

Want Different Results? Do Something Different

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Data on CEO turnover indicate that during a downturn, boards tend to hold off terminating underperforming CEOs and other executives until recovery is in sight. This way the “bad news” is associated with the former leaders, while new leaders can take advantage of the “rising tide.” Assuming this pattern holds true for the current recession, an increase in senior executive terminations lies ahead.

Before any uptick in executive turnover occurs, it’s a good time to evaluate the executive selection process and to come up with recommendations that will help businesses fine tune their leader selection process.

The High Cost of CEO Turnover

According to pre-recession statistics, 64%—nearly two-thirds—of U.S. CEOs (the only group for which data are readily available) fail to achieve the objectives for which they are brought in and are replaced or “retired” within four years of their appointment. Forty percent are gone within 18 months.

These [leadership](#) failures exact a heavier cost than is often realized. At Crenshaw Associates, research into the issue and all its ramifications puts the impact on the U.S. economy at nearly \$14 billion!

Approximately \$28 million of that \$14 billion figure represents the average cash cost of replacing a CEO after just 18 months in the job. While this cost is not unimpressive, it’s just a part of the total picture. There are other, cost areas that stem from a failed [leadership](#) appointment that are even greater than this direct cost.

One of these costs comes from the stock market’s reaction to the change. The impact that a more volatile and less predictable stock price has on the company’s valuation, the strength of its institutional following, its market capitalization, financial rating, and ultimately its cost of capital simply because of a change at the top, can affect the company’s financial performance and its attractiveness to investors for years to come.

Non-Financial Costs of Turnover

Moreover, as all HR executives know, [leadership](#) failures have a broad-ranging, long-term impact on an organization, in terms of morale, teamwork, goal-setting, and many other not easily quantifiable ways.

The loss of momentum and the rise of uncertainty that go hand-in-hand with a change in [leadership](#) can and do cost companies more money, more market share, more loss of reputation, and more customer goodwill than any other single event. So it is clearly vital to ask what more can be done to reduce the number of executive turnovers and the millions they are costing our companies and the billions, our country.

The Peg and the Hole

Until now, the selection process used by most companies has focused almost entirely on finding “better” leaders—we have looked for executives who have successfully demonstrated that they had the skills and style each position seemed to call for. If the job to be filled were a hole and the candidate, the peg, we

have focused almost exclusively on the peg. In other words, the current selection process has emphasized candidates who were well trained and had executed well in previous jobs.

The problem has not been that new executives can't *do* their jobs. In fact, virtually any finalist for a high position has the necessary skills to do what's needed. The problem is that, too often, the peg just doesn't fit the hole. The *way* the leader goes about doing what's needed doesn't work for the particular situation.

Unfortunately, the selection process as we know it does nothing to analytically define or measure the shape of the hole into which the peg must fit. It does not take into account the powerful impact that corporate cultures have on an executive's ability to execute strategy. And certainly, those cultures that shape the "hole" are not measured or compared to the shape of the peg to determine, upfront, how closely they are aligned. So the process fails to tell us how well the candidate will fit in the organization he or she is being asked to lead. By "fit," we mean how well an executive's character (especially his or her values and beliefs) aligns with the culture(s) through which the necessary and expected changes must be delivered.

Poor fit, more than any other factor, causes new leaders to fail. If the character of the leader is not closely aligned with those of the organization, then, as Peter Drucker pointed out, followership will not occur; people will not trust a leader who doesn't share their values. And, without trust, they simply will not follow him or her.

How to Fix the Problem

In the new economy, we need to expand our approach to executive selection to include a rigorous data-based measurement of the "hole"— of the cultures the new leader will have to work within and through to deliver the expected changes. To ensure that new executives fit and that turnover costs are reduced, we must make some changes to the current selection process:

1. First, undertake a precise study of the organization's overall culture, including two critical subcultures—the team the new leader will head and the team of which he or she will be a member (i.e., the board of directors for the corporate CEO or the CEO's direct reports for a group or divisional president). Several methods have been developed recently for doing this.
2. Use appropriate assessment tools to gain better insight into each candidate's personality and values.
3. Include a character interview conducted by the individual to whom the new executive will report (i.e., the Chairman or Lead Director).
4. Ask about what specific actions the leader will need to take to accomplish the organization's objectives.
5. Candidly and objectively look at detailed comparisons of the candidates' values with those of the organization to determine the degree to which they are in alignment. This is absolutely critical to reduce the risks and costs of selecting a leader who does not fit the culture he/she is expected to lead.

By making these changes, HR executives can not only increase the likelihood of a new leader's success and reduce the costs of **leadership** failure, they can also make a critical contribution to the economic turnaround by selecting more effective individuals to lead our business. Unless businesses are prepared to measure, define, and communicate the true nature of their company's culture and recognize its

behavioral norms, they will continue to risk the costs of failed [leadership](#) going forward. The importance of understanding, modifying, and continually improving the means by which culture is understood, communicated, and shaped for success is essential for a healthier new economy.

About the Author(s)

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