

Draw your CEO by lot!

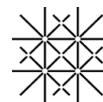
Prof. Dr. Margit Osterloh, University Basel, CREMA

Prof. Dr. Katja Rost, University Zurich

Dr. Markus Sulzberger, Schweizer Gesellschaft für
Organisation

12.09.2019





Top managers are successful because they are subject to luck!?

Corporate success can rarely be attributed to individual star managers, but rather to the economy, political developments or happy circumstances.

- 👉 *Bill Gates admits that Microsoft's success depends to a large extent on the luck of having developed the right product at the right time.*
- 👉 *The probability of error in predicting the success of a product is 50 percent, and even 70 percent in the case of consumer goods such as films, music or books.*

This leads to some explosive conclusions. Top managers are successful because they happen to be in the right place at the right time.

- ✓ *They are by no means better than those who competed with them for the top position.*
- ✓ *They also influence the success of companies much less than financial markets believe.*

Most managers believe they are brilliant

As Aristotle noted, power and glorification often lead to hubris in leaders, defined as overconfidence in one's own abilities and the abuse of power.

Hubris results in neglecting the limitations and precariousness of one's human condition.

- ☞ *CEOs affected by hubris pay high premiums for unprofitable corporate acquisitions,*
- ☞ *invest in pet projects funded by internal cash flows,*
- ☞ *compensate themselves with salaries that the firm's performance does not justify, and*
- ☞ *demand rewards based on luck or other factors beyond their control.*



What can be done?

Today **competitive selection methods** are applied to select the most competent person, usually the person with the best performance record as leaders. This method triggers leadership hubris of overconfident persons.

- ✓ *Competitive selections confirm overconfident leaders' feeling that they are exceptional and perform far "above the average" of other candidates.*

In history **partial random selection methods** selected among a preselected pool of competent persons the leader by a lottery. Hubris is not activated.

- ✓ *It is clear that luck, rather than individual performance, plays a crucial role in deciding who finally becomes leader. Overconfident individuals are not confirmed in their belief that they are far above the average.*

Historical evidence

Random selection methods have played a considerable role in history.

- ☞ *In classical Athens, medieval Venice, Italian city states of the Middle Ages, such as Florence or Bologna, elements of the lot were used to determine their executive during their great period.*
- ☞ *In the 18th century, chairs at the University of Basel were chosen by lot from a list of three candidates.*
- ☞ *Even today, the Coptic Pope is chosen by lot from three previously selected persons.*

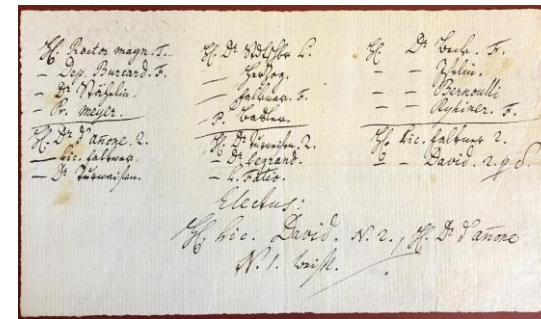


“Wahl zu Dreyen” at the University of Basel

The appointment of professors was seriously compromised by corruption.

In 1718 a law was passed requiring a procedure that combined competitive and random selection.

- ☞ *Candidates submit proof of their qualifications to the governing body, which decided whether a candidate was eligible or not.*
- ☞ *If two or three candidates were eligible, the candidate to be appointed was chosen by lottery.*
- ☞ *If more than three candidates came into question, the electoral authority was divided by lottery into three electoral colleges. Each college proposed one candidate. The final candidate was appointed by lottery.*



Our project: Draw your CEO by lot!

Today modern organizations do not anymore use random selection methods to appoint their leaders.

👉 *Why?*

👉 *What are the advantages and disadvantages of partial random selection methods to appoint leaders in expert organizations?*

What we have done so fare

👉 *Historical quantitative case studies in Venice and Basel, laboratory experiments*

👉 *ZfO special issue with well-known scientists in German and English*

What we plan to do

👉 *Alternative empirical methods like field experiments, surveys*

👉 *Publication of a book for the general public and executives*

