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Co-Leadership
In A
Merger of Equals

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Executive Summary

This thesis study provides a comprehensive analysis of the co-CEO phenomenon in the wake of the current merger wave. *The report explores the emergence of dual chief executives and examines the effectiveness of the co-CEO model following a merger of equals.* Four recent mergers with varying co-leadership management structures are studied in-depth:

- Citigroup (pure co-CEO model)
- DaimlerChrysler (transitional co-CEO model)
- Cendant (reverse co-CEO model)
- Morgan Stanley Dean Witter (CEO/COO co-leadership model)

Although there can be many reasons for failure in integrating two companies, the co-CEO model is ineffective in four key areas:

- Decision-making
- Accountability
- Communication
- Culture

The four broad steps outlined below provide co-chief executives with the operational and social architecture to make dual-CEO management structures successful:

- Agree on a definition of success
- Clarify responsibilities upfront
- Make communication a priority
- Communicate intentions clearly

Finally, based on the success of the Morgan Stanley Dean Witter merger, a case is made for the traditional single-CEO model.

Introduction

In 1997, Michigan and Nebraska were named co-National Champions of college football. Both teams had finished the season undefeated and thus, had earned the right to call themselves national champions. Yet, being national champions still wasn't enough, as students and fans from both schools demanded a game to prove, once and for all, who was the best team in the country.

We are a nation obsessed with winning; we want to clearly know who's number one, who's in charge. No where is this more evident than in the executive suites of corporate America. Americans view the chief executive officer as a singular leader, like the president of the United States. Lately, however, there has been a shift in this paradigm, as the recent wave of mega-mergers has given rise to the phenomenon of co-CEOs.

Shared leadership is not an entirely novel concept to American business. New York investment bank Goldman Sachs, for example, has had three such arrangements in the past three decades. However, those partnerships have evolved naturally, between individuals of the same background, working for the same company. Mergers present a whole slew of problems to the concept of shared leadership, particularly in a merger of equals, where there is no dominant company. *This report explores the emergence of dual chief executives and examines the effectiveness of the co-CEO model following a merger of equals.*

Reasons for Co-CEOs

The rise of co-CEOs is a reflection of the friendlier nature of merger and acquisitions activity in the current business environment. During the hostile takeover wave of the 1980s, one company clearly dominated. The CEO of the acquired firm graciously "parachuted" into retirement or a lesser role. However, those takeovers involved significant stock price premiums that are no longer economically feasible, because current market valuations are too high to leave much room for bidding up prices. Without those hefty payoffs, it is difficult to encourage a chief executive to step down. Therefore, more companies are opting to execute the merger through a stock swap at market value and leave both CEOs in charge.

In theory, co-CEOs should be desirable simply on the proposition that having two heads should be better than one. The multi-billion dollar mergers of recent years are colossal, diverse, and geographically challenging in scope. In this context, dual chief executives could complement each other's skills and experience and ease the strain of integrating two companies.

The primary reason co-CEO arrangements persist, however, is that they help complete deals that make perfect sense on paper. Co-CEOs are seen as an expedient way of avoiding conflict over which merging company is to be dominant. Often, neither CEO is willing to relinquish his title or position, and having a power-sharing arrangement is the only way of completing the deal. "Despite the strategic fit between our companies, neither wished to be acquired and neither of us was willing to give up the CEO role," admits Ralph Saul, former co-CEO of CIGNA. "There were other reasons for the structure—to facilitate the merger and to ensure that the interests of our employees were represented—but ego and ambition primarily drove our decision" (Pellet 43). Furthermore, the two leaders of the merging companies have a great deal of influence as to whether the deal goes through, so how they view the outcome is critical.

Critics of shared leadership roles are quick to point out that many of the newer dual-CEO arrangements are post-merger management structures only. They are intended to be short-lived by nature, meant to smooth feathers and assuage uncertainties in a newly merged company. "It's normally an interim measure done when you're bringing together two companies to get over the hurdle of resistance that one CEO or the other might effect," says John Gutfreund, former CEO of Salomon Brothers. "It's a compromise you make to effect the merger on the greater good theory" (Pellet 43).

Citigroup Inc.

The Companies

Citicorp Inc.

Citicorp was the third-largest bank in the U.S., behind Bank of America and Chase Manhattan. With over 3,400 locations in 100 countries, Citicorp was the world's only truly global consumer bank, offering customers worldwide banking, savings and financial services. These operations accounted for half of its sales; the balance came from commercial banking, including corporate finance and trading. In addition to its banking services, Citicorp was the world's leading issuer of MasterCard and Visa credit cards and owned the Diners Club and Carte Blanche brands.

Travelers Group Inc.

Travelers Group consisted of a conglomerate of securities and insurance businesses. Travelers was the parent company of Salomon Smith Barney, the nation's largest brokerage firm. Its other subsidiaries included Primerica Financial Services (life insurance, mutual funds, and consumer loans), Commercial Credit (secured and unsecured personal and home equity loans), Travelers Bank (credit cards), Travelers Life and Annuity (life and long-term care insurance, annuities, and other retirement products), and Travelers Property Casualty (property casualty insurance).

Prospective Synergies

On April 6, 1998, Citicorp and Travelers Group announced that they would merge, forming the world's largest financial services firm. The merger—at the time, the largest ever—would create a new company that would employ 160,000 people and would serve 100 million customers in 100 countries. The combined company, with a market value of $145 billion, would have an impressive collection of powerful corporate brands and unparalleled reach across the globe.

The merger would enhance the ability of the firms to cross-sell financial products and services to each other's customers. The new Citigroup could use Citicorp's branch network to sell products from Travelers, such as insurance and Smith Barney's brokerage business, while using Travelers sales agents to market Citicorp products, such as student loans, mortgages, and trust services. "The customer doesn't want to shop from place to place and be sold time and again," acknowledged Citicorp Chairman John Reed on the attractiveness of the cross-selling strategy (Siconolfi A1).

The CEOs

Sanford Weill, Travelers Group

Sandy Weill, who was born and raised in Brooklyn, is gregarious and outgoing. Using his entrepreneurial instincts and street smarts, Weill tends to rely on intuition over analysis. Weill is the consummate hands-on manager, who tends to be less keen on strategizing than on getting things done.

After graduating from Cornell University, Weill worked as a messenger at Bear Stearns. Supporting a wife and child on about $150 a month, he borrowed $200,000 from family and friends, bought a seat on the New York Stock Exchange, and started a brokerage firm in 1960.

Using his instincts for bargain hunting and deal-making, Weill specialized in buying other struggling brokerages and turning them around. His success led to the purchase of bigger and better-known firms. In 1981, Weill sold his firm, then known as Shearson Loeb Rhoades, to American Express and joined the company as its president. After conflicts with Chairman James Robinson, Weill left American Express in 1985.

In 1986, after considering a number of large takeovers—including one of BankAmerica—Weill bought Control Data Corp's Commercial Credit unit, a consumer lender that had gotten into trouble with loans in Latin America and Israel. Weill used Commercial Credit as a platform for a series of comeback takeovers.

In 1993, Weill purchased ailing insurance giant Travelers Corp. The acquisition gave him a stable base of insurance business, a well-known corporate name, and the venerable red umbrella corporate symbol. In 1997, he complemented his holdings with the purchase of investment bank Salomon Brothers.

In addition to his reputation as a savvy deal-maker, Sandy Weill is also known for his collegial approach to business and holds a fierce personal loyalty to a core of his lieutenants who have accompanied him on his tumultuous journey to success. Like an old-fashioned Wall Street partnership, he meets regularly and socializes with his top managers. "He's always run it like his own mom-and-pop candy store," says one ex-insider (Spiro, "Where Does the Buck Stop at Citi?" 183).

John Reed, Citicorp

John Reed, who grew up in Argentina and Brazil—he is fluent in Spanish and Portuguese—has global and cerebral interests. An engineer by training and a classic buttoned-down banker, Reed is notoriously private, a person who is more interested in the big picture than the nitty-gritty details.

After attending the Massachusetts Institute of Technology, Reed began his career at Citicorp in 1965 and quickly rose through the ranks. He is widely credited with developing automated-teller machines and helping the firm introduce ATMs on a large scale. In 1984, Reed, dubbed the "Boy Wonder of American Banking," became Citicorp's youngest chairman and CEO at age 45.

Analytical and reserved, Reed has a steely managerial style and a reputation for forcing out executives who have periodically emerged as possible successors. During his rapid rise, his somewhat aloof demeanor alienated him from colleagues. He is known for constantly reshuffling executives, moving people around the world, and generally keeping the whole organization in a continual state of revolution.

Co-Leadership Structure

According to the terms of the merger agreement, Travelers would technically acquire Citicorp in a stock swap, with shareholders of each partner owning 50 percent. Both Weill and Reed agreed to become co-chief executives and co-chairmen of the new Citigroup. In addition, the board of directors of the combined company would be comprised of Weill, Reed, and eight outside directors from each company.

Reed and Weill also announced that they would maintain adjoining offices at Citigroup's headquarters in Manhattan, and make all major decisions jointly. Initially, there was widespread speculation that the two strong-willed co-CEOs would be unable to share power. In response, Reed acknowledged that the major issue would not be his ability to work with Weill, but in getting his top 40 managers to adapt. "How will my reports do it?" he asked. "It's a bigger problem for them" (Horowitz 3). Furthermore, the two co-chief executives acknowledged that they would not have to face the conventional merger challenges of integrating branches, systems, and products, since they run largely autonomous businesses.

Both Weill and Reed announced that they intended on staying indefinitely, giving no specific plans for succession. "We have to just concentrate on getting the company stitched together, giving it a sense of direction," stated Reed. "We're going to stay and get the job done, and when we have, then we'll decide what each of us may want to do." Reed also added, "Sandy and I aren't starting our careers, if we don't make this a success, it'll be our last chance" (Frank C14).

Events

Dimon Resigns (November 1998)

On November 1, 1998, Citigroup announced the resignation of President Jamie Dimon, who was widely considered the heir-apparent to Weill and Reed. Dimon's sudden departure from Citigroup caused its market value to drop by $11 billion in two weeks.

Before the merger, Dimon was Travelers' president and Weill's right-hand man in founding and building the company. The close relationship between the two men began in 1982, when Weill was at American Express and Dimon was a freshly minted MBA hired as his assistant. Subsequently, Dimon accompanied his mentor when Weill left American Express in 1985. Together, they built Travelers into a financial-services powerhouse.

In recent years, however, the two men had increasingly been at odds. The rift boiled over in June 1997, when Weill's daughter, Jessica Bibliowicz, left Travelers after several run-ins with Dimon. According to company insiders, there is no question that Weill hated his daughter's departure and that he blamed it on Dimon. Dimon was also reportedly upset that Salomon Brothers Chief Executive Deryck Maughan was given a co-chief executive role at Salomon Smith Barney after Travelers acquired Salomon in 1997. More recently, industry analysts say Dimon felt slighted that he was not named to the Citigroup board, which—outside of Reed and Weill —included no insiders from either company.

At Citigroup, Dimon was part of the triumvirate management team—with former Salomon Brothers CEO Deryck Maughan and former Citicorp CFO Victor Menezes—that oversaw the integration of Citicorp's corporate banking division with Salomon Smith Barney. This crowded management structure was terminally dysfunctional, with Dimon, Maughan, and Menezes struggling with the unwieldy, three-man decision-making structure. "I don't believe that three co-heads reporting to two co-heads is an ideal situation," says Maughan. "Five people in a room is a lot of people" (Loomis, "Scenes From a Merger" 79).

In addition to the growing rift between Weill and Dimon, tensions had begun to develop between Reed and Dimon over the latter's stubbornness over pushing the Salomon Smith Barney brand and his failure to move the integration process along faster. Ultimately, Dimon took most of the heat for failing to resolve the turf battles among the three tri-heads. "Jamie got himself positioned so he couldn't do it," said Reed. "Internally, the way he was behaving, the way he was acting… In a merger, the skills of getting along with people are much more important than just your personal professional skills" (Loomis, "Scenes From a Merger" 83).

Co-Leadership Restructuring (July 1999)

In an internal memo dated July 28, 1999, Reed and Weill announced that they had agreed to split their responsibilities:

> Sandy will act as the primary focal point for the company's operating businesses and financial function. John will act as the primary focal point for the Internet, advanced development, technology, human resources, and legal function… We feel we…instinctively rely on each other's judgment. We no longer feel the need to attend every meeting together or read all the same memos… Major decisions will still be made jointly. (Silverman 80)

According to consultants, company insiders, and investors, the announcement signaled that Weill was in the driver's seat. "De facto, the co-CEO concept is dead," said David Nadler of the Delta Consulting Group, which advises companies on organizational structure. "Sandy Weill is the chairman and CEO," said Nadler. "Reed's longer-range focus is more in keeping with the job of a vice-chairman" (Silverman 80). Furthermore, most of the top jobs were held by Weill's lieutenants, leading many former Citicorp employees to regard the announcement as another sign of Travelers' dominance.

“Three’s Company” (October 1999)

On October 26, 1999, Citigroup announced that Robert Rubin, former U.S. Treasury Secretary and former co-chairman of Goldman Sachs, would join Weill and Reed as a “member of the office of the chairmen” (Beckett C1). In addition, Rubin would become chairman of the executive committee of Citigroup’s board and a director of the company.

Although he would have an office at Citigroup’s New York headquarters, Rubin would have no businesses reporting directly to him. Rather, Rubin would be involved in advising on strategic and operational management issues and would be “fully in the loop with John and Sandy” (“Three’s Company” 80).

In addition to his obvious star power—dollar bills with his signature are currently in circulation—Rubin was expected to be a “bridge” between the two co-chairmen. During his years in Washington and as a co-chairman himself at Goldman Sachs, he was known as a conciliator who helped find common ground between different camps. Furthermore, since he was the first top executive hired from outside the company, Rubin could help the company move beyond the traditional Travelers and Citicorp affiliations.

When asked how well the three men expected to work together, Weill had this to say about the new management structure: “I don’t look at this as something that could be cumbersome; it will help our thought process be even more crisp. I don’t think it’s a crowd at all if people respect each other’s intelligence and what they bring to a conversation” (Beckett C1).

Reed Retires (February 2000)

After less than two years after Citibank and Travelers merged, John Reed announced his retirement, effective April 2000. Reed's announcement was accompanied by a statement that Weill would head a committee to find his own successor to take over in 2002.

Back in the early '90's, Reed was asked if he expected to remain in his job until the mandatory retirement age of 65. "Not if I get bored," he replied in with his characteristic bluntness (Zweig A22). Although there was much public speculation that Reed was frustrated over the power-sharing arrangement or that Weill had finally won out, Reed's role had simply no longer suited to his intellect or temperament.

The challenges facing Citigroup became more tactical than strategic. The primary tasks for Weill and Rubin were to meld the corporate-banking culture of the old Citicorp with the investment banking and brokerage culture of Travelers. Furthermore, these tasks require leaders with superior mediation and human relations skills—characteristics not considered the strengths of the more reserved and analytical Reed.

DaimlerChrysler AG

The Companies

Daimler-Benz AG

Daimler-Benz was the parent company of Mercedes-Benz. Mercedes was Daimler's largest and most profitable business, contributing 70 percent of the company's revenues. Dubbed the "GE of Europe," Daimler operated a wide-ranging portfolio of businesses, including aerospace, transportation, IT, telecommunications, and owned a 40 percent interest in Airbus. In addition, Daimler was the world's largest producer of commercial trucks.

Chrysler Corporation

Chrysler was one of America's "Big Three" automakers, trailing General Motors and Ford. The company marketed cars and light trucks under the Chrysler, Dodge, Eagle, Jeep, and Plymouth brands. Much of Chrysler's success stemmed from the popularity of its minivans, a market the company dominated. On a per vehicle basis, Chrysler was also the most profitable automaker in the world.

Prospective Synergies

Convinced that over-capacity in the automotive industry would inevitably lead to consolidation and fearing that their cars were reaching the limit of their market potential, Daimler executives began seeking a partner that would both broaden its appeal and give it the scale it needed to survive industry consolidation. After studying every car manufacturer in the world, Daimler executives determined Chrysler to be the top candidate, because both its product lines and its geographical reach were complementary.

Chrysler made moderately priced cars and light trucks, while Daimler made luxury cars and heavy trucks. Chrysler was strong in North America and weak in Europe; Daimler, just the reverse. While Chrysler prided itself on product development and speed to market, Daimler focused on engineering and technology.

Furthermore, Chrysler's experience in dealing with U.S. investors would help Daimler to become a leader in bringing modern concepts of corporate governance and shareholder value to the German economy. Chrysler's freewheeling methods of vehicle development would kick-start the more bureaucratic Mercedes-Benz operation. Daimler's financial clout and technical prowess would bolster Chrysler in the auto wars, and the German company's broad reach would complement Chrysler's dependence on the cutthroat U.S. car market.

In addition, the combined company could expand even more aggressively by jointly developing a low-cost car for the emerging markets of Asia and South America.

The CEOs

Jurgen Schrempp, Daimler-Benz

With his trademark rectangular glasses and penchant for extreme activities—including mountain climbing and piloting fighter jets—Schrempp is as unconventional and dynamic as they come. After rising through the ranks at Daimler, Schrempp became Chairman and CEO in 1995.

Hailed as "Germany's Jack Welch" or "Neutron Jurgen" by the European press, Schrempp moved quickly to repudiate what his predecessor, Edzard Reuter, had done to turn Daimler into a broad-based technology company. Schrempp jettisoned money-losing operations, eliminated a layer of top managers, and instilled a culture of “value-driven management,” a novel concept in Germany at the time.

In 1996, ignoring resistance from labor unions and the Dutch government, Schrempp allowed Fokker, a Dutch airplane manufacturer owned by Daimler, to slide into bankruptcy, at the cost of over 5,000 jobs. Less than a year later, Schrempp initiated a company-wide reorganization that eliminated Mercedes’ status as a subsidiary company with a separate board of directors. The head of the Mercedes-Benz unit, Helmut Werner, opposed Schrempp’s plans. In the end, Werner lost out and left the company. Said Schrempp, “My friend Helmut Werner was a good man, but the structure was wrong” (Taylor, “Neutron Jurgen” 147).

While previous Daimler CEOs tended to manage from a distance, Schrempp communicates directly with top managers. He insists that engineers bring product plans directly to him and is not shy about exercising the “boss’s prerogative” in vetoing new projects. “They showed me a car they wanted to sell in 2001 or 2002,” says Schrempp, “and I said, 'Not in my lifetime.' They reconsidered and said, 'Jurgen, you're right'” (Taylor, “Neutron Jurgen” 148).

Robert Eaton, Chrysler

After spending 29 years at General Motors, Bob Eaton was chosen to succeed Lee Iacocca as Chrysler Chairman and CEO in 1992. Low-key and self-effacing, Eaton teamed with Chrysler President Bob Lutz (who many had favored to succeed Iacocca) in a successful co-leadership arrangement. While focusing on improving quality and efficiency, Eaton chose a hands-off philosophy towards product development and allowed Lutz to assume complete control over daily operations of the company.

In addition, Eaton placed a high priority on refining Chrysler's corporate culture and sought to eliminate the political infighting marked by the Iacocca years. "Bob is unlike some CEOs, who like to have a constant power struggle," said Lutz. "They like to have the red team vs. the blue team. We don't have that. There's only the Chrysler team" (Vlasic A9).

Co-Leadership Structure

On May 7, 1998, Daimler-Benz and Chrysler announced that they would merge to form the world’s third-largest automaker, with combined revenues of over $130 billion. The transaction was technically a $38 billion takeover of Chrysler by Daimler-Benz.

The new DaimlerChrysler would have dual headquarters in Stuttgart, Germany and Auburn Hills, Michigan. Furthermore, both Schrempp and Eaton would serve as co-chairmen and co-CEOs of the merged company. DaimlerChrysler would have a 17-member board, comprised of ten former Daimler executives and five former Chrysler executives.

When the merger was announced, Eaton said he would stay on as co-chairman for a maximum of three years and then turn sole stewardship of the German-American automaker over to Schrempp. “Over the long run, this company can have only one CEO,” admitted Eaton. “At any point I feel redundant, I will go” (Heenan 260).

Events

"The Germans Take Charge" (November 1998)

Despite its billing as a merger of equals, Daimler clearly proved to be in the driver's seat. The new company was incorporated in Germany, 58 percent owned by former Daimler shareholders, and run mostly by former Daimler executives. Chrysler was effectively organized as a subsidiary of Daimler, with only a few executives reporting directly to Schrempp.

Initially, some of the cultural differences took time to work out. Chrysler executives, who learned to pinch pennies when their company faced crisis, were increasingly upset with spending for parties and perks. For instance, Daimler employees, in keeping with the company's luxury image, flew first-class. At Chrysler, however, only top officers were allowed to fly first-class. Like many other aspects, the travel policy became a sore point and took more than six months to resolve.

Furthermore, ensuing turf battles made seemingly mundane issues difficult to resolve. Schrempp wanted Chrysler to take over distribution of parts to Mercedes dealers in the U.S. Mercedes dealers, however, were likely to oppose the idea of having trucks carrying Chrysler's old Mopar logo making deliveries to their exclusive outlets. After much wrangling, a settlement was finally reached: old Chrysler trucks would be repainted white with a blue DaimlerChrysler insignia. "It cost a lot of money to repaint the trucks," said one Chrysler executive involved in the dispute. "But it was the right thing to do" (Taylor "The Germans Take Charge" 92).

Moreover, many independent-minded Chrysler executives, used to doing things their own way, were uncomfortable in their new roles as subordinates. Some even griped about their Daimler colleagues' habit of concluding meetings by saying, "No, this is how we do it—end of discussion" (Taylor "The Germans Take Charge" 93). Since scores of Chrysler executives had been made wealthy by the merger, many felt they had no particular incentive to stay with the new company.

Management Shakeup (September 1999)

On September 24, 1999, after a special meeting in Frankfurt of the company's supervisory board (a group of outside directors and employee representatives), DaimlerChrysler announced the streamlining of its management board. Among the changes was the departure of Thomas Stallkamp, president of the company's North American operation and once rumored as a likely No. 2 to Schrempp.

Instrumental in Chrysler's turnaround from a second brush with bankruptcy in the early '90s, Stallkamp was highly regarded for his innovative strategies to make subcontractors partners in cost-cutting and design. He also spent the early days following the merger answering thousands of e-mails from anxious Chrysler employees, helping to convince them that it truly was a merger of equals.

Just nine months into the merger, however, Stallkamp's inability to integrate the auto units of Chrysler and Mercedes cost him his job. Furthermore, Stallkamp's style of building consensus among his subordinates clashed with Schrempp, who values decisiveness and a take-charge mentality. “Jurgen is very fast on integrating—he’s not very much into the detail on that, though,” said Stallkamp, whose job it was to handle the details (Muller 198).

From the beginning, Stallkamp argued that a successful merger would require the two companies to abandon their respective business cultures and create a new and distinct one. “Instead of trying to blend the best of each company’s culture,” said Stallkamp, “it became a question of comparing the styles of the two and picking one” (Muller 198).

The event that prompted Stallkamp’s dismissal, however, was his criticism of Schrempp’s decisions during a dinner of the company’s U.S. investors in August. Referring to the Smart project (a two-seated commuter car that was losing money, but had been endorsed by Schrempp), Stallkamp cracked that the Smart “doesn’t seem so smart to me,” according to an analyst who was at the dinner (Ball A1).

In addition to Stallkamp, the supervisory board announced the departure of three other members of the management board, reducing it from 17 members to only 13. Others who left the board included Kurt Lauk, the German head of commercial truck operations who returned the division to profitability in 1997; Theodore Cunningham, a Chrysler executive who ran DaimlerChrysler’s Latin American operations; and Heiner Tropitzsch, head of human resources in Stuttgart. The resulting board consisted of eight former Daimler executives and five former Chrysler executives.

In typical Schrempp fashion, reminiscent of his early days at the helm of Daimler-Benz, the co-Chairman displayed little remorse over losing managers from either Daimler or Chrysler as he pursued his strategy to consolidate the companies. Acknowledged

Schrempp, “I am amazed that out of a company with 460,000 employees, and let’s say 100,000 managers, we lost possibly two or three related to the merger. So a handful of people left. What’s the big deal?” (Taylor, “Is the World Big Enough for Jurgen Schrempp?” 143).

Early in the merger, Schrempp made it clear that the management board was only a temporary structure to carry the company through its initial integration phase. With the restructuring, DaimlerChrysler hoped to send a signal that the merger was completed.

Eaton Retires (January 2000)

In January, just 14 months after the inception of DaimlerChrysler, Eaton declared the merger “complete” and announced that he would retire, effective March 31, 2000. “The structure and future leadership is in place,” said Eaton. “The two companies are one. My goal has been accomplished. This is the right time for me to go” (Brown E8). Eaton also reiterated that having only one CEO was in the company’s best interest.

Eaton’s retirement as co-chief executive left his counterpart, Mr. Schrempp, in sole control of the company. In a statement, Schrempp said Eaton’s “dedication and role in the transition made DaimlerChrysler possible. Every achievement of this company in the future will bear a portion of Bob’s legacy of leadership and vision” (Howes A1).

According to analysts and company insiders, Eaton’s departure had been expected. “There was a rumor going around in the early part of January that he was leaving,” said David Healy of Burnham Securities. “I think he was kind of a lame duck” (Howes A1).

As he had in the past, Eaton dismissed suggestions that the legacy of his deal with Daimler-Benz might be considered a betrayal of an American institution. Nor did Eaton agree that the departures of he and Mr. Stallkamp within three months was an indication that the Germans had won. “That’s ridiculous,” remarked Eaton. “If you look at the Detroit auto show, you see nothing has changed in the enthusiasm, the speed, and the passion for great cars and trucks” (Howes A1).

Cendant Corporation

The Companies

HFS Inc.

HFS (originally "Hospitality Franchise Systems") was a hotel and real estate franchiser founded in 1990. The company operated several groups of hotels, three residential real estate firms, and a major car-rental operation. HFS owned such brands as Avis, Century 21, Coldwell Banker, Howard Johnson, Ramada, and Days Inn.

CUC International

CUC (originally "Comp-U-Card") was a membership services and direct-marketing organization that served as a broker for consumer products. It consisted of an extensive database containing the best prices available for products such as home appliances and electronic equipment. The company was also the largest publisher of educational and entertainment software through its Sierra On-Line and Davidson Software divisions.

Prospective Synergies

Although CUC and HFS operated in different business areas, they shared a common strategy of owning few fixed assets, preferring to supply services and the products of associated business partners. Each company was uniquely suited to enhance the performance of the other company. For example, CUC's CompleteHome Service, an information provider on home improvement and repair, contractors, and other services, could be directly linked to HFS's one million annual home buyers and sellers, who were served by Century 21 and Coldwell Banker.

In the same respect, HFS could introduce the millions of affluent consumers who passed through its franchising system to CUC's existing discount membership programs, such as Shoppers Advantage and Entertainment discount coupon books.

The CEOs

Henry Silverman, HFS

Trained as a tax lawyer, Silverman was a deal-maker who built HFS into a $2 billion enterprise within five years of taking the company public in 1990. Silverman was widely considered to be a control fanatic. He wanted to see and know everything: monthly financial statements, weekly cash-flow reports, occupancy figures, average rental rates, etc. He implored his top deputies to "overcommunicate," incessantly checking-up on them with daily faxes and phone calls and grilling them at three-hour monthly meetings (Fox 31).

Silverman also had a driving obsession with HFS's stock price. He would frequently attend investment conferences and had his investor-relations officers call portfolio managers to urge them to buy more HFS stock. He even kept his own office in Manhattan—rather than at HFS headquarters in New Jersey—to be in closer proximity with Wall Street.

One thing Silverman did not spend much time worrying about was the human factor, which he referred to as the "small stuff." According to Mike Leven, CEO of U.S. Franchise System, who worked for five years under Silverman, "He makes a rational decision that soft issues can be handled if the hard issues are correct. If Henry thinks it's a good deal, he'll do it even if somebody tells him he won't get along with the other guy" (Elkind 138).

Walter Forbes, CUC

Although not the original founder, Forbes was responsible for making CUC profitable and launching its success. He struck deals with credit card giants like Citibank and Bank One to solicit shopping memberships to their card customers. As the company grew, Forbes acquired more than a dozen new membership operations, everything from a discount travel club to a club for fishermen.

Forbes viewed his role at CUC as that of a visionary. He left the details of the business to his subordinates, admittedly preferring to spend his time out of the office, trolling for acquisitions, playing rainmaker, and traveling to conferences. Forbes spent so much of his time dreaming up ideas that his staff began referring to him as the "Tooth Fairy" (Fox 31).

Co-Leadership Structure

In December 1997, HFS and CUC joined forces to create a new company with a market value of over $30 billion. According to the terms of the merger, CUC would technically acquire HFS, given CUC's greater market capitalization.

The merger agreement also stipulated that the HFS management team would initially run the new company, with Silverman serving as CEO and Forbes as chairman.

On January 1, 2000, Forbes' executive team would replace Silverman's and the two men were to switch jobs.

In addition, the agreement called for the directors of both companies to be combined into a 28-member board, consisting equally of HFS and CUC executives. The merger included a provision that no change could be made to the management structure without the approval of 80 percent of the directors. Cendant would maintain dual corporate headquarters in New Jersey (HFS) and Connecticut (CUC). Although Silverman and his team would run the overall company, CUC was allowed to retain its separate management structure.

Events

"Summer Camp Meets Boot Camp" (May 1997)

Even before the merger, it was readily apparent that the cultures of the two companies were utterly incompatible. HFS executives were horrified by the CUC's haphazard management style. Individual divisions of CUC were largely operated independently; accounting systems were primitive, monthly financials were often slow and imprecise, and there was no long-term planning. "Some of us had come to the conclusion that these guys were amateurs…they were like children playing in business," scoffed Cendant Vice Chairman James Buckman, one of Silverman's top lieutenants (Elkind 140). HFS executives also regarded Forbes as an empty charmer, who was unwilling to do the necessary work to run a legitimate company.

Meanwhile, CUC executives took an equally dim view of the HFS team, seeing its members as bureaucratic and overbearing. To them, CUC's loose management structure showed how they had remained “entrepreneurial” even as CUC had grown into a $2 billion company (Elkind 140).

Before the completion of the merger, Forbes had expressed the view that it seemed less than a true merger of equals and had taken deliberate measures to guard against an HFS takeover. Admittedly, Silverman concedes that he was “nervous” about the prospect of turning the company over to Forbes. “A combination of an absentee manager and [referring to CUC president Kirk Shelton] a guy who is not a team player—that’s a lethal cocktail for a company with a $30 billion market cap” (Elkind 141). Silverman, however, had not yet figured out how he was going to prevent Forbes from becoming CEO in 2000. Admits Buckman, “Henry was thinking he would be able to manage around this” (Elkind 141).

In this atmosphere of mistrust, true due diligence between the two companies became nearly impossible. When HFS management asked CUC for access to key nonpublic information, permission was denied on the basis that HFS might purchase a CUC competitor if the deal was not carried out. Though assured by Ernst & Young, CUC’s outside auditor, that the company was in impeccable condition, HFS executives had no way of confirming it for themselves.

Accounting Fraud Scandal (March 1998)

After the HFS team had fully taken control of the combined company in 1998, Forbes insisted that Cendant preserve CUC’s financial-reporting autonomy. Instead of having CUC’s division of controllers report their numbers directly to former HFS executives now in charge of Cendant’s financials, Forbes requested that they deal directly with CFO Cosmo Corigliano and corporate controller Anne Pember, who would consolidate the results and submit them to Cendant's financial officers.

However, by the end of February of that year, CUC had still not reported results from January, which placed Cendant at risk of missing the deadline for filing its 10-K with the SEC. After threatening to take issue to the board, Silverman demanded that Corigliano and Pember be removed from the process and that CUC controllers report their numbers directly to Cendant's financial officers.

On March 6, 1998, Cendant officers uncovered a schedule showing $165 million in revenue adjustments for one of CUC's largest divisions. CUC had moved money from merger reserves into income to boost earnings. In addition, Cendant officers discovered that CUC had also pulled a similar scheme the year before for roughly $100 million. A week later at a meeting of top Cendant financial officers, two midlevel CUC accounting executives revealed a devastating account of widespread fraud at CUC, involving 17 of the company's 22 business units and more than 20 CUC controllers. In all, the company had recorded $511 million in bogus pretax income, which inflated earnings by more than one third over three years. Forbes claimed to have been shocked by the news and denied having any knowledge of what had taken place.

As a result of the accounting fraud, Cendant was forced to restate its previous year's earnings, jeopardizing the new company's credibility and delivering a devastating blow to Cendant's rising stock price. In the press release, Silverman was quoted as saying that Cendant officials had been misled "by certain members of former CUC management" (Elkind 143).

Aftermath (March 1998- present)

Under the terms of the "merger of equals" agreement, Silverman could not simply force out Forbes, who claimed to have no knowledge of the scandal and refused to leave the company. Thereafter, a nasty public power struggle ensued that would further damage Cendant's credibility. Silverman sent executives on a road show to give investors a true picture of CUC's businesses, exposing weaknesses hidden by the fraud. Meanwhile, Forbes felt that Silverman was been "hellbent on bashing CUC" and accused him of placing his personal agenda—namely, getting rid of Forbes to ensure that he remain CEO—ahead of what was in the best interest of the company (Elkind 148).

On July 28, 1998, in exchange for tendering his resignation, Forbes received a $47.5 million severance package under the terms of the original merger agreement. Silverman took the added title of chairman and all but four of CUC's fourteen directors stepped down.

On December 7, 1999, Cendant agreed to pay $2.83 billion to settle a class-action lawsuit filed by Cendant shareholders. Two weeks later, Ernst & Young LLP agreed to a $335 million settlement with Cendant shareholders for its negligence in failing to detect the accounting fraud. As of the date of this report, Cendant's lawsuit with the audit firm is still pending.

On February 22, 2000, Forbes agreed to pay Cendant $2.3 million for alleged improper travel and entertainment expenses. Cendant is currently seeking repayment of Forbes' $47.5 million severance package.

Morgan Stanley Dean Witter & Co.

The Companies

Morgan Stanley & Co.

Morgan Stanley was among Wall Street's super-elite investment banks, a group that includes Goldman Sachs and Merrill Lynch. The firm was first in high-profile common stock underwriting and dominated all the top technology equity deals. Morgan Stanley also ranked second in initial public offerings transactions.

Morgan Stanley traces its heritage back to when it was the investment-banking arm of the renowned J.P. Morgan company. As a result of the Glass-Steagall Act of 1934, which required banks to separate commercial banking from investment banking activities, Henry Morgan broke away from his legendary grandfather's company. Along with Harold Stanley, the two men established Morgan Stanley as an independent firm in 1934.

Dean Witter Discover & Co.

Dean Witter was the nation's third-largest retail brokerage house, behind Merrill Lynch and Smith Barney. In addition, its Discover unit, with over 40 million accounts, was the third-largest issuer of consumer credit in terms of charge volume and outstanding credit card balances, behind Visa and MasterCard.

Dean Witter founded his firm as a San Francisco brokerage house in 1924. In 1977, the firm merged with Reynolds Securities to become the No. 2 U.S. brokerage. After years of financial trouble in the early 1980s, Dean Witter sold itself to Sears, Roebuck & Company, which had hoped to turn the brokerage into an in-store finance and investment shop for middle-America.

In 1986, Sears and Dean Witter introduced the instantly successful Discover card. Although business improved, it became obvious that Sears would never become a financial giant. As a result, Sears spun-off Dean Witter in 1993.

Prospective Synergies

On February 5, 1997 Morgan Stanley and Dean Witter announced that they would merge, forming the world's largest securities firm, in terms of revenues and assets under management. The new company would have a combined market capitalization of over $20 billion.

The merger brought together two extremely complementary players: Morgan Stanley is a strong manufacturer of financial products, and Dean Witter is a strong distributor. Morgan could leverage Witter's retail distribution network to win more underwriting deals and could sell its equity and fixed-income issues to a broader client base through Witter's army of 9,300 brokers.

Dean Witter brokers would benefit from increased breadth of products and would have access to research and initial public stock offerings underwritten by Morgan. In addition, the more-stable credit card and asset management sides of Witter's business would provide invaluable revenue diversification to counterbalance the volatility of Morgan's securities trading and underwriting businesses.

The CEOs

Philip Purcell, Dean Witter

Raised in a middle-class Irish Catholic family in Salt Lake City, Utah, Phil Purcell, known for his quiet, cerebral manner and self-deprecating style, became the youngest managing director at McKinsey & Co. at age 32. In 1978, Purcell left McKinsey to become head of strategic planning at Sears. Over the next decade, he helped engineer Sears' purchases of Dean Witter and Coldwell Banker and its launch of the Discover card.

In 1982, Purcell was placed in charge of Dean Witter, where he encountered considerable doubt from industry insiders due to his lack of brokerage experience. Purcell, widely admired as a strategic thinker, was able to succeed by sticking to a vision while delegating operating authority to managers who developed in the business.

John Mack, Morgan Stanley

John Mack, Morgan Stanley's president, was slated to become the company's CEO in June 1997. A former football player at Duke University, he began at Morgan in 1972 as a bond salesman. Dubbed "Mack the Knife" for his cost-cutting and political savvy, Mack is regarded as a forceful, natural leader.

Mack hates delay and makes decisions expediently. "If you get a question from him in the morning," says one managing director, "you'd better have an answer by four o'clock." Mack is also known for being notably blunt. "Lots of people go out of my office not feeling good," admits Mack. "But they know without question where they stand" (Loomis, "The Oddball Marriage Works" 97).

Co-Leadership Structure

According to the terms of the merger agreement, Dean Witter would technically acquire Morgan Stanley, paying a quantity of stock that would give Morgan shareholders 45 percent of the new company. The names of both companies would be kept, with the Morgan tradename—given its heritage and blue-chip tradition—receiving first billing (the Discover name would eventually be dropped for brevity). Also, while Morgan Stanley's lavish new office in Times Square would become the new company's official world headquarters, Dean Witter would keep its headquarters in the World Trade Center.

Purcell would become the chairman and chief executive, and Mack would become president and chief operating officer of the new Morgan Stanley Dean Witter. From the outset, Purcell insisted the firm would be run as a true partnership between he and Mack, with most of the company's businesses actually reporting to Mack. The heads of Discover and Intercapital (Dean Witter's retail mutual-fund business) would continue to report to Purcell. Meanwhile, Mack would preside over Peter Karches, head of Morgan Stanley's securities businesses (investment banking, fixed-income, and equities); James Higgins, who headed Dean Witter's retail brokerage operation; and James Allwin, head of Morgan Stanley Asset Management and Van Kampen mutual funds.

The merger agreement also included a provision that required a three-quarters vote of outside directors to remove either Purcell or Mack, "or to modify either of their respective roles, duties, or authority" (Smith C1). In addition, the two companies would have equal representation on the 14-member board of the combined company.

Events

Mack Agrees to be No. 2 (January 1997)

During merger discussions between the two companies, Purcell had made it clear that he wanted to be CEO of the new company. The investment bankers from Morgan Stanley—certain of their innate superiority, but also aware of how social issues could jeopardize the deal—pushed the matter aside while working out everything else. One Morgan Stanley banker did suggest to Mack the possibility of co-CEOs, but Mack considered co-chiefs at almost any level to be an "unworkable, unstable nightmare" (Loomis, "The Oddball Marriage Works" 96).

In late January 1997, Mack told Richard Fisher, Morgan Stanley's Chairman and CEO, that he would step aside and allow Purcell to become CEO of the new company. Although Fisher raised objections, Mack thought that the merger looked so right that he resolved to make the sacrifice.

When the merger, along with its management structure, was announced a month later in February, industry analysts were shocked to see tough-guy Mack, from the gilded realm of Morgan Stanley, accepting a supporting role to Purcell. The fact also sat poorly with many Morgan insiders—although most were confident the Morgan side would end up running the company nonetheless.

"Class Meets Mass" (February 1997)

Another concern was the major cultural differences between "blue-blooded" Morgan Stanley and "blue-collared" Dean Witter. Commented economic historian Ron

Chernow about the merger: “This is as shocking as the duchess suddenly announcing that she’s marrying the footman” (Spiro, “Class Meets Mass on Wall Street” 120).

At a meeting of the combined firm’s top executives in September, executives from each side were asked to describe their counterparts. The Morgans regarded the Witters as hierarchical, rank-conscious, rigid, and pedestrian. Dean Witter executives, on the other hand, viewed their Morgan Stanley peers as intellectually arrogant and disrespectful.

The stereotyping only worsened when the company’s fixed-income trading operations were consolidated later in the fall, with Dean Witter in effect closing down its operation and sending its traders to Morgan Stanley. One Morgan trader described the moment as bringing into his life “guys named Vinnie in cheap suits” (Loomis, “The Oddball Marriage Works” 98).

Furthermore, the leaders of the two firms held starkly different management philosophies. Dean Witter executives tended to move slowly, making their way carefully to major decisions, but then setting them in concrete. Due to their enormous customer base—four million retail customers or 47 million credit card holders—hasty decisions tended to be both expensive to the firm and confusing to customers. In contrast, Morgan Stanley’s people—investment bankers, traders, analysts, institutional salespeople—dealt commonly with unique situations that lend themselves to speed and flexibility.

Mack Makes Bid to Become co-CEO (June 1998)

In 1998, some of the company’s chief rivals announced that they would have co-CEOs. Both Sandy Weill and John Reed would lead newly formed Citigroup, while

Henry Paulson was promoted to co-CEO with Jon Corzine at Goldman Sachs. As a result, Mack began questioning his original assessment of co-CEOs, believing that the situation might be workable.

In June, he approached Purcell about the idea of becoming co-CEOs. Although Purcell thought that having dual-chief executives would make for an “unstable” situation, he also thought the matter was worth discussing, given the rush of the firm’s competitors towards co-CEOs.

In several meetings over the following six weeks, Mack’s co-CEO initiative was discussed before finally being dismissed. One senior executive recalled that the strongest arguments against such a change were that the two executives were already running the firm jointly, and that the directors wanted to clearly know “who was on the line if something went wrong” (Smith C1).

Analysis

Although power sharing sounds good on paper, cooperation at the top level remains a struggle in the real world. The greatest barrier to effective power sharing is egos. The problem, however, is that CEOs with big egos is a catch-22. Well-developed egos are essential in pulling off a merger of major corporations. Many deals would simply not occur without bold personalities to conceptualize and drive the deal through.

When you consider the reasons why certain individuals become CEOs, it is almost a characteristic that they would be unable to share power. A person does not get to be No. 1 without having assumed a very assertive point of view over the years. By the nature of their training and success, CEOs are meant to command by individual vision. Power becomes a natural part of the territory and making concessions for people at the top level is not something that comes easily for most chief executives. “When you create a co-CEO structure, you are basically defying human nature,” acknowledged Ralph Saul, former co-CEO of CIGNA. “It’s naïve to think that two strong-willed executives who barely know each other can be thrust together and work harmoniously” (Pellet 42).

In addition to being unnatural and difficult to pull off, the co-CEO model is particularly ineffective in four key areas: decision-making, communication, accountability, and culture.

Decision-making

The first weakness of a dual-CEO structure is in the area of decision-making. Power sharing at the CEO level tends to make a company unstable, because responsibilities are less clearly defined and it becomes difficult to avoid redundancies.

Both CEOs end up attending the same meetings, reading the same reports, speaking with the same people, etc. In effect, both leaders serve the same function and end up duplicating the tasks of one person.

Moreover, due to their different backgrounds and experiences, co-CEOs often have different ideas about strategy and direction. One of the most crucial aspects to the success of a merger is establishing a clear, unified vision of where the company is headed early in the process. If each CEO has a different agenda—favoring different brands, projects, customer bases, or executives—key decisions will take far longer to make, slowing any realization of synergies. Consequently, companies that cannot make quick decisions are poorly positioned to respond to changing competitor capabilities or customer preferences. When John Reed and Sandy Weill announced that they would formally divide their duties, their chief reason was to "simplify the decision-making process" (Silverman 80).

Accountability

Another limitation of the co-CEO structure is determining accountability. A board of directors already has difficulty evaluating and managing one top executive; the job becomes even more ambiguous with two co-chiefs. In this arrangement, it becomes exceedingly difficult to separate the contributions of each chief executive.

In addition, a dual-CEO structure makes it harder to hold one CEO accountable over the other. "Most people want to know exactly where the buck stops," says Dr. Mortimer Feinberg, co-founder of BFS Psychological Associates, a consulting firm that specializes in organizational behavior. "In the world of reality, you don't have two conductors leading a symphony or two surgeons working on a patient at the same time. That kind of power sharing doesn't work in war, it doesn't work in politics, and from my experience, it doesn't work in business either" (Troiano 41).

Communication

Communication is another disadvantage of the co-CEO model. The structure is confusing for high-ranking executives, who have difficulty determining who they should report to. Dual-CEOs also risk sending mixed messages both outside and inside the company.

At a convention of the Consumer Bankers Association, for example, the ever-candid Reed inadvertently revealed some of his frustration with Citigroup's corporate business. "I really wish that my job were to run only the consumer side of the business, because I think it is a fantastic business," said Reed. "But I have been destined—you know, God punishes us all—to be constantly surrounded by the other part of the business, which inevitably gets us into trouble" (Loomis, "Scenes From a Merger" 88).

Had Reed been alone, he might have easily been able to defend his stance and deflect criticism (considering the billions of dollars Citicorp lost on emerging-markets debt in the 1980s). However, his remarks were not in tune with his co-chief, Weill, whose background lies solely in the corporate arena. "He's not going to say that again," Weill said with a grin. "John now loves the corporate side of the business, and he's never going to say anything like that, ever again" (Loomis, "Scenes From a Merger" 88).

Culture

Although decision-making, communication, and accountability all become more challenging with dual chief executives, the primary drawback of the co-CEO model is its destructive effect on the culture of a new company. If the company's priorities are unclear, management can become fragmented, with each executive pulling in the direction of his own interest. Furthermore, an ensuing power struggle for control of the board can paralyze a company, as was the case at Cendant. Following the discovery of the accounting fraud, the company wasted valuable time in issuing a statement to the public, while both Silverman and Forbes were lobbying their sides of the board against each other. In response to pending uncertainty and management's slow reaction, the market sent shares of Cendant plummeting nearly 50 percent.

Even when dual chief executives manage to peacefully co-exist, balkanization can occur among followers over which side will take control. "It has the reverse effect of creating teamwork," according to an unnamed Citigroup executive. "It allows people to line up on separate sides instead of forcing one culture. It's very painful for everyone involved" (Pellet 43).

Recommendations

Even under the best circumstances, power sharing is an unnatural arrangement for corporate executives. The four broad steps outlined below provide co-chief executives with the operational and social architecture to make dual-CEO management structures successful:

1. **Agree on a definition of success.** In any merger, there is a plan for increasing profitability by exploiting prospective synergies; Citigroup, for example, aimed to broaden its revenue stream by using Citicorp's and Traveler's respective selling strengths to cross-market credit cards and insurance policies. If the business goal is explicitly stated and if both CEOs are focused on results, it is likely that the two leaders will naturally arrive at similar conclusions.
2. **Clarify responsibilities upfront.** Where two leaders will generally disagree is in the details of execution. Although they might come to consensus in terms of strategy, co-CEOs often have different styles and methods of carrying out plans. Therefore, it is best to have only one person focusing on the day-to-day management of the company. The key is for the two leaders to acknowledge each other's strengths and define roles accordingly. Often, the respective roles will become quite obvious. The eventual division of duties between Weill and Reed had been long-since anticipated, given Weill's hands-on management style and Reed's technical interests and broader outlook. Furthermore, once responsibilities are communicated to the board, the directors have a better understanding of where to hold each CEO accountable.
3. **Make communication a priority.** "Phil and I have offices across from one another, so we talk daily," says Mack of his relationship with Purcell. "We've had plenty of different opinions, but we've always made sure to put on a unified front, even to our senior team" (McGeehan C3). Daily informal talks build relationships, and such interaction makes it clear to everyone around them that both are up to speed on everything that goes on. In addition, co-CEOs need to communicate actively with the board of directors, top executives, and shareholders. It is important to demonstrate

from the outset that the co-CEOs speak with one voice and represent the new integrated company, rather than either of its parts.

4. **Communicate intentions clearly.** The worst thing executives can do is talk merger, but act acquisition. Company leaders attempt to disguise reality with euphemisms like "merger of equals," or "everyone is a winner in this deal." This type of language only creates significant expectations mismatches. When the lead company eventually begins to dominate, employees from the other side feel alienated and mislead. Even with assurances from Eaton to the contrary, many Chrysler managers became resentful when it became clear that Daimler was in control of the company. As a result, an exodus of top Chrysler talent quickly ensued.

Conclusion

Lessons from Morgan Stanley Dean Witter

Skeptics of the merger between Morgan Stanley and Dean Witter said it would never work. The cultural mismatch between the two firms would be too much to overcome. Furthermore, many predicted that the strong-willed Mack would eventually chafe at being No. 2 and topple the more-passive Purcell. For a while, it seemed as though the critics would be right. But instead of erupting into the civil war that skeptics of the merger had forecast, Mack decided to abandon his bid for power and tensions quickly dissipated. "Whew," sighs one executive, "peace has broken out" (Loomis, "The Oddball Marriage Works" 92).

Not only has Morgan Stanley Dean Witter proven the critics wrong, it has been a resounding success. Within a year after the merger, the firm's stock price had doubled, brokers' new accounts were up 40 percent, and largely on the strength of the Morgan Stanley name, the firm had recruited 1,000 new brokers, an unprecedented annual increase. Furthermore, the company's earnings of $3.3 billion more than doubled those of its nearest competitor, Merrill Lynch, which reported $1.3 billion in earnings. "Everything we talked about in the past few years has worked, but at a multiple of what we thought it would be," said Mack (Spiro, "They Said It Would Never Work" 120).

Much of the success of the merger between Morgan Stanley and Dean Witter can be directly attributed to the open, trusting relationship between co-leaders Purcell and Mack. There have been a number of failed corporate marriages between other high-profile financial services firms. In the 1980s, American Express was unsuccessful in its efforts to combine a firm catering to individual investors, Shearson Loeb Rhoades (Sandy Weill's former company), with an institutional firm, Lehman Brothers. "All mergers are successful from the top," Mack said when asked about the American Express precedent. "Going back to those mergers, there was a fair amount of disagreement at the top. We don't have that" (McGeehan C3).

In addition, Mack and Purcell have adjoining offices at Morgan Stanley's headquarters, which helps foster communication and build rapport. This became invaluable during Mack's bid to become co-CEO. Had Purcell chosen to immediately shoot down the proposal, given Mack's forceful nature and the fact that many Morgan executives were unhappy with the existing structure, a divisive civil war would have ensued between the Morgans and the Witters. Instead, Purcell agreed to openly discuss and look into the possibility of co-CEOs, even though he considered the arrangement to be unstable. This helped ease some of the tension that had been mounting between the two sides. Furthermore, both sides later came to the conclusion that having Purcell and Mack remain CEO and president, respectively, would be best for the company.

Another reason for the firm's success was the clear division of responsibilities between Purcell and Mack. In addition to having different backgrounds and starkly contrasting personalities, the two leaders possess very distinct management styles. Many critics had predicted that Mack, who is not known for his patience, would chafe under the slow, steady approach of Purcell. To prevent this from happening, Mack was given full operational control of the majority of the company's businesses, while Purcell handles responsibilities to the board and Wall Street. Furthermore, although the two leaders had disagreed about how to combine the two companies, Purcell had the final authority to decide how to proceed with the integration process.

Many analysts credit the success of the merger, in part, to the company's non-insistence on fully integrating the two entities. Purcell and Mack were able to minimize resentment from Morgan Stanley's proud investment bankers by letting them to operate autonomously while allowing Dean Witter managers to call the shots on the retail side. The two sides remain mostly separate culturally and legally, but with bridges built between the two where needed. The firm has maintained two legal broker-dealers, two separate computer operating systems, and two separate headquarters. The only combined areas of the firm are the executive suite, the investment bank, and the equity research department.

The Case for One CEO

Mergers are more successful when companies do not pretend to be equals and one has the power to make the tough decisions. Important changes—how compensation will be determined, which business unit will have overall control of an account, which side will bear the brunt of layoffs to cut the company's costs—rest on the culture the company wishes to follow. "It's almost impossible to bridge the differences, and just putting the two under the same umbrella doesn't mean it's going to work," says Benton Gup, a professor at the University of Alabama. "One or the other's culture eventually will dominate, so it's best to choose a single leader to set the tone from the outset" (Dwyer 185).

If there is ever a time when a company needs clear direction, leadership, and rapid decision-making, it is in the post-merger integration phase, when managers must not only bring together two distinct organizations while protecting the day-to-day business, but also realize enough gains from the combination to justify the premium paid to execute the merger. Three of the companies with co-CEO structures examined in this report currently operate with only one chief executive. In conclusion, the organizational disruption caused by the co-CEO model is generally not worth the perceived benefits, especially since most companies will eventually revert to the single-CEO model.

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Mergers and acquisitions (M&A) are transactions in which the ownership of companies, other business organizations, or their operating units are transferred or consolidated with other entities. As an aspect of strategic management, M&A can allow enterprises to grow or downsize, and change the nature of their business or competitive position. From a legal point of view, a merger is a legal consolidation of two entities into one, whereas an acquisition occurs when one entity takes ownership of another