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WHY CEO TURNOVER IS ON THE RISE

BY REBECCA WALBERG

Turnover among Canadian chief executives and their American counterparts has been on the rise since 2010, and reached a new high of almost 15% in 2013. While renewal at the very top can indicate tighter corporate governance and oversight, and the replacement of the CEO often leads to increases in share value, at least in the short term, there are significant costs involved. When CEOs are removed for poor performance, severance pay as well as normal recruitment costs come into play. It also represents a significant disruption for management, especially for the 50% of Canadian businesses with no formal CEO succession plan.

A number of factors contribute to this increase in CEO turnover, according to Fred Jacques, a professor at Calgary's Haskayne School of Business and an expert in organizational behaviour and leadership. One reason for change that he's seen more of in recent years is extremely personal: a re-evaluation of priorities on the part of CEOs themselves.

"A lot of senior executives are carrying out a self-evaluation that leads them to make a major change," Mr. Jacques says. "These are smart, capable people. They've put in the 80-hour weeks, they're making the big bucks, and then at the end of the day they ask themselves, 'Does what I am doing make sense to me? Does it make a difference?' "

Mr. Jacques describes a coaching client who, at the pinnacle of his career, asked a group of investment analysts for their opinion of his leadership priorities, including his plans to emphasize corporate social responsibility and sustainability.

"This was his Jerry Maguire moment," Mr. Jacques says of the executive. "The investment analysts just laughed. They said, essentially, 'We don't care about that. Show us the money.' " His client stepped down because the inability to put his values into action was a personal deal-breaker.

If unplanned turnover is sometimes a personal choice on the part of the CEO, it's still more commonly a sign that the board has lost confidence in the leader, whether they formally ask for a resignation or communicate their disapproval through unofficial means. Several high-profile CEOs have met this fate in the past 12 months, including Aaron Regent of Barrick Gold, Ian Troop of the Pan Am Games Organizing Committee, Tony Fisher of Target Canada and Dov Charney of American Apparel.

The reason for failure at the CEO level almost always comes down to a failure of leadership rather than technical ability, argues Roxana Bahar Hewertson, president and chief executive of Highland Consulting Group Inc. and author of a new book on the importance of interpersonal skills in leadership.

"We know that most CEOs are not involuntarily removed because they don't have the technical skills, because they do. You don't get to that level without the technical competence. It tends to be because of a lack of emotional intelligence," Ms. Hewertson says.

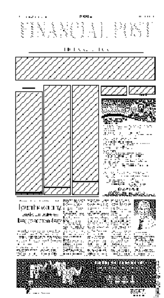
"A lot of people think you can go from being a superstar as an individual contributor to a star leader of individuals, and it's really a seismic shift when you move between the two roles," she says. "It's a mental shift, but it also involves totally different skills. The problem is how executives can rise to these levels without interpersonal skills."

Despite the growing understanding of the importance of emotional intelligence in psychology and organizational behaviour research, it's still given insufficient weight in management and hiring decisions. "Our system doesn't reward emotional intelligence until you get very high up," Ms. Hewertson says, "and then you're punished if you don't have it." Instead, she says, technical and particularly financial measures of effectiveness inform hiring and promotion decisions throughout middle and senior management.

The structure of corporate governance in most businesses reinforces this emphasis on financial performance at the CEO level, to the exclusion of other skills. A report by Hay Group found that those mandated with reviewing CEO performance most often belong to the compensation committee of the board. This group is predisposed to look for signs that the CEO provides good return on investment in a purely fiscal sense, rather than factoring in softer skills and accomplishments. Tying compensation to intangibles related to relationship building, personal leadership and character is always complex, and particularly so for a committee oriented toward the very quantifiable metrics of compensation and stock performance. However, Ms. Hewertson sees promising signs that executives themselves, as well as boards and business schools, are beginning to appreciate the importance of interpersonal skills and emotional intelligence.

There is a Canadian dimension to this style of successful leadership as well, says Alain Ishak, the director of global clients for Hay Group. The interpersonal skills needed to thrive as a CEO in Canada are slightly different from those that characterize top American leaders, he argues, due to subtle but important differences in business culture between the two countries.

"You'll see a lot more of a democratic, consensus-based leadership style in Canada," says Mr. Ishak. "In the U.S., directive and top-down leadership is more common. The good CEOs in Canada tend to value discussion and share the decision-



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making process. They don't relinquish responsibility, but they are extremely inclusive in the process of arriving at a decision. The directive style isn't bad, but it implies immediate compliance, and it's just more common in the U.S."

However, the similarities are greater than the differences, Mr. Ishak argues, and the best CEOs in both countries not only possess excellent problem-solving and crisis-management skills but also a high degree of self-awareness and an orientation toward long-term results and development.

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