

Leadership IQ Study: Mismanagement, Inaction Among the Real Reasons Why CEOs Get Fired

The four-year study by LeadershipIQ.com, the world leader in online leadership seminars, compiled these results after interviewing 1,087 board members from 286 public, private, business and healthcare organizations that fired, or otherwise forced out, their chief executive.

Washington, D.C. (PRWEB) June 21, 2005 -- It's a commonly-held belief that CEOs get fired (or forced to resign or retire under pressure) because of "current financial performance." But that's wrong, according to a new study by LeadershipIQ.com. It found that 31% of CEOs get fired for mismanaging change, 28% for ignoring customers, 27% for tolerating low performers, 23% for denying reality and 22% for too much talk and not enough action.

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"We get fixated on current financial performance," explains Mark Murphy, CEO of Leadership IQ. "But if that was really the whole story, every CEO who ever missed a quarterly target or lost money would be immediately dismissed. And we know that plenty of world-class CEOs have seen their stock price dip, missed earnings forecasts, or even lost money for periods of time. So financial performance seems to be an inadequate explanation.

"A more accurate explanation for why CEOs get fired," he added, "is that the Board of Directors or shareholders have lost confidence in the CEO's ability to generate sufficient financial returns in the future. And this study explains why Boards lose confidence in their CEOs."

To elicit honest responses free from public relations spin or internal repercussions, Leadership IQ employed investigative journalism techniques and promised confidentiality for all respondents. The result is one of the most comprehensive "behind closed doors" study on CEO terminations ever conducted.

Upon completing the 1,087 interviews, Leadership IQ compiled the responses and distilled the most common answers to the open-ended question: "So why did the CEO really get fired or forced out?" The following are the top five responses with the percentage of respondents who gave this response (percentages exceed 100% because some respondents gave more than one answer).

* **Mismanaging change (31%):** Virtually every organization we interviewed 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 properly motivate employees and managers, and more specifically, to adequately sell the need to change course. Another group identified the CEO's inability to follow-through and solidify the gains as the cause of failure.

* **Ignoring customers (28%):** Even with Sarbanes-Oxley, many board members have close ties with, or are themselves, customers of the organization. And they overwhelmingly said that if a CEO ignores or alienates customers, it not only undermines the business and revenue, but it significantly 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 developing trends.

* Tolerating low performers (27%): Board members shared that when CEOs allowed an obvious low performer to linger (without any improvement or discipline), it destroyed the CEO's credibility and made it politically difficult for them to hold others accountable. Board members also 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. Significantly, Board members also suspected that, in numerous cases, CEOs covered for poor performers out of fear that they might divulge embarrassing or indicting information.

* Denying reality (23%): Board members overwhelming said they could handle bad news and significant course corrections. What they couldn't handle was a CEO who was in denial and wouldn't recognize the bad news. Many board members felt that they were closer to the market and customers than the ousted CEO, and a significant percentage said 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 they would no news or sugarcoated news.

* Too much talk, not enough action (22%): We heard many comments about CEOs talking the talk, but being unable to walk the walk. Numerous board members complained that CEOs could talk endlessly about grand visions and new strategies, but would both neglect a tactical plan for the "who, what, when and where," as well as evidence of its implementation. One board member commented that their former CEO "gives good meetings," but little else.

"Here's the message to CEOs," explains Murphy. "If the board has confidence that you understand customers and the market, can manage change and take action, even if that means some tough choices, you will keep your job. The board members in our study understand that stock price, revenue, and profit are not going to grow exponentially every quarter. However, they do need confidence that the CEO is going to take the actions necessary to achieve growth over time. The top five issues identified in this study identify why CEOs fail and the actions necessary to inspire Board confidence."

About Leadership IQ

Leadership IQ has reinvented leadership training. Leadership IQ combines the 24/7 online access of e-learning, the cutting-edge content and engaging delivery of live seminars, and best practices driven by one of the largest leadership studies ever conducted. Leadership IQ is headquartered in Washington, DC. Visit our website at <http://www.leadershipiq.com>.

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