



*The Idea: A founder of Seventh Generation describes how he knew it was time to go—and how he made that case to his team and his board.*

# Giving Up the CEO Seat

by Jeffrey Hollender

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HOW I DID IT

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It happened three years ago, but my memory of the moment I knew I had to step down as CEO is indelible. On the morning after a long business trip to the West Coast, I was returning to the Burlington, Vermont, headquarters of the company I had cofounded, Seventh Generation. As I walked through our offices, with their view of Lake Champlain and the Adirondacks' distant peaks, I resumed my daily ritual of seeking out associates with whom I didn't regularly connect. But this time I was struck by a startling realization: People were clicking away at their computers, huddling in conference rooms, or heading out for meetings—and *I had no idea what they were working on*. The experience unnerved me.

As the chief executive, I had long been intimately involved in many of Seventh Generation's inner workings. My team often found my preoccupation with the details both impressive and annoying. I would constantly bird-dog efforts to make our diapers absorb just one more gram of liquid. I'd focus relent-

lessly on new styles of perforation for our toilet tissue. I worked with our sales director on setting goals for every item we sold, right down to individual distribution channels and accounts. In meetings I took meticulous notes on each direct report, listing every commitment and project deadline. But something had changed.

Even as I shook off the jet lag, this new, discomfiting feeling of detachment persisted. Even worse, it escalated. I found myself baffled by two of Seventh Generation's most challenging strategic decisions: whether to sell our household and personal-care products at Wal-Mart, and whether to expand the brand outside the United States. For the first time in my career, I was at a loss for answers or ideas.

Intellectually, I was in denial. But in my gut, I felt ill prepared to take Seventh Generation—which in 2007 generated \$93 million in annual sales—to its then stated goal of \$250 million. Having steered the company for nearly two decades, I knew it was time to find a new CEO.

## A Difficult Transition

Any senior leadership transition is fraught with challenges, none more so than when a company founder abdicates the top job. Each morning, as I sat in silence after my hour of predawn exercise, I'd reflect on executives who had bungled their transitions. Two glaring examples were from high tech: Michael Dell left too early, and Scott McNealy left too late. When Dell handed the reins of his namesake company to a trusted lieutenant, it was the world's largest PC maker; within three years rivals had clawed away much of Dell's market share, and its founder was compelled to return as CEO. Conversely, McNealy continued as chief of Sun Microsystems despite the company's stunted growth and falling share price. By the time he stepped down, Sun's eventual sale to Oracle was almost inevitable. But then there's Oprah Winfrey, who announced at the peak of her success that she would leave her iconic show in 2011, causing David Carr to write in the *New York Times* that her "gut intuition, about knowing when to say no and when it is time to go, is worth studying at every business graduate school in the country."

The tangible costs of a bungled transition can run to hundreds of millions of dollars' worth of squandered market share and submerged sales. But I was more concerned with avoiding damage to Seventh Generation's intangible assets: our associates' spirit and will, our stakeholders' trust, and our company's mission and reputation.

Seventh Generation aspires to do more than simply grow market share. Its purpose is to inspire a more conscious and sustainable world by being an authentic force for positive change. Profits are the score, not the game. But to fulfill the company's mission, we had to become bigger and more profitable. We needed a CEO who would use our financial imperatives to fuel our social and environmental imperatives—someone few executive recruiters are equipped to find. Not surprisingly, the more I thought about how best to proceed, the more questions arose: How quickly should I move? How public should I be? How would I get the board's support and associates' buy-in? How would I ensure that Seventh Generation's fierce commitment to social and environmental sustainability endured? Above all, was I doing the right thing? (Every family member and close colleague said no.)

Seventh Generation's directors wondered if they were about to lose the best investment in their portfolios: In 2007 alone, I had helped grow the business by more than 40%. Some staffers thought that no one who replaced me would have the same vision and values. Talented people signed on with Seventh Generation precisely because it explicitly promised to be a place where they could summon all their individuality and creativity—the very attributes that many companies insist be left at home. Associates worried that a new CEO would fill the place with corporate drones. My wife fretted that I'd end up at home, bored and depressed.

Nevertheless, we found a way to welcome the biggest change in the company's history. Last June, Seventh Generation got a new chief, Chuck Maniscalco, who until 2008 had been president and CEO of PepsiCo's nearly \$10 billion Quaker, Tropicana, and Gatorade division. I remain at the company as executive chairman (Chuck reports to the board, not to me), and I've been devoting much of my energy to furthering Seventh Generation's mission, vision, and corporate-responsibility strategy. No one can predict the future, but early returns confirm that making the transition was the right thing to do.

## Transition Tenets

It was tough to concede that I was the best person to guide our company through infancy and adolescence but not into full-fledged adulthood. I overcame lots of obstacles by following several transition principles involving community, transparency, mission, and corporate consciousness—all central to building a purpose-driven organization. As I learned through real-world experience, they're also valuable signposts for finding a new CEO.

**Look unflinchingly at your own performance.** For the better part of the past decade, Seventh Generation (with help from the author and consultant Carol Sanford) has been trying to develop its corporate consciousness—to make us more sharply aware of how we work and what we want to accomplish. Sure, the phrase exudes a whiff of the mystical (or at least the mysterious). But the idea is inherently tough-minded: Break ingrained habits of thought, kick over stale ideas, and avoid the easy path of simply repeating past successes.

In late 2007, when I first seriously consid-

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ered recruiting a replacement, Seventh Generation was enjoying the best run in its history. In 2008 our sales approached \$140 million, an unprecedented 51% jump over the previous year's record sales. To some it seemed the height of folly to bring in a new chief when the company was performing at its peak. Reed Doyle, a passionate, committed member of our product development team, summed up a lot of people's misgivings when he rose at one of our town hall-style meetings and let me have it. "How do we know," he inquired, "that you won't screw up our success by bringing in some corporate big shot?"

Actually, I worried that our success was vulnerable to other threats. Although we sometimes seemed to be moving with relative ease down well-worn roads, we were heading into new territory, populated by bigger, fiercer rivals. The company had historically been only marginally profitable, our significant growth masking our meager earnings; that was no longer acceptable for a company of our size. To compete with the giants of the consumer packaged goods (CPG) industry, we'd have to grow annual sales from \$140 million to \$500 million and eventually \$1 billion, and earn double-digit operating profits.

As objectively as I could, I assessed my ability to lead Seventh Generation toward billion-dollar growth. Our ERP and other software systems had failed to keep pace with the company's expansion. My lack of interest in logistics was partly to blame for our inability to cut transportation and warehousing costs in half. And my senior managers would describe

me as the CEO who never met an investment he didn't like: I saw only the upside, never wanting to dwell on the consequences of investments gone wrong.

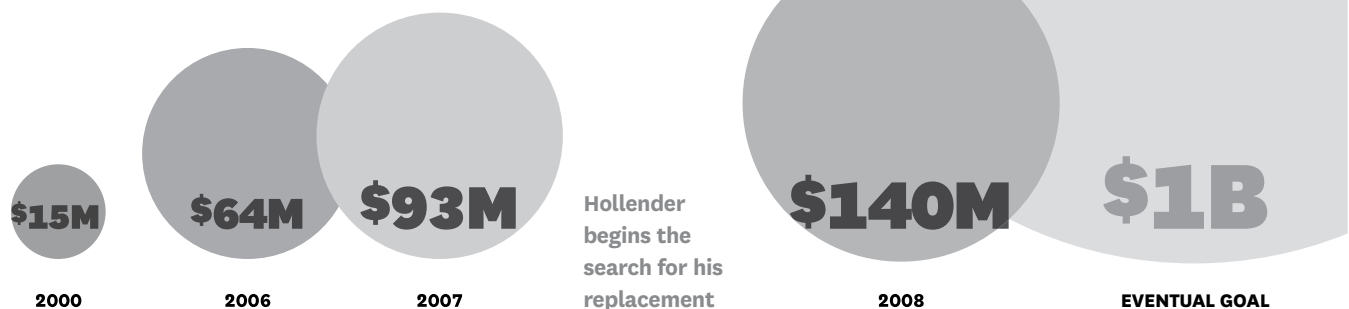
When I was ruthlessly honest with myself, I couldn't help concluding that my limitations bled the benefits of my staying on as CEO. And I lacked the fire. Only when I began to think about taking on a greater cause, such as helping other companies weave sustainability into all their operations, did my pulse begin to quicken.

In the spirit of raising corporate consciousness—and to persuade the company's directors—I wrote the business case for my succession and presented it to the board. First, I outlined my greatest value to the company moving forward: to be out in public, increasing Seventh Generation's brand awareness and advancing our mission of creating a better world for future generations. Next, I argued that my lack of experience running a far bigger company reduced my effectiveness as a leader. Finally, I asserted that we needed a chief executive who knew how to build out a consumer brand while competing with huge CPG companies.

My presentation was met with stunned silence. I had shared my plans with a few board members ahead of time, but even they were at a loss as to how to respond to my passionate plea. Then, after a few polite questions—How quickly did I expect this transition to happen? What if we couldn't find the right person? How did I think the staff would respond?—the board found its equilibrium and agreed conceptually (though not wholeheartedly) that

## Steady Growth at Seventh Generation

How sales fared under Jeffrey Hollender



SOURCE SEVENTH GENERATION

bringing in a new leader was the right decision. Its members wouldn't commit to a transition, however, until they were confident that we'd found the right successor. I thought that recruiting a seasoned number-two executive—a president who would oversee the company's operations but report to me instead of the board, and would become CEO in one to three years—would make for a smooth transition. But reality has a way of disrupting even the best-laid plans.

**Dare to be transparent.** Not long ago the founder and CEO of another values-driven company covertly recruited a successor, declining to go public until the day the new chief arrived. The sudden, unexpected change lowered associates' morale and productivity and made the new leader's job even more challenging. Secrecy is counterproductive, whereas transparency calms the chatter that so often accompanies significant change.

At one of our monthly all-hands meetings, I made the case to the entire Seventh Generation community for why I should step aside. At first people were skeptical, somewhat scared, and hungry for details. "How would we know that a new chief shared our values?" someone asked. "How do we know the new leader won't come in and flip the business for a quick profit?" someone else said. "Will we have a voice in the selection process—and how quickly is this going to happen?"

Our associates own close to 20% of the company; thus, I argued, what was best for the business was best for them. More than a few no doubt remained apprehensive about the changes to come—as I did. But I updated the staff on the search every four to six weeks and convened a team of senior and junior associates to meet with every serious candidate. Getting more minds into the mix would help us make a better decision, and we all felt that if the process remained open and transparent, we'd arrive at a good outcome.

**Make the company's mission central in your search.** Seventh Generation is organized around seven "global imperatives"—three of which are that we work to restore the environment, help create a just and equitable world, and encourage associates to think of themselves as educators dedicated to inspiring conscious consumption. If these goals sound impossibly utopian, that is part of the intent. Defining ourselves as evangelists for social and

environmental sustainability sets the company apart.

Before we began interviewing, I created a spreadsheet to rate candidates on qualities in three categories: essential, important, and nice to have. (See the sidebar "Screening the Field.") Most essential was a commitment to fulfilling our mission of deeper business purpose—without which no one would make the first cut. Other must-haves included high-growth management experience, demonstrated strategic ability, and leadership capability.

Some might argue against my putting "values" at the top of the list—especially when we were heading into the teeth of a global recession. But I had already seen, in the course of recruiting executives to our senior management team, how our values helped us punch far above our weight class. Ambitious veterans who'd made their mark at heavyweights like Clorox, P&G, and Quaker Oats sought us out precisely because they wanted their work to make a positive difference in the world.

Chuck Maniscalco is proof of that. Just two weeks after he took over as CEO, he blogged that he had joined Seventh Generation because he was drawn to the company's mission. "I am at a point in my life of wanting, almost desperately, to give back," he wrote. But lest anyone think he's a softie, consider this: Out of the 70 candidates we reviewed, Chuck was the only one who wasn't interested in a number-two job. He made a persuasive case that to take the company where it needed to go, he would have to be the chief executive. I would have to immediately turn over the CEO post and redefine my role at the company. Considering all that Chuck had accomplished, and all that he could do for Seventh Generation, I knew I couldn't refuse.

The week before Chuck was scheduled to revisit Burlington for a final round of meetings, I convened with my senior managers and put three questions to each: Should Chuck be CEO or president? How quickly should we make the transition? What operational responsibilities should I retain for the first six months of his tenure? I thought they would ask me to stay at the top for as long as possible. I was wrong. With only one exception, each declared that it was time for me to move on—the sooner, the better. In their view, the transition was already under way.

As I reflected on their recommendation dur-

## Screening the Field

Before we began interviewing candidates, I created a spreadsheet of certain qualities I was looking for in my replacement. I divided them into three categories: essential, important, and nice to have.

### Essential

Committed to the mission

Good chemistry with the company's values

Experience growing an organization

Demonstrated strategic-planning abilities

Vision

The capacity for self-reflection

Self-motivation

Leadership capabilities

Lack of ego

### Important

Commitment to corporate social responsibility

A clear understanding of Seventh Generation's markets and goals

### Nice to have

High level of curiosity

Openness to different business models and ideas

ing my drive home, I was both saddened and angered. Part of me felt they'd been deeply disloyal. But at the same time, I knew they were doing what I always demanded—speaking the truth without political considerations. By the end of my half-hour commute, I knew that this 20-year chapter of my life was nearing its conclusion. I had to get ready to let go.

I'm now deeply involved in building initiatives to ensure that progressive businesses have more influence in shaping public policy. The most exciting of these is the American Sustainable Business Council, a challenger to the U.S. Chamber of Commerce. Chuck is fully engaged in running Seventh Generation. Time will ultimately tell whether we made the right

moves. (I believe we did.) But I have no doubt that by using the transition principles above, we followed the right path.

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