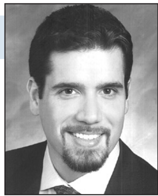
Why CEOs Get Fired

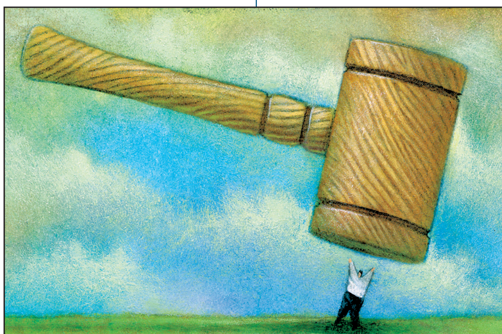
Keep the trust and confidence of the board.



by Mark Murphy

WE OFTEN ASSUME that CEOs get fired (or forced to resign or retire) because of financial performance. But if that were the whole story, every CEO who ever missed a quarterly target or lost money would be immediately dismissed. Several world-class CEOs have seen their stock price dip, missed earnings forecasts, or even lost money for a time. While financial performance may be an easy explanation, it's also incorrect.

So why do CEOs get fired? Our Leadership IQ research team found 286 organizations that recently ousted their CEO and interviewed board members to discover the reasons why. The answer was that the CEO was removed when the Board lost confidence. These Directors understand that stock price, revenue, and profit won't grow exponentially every quarter. However, they do need confidence the CEO will take the actions necessary to achieve growth over time.



Five Top Reasons

What causes a Board to lose confidence? Here are the top five responses from our interviews, including the percentage of respondents who gave this response (percentages exceed 100 percent because some respondents gave more than one answer).

1. Mismanaging change (31 percent): Virtually every organization indicated they were undergoing, or had recently undergone, a change initiative. However, half of board members said that their change initiative did not go well. Most pointed to a failure on the CEO's part to motivate employees and managers, and to sell the need to change course. Another group identified the CEO's inability to follow-through and ensure that changes were made.

2. Ignoring customers (28 percent): Many board members have close ties with, or are themselves, customers of the organization. When a CEO ignores or alienates customers, it not only undermines the business and revenue, but it undermines board support. Board members said their test for whether the CEO was sufficiently engaged in the business was the extent to which they evidenced intimate knowledge of customers, customer needs, and trends.

3. Tolerating low performers (27 percent): When CEOs allow an obvious low performer to linger (without any improvement or discipline), it destroys the CEO's credibility and makes it politically difficult for them to hold others accountable. Board members complained of CEOs becoming too emotionally attached to a low performer(s), whether from loyalty, fear of being seen as too harsh, or unrealistic optimism. Board members also suspected that CEOs often covered for poor performers out of fear that they might divulge embarrassing or indicting information.

4. Denying reality (23 percent): Board members said they could handle bad news and course corrections. What they couldn't handle was a CEO who was in denial of the bad news. Many board members felt that they were closer to the market and customers than the ousted CEO, and that the CEO was far too insulated from frontline realities. Board members also said they would rather have bad news and a plan to fix it, than no news or sugarcoated news.

5. Too much talk, not enough action (22 percent): We heard many comments about CEOs talking the talk, but not walking the walk. CEOs could talk endlessly about grand visions and strategies, but would both neglect a tactical plan for the "who, what, when and where," as well as evidence of its implementation.

Three Vital Lessons

These results provide three vital lessons for CEOs (and aspirees):

First, the issues that get CEOs fired tend to be "soft" issues. Most CEOs spend much time and energy on "hard" issues like finance, strategy, and operations because they're expert in those fields and less prone to make mistakes. "Soft" issues, like managing change, cause CEOs to stumble. However, CEO mistakes can be fixed through training and coaching. Skills like managing change, connecting with customers, and managing low performers can be learned quickly. Just as there are protocols for analyzing competitors, so too are there formal protocols for managing change and diagnosing low performers.

Second, lack of execution is much more damaging to a CEO's career than lack of vision. Vision gets more media attention than execution, and it makes for better presentations, but it didn't matter much to the Directors. Boards tolerate strategic errors, as long as the CEO acknowledges reality and quickly takes action in a new direction.

Third, get out of the executive suite and into the field. Whether leading a change initiative, connecting with customers, or assessing the talent pool, information is limited if CEOs stay in their office. This is especially true for negative information—what CEOs need most. After Jeff Immelt took over for Jack Welch at GE, he spent his first few months visiting customers. He wanted to hear the customers' needs in their own words and uncover areas where GE needed to improve. If board members receive negative feedback before you, you're in trouble. But if the board has confidence that you understand customers and the market, and can manage change and take action, even if that means making some tough choices, you will keep your job. **LE**

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ACTION: Take these lessons to heart.

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