

СЕКЦІЯ 3  
SECTION 3

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ТРАНСФОРМАЦІЇ МЕНЕДЖМЕНТУ  
В ПОВЕДІНКОВІЙ ЕКОНОМІЦІ  
MANAGEMENT TRANSFORMATIONS  
IN A BEHAVIORAL ECONOMY

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**THE DILEMMA — APPOINTING INSIDERS  
OR OUTSIDERS AS EXECUTIVE DIRECTORS**

**Summary.** *The appointment of an executive director is one of the most important issues for each organization. Governing or supervisory boards, in the context of keeping personnel policy and career planning, often find themselves in a dilemma whether to make a choice between the candidates within the company, to choose insiders or outsiders, that is, whether they will choose an internal candidate, or employ a new executive board. Conservatively, internal candidates are usually the favorites of the administrative or supervisory boards, as it is shown that they were generally appointed to the highest positions and that they advanced faster on the stairs of the hierarchical pyramid.*

**Key words:** *insiders, outsiders, executive directors.*

**Intorduction.** In the world of globalization and constant change, a new trend is emerging, which is that more and more executive directors who are not a part of the company are required, that is, outsiders, which is natural, because employees, especially managers, often decide to change their employer and change several companies during their working life. This is confirmed by the research that the manager of the eighties of the last century changed on average three employers or organizations during their working life, while ten years later this number increased to more than five changes. This trend continued, so "in 2013, 20% to 30% of the administrative, or supervisory boards decided to replace the executive director with external associates or executive directors. In contrast, in the 1970s and 1980s, where only 8% to 10% of the newly appointed executive directors in the 500 group were nominated by external executives or outsiders "this was a major change." [1]

The willingness to engage the outsider has been developed by the governing bodies in the market countries; it can be seen in the fact that numerous agencies have been established with the bases of successful directors, with their characteristics, that is, good and bad sides. They can, within a relatively short period of time, diagnose the organizational culture in the company and, according to it, recommend the appropriate candidate or more candidates for the position of executive director. These agencies, consultants, and other professional organizations are especially prominent in times of crisis, when quick and practical solutions are needed, which often involve improvisations.

An outsider trend or cult, encounters the great resistance of insiders, that is, those who build their career in a specific organization and who are more or less familiar with organizational culture and climate, that is, they know the problems of the companies and can quickly get involved in the process of problem solving and management of the company. This trend also encounters critics of management human potentials, and it represents a kind of paradox to recruit outsiders who are insufficiently known, even when their experience, or proven management style, is not in line with organizational culture and behavior.

An outsider cult leads to another paradox, that is, outsiders are better paid than insiders in the beginning, although their managerial skills are not known and have not yet come to the fore. The undeniable fact, that is neglected, is that the managers are paid for the results, and not for the knowledge and skills, as was pointed out by the "father" of management P. Drucker: "Managers are responsible for the results. They are not paid for their knowledge. They are not philosophers, they are paid for the achieved results. Management is not a profession

of thinking, but operating. This profession is not taught in schools, but through experience".

"According to Equilar's executive-compensatory research, the average salaries of executive directors who are outsiders is \$ 3.2 million higher than the average pay of the insider. Far from it that they do not deserve such a premium, but it seems that the externally engaged executive directors are not as effective as their internally promoted colleagues. The 2010 Booz and Company study showed that internal executive directors delivered stock compensation adapted to the market in seven of the previous 10 years. Gregory Negel of the Midl Tennessee State University in James Ang of Florida used detailed regression analyses to show that, on average, recruiting outside the company is justified in just 6% of cases. [1:p.6]

Analyses and personal experiences show and prove that outsiders in complex companies need at least two years to demonstrate its management results and that such changes often lead to a fall in stock prices on the market, especially if it is a successful company with a created image and trust towards stakeholders.

The attractiveness of the outsider comes particularly in conditions of crisis and poorly reported financial results. Governing boards then show distrust towards the existing management elite, they are directed towards outsiders, although it has been proven that insiders can also be as effective and even more effective than outsiders after three or four years. This leads to the suspicion that outsiders are better executives.

### **Good and bad sides of appointment of an insider and outsider directors**

The fact is that every manager, even a man can be successful, because the rules of success are universal. In other words, all successful executives generally do the same or similar things, that is work, learning, and responsibility. Top management can also be successful, regardless of whether it comes from the company itself, or from the outside, that is as an outsider.

However, the analysis shows that there are no clear attitudes and definitions in the management theory, whether an insider appointment or outsider appointment of the first people of companies is more acceptable option, which is logical, since each organization is a unique creation in which successful solutions in one organization can produce bad, and even harmful consequences in another organization. [2]

Supporters of insider appointments of executive directors have the idea that insider managers are a better option because they know the situation in the company, they are familiar with the problems, but also

its potentials and can quickly bring quality management decisions. Here, there is no, or there is a shorter period of adjustment, and the administrative or supervisory board generally knows the professional and human qualities of individuals and can evaluate its performance at the company's top position. This view is supported by Harvard Business School, claiming that outsiders are expensive; they need a lot of time to get to know the situation. Research has shown that in 2010 "76% of directors globally emerged from their companies and gradually advanced within their companies in different positions and in different functional areas." [2]

The bad side of the insider appointment is that the person being appointed from the company knows people, and when making managerial decisions there is a possibility that the decisions are subjective. This particularly refers to the adoption of expert management decisions, in which, as a rule, there is no subjectivism or compromise. The bad side of this appointment is also that an individual who is appointed from a certain functional area often returns, or spends a long time, or even after being appointed to the front office, deals with the affairs of the sector from which he comes. For example, if the director comes from the technical sector, he or she strives to continue to deal with technical issues of the prospect, in the same way, performing frequent and trivial tasks, or jobs that are not in the area of his or her powers and responsibilities. In fact, the biggest problem of appointing people from the company to the top positions is to abandon the created habits and ways of work in the previous positions and to accept the new concept, but also a new attitude towards all parts of the organization. This is a reasonable conclusion, since the leading person of the company is in charge and has to take care of the whole of the organization, not the individual part, that is, the part in which he spent his working life and from which he got the position of executive director. This is because every part is important, but the whole is much more important and the parts can be sacrificed for the interests of the whole, provided that this sacrifice contributes to the interests of the whole, or to long-term interests.

Different modalities are applied in career planning by the insider managerial elite. It is possible to appoint a deputy for the strategic manager who could, after leaving the leading person, accept the strategic position in the organization. Another way is that the Executive Director, from the most successful executives in the company, or from lower positions, or from different parts of the organization, appoints the deputy. It should be kept in mind here that practice shows that a successful manager, or a director of finance, a human resource man-

ager, or a technical director may be unsuccessful in the position of general manager, because at this level conceptual knowledge and skills are increasingly sought, in contrast to earlier positions in which looking for technical knowledge and skills were required. In other words, it should be kept in mind that excellent operatives are, as a rule, a bad strategist and vice versa. If the previous fact is ignored, a bad service to the organization can be done, as well as to an individual who is appointed as the leading person in the company, or that we create a bad strategist from a successful operative.

Theoreticians who advocate a more successful outsider appointment believe that outsiders are more objective, because they come from the side, they are not linked to different interest groups and conflict groups, and can make more realistic decisions. They also share experiences from various companies in which they have been doing business and can use these experiences more effectively in a new organization. Particularly prominent are individuals from abroad who have an international experience, given the interconnectedness and cause-effect relationships and relationships at the global level. However, when appointing executive or other strategic directors, it is necessary, first of all, to verify the effects and outcomes of the management in the previous companies, and the more importantly characteristics and preferences, through the "secret police". Changing a large number of companies in a relatively short time can be a symptom of being a temporary or inadequate solution, which, as a rule, produces the greatest damage. In this context, when engaging or appointing an outsider, human and then professional qualifications should be evaluated. This is for the reason that practice has repeatedly shown that a good man, whatever that means, can always be an excellent manager, while a bad man can never be a good manager, whatever his expertise was, which implies the famous saying: "Man, how proud does that sound."

Regardless of whether the appointment and appointment of executive directors is based on the principle of insiders or outsiders, private sector experience shows that today's governing committees must take more account of the speed of decision-making, adaptability, business ethics, energy, creativity, ability to create opportunities, conservative and highly exploited characteristics such as the creation of good interpersonal relationships, team work, the ability to listen and communicate, and so on. Of course, it should be pointed out here that there is no ideal executive director, as P. Drucker once said: "Successful managers are very different in their personages, strengths, weaknesses,

values and beliefs. It is common for all of them to do the right things in the right way. "

**Conclusion.** From the previous text it can be concluded that the decision on the choice of an insider, or an outsider for the executive director is important, or one of the most important decisions in the company. Here, as in other spheres of management, there are no universal rules. Previous analysis gives preference to insiders in relation to outsiders. However, there are no rules because, as stated, the rules of success are universal, which means that both insiders and outsiders can be successful, which depends primarily on their ability and to what extent there is a favorable organizational environment, that is, culture and climate for achieving organizational goals.

Serbia has a problem in the previous issue, because this complex and strenuous profession is still not recognized as others, but also because there is no professional, but a management that is largely ideologized and politicised, because the leading positions in the public sector are occupied by political officials, or individuals from the party in power. When a party in power changes, or a coalition, there is a change in the governing supreme structure in the said companies, which means that outsider directors come to the leading positions, who remain in those positions until they can be of use to the party in power. When they are no longer able to provide privileges to the ideological group to which they belong, the change occurs and outsiders from the same political group come in their place.

With the change of government, leaders of the lower rank are often replaced and appointed by insiders, but only those who belong to the organization, or support the party that came to power. In other words, outsiders at the top of the company appoint their assistants who are ideologically close and belong to their political club. This creates unprofessional management, or a management that is created on the principle of negative selection of personnel. The outcome of this appointment is known, and that is a poor business outcome that slows down national, or corporate growth and development.

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