Avoiding the Pitfalls of Executive Turnover:

BY NANCY MARTINI

Companies today realize the importance of having a crisis plan. From natural disasters to financial mismanagement to death, the global corporate world understands how emergencies impact the bottom line.

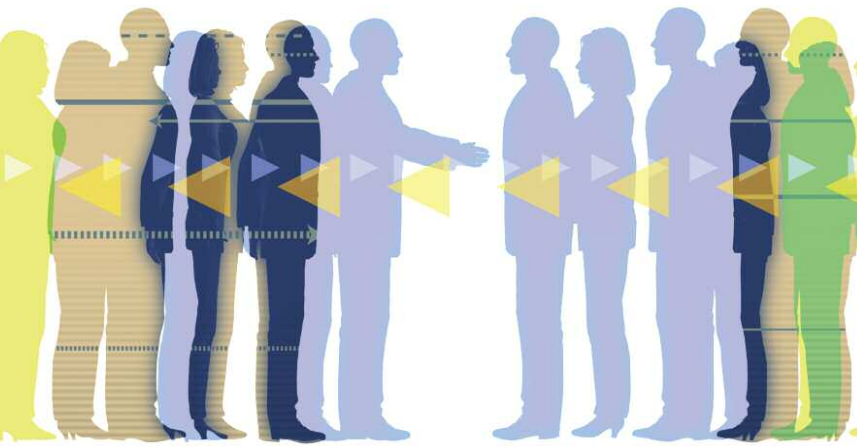
But research shows that nearly half of all companies—4 out of every 10—aren't prepared for an executive leadership crisis: the unexpected departure at the CEO level.

Recently, David Stern, the commissioner of the National Basketball Association (NBA), announced he will retire in February 2014 after serving in the position for 30 years. Stern gave plenty of notice and, in fact, has already tapped a successor, Adam Silver, the current deputy commissioner. With a firm plan in place, the transition is expected to go smoothly. In another executive departure, Progress Software Corp. president, CEO, and board member Jay Bhatt announced he would be stepping down to lead another software company. The news came within a year of his appointment and during a time when the organization was already restructuring its business. Although the company acted quickly to appoint a new chairman and launch a search for Bhatt's successor, the company suffered a 13.1% drop in stock price and anticipates a subsequent revenue dip. And in one last, prominent example, Citigroup's surprise announcement that CEO Vikram Pandit would immediately step down after heading the finance giant for five years sent strong ripples—indeed waves—through the business community.

This recent spate of turnovers at the top underscores the clear repercussions on a company—both short- and long-term, positive and negative—with leadership change. Besides the impact on shareholders and the company's public reputation, any change in leadership can be disruptive to the various dimensions of an organization, such as employee morale, organizational culture, and financial performance.

Many organizations spend a lot of resources attempting to get key senior leaders into the right roles. In fact, research suggests the cost to replace one employee can reach as high as 50% to 60% of that employee's annual salary, with total costs associated with turnover ranging from 90% to 200% of annual salary. Moreover, evidence continues to accrue indicating that at least some degree of change in executive roles is commonplace, ranging from highly visible exits that play out in the public to relatively veiled transitions in which the underperforming executive is quietly shuffled into another role within the firm.

Make Succession Planning a Priority



WHY DO LEADERS FAIL?

According to *The Right Leader: Selecting Executives Who Fit* by Nat Stoddard and Claire Wyckoff, about 40% of CEOs are fired or "retired" within their first 18 months, and 64% never make it to their fourth anniversary. My experience working with executives leads me to believe that at least half of C-Suite executives underperform on one or more of their core responsibilities. Typically, leaders who have ascended to the C-Level rarely fail primarily because of skill-set deficiencies or lack of intellect. Rather, I find the core reasons are cultural misalignment, overpromotion, and/or a failure to evolve.

Cultural misalignment occurs when individuals who have the requisite experience, intellect, and core skills to be successful in a high-stakes role underperform due to a lack of fit between the individual and the culture and values of the organization. Often, these are senior leaders brought in from outside the organization or who have been promoted quickly from function to function within the same organization.

Overpromotion occurs when individuals whose performance in prior roles ranged from merely acceptable to superb, are seen as loyal organizational citizens and good people—and are given new, bigger jobs because they "deserve" them. Often a factor that contributes to this mistake is a decision maker's fear of being seen as not rewarding hard work, not respecting longevity, and not promoting from within.

Finally, there are executives who either cannot or will not adapt to shifting business conditions or whose priorities tend to have short tenures. These individuals might over-rely on their old way of doing things when new approaches or perspectives may be required. They often live in the past and fail to listen and respond to feedback. Phrases like, "The way that we used to do it…" or "The way we did it at my old company…" are telltale signs that the executive hasn't completely progressed into the new position.

PREDICTING SUCCESS IN THE SEARCH FOR A SUCCESSOR

The good news is that it's not all gloom and doom. According to an Ernst & Young study, companies with a well-planned, fair, and objective succession process not only have better chances of securing the best leaders but also find it easier to attract and retain key talent.

As the CEO of an organization that combines the power of predictive data with business strategy, I see every day how behavioral science, research, and analysis can provide an inside look at how a leader's drive, decision-making style, ability to take on risk and more will meet

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the current and future challenges of the company. A well-validated personality assessment can be an invaluable part of the toolkit for succession planning, because it allows a company to systematically assess behavioral strengths and compare those "behavioral snapshots" to the organization's future goals.

THE PROCESS OF PLANNING

When working to help our clients develop succession plans, we collaborate with the executive team to determine which positions are critical to the company's business strategy. These are roles that:

- Can stop the business if left vacant
- Play a strategic role or are of tactical imperative to operations
- Have singular knowledge or experience of systems
- Must be filled with a unique type of person in addition to skills

A company's history is another good way to help senior leaders see the need for a systematic succession planning process. For example, asking how many of the organization's senior leaders assumed their positions within the last three to five years can often be telling.

Next, take a deeper look at existing leadership through the lens of a personality assessment. Our clients use the Predictive Index® (PI®) System to quickly and accurately measure an individual's behavioral needs and tendencies and compare this with the behavioral requirements of the job. From a planning perspective, this insight helps address important questions like "What talent does the executive team need to meet the company's strategic goals?" and "What behaviors must the next person for a specific position possess?" Using behavioral data as a benchmark, the organization can confidently identify a "shortlist" of succession candidates and apply the same evaluation process to gain a deeper understanding of how each person will meet the demands of the role. Specifically, the Predictive Index can shed light on an individual's:

- **Pace and Variety of Activities** Sense of urgency for goal achievement, need for varied activities, multiple, simultaneous projects, multitasking and a fast-paced environment
- **Communication and Collaboration** Levels of extroversion, communication style, dominance, degree to which he or she exerts influence, stimulates others to actions, fosters collaboration
- **Delegation and Leadership Style** Measures authoritative leadership
- **Focus** Idea generation, innovative/creative problem solving, rapport and relationship building, attention to detail, pursuit of achieving results
- **Decision Making** Measures problem-solving orientation, risk taking, inclusive or independent approach, change management

As the old adage goes, "If you fail to plan, you plan to fail." Thus, simply put, when a company does not have a succession plan, it is threatening its own future success. MW

Nancy Martini, president and CEO of PI Worldwide, is a well-respected authority on topics including effective leadership development and sales management. She is author of two books: Scientific Selling: Creating High Performance Sales Teams Through Applied Psychology and Testing *and* Customer-Focused Selling.

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