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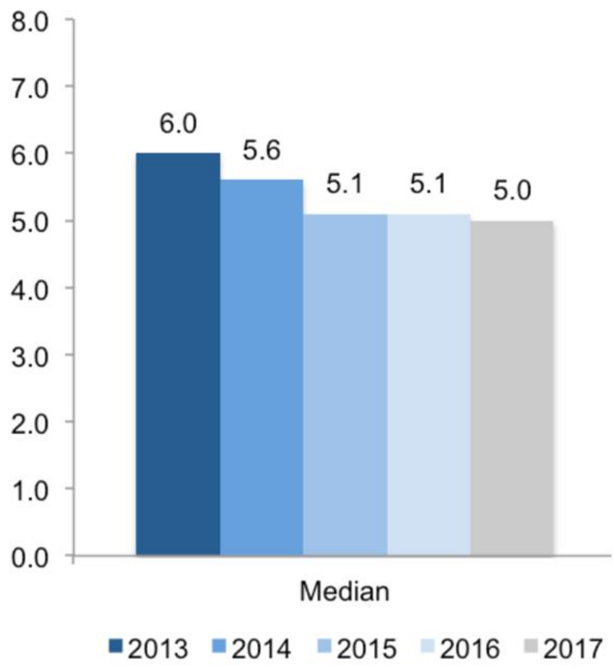
Six Reasons CEOs Fail

Transformational leaders are the exception, not the rule.

A consistent picture emerges from lists of top CEOs. In **HBR's Best-Performing CEOs** ranking, Pablo Isla of Inditex, the parent company of Zara, Ajay Banga of Mastercard and Bernard Arnault of LVMH stand out for both performance and longevity. Between the three of them, these CEOs have served for 50 years marked by strong performance.

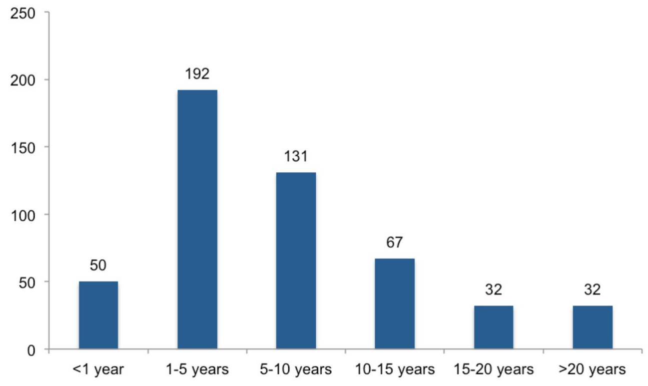
While the average tenure of HBR's global top 100 CEOs is 17 years, the average tenure of S&P 500 CEOs is now around five years, a **drop** of 20 percent since 2013. Most such leaders tend to fail or get pushed out of the job long before the likes of the global top 100 even start to wobble. Long-lasting iconic leaders are the exception rather than the rule.

Average CEO tenure at S&P 500 companies (in years)



Source: Equilar

Number of S&P 500 CEOs by tenure length



Source: Equilar

The prevailing arguments used to explain success or failure mostly concern the CEOs' personalities, especially transformational leadership characteristics, such as passion, risk-taking and tenacity. The failures are believed to be due to simple incompetence, rigidity, hubris or narcissism, traits that made the CEOs deaf to the changing world around them.

I argue that the "singularity hypothesis", that it's all down to the iconic man or woman at the top, is a myth. The reality is that much of a CEO's success or failure can be ascribed to context. Specifically, I outline six factors below that contribute to the CEO's success or failure, based on my research into, and teaching of, top executives.

1. Tendency to grow stale in the saddle

When Jeff Immelt, regarded as one of the icons of American capitalism, became the CEO of General Electric in 2001, he inherited what was then the most valuable company in the United States. Some 16 years later, the company's annual net earnings had **shrunk** 35 percent and the stock posted a negative total return. GE's weighting on the Dow even shrank under Immelt's watch. Many critics questioned why he was left in the top job for so long.

As Donald Hambrick of Pennsylvania State University **argues**, long-tenured CEOs tend to grow "stale in the saddle". **Research** shows that the longer a leader stays in the top job, the lower are the returns to shareholders. New CEOs, on the other hand, tend to be more open to change and gain more returns. The fact that the average S&P 500 CEO tenure length has fallen to five years is consistent with this.

2. Response to stress and success

A string of successes or a good early start can fuel CEO narcissism and hubris. This has two possible consequences. One is more risky behaviour, the other is complacency.

In one company I worked with, I observed the trajectory of a CEO-led change that ended in the CEO's underperformance and eventual exit from the firm after six years. When he joined the firm, he was tasked with turning the company around, tripling the share price in five years and instituting significant management change.

He got to work, cutting costs by streamlining suppliers, reducing IT spending and re-engineering processes. He had the share price well on track within two years. But after setting the company in the right direction, complacency began to set in. The top management team (TMT) was called on less than usual. Staff started noticing the falling number of meetings and weaker strategic signals coming from the TMT. Mini political fiefdoms began to spring up and some people worried they were being left out of whatever was now happening at the top. Eventually, the CEO's position became unsustainable and he resigned.

3. Top management team problems

While the above TMT largely fell apart because its members felt their status and relevance diminished in front of their "heroic" CEO, TMTs can also undermine CEOs despite their best efforts to keep them together. A TMT that works well is aligned on goals, shares information and makes joint decisions. Fragmentation arises when TMTs are misaligned, intergroup hostility grows and formal structures start to break down. TMTs can sway in the opposite direction, falling victim to groupthink, withholding crucial information from their CEOs, undermining their ability to make good decisions.

4. Poor performance

Of course, we can't rule out the poor performance of the top executives themselves. This is usually characterised by an inability to respond to a changing economy, digitisation, competition and evolving customer demands. From Blockbuster to Kodak, stories abound of corporate inertia. It is the CEOs' job to inspire their team with a vision and simultaneously read the landscape to capitalise on emerging trends. While this is a necessary condition, it is not sufficient. Recently, studies suggest that teams also need to buy into the new narrative. In 2000, Netflix proposed a partnership with Blockbuster in which it would run Blockbuster's brand online and Blockbuster would promote Netflix in its stores. John Antioco, the CEO of Blockbuster at the time, didn't bite. We all know what happened next.

5. Inadequate board vigilance

Boards add value when they're vigilant. According to a **2007 study**, board vigilance made a difference to shareholder return on mergers and acquisitions, irrespective of the length of the CEO's tenure. This is significant, as most mergers do not realise their intended benefit nor add value. Mergers have led to the undoing of many CEOs. Boards can shift the balance of power in a firm and temper CEO hubris. They can also coach their CEO by reading market change signals and tapping their invaluable networks and resources. CEOs should not ignore them, and boards should not be shy about guiding their CEO.

6. Scandal

Wrongdoing is now more easily exposed and more companies are getting into trouble. Scandals can arise because of non-conformity to expectations (Volkswagen), financial irregularities/misselling (Wells Fargo), social misconduct, ethical lapses or corruption. Former BP CEO Tony Hayward was felled by the Deepwater Horizon oil spill after being widely criticised for his handling of it. The famous line "I want my life back" did little to assuage those who had lost their livelihoods as a result of the spill.

Sometimes, it's just bad luck. Take Doug Oberhelman, the CEO of Caterpillar from 2010 to 2016. He made a big bet on the demand for construction equipment just before the market peaked in 2012. Oberhelman spent billions on manufacturing capability and conducted some of the company's biggest ever acquisitions before rapidly turning around and trying to cut jobs and reduce capacity as the market slumped.

The six factors listed here are not exhaustive, but are supported by several studies. In addition, although they are listed separately, it is often their combination, configuration and timing that lead to the dethroning of the CEO.

I have previously argued that the idealisation of transformational leaders does us few favours. It can even mislead us into believing that we can learn from them if we follow their ways. However, it is incumbent on CEOs, their boards and their top management teams to keep in mind that companies can be hit by both internal and external shocks. This means that CEOs operate in a context beyond their control. Their success rests not only on themselves, but also on those around them.

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