Why CEOs Get Fired

Author: Takudzwa Vannessa Machingauta . November 2019

A CEO is the highest-ranking job holder in an organisation. They are ultimately responsible for making operational and strategic decisions for the business. According to John Maxwell, everything rises and falls on leadership. This a dream job for most ambitious people. This is unsurprising given that the CEO-worker pay ratio as of the 2018 filings with the US Securities and Exchange Commission stood at 287. A surprising statistic, however, is that more than half of CEOs are involuntarily dismissed from their jobs. CEOs who are also founders of their respective companies are not spared the brunt of being fired. Some famous examples being Steve Jobs of Apple, and Andrew Mason of Groupon. The question then is what is causing such a high turnover in these roles and what can you as a CEO or aspirant CEO do to maintain job stability?

The power to hire or fire a CEO rests with the Board. A *board of directors* is defined as a team of people elected by a corporation's shareholders to represent the shareholders' interests and ensure that the company's management acts on their behalf. LeadershipIQ.com, a leading organisational development consulting firm, undertook a four-year study on the reasons that contribute to *dismissal for CEO,*s. The study interviewed 1,087 board members from 286 public, private, business and healthcare organizations that had fired, or otherwise *forced out*, their chief executive.

The most recurring reason why a board fired a CEO came out as failed change management initiatives. Change management is an integral part of any company in a world that is rapidly changing. The reality is that companies cannot afford to be left behind and more often than not have the burden of making sure that change is successful rests solely on the CEO. Forbes magazine supports the fact leadership support plays a crucial role in the success of organizational change, saying that successful change initiatives start at the top and organizations should "set up a top-level team of experts, reporting directly to the CEO". As such, the CEO is generally held responsible by the board for failed change initiatives. There has been unfortunately a history of organisations that were once market leaders that have gone out of business because of lack of intimate knowledge of customers, customer needs and developing trends. Prominent examples such as Kodak, general motors, and Yahoo.

The main aim for the existence of businesses is to create value for the shareholders. *The role of the CEO* is almost custodial in nature in that they are responsible for creating and implementing the company or organization's vision and mission. Performance is therefore at the heart of appraising the CEO. Whilst the easier metric to measure is the financial performance, this can be muddied during recessions and can be influenced a lot by uncontrollable external factors so it would be misguided to evaluate a CEO only based on the financial aspect. The situation on the ground indicates that the financial performance of the company plays a major part in the *retention of a CEO*. A case study of interest was one that was conducted in turkey. It was found that from the year 2005-2014, a sample of non-financial firms listed on the Borsa Istanbul indicated that financial performance is negatively associated with the probability of *CEO turnover*. In layman’s terms, the better that the companies performed financially, the lesser was the probability of the CEOs being placed. An argument on why considerable weight is placed on the financial aspect with respect to retention decisions is that almost all other appraisal factors feed into it.

So in what ways can an executive individual mitigate their chances of being fired from the apex of an organisation? It is important for CEOs and founders to always know they are dispensable and recognize their own vulnerabilities. The first suggestion would be to have strong relationships with the board and team. A board that has the same vision and culture as the CEO is unlikely to dispose of them without trying assist. Other ways of ensuring a longer tenure are to be sensitive to market changes and what they could mean for your organisation, not tolerating a *culture of non-performance* and following through on all agreed-upon action plans.

Takudzwa Vanessa Machingauta is a consultant at Industrial Psychology Consultants.

https://thehumancapitalhub.com/articles/Why-CEOs-Get-Fired