Why New Executives Fail

Sixty four percent of new executives hired from the outside won't make it in their current jobs. So says one recent study of executive transition. Forty percent will fail within the first 18 months, reports another. What seems to be causing the derailment of these leaders? Are there patterns? Why should your organization care? And, more importantly, what can it do to ensure the success of the newest members of its leadership team?

What Price Executive Failure?

What is the true cost to your company when a new leader fails? Is the cost the $200,000 you pay to the Executive Search firm? Or the $100,000 it costs in relocation? Or the hard-to-quantify cost of business and organizational disruption and missed opportunity?

Some years ago Bob Allen, the CEO of AT&T, had concluded that his successor should come from outside of the company. He recruited four candidates – most notably President John Walter – but none worked out. Walter left after less than a year, his wounds salved with a $25M payoff.

Michael Ovitz received a $100M pay-off for his mere drive-by stint at Disney. Shareholders of Coca-Cola lost billons in stock market during Doug Ivester's 2-year tenure as CEO. Carly Fiorina at Hewlett Packard and Robert Nardelli at Home Depot are two prominent recent examples.

Enormous costs. Major impact. Huge discontinuities. Wasted investment. The process of executive transition has such tremendous ramifications; we clearly need to understand why such situations happen so regularly, and how companies and executives can minimize the risk of derailment.

What Price Success?

The opposite is also true. Successful executive onboarding practices can significantly aid the transition process, position new executives for success, increase the alignment between the individual and company, accelerate the learning, assimilation and performance curves, and prevent executive turnover. Speed to performance and effectiveness of early fit can really fuel the level of ROI anticipated when executive recruitment is originally contemplated and cost evaluated.

One organization created such a successful executive onboarding process that they decided to "retrofit" all 200+ vice president level and above leaders, realizing that the new hires often had a greater understanding and grounding in the business than longer-tenured colleagues.

And the trend towards bringing in executive talent from the outside continues to increase, despite the heavy acquisition costs and the potentiality and frequency of derailment.

In the first 10 months of last year, 38 of the nation's 200 largest corporations replaced their chief executives, up from 23 the prior year. One analyst estimates that up to 70% of executives will change companies over the next three years.

We are at the confluence of an era predicted in McKinsey's "War for Talent", in which there is a clear dearth of leadership capability and increasingly unforgiving executive boards demanding rapid results. The stakes have never been higher, and the failure rate is probably at an all time peak.

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Our research demonstrates two major contributing factors:

1. Companies fail to build a systemic onboarding process to accelerate success and protect their investments in new executive acquisition, and as a consequence assimilation is left to a combination of happenstance, personal initiative and adhocracy.
2. New executives misread and misjudge the dynamics, expectations and requirements of their new company and new role, and as a consequence missteps, mismatched expectations and cultural mis-estimation lead an erosion of the early support base and increased polarization. Often the organization overtly or subliminally conspires to derail the new incumbent.

Durk Jager's 17 months at the helm of Proctor and Gamble is a very prominent case in point. Jager was not new to P&G, but he was an "outsider", having spent much of his career overseas. On his departure, the Wall Street Journal quoted John E. Pepper, a retired P&G chief executive who was reinstalled as chairman upon Jager's departure, "We undertook too much change too fast". Alan G. Lafley, who replaced Jager as CEO, and has since lead a major transformation of the company, said at the time, "P&G will return to our (more) conservative (practices)". Cultural and stylistic "oil and water" were clearly preconditions to this executive skid.

What Goes Wrong?

There are many (often interconnected and compounding) reasons that cause the derailment of new executives. Here are some of them:

– Failure to understand before they act (this is particularly the case when new appointees are deemed "change agents"). Coming in with "the answer" or jumping to it too quickly can cause serious miscue or organizational resistance. As we know, executive ego is often pernicious and virulent.

- Trying to do too much, too soon (trying to make an early impression, being too heroic in expectations, ending up balancing too many simultaneous initiatives), causes newcomers to spin too fast, miss commitments, alienate others and the plates begin to crash around them. The organization is not sure whether to send for Ritalin or keep their heads down until it's over - as Russian peasants learnt over centuries, "This too will pass…" becomes the modus operandi.
- Misreading (or not even trying to understand) company culture and style. What works in one company can be quite stylistically antithetical in another.
- Barricades go up, "help" becomes increasingly cursory, support dissipates and the new executive becomes increasingly isolated. There are ways to shift and shape culture over time. Bulldozing tactics and espousing new values from the management pulpit aren't two of them.
- Bringing in a new team too soon and polarizing the company between the new and the old guard. Organizations have a particular predilection to reject new executives if they arrive as a swarm. You'll hear disparaging talk of the "xxx mafia", and you are in for cultural warfare for years to come.
- Almost (but not quite) conversely taking too long to make key changes, and being sucked into the status quo. Insightful strategic action leads to breakthroughs. Lack of it leads to inertia. The "honeymoon period" is wasted, and patience runs out.
- Misunderstanding the business and acting on incomplete knowledge. Most new executives, particularly if they are new to an industry, as so intent in getting into the fray that they fail to take the investment time needed for their learning curve.
- Failure to build a power base. New executives often falter just at the time when they need one the most.
- Mismanaging the personal transition of family and new community (generally by throwing themselves feverishly into their new job), and ending up with combinations of stress and dislocation in their lives.

The earliest missteps are the most damaging. One commentator suggested in Fortune magazine recently that much of the damage is done in the first week.

Indeed root cause analysis can often trace failure to before the start date – oversold capabilities, mis-assessed blind spots and competency gaps, desperation to hire, misunderstood role and results expectations. Sometimes the thrill of the chase creates the seduction of the moth to the flame.

Rather than arriving into a new job and "nailing it", many executives end up getting nailed. Oftentimes such outcomes are preventable. But to do so requires a clear understanding of how effective executive onboarding can make a difference, and the readiness to build a systemic solution.

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