increase in communication problems, which could occur for a number of reasons.

Even though the only direct data received indicated a decrease in salary, enough responses were received indicating problems in these areas mentioned in the above paragraph to indicate that there is a distinct possibility of an increase in indirect expense following the loss of a key executive of an organization.

**Hypothesis 3-C**—Only two companies reported a decline in sales during the twelve-month period following the loss of the executive.

**Hypothesis 3-D**—More significant figures were noted here. Seven companies out of the fifty-five incurring a loss reported a profit performance less than the industry during the twelve-month period following the loss and seven companies reported a profit performance during this time period less than the profit performance during the twelve-month period preceding the loss. Some consistency may be noted here, as all seven of the organizations reporting profit performance less than that of the industry also reported either a decrease or no change in profit performance as related to the twelve months prior to the loss of the executive.

**Hypothesis 3-E**—There were no conclusive results from the testing of this section of the hypothesis. Twenty-five companies
reported either stable market prices or steadily upward market prices and fourteen of the companies did not have their stock for sale on the open market. Since this was a general rising period of stock prices, each company would have to be investigated in detail and general price trends eliminated. This was not done.

**Hypothesis 4**—The data presented in Tables 17 and 20 (pages 67 and 71) and the chi-square test described in Table 21 (page 72) support this hypothesis. There appears to be a significant difference in the number of problem areas encountered as related to the size of the company. The smaller organizations responding (less than $100 million in assets) reported an above-average number of problem areas encountered, while the companies with asset size above $100 million reported a below-average number of problem areas encountered. The types of problems do not appear to vary significantly with the size of the company.

**Hypothesis 5**—The data presented in Tables 18 and 22 (pages 68 and 73) and the chi-square test described in Table 21 (page 72) support this hypothesis. The number of problem areas encountered will vary, depending on the type of loss incurred. Deaths and resignations pose a greater number of problems to an organization than does retirement and resignation with less than three months' notice poses a greater number of problems than deaths or resignation with greater notice. Table 18, page 68, indicates that 70% of the total losses account for 80% of the problem areas. This may not be considered significant. However,
Table 22, page 73, shows that a much greater average number of problem areas is encountered when an executive leaves suddenly than when he leaves under conditions that are more conducive for planning an orderly succession.

Hypothesis 6—The data presented in Tables 19 and 23 (pages 69 and 75) and the chi-square test described in Table 21, page 72, support this hypothesis. There does appear to be a significant difference in the number of problems encountered, depending on the method of stock distribution, possibly, as Professor Christensen stated (see page 17) due to the greater secrecy found in a closed or closely held corporation. The corporations whose stock was not sold publicly showed a much greater than average number of problem areas encountered.

Conclusions

1. Loss of key executives (as defined), particularly sudden losses, occurs often enough to be of concern to executives of corporations.

2. In the majority of cases where a loss of an executive is incurred, problems result which may be of either a permanent or a temporary nature.

3. Sudden losses, such as death or sudden resignation, result in more problems than do anticipated losses, such as retirement or resignation with adequate notice.
4. Smaller companies face a greater number of problems following the loss of an executive than do larger companies, presumably because the larger companies have the resources to train replacements adequately and to plan for executive loss.

5. Closely-held corporations encounter more problems after loss of a key executive than do corporations that sell their stock on the open market.

6. The loss of an executive may be beneficial to an organization. Not all executives are competent and high-quality; at times the best occurrence for an organization is the departure of an executive. New ideas may be brought into the company from outside the organization and individuals within the organization may be elevated to positions where their ideas may be expressed and applied.

7. Some changes may take place within an organization after the loss of an executive which, although not necessarily harmful to the company, are important enough that executives should be aware of the possibility.

Recommendations

It must be admitted that, simply because an executive is lost from an organization and certain problems occur, organizational stability, as defined, may still be present. However, it appears logical that the more problems of various kinds encountered by an
organization, the more chance there is for instability to occur. With the assumption that most businessmen and executives want their organization to continue operations efficiently and economically, regardless of loss of personnel or any other event, the following recommendations are made.

1. Businessmen should be made aware of the distinct possibility of loss of a key executive and should be encouraged to protect against this loss, either by physical care or by incentives to encourage executives to remain with the company. This should be both a short-run and a long-run consideration.

2. Businessmen should be made aware of the frequency of occurrence of difficulties within the organization after the departure of a key executive, particularly those types of problems which can be traced directly to the loss. In this way, they may be persuaded to consider the problem of executive loss and to realize that a relatively small expenditure in the short run may prove profitable in the long run.

3. Businessmen, particularly small businessmen, should be made aware of the types of problems encountered after the loss of an executive. In this way, certain precautions can be taken in these areas to attempt to keep these from happening. These precautions could take many forms, such as the training of replacements, changes in systems within the organization, changes in communication policies, or even possibly executive insurance
policies to help defer the cost of replacement and training in case this was not adequately accomplished prior to the loss.

These recommendations are not new or startling. They may be found in some form in any personnel management textbook. What is significant is that they stem from conclusions based on empirical data, not on assumptions. The data included in this report, when presented to an executive, should help to awaken him to the seriousness of the often-overlooked problem of executive succession and the resulting possibility of organizational instability.
APPENDIX I
Dear Sir:

I am presently engaged in Ph.D. dissertation research at the Ohio State University under the general direction of Professors Charles Hicks, Leo Stone and Frederick Kindig. My research concerns organizational stability, or the ability of an organization to adjust to the loss of personnel without suffering a serious loss of economy and efficiency of operation.

In order to compile data concerning this subject, the enclosed questionnaire is being circulated among 500 manufacturing concerns.

It is hoped the following questions will be answered from this study:

1. How often does an organization lose one of its key executives through death, retirement or resignation? ("Key executives," as the term is used in this study, refers to the president, chief executive officer, executive vice-presidents, and subordinates reporting directly to one of the above named executives.)

2. When an organization does lose one of its key executives, what problems, if any, arise?

3. Do the problems encountered after the loss of an executive have any relationship to the size of the company, or to the industry in which the organization is engaged?

The experience of your organization is important to the success of this study. With cooperation from all firms contacted, the conclusions reached from this study can be valuable to managers of both small and large concerns. Please complete the enclosed questionnaire and return it in the enclosed envelope by March 2, 1967. Nowhere on the questionnaire are you requested to state the name or address of your firm. Questionnaires are identified by code only to assure anonymity in processing. Only broad aggregates of data will be presented. Your cooperation will be appreciated.

George R. Carnahan
Assistant Professor
School of Business
Northern Michigan University
Marquette, Michigan

Enclosure
ORGANIZATIONAL STABILITY IN MANUFACTURING CONCERNS

PLEASE CHECK EACH APPROPRIATE RESPONSE

1. What are the major product lines of your organization?

__________________________________________________________________________

2. What is the length of time in years you have been with the organization?

__________________________________________________________________________

3. What was the book value of the assets of your organization as of December 31, 1963?

____ (1) Under $1 million

____ (2) Over $1 million--$25 million

____ (3) Over $25 million--$100 million

____ (4) Over $100 million--$500 million

____ (5) Over $500 million

4. How many persons did your organization employ as of December 31, 1963?

____ (1) Less than 100

____ (2) 100--1000

____ (3) 1001--5000

____ (4) 5001--10,000

____ (5) Over 10,000
5. What was the number of individuals holding stock in your organization as of December 31, 1963? Please consider another company or an institution holding stock in your organization as one individual.

(1) Less than 50
(2) 51—100
(3) 101—500
(4) 501—1000
(5) Over 1000

6. Was your organization a wholly-owned subsidiary or a partially-owned subsidiary as of December 31, 1963?

(1) Wholly-owned subsidiary
(2) Partially-owned subsidiary
(3) Neither

7. What was the method of distribution of the stock of your organization as of December 31, 1963?

(1) Listed on stock exchange, sold publically
(2) Sold publically over-the-counter
(3) Not sold publically

8. Did your organization, during the time period January 1, 1962 through December 31, 1963, lose one or more of its key executives by death, resignation, or retirement? ("Key executives," as used in this study, or any subordinates reporting directly to one of the above-named executives.)

(1) Yes
(2) No
(3) Yes, more than one (How many_________
IF THE ANSWER TO QUESTION 8 WAS (1) or (3), PLEASE COMPLETE THE QUESTIONNAIRE. IF THE ANSWER TO QUESTION 8 WAS "NO", PLEASE TURN TO THE LAST PAGE OF THE QUESTIONNAIRE FOR ANY ADDITIONAL COMMENT YOU MAY WISH TO MAKE CONCERNING THE QUESTIONNAIRE, THIS STUDY, OR THE GENERAL SUBJECT OF EXECUTIVE SUCCESSION. YOUR COOPERATION IS APPRECIATED.

9. Please specify the levels of the former executives and the dates of severance with the company. (See diagram below)

PLEASE ANSWER THE REMAINING QUESTIONS IN RELATION TO THE FIRST EXECUTIVE THAT LEFT THE COMPANY DURING THE SPECIFIED TIME PERIOD, IF THERE WERE MORE THAN ONE.

10. What was the type of severance?

_______(1) Death
_______(2) Resignation with more than three months notice
_______(3) Resignation with less than three months notice
_______(4) Retirement at regular retirement age for your organization
_______(5) "Early" retirement
11. If your answer to question 10 was either (2) or (3) indicate the cause of the resignation.

_______(1) Health
_______(2) Other position--financial advancement
_______(3) Other position--advancement in status or rank
_______(4) Combination of (2) and (3)
_______(5) Other reasons

12. What was the length of time before the executive was replaced?

_______(1) Less than one week
_______(2) One week to one month
_______(3) One month to three months
_______(4) Three months to six months
_______(5) More than six months
_______(6) Not as yet replaced

13. Was it necessary to appoint an executive to temporarily perform the duties of the former executive until a permanent replacement could be obtained?

_______(1) Yes
_______(2) No

14. Was more than one permanent replacement required to perform the duties of the former executive?

_______(1) Yes
_______(2) No

15. Do any positions within the organization now remain vacant because of personnel changes after the loss of the executive?

_______(1) Yes
_______(2) No
16. If the executive has been replaced, where was the replacement obtained?

________(1) From within the organization

________(2) From another, unaffiliated company

________(3) From a subsidiary

________(4) From a parent company

________(5) Other

17. In your opinion, was the replacement for the executive adequately trained for the position before taking the position?

________(1) Yes

________(2) No

18. Did the replacement participate in any formal training program after taking the position?

________(1) Yes

________(2) No

19. What was the relationship of the salary of the replacement to the final salary of the former executive six months after taking the position?

________(1) Salary of the replacement was higher (by approximately $_________ per year)

________(2) Salary of the replacement was lower (by approximately $_________ per year)

________(3) There was no difference

________(4) Replacement had left the company
20. Was the replacement granted benefits, such as additional stock options, that the former executive did not have?

_____ (1) Yes
_____ (2) No

21. Taking all factors into consideration, do you believe there was an increase in the general administrative expense of the organization after the executive left the company, and due to the executive loss?

_____ (1) Yes
_____ (2) No

22. If your answer to question 21 was "yes", please briefly explain why.

_________________________________________________________________

_________________________________________________________________

23. Did any of the other key executives of the organization leave the company during the twelve-month period following the loss of the executive?

_____ (1) Yes, voluntarily, other than illness or regular retirement
_____ (2) Yes, due to illness or regular retirement
_____ (3) Yes, other reasons
_____ (4) No

24. Did any of the direct subordinates of the former executive leave the company during the twelve-month period following his departure?

_____ (1) Yes, voluntarily, other than illness or regular retirement
_____ (2) Yes, due to illness or regular retirement
_____ (3) Yes, other reasons
_____ (4) No
25. If there were any of the personnel losses as discussed in question 23 and 24, do you believe there was any connection between these losses and the loss of the executive in question?

________________________________________________________________________

________________________________________________________________________

26. What do you believe was the reaction of the direct subordinates of the former executive after his departure from the company? Please check as many as are applicable.

__________ (1) Regret, but with optimistic attitude

__________ (2) Regret, but with pessimistic attitude

__________ (3) Indifference

__________ (4) Relief

__________ (5) Uncertainty, due to concern about the replacement

__________ (6) Willingness to work harder

__________ (7) Decrease in productivity

27. Do you believe there was any feeling throughout the entire organization due to the loss of the executive? If so, please discuss briefly.

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

28. What were general business conditions for your industry during the twelve-month period following the loss of the executive?

__________ (1) On an upward trend

__________ (2) On a downward trend

__________ (3) Relatively stable
29. What was the relationship of profit to sales for your organization during the twelve-month period following the loss of the executive?

(1) Approximately the same as the industry
(2) Greater than the industry
(3) Less than the industry

30. How did this profit performance relate to the profit performance for your organization during the twelve-month period prior to the loss of the executive?

(1) Increase
(2) Decrease
(3) No change

31. What happened to the total net sales volume of your organization during the twelve-month period following the loss of the executive?

(1) Increased
(2) Decreased
(3) Remained stable

32. What was the general trend of the market value of the stock of your organization during the twelve-month period following the loss of the executive?

(1) Downward, then upward
(2) Upward, then downward
(3) Steadily downward
(4) Steadily upward
(5) Continually fluctuating
(6) Stable
33. What has been the turnover of personnel on the lowest organizational level since the loss of the executive?
   
   ________(1) Greater than normal
   ________(2) Less than normal
   ________(3) Normal

34. What has been the turnover of first-line factory and office supervision since the loss of the executive?
   
   ________(1) Greater than normal
   ________(2) Less than normal
   ________(3) Normal

35. Has your company become affiliated with any other organization since the loss of the executive?
   
   ________(1) Yes (please specify type of affiliation)
   ________(2) No

36. In your opinion, which of the following, if any, have occurred since the loss of the executive? Please check as many as are applicable.
   
   ________(1) Greater decentralization of authority
   ________(2) Less decentralization of authority
   ________(3) Change in over-all company objectives
   ________(4) Increase in communication problems
   ________(5) Decrease in communication problems
   ________(6) Expansion of product lines
   ________(7) Retraction of product lines
   ________(8) Increase in productivity
   ________(9) Decrease in productivity
It is difficult to encompass, in a questionnaire of this type, all possible situations for all companies. It would be of great help in forming conclusions from this study if you would please answer the following questions as accurately as possible.

37. Do you believe any problems other than those specified above evolved after the executive left the company? If so, please specify the nature of these problems.

38. If no problems evolved, what do you believe to be the reason?

39. Please use the following space for any comments you may have concerning this questionnaire, this study, or the general problem of executive succession.
RESPONSES TO OPEN-END QUESTION NUMBER ONE ON QUESTIONNAIRE

Question: "Do you believe any problems other than those specified above evolved after the executive left the company? If so, please specify the nature of these problems."

1. "The executive tried to entice many co. employees away in an effort to get them to join him in a different enterprise: this was successful in only one instance."

2. "In 1965 we had some turnover and problems that caused most trouble were oral arrangements with customers."

3. "Yes—loss of some technical skills built up over long periods of time. Will not be replaced for several years yet."

4. "Some product line expansions did not develop as fast."

5. "The men left unexpectedly to form a business of their own at a time when the co. was having business difficulties so there was a feeling of 'fear' that these men 'knew something' about the co.'s condition. They left to form a business that they had responsibility to do in their job for the co. but did not do."

6. "The executive had failed—despite urging—to train an adequate 2nd man."

7. "It is extremely difficult to find qualified top level executives."

RESPONSES TO OPEN-END QUESTION NUMBER TWO ON QUESTIONNAIRE

Question: "If no problems evolved, what do you believe to be the reasons?"

1. "Due to planning and developing qualified subordinates diversified in sound co. magt., we are experiencing an orderly transition."

2. "Other execs. familiar with work of all exec. and able to divide or assume resp. In the case of sales exec., or salesmen, others have continuous contact with all customers."

3. "As mentioned above, a definite lack of communication existed; we hope we have corrected this problem to an extent."

4. "The replacement was well versed in the duties of the deceased executive and he was getting old on the job."

5. "We would have no problems because we have established full lines of succession to 2nd and 3rd level. These lines are reviewed every 6 months to keep pace with development and attitude of line people."

6. "Prompt replacement with younger man."

7. "Better management."

8. "Low intensity of internal problems."

9. "No problems evolved from the loss of execs. due to the adequate coverage in depth of available people trained to undertake the necessary responsibility."

10. "The younger men who replaced the former had a greater willingness and desire to 'build' the company."

11. "Training of our supervisory and executive personnel in good business practices and administration."

12. "Realization all around that change was needed."
RESPONSES TO OPEN-END QUESTION NUMBER THREE ON QUESTIONNAIRE

Question: "Please use the following space for any comments you may have concerning this questionnaire, this study, or the general problem of executive succession."

1. "In the case of our org., we had a much more significant change in Dec. 1964, which more probably is the cause of several results, rather than the earlier loss."

2. "Two of the three key people were the principal owners the third was incompetent. Two of the second line people were relatives and the third had nervous problems. The ownership changed."

3. "Had time period been different, different answer. Secy-treasurer ret. 1961."

4. "In a large progressive co., the loss of an exec. should not present many problems. This is anticipated by the use of manning tables and mgt. development."

5. "The biggest problem is convincing some people that experts in every field are needed, the days of '1 man decisions' in every field are passed."

6. "The chm. of our board and founder of the business died in 1958. He had the foresight to bring a group of capable young men to head up the divisions of the business."

7. "We had the problem in 1964 and it is no more than an expected occurrence which is handled in the manner dictated by the actual situation existing at the time of the occurrence."

8. "We are a small co. individually owned. So far we have replaced all key personnel without any difficulty. I hope we can continue to be so fortunate."
9. "We have few key executives and where there are key
we have an asst. and a trainee in middle management.
Having few it is no problem. We recently lost our
sales mgr. to one of our customers. After being
there three months he took away his 1st acct. We
were without a sales mgr. for 2 months with no prob­
lem. The 3rd person was sufficiently trained to
carry on till we found a new sales mgr. So he is
now asst. sales mgr. We lost our chief chemist by
resignation in late 1964, June 1st, a replacement
found August 1st. No problem because we had others
in lab who could carry on. Small companies if they
have few key people and trained assts., are in
better shape than large cos."

10. "Usually the death or retirement of a chief executive
is the best thing that can happen to a company—as
men age they become more static and less imaginative.
There is usually a top limit to where a chief exec.
will carry a co. When the top is reached it is bene­
ficial to co. to replace the chief. The new man will
make the former exec. ceiling the floor for this
future growth."

11. "This is a problem the co. will be facing in the next
few years and it will be a severe problem because
the co. is small and the execs. have relatively big
shoes. We will be interested in the results of your
study."

12. "Not too difficult if planned for. Lower or inter­
mediate executive personnel is the problem."

13. "The man involved was transferred to a less important
job to encourage his retirement. I don't feel that
the loss of this exec. caused the reaction described
in this survey. I would attribute it more to poor
mgt. by the remaining execs."

14. "In the case of a very small co. like ________ the
problem is how much depth in executive jobs the co.
can afford. To hold a good man in a small operation
on the average he either has to be paid more than
the average rate for similar jobs in larger cos. or
has to be provided an incentive such as stock owner­
ship."

15. "Finding superior men who fit our particular capa­
bilities is very difficult."
16. "Executive replacement does get more difficult. Young men refuse to accept responsibilities—unions guarantee security—income—without having an education. We depend on older people 45 to 60 years old. We cannot obtain the quality of men we require from our own crew."

17. "In our case the departure of 1 of 3 key men proved more beneficial to the overall operation of the company."

18. "The loss of any good executive in a company would be felt. But unfortunately most companies do not have good executive talent. With all our technical progress and excellence in education I find one of the scarcest commodities is good executive talent—conclusion; No man is indispensable but a good man (in any capacity) will surely be missed."

19. "The problems of executive succession, short range, are probably minimized in an organization our size where functional specialization has not been carried very far. The long range implications are far more severe as there tends to be less professionalism and more personality involved in leadership. This frequently means a gradual but extensive turnover of top personnel, somewhat akin to what takes place in the Executive Offices in Washington when a vice president accedes to the presidency."
APPENDIX III
THE CHI-SQUARE TEST

In analyzing data collected in a survey, it is very possible that comparisons which appear to be significant may actually be due to chance variations in the data. Consequently a statistical test should be applied in order to determine if variations are due to chance or are due to significant factors, worth noting in the analysis. For this report, the chi-square test was chosen.

There can be a probability of occurrence assigned to all data collected in a survey. As an example, one hundred coin tosses should, theoretically, yield fifty heads and fifty tails. There can also be a certain probability assigned to other combinations, such as fifty-eight heads and forty-two tails. If, in this study, fifty per cent of the companies surveyed were of the asset size $1,000,000 or less, then fifty per cent of the problem areas should relate to this category, unless there is some significant relationship between size and number of problem areas. Any percentage greater or less than fifty per cent is due either to chance or to

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More detailed information may be found in most statistics textbooks. See, for example, Hubert M. Blalock, Social Statistics (McGraw-Hill Book Co., 1960), pp. 212-221.
some significant factor. The chi-square test will help to determine which.

For example, Table 19, page 69, indicates the number of problem areas encountered, classified by method of distribution of stock. The percentage of each category of firms encountering a loss to the total and the percentage of problem areas in each category to the total are indicated in the table. It would seem that there was a significant difference. The chi-square test provides statistical proof, as follows.

The total number of firms encountering a loss was fifty-five, and the total number of problem areas encountered was 157. Since the firms listed on the stock exchange, with stock sold publicly, represented forty per cent of the total number of firms encountering a loss, it would be expected that forty per cent of the total problem areas would relate to this category, or \((0.40)(157) = 62.8\). The "expected frequency," then, is 62.8; the "observed frequency" is 47.0. This calculation is performed for each of the categories, and the formula

\[
\frac{(f_o - f_e)^2}{f_e}
\]

is applied, where \(f_o\) represents the observed frequency and \(f_e\) represents the expected frequency. To correct for a small number of observations, the observed frequencies are adjusted by 0.5 closer to the expected frequency value. For example, in the case above, the
observed frequency of 47 is adjusted upward by .5, closer to the expected frequency of 62.8. These calculations are then totaled; the sum is the "chi-square" value. In this example, which may be found in Table 21, page 72, the calculations would be as follows.

\[
\frac{(47.5 - 62.8)^2}{62.8} = 3.73
\]

\[
\frac{(33.5 - 34.4)^2}{34.4} = 3.45
\]

\[
\frac{(86.5 - 59.8)^2}{59.8} = 11.91
\]

The chi-square value then becomes \(3.73 + 3.45 + 11.91\), or 19.09.

It is obvious that the greater the number of comparisons, or "cells" in the problem, the larger will be the chi-square value. Therefore, it is necessary to determine the "degrees of freedom" associated with the calculation. In the above example, two of the figures may be determined at will, and, assuming the total is known, the third figure must be calculated. For example, since there were 157 problem areas, any figures may be assigned to two of the three categories. The third figure, however, must be a value so that 157 is the total of the three figures. There are, therefore, two "degrees of freedom." The general rule in a problem such as this where there is only one row of figures involved, is

\[
\text{degrees of freedom} = (n - 1)
\]

where "n" is the number of cells. In a problem such as is found in Table 13, page 56, the categories are classified as loss and
no less. In this case, the degrees of freedom are determined by
\[(n - 1)(c - 1)\]
where "n" represents the number of rows and "c" represents the number of columns.

It is then necessary to refer to a table of chi-square. This table indicates the probability of a variation due to chance at varying chi-square values and at varying degrees of freedom. Again referring to the above example, the table would indicate that a chi-square value of 19.09, with two degrees of freedom, indicates a probability of considerably less than one per cent that the variation is due to chance. Therefore, the difference seems statistically significant.

The tables presented in this report indicate chi-square at a percentage of 105. This is the chi-square value at the indicated degrees of freedom that would mean a five per cent probability of variation due to chance. A greater chi-square value than that indicated in the table indicates a probability of less than five per cent, or, in most cases, a significant difference. A chi-square table such as that described above is available in most elementary statistics textbooks and handbooks of reference tables.
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