

CEO Churn: Don't Let it Derail Your Organization

By Sandra Davis, CEO, MDA Leadership Consulting

After a record-setting year in 2008 for CEO departures, so far 2009 shows no sign of departure from this unsettling trend. We have already seen high-profile exits by the CEOs of Seagate, Tyson and Orbitz, among many others.

According to Challenger, Gray & Christmas, 1,484 CEOs voluntarily or involuntarily exited in 2008, or an average of six each business day. This is the highest total since Challenger began publicizing this survey in 1999.

What can we make of this CEO churn? For starters, we should know that it's not just CEOs who are churning. Missing from most news accounts of CEO departures is an analysis of the organizational ripple effect – which can be substantial and potentially debilitating.

There are two primary ripple effects of CEO churn. The first is a likely secondary shake-up in senior management. The second is typically even more damaging: Extensive changes at the top breed ambiguity and anxiety among employees, and these emotions negatively affect employee engagement and productivity at a time when they're likely needed the most.

Before any board reaches the point of a "no confidence" vote on its CEO, board members must first consider the unsettling ripple effects of a CEO's abrupt departure. Consider the organizational disruption you will be causing. Are you prepared accordingly? Often we worry too much about the effect of change in a single, albeit significant position, and neglect the cumulative effect of churn on the entire leadership team and the organization as a whole.

Churn Ramifications for Boards and CEOs

The current economy has provided an ideal opportunity for boards and CEOs to take stock of their organization's strengths and weaknesses. For example, is the company's strategic plan still sound and current? Are leaders effectively articulating the company's strategy and goals, and are these being properly executed? Are current hiring and development practices still meeting the talent needs of the organization?

While many companies have placed restrictions on new hiring due to the current economic situation, they're also seeking to address the talent development needs of their current employees. For example, individual and/or group coaching may be a high-return investment for high-potential employees who may be currently struggling to keep pace with ever-increasing workplace demands.

Additionally, boards and CEOs need to assess the quality and transparency of their own relationship. Is everyone aligned on the right issues – not necessarily those to which the company is forced to react, but

rather those that the company might drive and potentially profit from? Is the CEO keeping board members abreast of significant developments, and seeking constructive two-way dialogue? The unfortunate reality of many CEO departures: they're likely due to issues that have festered for some time, not an immediate reaction to current events.

As part of their due diligence, boards must also necessarily assess the potential of the entire leadership suite, and determine if the company has the breadth and depth of senior-level talent necessary for long-term organizational success. When asking about the CEO: "Is this someone whom others rise to follow?" boards should ask similar questions about other c-level executives. In the event that an organizational change becomes necessary, the board must be prepared for rapid and accurate decision-making among the company's internal talent pool.

Forging a Stronger Organization

As Warren Buffet has stated: "Only when the tide goes out do you discover who's been swimming naked." Now is an opportune time for boards to assess their "bench strength" and determine if they have the lineup needed to propel their companies to continued success.

To provide boards and CEOs with the insight and vision they need to properly and correctly assess the talent within their organization, companies are increasingly investing in leadership assessment and development services – for individuals and/or for entire work groups. How better to send a message to key leaders that you are committed to their success as your company moves forward, no matter current economic circumstances?

There are many quality reasons for assessing and developing your talent – and particularly so in the current environment. It's invaluable for gauging and retaining valued talent, accelerating the growth and development of high-potential employees, and establishing a pipeline for promotion and succession.

Growing your organization's talent – to the point of being able to withstand top-level executive churn – does not happen organically. It requires a deliberate, focused talent strategy. It also requires knowing that instilling confidence in a company's many constituencies requires a willingness to foster and forge the development of top-level talent.

As we've seen with continuing regularity, churn is a recurring circumstance of our unsettled economy. But companies can proactively prepare themselves to avoid the negative aspects of churn – if and when it happens.

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