

CEO AND SENIOR MANAGEMENT TERMINATIONS – AN EXECUTIVE SURVEY

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Summary

Korn/Ferry International conducted a survey to understand perceptions, principle causes and experiences in the area of terminations or severances of senior-level management – for example, a CEO, COO, CFO, Managing Director, General Manager, Board Director or Director of an Executive Committee. Respondents were employed in private and exchange listed companies with small to large market capitalizations in FMCGs, travel and entertainment sectors, marketing services including advertising, located in Europe, the Middle East and Africa (EMEA).

One surprising finding was that involuntary executive termination is more frequent than commonly expected: 48 percent of the 262 participants were terminated from their positions within the last five years, while 106 respondents had terminated a senior manager.

Restructuring is arguably the key reason for termination. Another common reason is difficulty with relationships in the organization, much more frequently cited than purely performance-related issues. This is directionally consistent with



other Korn/Ferry research suggesting that 40 percent of CEOs fail within their first 18 months and that 50 percent of performance at the CEO level is determined not by one's experience or technical abilities but by leadership characteristics. Leadership characteristics encompass areas such as personal and interpersonal skills, being organisationally savvy and integrity.

Based on our experience, the best way to manage senior executives whose reports within the organization are at risk is to provide early and candid feedback to the executive in an effort to potentially obviate termination. This does not appear to take place in most cases, according to executives surveyed. However, if the company agrees to terminate the executive, courteous and swift termination is the best course of action to reduce the negative impact on morale or drag on profitability.

Key Findings

Within the past five years, 48 percent of the respondents had been terminated from a senior-level position, while 77 percent of the respondents had terminated a senior executive.

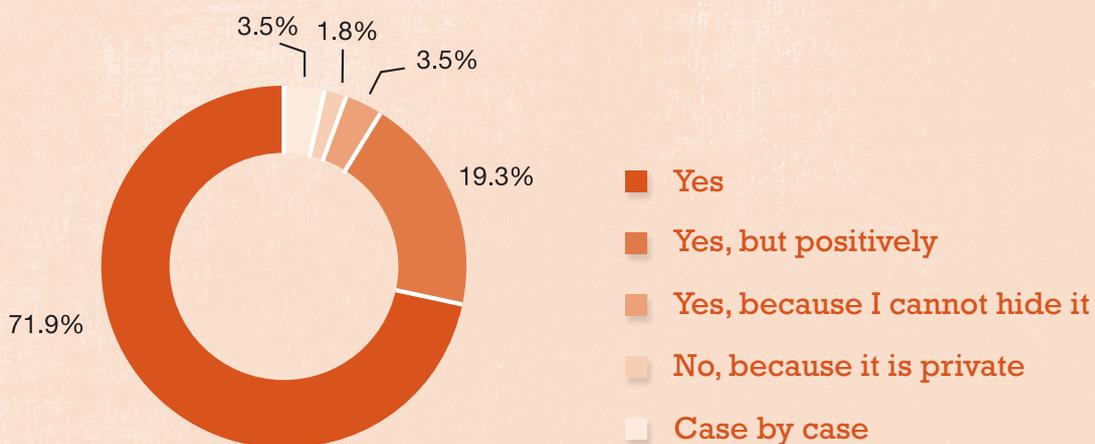
Among executives whose employment had been terminated, the key reason for termination was restructuring (36 percent). The term 'restructuring' can be interpreted as a legitimate reason or, in smaller firms, as a condition created to facilitate an executive's exit from a company, particularly in light of the next most common motivation for termination: continued disagreement or personal conflict with the direction of management (23 percent). One key similarity between the two groups surveyed (those who made

terminations and those who were terminated) is that in neither group was lack of skill or performance cited as a key reason, a result that corroborates Korn/Ferry research emphasizing leadership as critical to an executive's success.

The fact that termination was not primarily skill or performance related may explain why the majority (72 percent) of those terminated would not hesitate to state the actual reasons for termination when looking for their next position. Either honesty is the norm or there is fear of consequences for misrepresenting facts while looking for new employment, as the professional and educational claims stated in one's resumé are commonly verified at the time of hiring.

Figure 1

If you were terminated from a position in the past five years, would you disclose the reason to your next employer?



Nearly 77 percent of those surveyed had terminated an executive and the executive received an honest appraisal about the reason for his or her termination. It is interesting to note that the majority (51 percent) of respondents who terminated an executive cited a lack of personal fulfilment as the reason for termination.

That lack of fulfilment, in turn, was likely driven by issues with relationships – either a poor cultural fit/disagreement with management style (36 percent), poor relationships with the team or with colleagues (34 percent), or conflicts with management mainly driven by strategic disagreements (14 percent). Is the executive’s overall fulfilment the real reason for termination, or is it the effect of conflict? This begs the question of cause or effect, which is beyond the scope of the survey. Yet it is certainly true that poor performance will weaken relationships.

Some very candid, honest responses were captured due to the anonymity of the survey: among the 18 percent who provided verbatims, reasons for terminations included playing “political games” or engaging in “fraudulent” or “criminal type behaviour.” This is considerably higher than the six percent released for the inability to achieve results or lack of performance. Once again, integrity – a leadership characteristic – predominated over pure performance as the cause for termination.

Figure 2

What were the real reasons you terminated [this executive]? Tick all that apply.



Would those making the terminations have done so in the same way? Our findings suggest that the majority (58 percent) of those leaders making terminations would have proceeded more swiftly primarily due to the impact of protracted tenure on morale and ultimately on the P&L but only 26 percent would have had a frank discussion much sooner about the issues potentially resulting in termination. This is surprising given the enormous direct and indirect costs of termination. None would have waited to “build a stronger case for termination.”

Conclusion

To improve the likelihood of an incoming executive's success, we would recommend assessing his or her leadership competencies before hiring. A robust assessment focuses not just on an executive's past performance but more importantly, on leadership characteristics. Our quantitative research shows that poor leadership skills are the major cause of on-the-job failure. Korn/Ferry's assessment for leadership competencies has role profiles based on the successful experience of 1.3 million executives worldwide gathered over more than 10 years. Therefore, this assessment tool could provide a good benchmark.

For senior executives already in leadership roles but at risk, we (like many of those surveyed) recommend early intervention with guidance, mentoring or coaching. However, we would argue that this is more likely to be successful if arbitrated with a mature, credible external coach who can quickly grasp the root causes of the misalignment between the senior management and the executive in peril. The arbiter can help address these causes impartially, mediating between the two sides early on to avoid costly terminations.

Methodology

An anonymous web-based survey was distributed to a random sample of participants from Korn/Ferry's proprietary database of senior executives who held or have held, within the past five years, the position of Director, Senior Vice President, CEO and comparable senior titles in European, Middle Eastern and African companies. The survey was fielded from November to December 2008. It contained both closed and open questions and was segmented among two groups: those who had been terminated, and those who had made terminations. Further segmentation by industrial segment or tenure was not possible due to the limited sample size. 262 executives participated in the confidential survey.



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The Korn/Ferry Institute was founded to serve as a premier global voice on a range of talent management and leadership issues. The Institute commissions, originates and publishes groundbreaking research utilizing Korn/Ferry's unparalleled expertise in executive recruitment and talent development combined with its preeminent behavioral research library. The Institute is dedicated to improving the state of global human capital for businesses of all sizes around the world.

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