CEO UPDATE

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# CEO Departures: What Went Wrong?

*Executives rarely talk about "terminations without cause." Board directors even more rarely disclose why they swung the axe. From those candid enough to share them, these insights into high-level partings emerge as cautionary tales for CEOs and boards alike.*

**By Joe Schuler**

No matter how many times accomplished CEOs are hired with fanfare and then resign unexpectedly, observers always wonder: *What happened?*

Associations and non-profits have had their share of abrupt, high-level separations, some costing millions of dollars in severance payouts. CEOs have come and gone from the American Red Cross, the National Association of Chain Drug Stores, and Meeting Professionals International – to name a few.

CEO terminations without cause can catch executives flat-footed, even if severance pay eases the pain of rejection. CEOs wonder: *How did I receive bonuses, win great performance reviews, and then get asked to resign?*

How could a CEO be caught unawares about how he or she is serving (or failing) membership, staff, and the board? Why does a board decide, in another popular euphemism, on a "change in direction?"

CEOs might do well to study recent history. Experts say the time to perform is growing shorter. Life at the top has become transparent. Running a non-profit or association is increasingly complex. Boards demand that non-profits be run almost like for-profits. For CEOs, that means average tenure is comparable with leadership in corporate America. CEOs serve five years – if that long. A third of the CEOs in charities are let go, according to *The Chronicle of Philanthropy.*

"We're seeing more and more change at the top," says Pamela Kaul of Association Strategies, an executive search and organizational development firm. "They seem like faultless resignations."

David Dotlich, co-author of *Why CEOs Fail,* says these days "everyone has an opinion about what CEOs should be doing. A lot of those opinions get shared on the Internet. All of these factors combine to make it a rough ride."

When the axe does fall, the change in leadership is cloaked under confidentiality in severance agreements, making it even harder to track what led to a CEO's downfall.

Sources, including former CEOs and board chairmen, were given the option to speak "on the record" or on "background" for this story. Some declined citing severance agreements that prohibited them from discussing personnel issues.

> "I've seen good men and good women performing and not knowing they were going in the wrong direction."
> ANGELA SPICER, ANGELA SPICER ASSOCIATES

Some of the "no comments" – even from human resource experts – were insightful. One chairman said that, frankly, the article hits "too close to home…" A former CEO said she didn't feel that a conversation on the topic would be "fruitful at this stage in the game."

## The No. 1 Reason

Former CEOs, executive coaches, association and non-profit experts, affiliated attorneys and recruiters say the primary cause of separations is a critical disconnect between the CEO and the board. Whether dubbed a communication issue, a relationship issue, the wrong fit, or personality conflict, it comes down to: Was the CEO listening? Was the board telling the executive exactly what the CEO needed to hear?

"The key to your own economic future is personal relationships," says Gene Dyson, a retired long-time association executive. Regular, face-to-face discussion between a CEO and his board guarantees his future, says Dyson, also a former acting CEO of the Red Cross.

Dotlich, a business adviser and executive coach, adds that critical disconnects are seldom abrupt, but happen over time. He says there can be underlying causes to disconnects, which he called "derailers" – ingrained personality traits that affect a CEO's actions and leadership style.

In post-mortem analysis, one can pinpoint these disconnects in CEO or board exit statements, or hear them from deposed CEOs. Three examples:

**The American Red Cross,** *where CEO Marsha J. Evans, formerly a Rear Admiral for 29 years in the U.S. Navy, resigned from the Red Cross after three years, with a $780,000 severance:* "In July 2005 … Board Chairman Bonnie McElveen-Hunter told Evans that the board's executive committee was unhappy with her communication and collaboration with the 50-member Board of Governors … she needed to change her 'command-and-control' management style," according to the *Washington Post.* "Evans pledged to improve, involve the board earlier … coach her management team to communicate more … she and the board clashed again over her decision to remove several senior executives … Evans's downfall came fast."

**The National Association of Chain Drug Stores,** *Craig Fuller, former CEO, and former chief of staff for George H. Bush, when Bush served as vice president:* "I really didn't sense a disconnect … There was an enormous amount of communication coming from me and the organization. But a lot of it was using some of the new technologies, regular e-mail reports. We had two or three blogs. A fair assessment was that there needed to be more face-to-face communication."

**The Society for Human Resource Management** *(SHRM), where CEO Helen G. Drinan, a fellow in the National Academy of Human Resources, served two years before returning to the private sector:* "I had hoped to be in a position to see this organization through to a new level of performance," Drinan said in a 2002

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SHRM press release. "But as I collaborated with the board on strategic planning initiatives, it became clear that the board and I did not share the same views about how best to achieve the overall goals of the organization."

## Communication Often Camouflaged

If "organizational anthropologists" examined these non-profit and association boards and leadership, they'd find warning signs of what went wrong.

Disconnects often get muddled with issues such as those affecting Fuller's former association. But there were clues to this organizational indigestion. In Fuller's case, all but one board member who hired him had left the board by the time he was asked to resign; changed politics affected how the $37 million NACDS wanted issues heard on Capitol Hill (Fuller served a GOP administration); and other industry factors were stewing. None of this came up in Fuller's exit interview, however. *(Tony Civello, NACDS chair, declined comment.)* "There's a lot of unanswered questions," Fuller says. "I'm not sure the board suggested they had answers. They just said they wanted something different."

Fuller says the board knew where he stood on issues, strategies, tactics. He wrote prolifically about those. "It would come down to my mistaken assumption that silence meant agreement," he says. "Because there clearly were people who weren't in agreement with my strategy but remained silent, either in group meetings or in private conversations. Which is something that a CEO has to figure out how to confront."

> "The best CEOs create an environment where people tell them things."
>
> David Dotlich, Author of Why CEOs Fail

A non-proft or association CEO always has to be mindful that he needs to carry a majority of his executive committee to get things done. Or, one might add, to keep himself working – even a 5-4 vote would give an extra year to win four more champions to his side.

"It's like real estate location, only here it's communication, communication, communication," says Angela Spicer of Angela Spicer Associates, former long-time association exec, now an executive coach. "I've seen good men and good women performing and not knowing they were going in the wrong direction." She says boards that ask CEOs to resign for nebulous reasons lack clarity on where *they* want to head as an organization. She estimates that 60% of CEO failures come from not enough board-to-CEO and CEO-to-board communication.

## Leadership Requires Subtlety

Organizational complexity, like that found in the sprawling $4 billion Red Cross, with its 50-member governing body and diverse critical missions, can contribute to communication disconnects as well.

Dyson, for instance, began an overhaul of the patchwork of Red Cross chapters (which have had a number of financial scandals), when he stepped in for Elizabeth Dole as acting president in 1996 when her husband, Sen. Bob Dole, ran his presidential campaign. At the time, there were about 4,200 chapters. With broad support, Dyson established criteria for chapters, resulting in half being dropped from the system.

"In many places it was a wrenching thing," says one observer. Chapter restructuring was taken up again by Evans, but Dyson says because she indicated she wanted to "change the culture," she didn't last. Before he took his chapter proposal to the board, he floated it out to the chapters for input. In the process, he learned 10% of the chapters didn't exist.

Chapter downsizing is yet again being taken up by interim CEO Jack F. McGuire. "Jack is more communicative, willing to listen, rather than top-down like Marsha Evans – that's probably what's happening," says Erik Joh, a former Red Cross board member.

Even so, the turmoil is winning Red Cross painful publicity. Some turmoil may be related to the fact that in the Red Cross many volunteers perform operational functions, which can create conflicts with paid staff. Experts agree that operations and governance do not mix, and many organizations lose CEOs due to this disconnect.

Dyson says CEOs need to be careful how they communicate, particularly when they use strong words like "change the culture." And when it comes to a CEO's right to hire and fire, you don't ask the board, but early on *communicate* your intended actions, he says.

"I think some of our problems were that we had individuals coming in from outside who did not take time to understand what the culture is and how the organization really functioned," says Joh, also a Boynton Beach, Fla. attorney. "To some extent, it's the board's responsibility. But I think management has got to do it too."

## Leadership Requires Clarity

Experts say to avoid impromptu separation, clarity needs to begin at the hire. Did the candidate do the due diligence? Does the candidate know the details about the previous CEO's departure and the bylaws and governance polices? Is the contender familiar with relationships between the board and the staff? Does the contender know the personalities and workings of the executive committee? How the executive will be reviewed and performance graded?

All necessary questions, says attorney Art Herold of Webster, Chamberlain & Bean, who counsels associations and executives. He, and other experts, say it's surprising how few candidates find the answers.

> "It ain't communication unless you know someone has received your message."
>
> Gene Dyson, former acting CEO at Red Cross

Spicer, the executive coach, says the search for clarity doesn't end at the hire. Most organizations spend little time clueing new executives in to all the facets of the organization. And that's where clarity about what's most important to the board is, or isn't, achieved. Who is the CEO in relation to the culture? Is the culture working? If not, can it be changed? What are the expectations?

And then, when hired, CEOs need to spend up to 20% of their time cultivating relationships with the board, key officers, and staff, surveying how they're doing and how the organization is doing through the eyes of the people who govern and run the organization, Dyson says. "It's not just eyewash, it is true management style," he says.

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### When CEOs Sink Themselves

Dotlich recommends to CEO clients that they do 360-degree feedback reviews a year into their tenure.

"The best CEOs create an environment where people tell them things," he says. "They're able to give it to them gently or directly."

Getting direct reports together, leaving the room, and asking them for feedback is a start, he says. Board members could meet to critique the exec's performance. That's uncomfortable, perhaps, but critical.

But long before then, people need to know after the hire what baggage the CEO brings from a previous job. In *Why CEOs Fail,* Dotlich and co-author Peter C. Cairo detail the 11 personality characteristics that not only make an executive interesting to others, but can trigger hard-to-handle outcomes. These behaviors kick in at stress points – during tough decisions when the CEO faces ambiguities, or during heated moments. Among the derailers: Arrogance, habitual distrust, aloofness, mischievousness, eccentricity, and perfectionism.

"It's the denial, more than the admission of the fact that you're flawed," Dotlich says. "It's this effort to be perfect. Exacerbated by people trying to convince you that you're perfect. It creates this perfect storm of denial and ineffectiveness."

### Deciding Fast, Deciding Well

CEOs lose sight of "out-of-awareness factors" because they are under stress. "Yeah, it's part of the job and most CEOs are pretty good about managing stress," Dotlich says. "But look at these CEOs who do dumb things. Martha Stewart: When did she do her dumb thing? On vacation. She found that stressful."

Steve Lane of Vertical Leap Consulting of Boyds, Md., says two behaviors he sees that often lead to CEO downfalls are operational: The executive applies the wrong solution to the organization's life cycle – focusing on sales, say, when it needs infrastructure, or focusing on stability when it needs more entrepreneurialism. Or, execs fail to recognize the significance of their first six to 12 months, the "fast-drying cement" period. They don't move fast enough on non-performers. Most CEOs know within 60 days whether they have the right people in top positions. "They will tell you afterward: I just didn't move fast enough," he says.

Kaul notes different organizations require different skill-sets to deal with different members' behavior – whether members are mid-level managers climbing to the top, CEOs, entrepreneurs, or physicians – each group has unique behavioral styles.

"How many times has an exec been so beloved they throw olive branches at his feet," Kaul says, "and he walks across the street and in six months they want his head?

"It's a different organization and he didn't have the skill-set to deal with a different kind of place where members are in a different life cycle as an organization."

### Avoiding "A New Direction"

Critical listening skills prevent you from being asked to resign by a board taking a "new direction," experts say.

"It ain't communication unless you know someone has received your message," Dyson says.

The former acting Red Cross CEO suggests CEOs make time for board or executive committee members. "Ask: What would you want me to do? What would make you pleased with me, running your organization? Take notes. What do you think we should be doing here? What do you think our biggest problems are? In most cases, the board member is going to say, 'Shoot, I don't know.' But at least you're listening."

Dyson says if CEOs have developed good staffers to back them up, they can spend more time with officers.

And in that interaction, execs must check on their actions.

"Routinely and regularly make yourself open and vulnerable to other people's opinions without rationalizing or defending yourself," Dotlich advises. "Really get interested in how other people see you. You don't have to agree with them. And you don't have to change. But you have to be interested."

"It's all about relationships," says Kaul. "It's akin to driving a car. You forget to look ahead: You don't see people who might be problems. You forget to look behind: You don't see who you ran over … You forget to look left before you change lanes. Execs forget to look ahead and left and right and at what's going on in all the blind spots – the stakeholders and other issues."

She says her advice to execs is straight from President Calvin Coolidge: "No man ever listened himself out of a job." ■

Joe Schuler, a journalist for 23 years, collaborates with experts on business books.

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