Going, going, gone – How fast do your CEOs decay?

When you buy a company, you need the CEO to execute and adjust the plans that will achieve your financial targets. And most investors only buy a company when they think they have someone who can run it. But many investors complain that the CEOs they have in place when they buy a company don't perform as required. Some firms have examined the issue systematically and are surprised to see how many times they've had to change CEOs.

There's a simple way to see if you have a problem with CEO churn. If you do, you can take a few steps that will help you improve CEO retention.

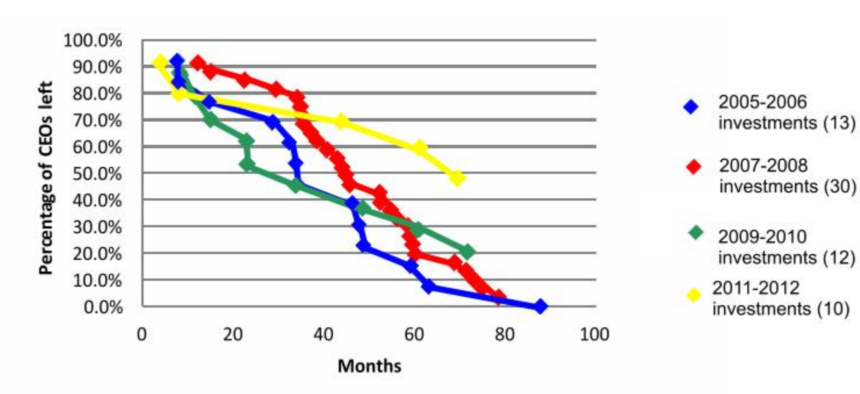
HOW MANY CEOS DO YOU LOSE, AND HOW QUICKLY AFTER HIRING THEM DO THEY LEAVE?

Here's an analysis you can do.

Look at completed transactions to see if the CEO you started with achieved your goal of a successful exit. For deals you have already exited:

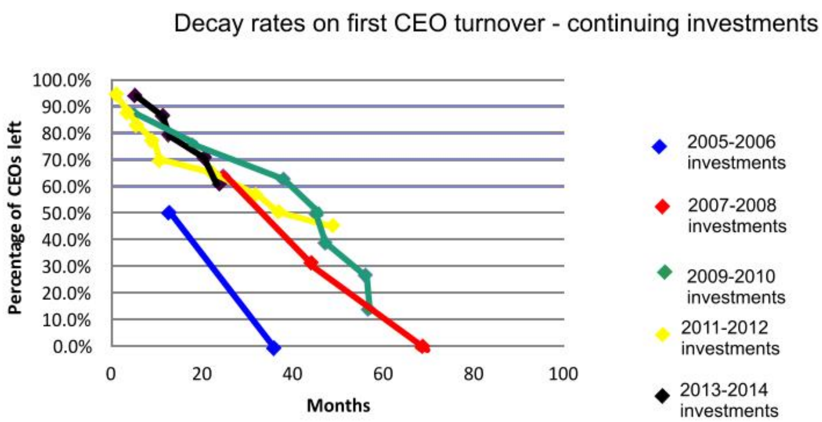
1. What percentage of your CEOs lasted for the life of the deal?
2. How many of your CEOs left in the first year, how many left in the second year, and how many in the third year, and so on.

Decay rates on first CEO turnover - exited deals



Look at current investments to assess your current track record:

1. How many of your CEOs left in the first year, how many left in the second year, and how many in the third year? If you had to replace some, how many years did their successors last?
2. When did the ones who left start to seem problematic—before the deal, within the first year, by the second year, or by year three?



Examine your findings.

1. Is there a trend? If you have enough data, slice and dice it by deal vintage, deal team, industry, or characteristics of the deals and see if you can important patterns.
2. For each CEO who is problematic or left – Why are/were they problematic? Is it because the person didn't perform in the way you expected on the tasks you expected in the world you expected? Or is it because the person failed to adjust to an unexpected problem or opportunity?

HOW TO DO BETTER

If you discover that you are not uniformly excellent in CEO selection and retention, how can you minimize the chance you'll have to fire your CEO? (I am assuming that having a CEO you don't want to fire is a quicker route to achieving your investment goals than having a poorly performing CEO.)

- **Screen better before the deal**. Screening before the deal will likely remove at least a third of the "planned CEOs." My data from over 10 years of assessing CEO candidates for sophisticated private equity investors suggest that **at least a third** of the CEOs these investors were planning to hire/keep for a company they are buying can be accurately predicted ahead of time to be very likely to be a very poor choice.

  Frequently, investors assume that a candidate's past performance predicts their future performance -- but it doesn't. Past performance indicates little about how the person would handle new challenges, and new challenges are likely over time in any business situation. You can do better by measuring a person's psychological capacity to actively and successfully cope with challenges. Combined with other measurable characteristics, knowing this coping capacity enables a much better prediction of how the person will handle and even capitalize on unexpected challenges and opportunities.

- **Screen better after the deal.** Does the company have the right CEO to execute on the strategic plan? If it wasn't feasible to assess the CEO before the deal (and in many situations, it's not) then think about doing it just after the deal closes. You might be able to discover you have a problem before the house burns down; if you learn what situations are like matches in his hand, you might be able to avoid untimely disaster. Through the right kind of assessment you can learn the CEO's development needs and the interaction style that will work best with him.

- **Behave differently when you manage them**. If you've assessed the CEO, you will know his development needs and how to most effectively interact with him. You can modify your behavior to bring about the best possible working relationship with the CEO. Remember: Even if the CEO is not as capable and mature as you'd like, you can make the Board-CEO interaction work if *you* are well-informed, capable and mature. Board members who are mature and self-aware and other-aware can live with an immature CEO. The problem is when nobody is self-aware and mature. Lead Directors can grow themselves and their insight, which can be easier than fixing the CEO.

THE MOST IMPORTANT JOURNEY BEGINS WITH A SINGLE STEP

Give me a call and I'll be happy to talk with you about doing this analysis (or sending me the necessary data so I can do it for you). Then we can see what kind of improvements might make sense.