

**RETAINING EXECUTIVES  
WITH FATAL FLAWS: A  
PREVENTATIVE APPROACH**

White Paper

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**SUMMARY**

Over the past decade we have witnessed many C-level executives who have resigned or were fired due to poor leadership results. Just about every week there is a high-profile executive who was asked to step down in part due to their ineffective performance as leaders. The costs from these leaders who fail to change and improve their leadership effectiveness impact the Organization, Employees, Customers, and Shareholders. Research demonstrated the actual shareholder costs for leaders who fail is \$300M+. Often, leaders with fatal flaws lack self-awareness of their impact on others. A four-step process is presented as a solution that can be effective for helping leaders with fatal flaws retain their jobs. They are: identify the leadership challenges and gain executive buy-in to change; determine coachability; implement, measure and evaluate results; and set-up an environment for success and continual feedback and learning. Key ingredients for success in these types of situations are outlined.

## INTRODUCTION

Dealing with leaders who have fatal flaws is a complex process requiring an integrated approach that involves all of the key stakeholders in the leader's ecosystem. The tangible (severance, relocation, etc.) and intangible (industry reputation, employee morale, etc.) costs to shareholders when C-level leaders are terminated or resign exceed \$300M (Taylor, 2010). This white paper outlines a comprehensive approach to handle these difficult leadership challenges. Unfortunately, the following situation is very common with these leaders:

*You are the CEO for the company and it is 7:45 a.m. Monday morning. The phone rings and one of your senior R&D scientists is calling to request a meeting with you as soon as possible. The topic is Chris Jenkins, the head of R&D for your largest division. As you end the call you can't help recalling the hiring of Chris Jenkins three years ago which had a lot of fanfare and attention from the Board of Directors and Corporate. You recruited Chris from a key competitor to help restore credibility with customers and investors after a string of poor product releases. Chris was a recruiting coup for you, bringing a tremendous industry reputation and track record of accomplishments. Since joining the company Chris has consistently produced several blockbuster products in record time. She has restored the company's credibility and reputation with all of your key customers and analysts. The problem is that Chris is Dr. Jekyll with customers and the Board, and Mr. Hyde with peers and subordinates. On the people side, she has lost four key scientists over the past 12 months and you fear the upcoming scientist meeting may be the fifth key resignation. The culture in R&D continues to deteriorate. Chris is perceived as arrogant, intimidating, closed-minded, challenging, overly controlling, and lacking interpersonal skills. When discussing this in the past with Chris she becomes very defensive and changes the conversation. You concluded she is not aware of the impact of her leadership with her team members. Losing her will be a blow to the company from the Board, shareholders, industry leaders and local community leaders.*

The fact that leaders have fatal flaws is certainly not new and has been documented for years. What is interesting, is how often organizations tolerate and overlook key leadership challenges where results overshadow these flaws for long periods of time. In some cases, leaders with fatal flaws can exist in the organization for years. Typically, there comes a time when some event requires a response to the leadership issues that have been present. One day the Chairman of the CEO decides that the negatives outweigh the positives and the time has come to act and try to salvage the leader for the organization.

The stakes for poor leadership have increased significantly over the past decade with the increased scrutiny on shareholder value and transparent organizational behavior by outside organizations. Recently, a growing slate of tragic heroes with fatal character flaws caused devastation in their companies and surrounding systems. This roster includes Carol Bartz (Yahoo), Leo Apotheker (HP), Rob Gillette (First Solar) and many others. No longer tolerated are senior leaders whose leadership creates a culture of distrust, deceit, and stifling of open communications about serious business issues.

Organizations and Boards of Directors have several options to deal with the fatally flawed executive: 1. Ignore the behaviors and do nothing; 2. Counsel the executive and hope it gets better; 3. Rehabilitate through intensive leadership development in current role; 4. Re-position or demote; and 5. Manage out of the company.

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## ***EXISTING CHALLENGES***

### **COSTS FROM FATAL FLAWS**

The risks and costs for shareholders invested in companies that overlook executives with these fatal personality flaws are tremendous and far-reaching. We see that these costs impact the organization, employees, customers and shareholders.

## **Organization**

There are many areas where a senior leader's flawed leadership impacts the overall organization. A poor reputation develops not only in the community but in the industry as well making it difficult to attract the top-notch talent required to support the business goals. For example, in one company the CEO is so difficult that certain industry search firms refuse to work with the company and key industry stars will not pursue open positions based on the reputation. Also, retention of top talent is one of the key human resource issues facing companies today and with poor leadership, the chances of having a good retention rate decreases. Reputation of the Board of Directors and the key leaders of the organization is impacted by an executive with fatal flaws in their leadership style. The personal credibility factor decreases as behaviors not congruent with the corporate culture or values are allowed to continue.

## **Employees**

Everyone has had a bad boss in the past. Working in a unit with a leader having fatal flaws has tremendous consequences for the output and results in the unit. This leader impacts employee job satisfaction and productivity, and ultimately, turnover. It is less likely that employees will want to refer others to the organization for employment when job satisfaction and morale are low.

## **Customers**

The organization's customers are impacted by poor leadership. This happens in a number of ways, including customer service issues as a result of employee dissatisfaction and turnover. In addition, a unit with poor leadership is not going to exceed the customer's expectations consistently over time.

## **Shareholder Value**

Studies project the cost of senior leader turnover to range between 3-5x annual pay. It is not difficult to identify the cost to the shareholders when factoring search fees, relocation costs, severance package costs, hiring bonuses, stock options, training costs, assimilation time to achieve 100% productive, and other opportunity costs. A recent

Wharton study (Taylor, 2010) found that direct costs (severance, headhunters, etc.) plus entrenchment costs were well over \$300M per firing. Minus entrenchment expenses, S&P 500 CEO firings would increase significantly according to Taylor's research.

## **FATAL FLAWS DEFINED**

A practical definition is provided in research by Zenger and Folkman (2002) which suggests that: 1). Top performers avoid major fatal flaws; 2). Fatal flaws exist when executives have performance issues that ultimately lead to career derailment or job failure; and 3). A fatal flaw is *poor or average* capability in areas that are mission critical to the job. Often, an overused strength turns into a derailer as the role and/or work environment changes during an executive's career. A classic example is the first line supervisor who has his/her hands into everything and maintains this behavior as his/her career progresses. However, as a senior executive, these behaviors create a demotivated leadership team. Eventually, this will turn into a derailment factor if not addressed and managed successfully.

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## **APPROACHES**

The best approach to improve performance of executives with fatal flaws uses these four steps:

1. Identify the leadership challenges, linking to the organization's strategy and role, and gain executive buy-in to change.
2. Determine coachability.
3. Implement, measure and evaluate results.
4. Set-up an environment for success and continual feedback and learning.

### **Step 1. Identify Leadership Challenges and Gain Executive Buy-in to Change**

As noted above, fatal flaws turn out to be competencies that are performed at an average or generally acceptable level, neither a strength nor a weakness, but essential for the organization and role. In other cases, a leadership competency may be so under developed that it is a weakness but it's required for the job. Finally, there may

be personality characteristics of the executive which causes negative consequences on the organization.. It is critical to deal with the most important competencies to achieve increased performance. The four-step process is focused on this relationship of competencies to the executive's and company's requirements.

The crucial first step is to gain agreement among the key stakeholders on the changes that must occur, timeframes for results, consequences for change, roles in the process, and measures of success. Helpful to improvements for leaders is the identification of blind spots. It is insightful to understand why executives are leading in the ways they do and to provide this shared learning with the high-risk executives. A series of assessments is recommended to get to the essence of personality and identify how the executive leads in stressful and ambiguous situations. Well-researched and valid personality assessments are critical to further understand why an executive makes certain choices in his/her leadership. After all, it is under stress when an executive reverts to the most trusted and efficient leadership style since this has led to success in the past.

Goldsmith and Reiter (2007) identified 20 behaviors (e.g., Winning too much, Adding too much value, etc.) that cause derailment in senior executives (See Appendix A). Understanding these behaviors is necessary so executives can prepare to manage the downside of the flaws when faced with adversity. At best, derailers are neutralized in their impact for an executive to avoid failure. Typically, there is not enough time to try and turn a damaging behavior into an area of strength in today's demanding world of rapid results.

The Hogan Developmental Survey was developed several years ago to address these personality derailing characteristics and is the only instrument available that assesses an executive's preferences toward derailing behaviors in times of stress and uncertainty. Typically, the 11 dimensions of personality measured by the survey are not enough to derail unless overused by the executive. When used to an extreme, all can become

debilitating to the executive and contribute to derailment (Hogan & Hogan, 2001).

Table 1 outlines these dimensions.

**Table 1.** Hogan Developmental Survey Dimensions

1. Excitable – Overly enthusiastic and then disappointed
2. Skeptical – Cynical and overly sensitive to criticism
3. Cautious – Overly worried about being criticized
4. Reserved – Lacking interest in or awareness of the feelings of others
5. Leisurely – Independent, ignoring others’ requests, and irritable
6. Bold – Having inflated views of one’s competency and worth
7. Mischievous – Being charming, risk-taking, and excitement-seeking
8. Colorful – Being dramatic, engaging, and attention-seeking
9. Imaginative – Thinking and acting interesting, unusual, and eccentric
10. Diligent – Conscientious, perfectionist, and hard to please
11. Dutiful – Eager to please and reluctant to act independently

Understanding how these are manifested on the job by the high-risk executive is crucial to making positive changes in leadership behaviors.

### **360 Degree Assessments**

The use of 360 degree surveys and interviews has become an important way to help executives identify their blind spots, increase understanding of their impact on the organization and how they lead others. The 360 degree survey provides “surround sound” for the executive on what he/she is doing that is inhibiting leadership performance. Leadership denial of issues is lessened with the use of multi-rater surveys. Research has consistently shown self-evaluations are more lenient. One survey showed 92% of managers rated themselves as excellent or good while their direct reports only rated 67% and 10% as good and poor, respectively (*HR Magazine*, 2006).

## Step 2. Determine Coachability

At this point, there is a need to determine if the development process has an acceptable probability of success. Bacon and Spear (2003) recommends this step in the coaching process as there are several reasons that an executive may not have a high probability of success in the time required for change. These include a lack of the following: motivation, commitment, technical capabilities and experience required for the role, a team or manager who will be able to accept change, and a lack of resources to be successful in the role; or having a deeply rooted psychological issue that needs to be dealt with by a qualified mental health professional. Depending on the coachability assessment and reasons, the next step in the process may vary, or the process may stop at this point and other options considered.

## Step 3. Implement, Measure and Evaluate Results

Creating a specific development plan that outlines goals, steps, timelines and measures is essential for success. Like anything in an organization, a plan helps ensure success. Also the plan creates accountability with the executive and helps focus the executive and key stakeholders on the most critical items for success.

When working with executives with fatal flaws, the *triage approach* works best. In fact, this should happen in the very first meeting with the executive, especially with the chance to interview key stakeholders prior to this meeting. The triage approach works as follows:

1. Eliminate destructive leadership behaviors – start immediately.
2. Build competencies required for the company and role.
3. Leveraging the executive's strengths – based on the success of steps 1 and 2.

With attention, focus and practice, an executive can rapidly extinguish destructive behaviors. Examples are emotional outbursts, arrogance, sarcasm, conflicts with key



stakeholders, over controlling, etc. What takes more time is the development of positive leadership behaviors that should be used in place of the destructive behaviors. A metaphor for this is working on a muscle that has atrophied over time. It requires exercise and repetitiveness to build up the muscle so that it may be used effectively when opportunities occur. For example, telling an executive they are perceived as arrogant or uncaring is one thing. Helping him/her learn behaviors to increase active listening, personal connections to others, and communication skills is more intensive.

At the C-level the following elements would guide change process: Vision, Management Process, Structure, People, and Capabilities. Working on personal capabilities alone is not enough to ensure long-term success for executives. A number of areas need to be assessed, including the presence and viability of the vision or direction, the management process (strategy), goals, accountability, communications, structure of the leadership team's organization and roles, and the fit of the executive team's strengths to the executive's needs. If these elements are not in place and working well, developing competencies in a vacuum does not lead to any sustained and long-term success.

It is essential to continually monitor through feedback and self-reflection how the executive is changing, what is working well or not, and to make timely adjustments as required. As a result, executives need to solicit key stakeholders with a vested interest in their success to provide feedback on a frequent basis. More formal progress evaluations are made at the end of 90 days through on-line surveys and interviews.

#### **Step 4. Set up an environment for success and continual feedback and learning**

Critical to the executive's continuous improvement and success is the need to establish a supportive environment. The executive needs to identify several (4-5) advocates and develop self-learning skills. The use of the word "advocate" is purposeful since the executive's mindset needs to be focused on recruiting supporters and advisors who

want to assist in the development process. Advocates are competent key stakeholders (or a mentor) who can be trusted and motivated to provide on-going feedback and suggestions for change over time.

Self reflection is critical to on-going development and improvement of leadership effectiveness. Reviewing a bad meeting, difficult presentation, poor decision, poor hire, etc., is a useful way to understand what happened and determine alternative leadership behaviors in the situation. Learning from experience is a great teacher when it is focused and facilitated.

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## **CONCLUSION**

### **KEY INGREDIENTS TO SUCCESSFUL DEVELOPMENT FOR AT-RISK EXECUTIVES**

There are key conditions present which increase the likelihood of success for at-risk executives due to leadership issues. These are as follows:

- The executive is capable of successfully performing the role. In other words, a poor promotion or selection decision did not create a situation where the executive is truly in over their head.
- The time duration of the derailing behaviors has been short; months, not years.
- The executive is motivated and committed to making the necessary changes.
- The executive has the courage to publicly outline their leadership challenges and to try completely different behaviors.
- No psychopathology exists.
- There is a support system in the organization – Team members want to and are willing to help the executive succeed and not undermine the efforts.
- The culture will accept new leadership behaviors and not rely on “old tapes.”
- Success is rewarded and reinforced.
- The external coach is strong and up to the challenge in these cases. They have the experience and style to make this work effectively.

Leaders with fatal flaws cost the organization in many ways and dilute shareholder value by reducing organization productivity and retention. It is possible to salvage these leaders with an approach that encompasses the executive's total ecosystem and builds their capabilities and structural elements required for their success. The approach and

techniques summarized here increase the chances of success when faced with this difficult challenge.

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### Appendix A

1. **Winning too much:** The need to win at all costs and in all situations.
2. **Adding too much value:** Our overwhelming desire to add input to every discussion.
3. **Passing judgment:** The need to rate others and impose our standards on them.
4. **Making destructive comments:** The needless sarcasm we think make us witty.

5. **Starting with NO, BUT, HOWEVER:** The overuse of these negative qualifiers.
6. **Telling the world how smart we are:** The need to show people we're smarter.
7. **Speaking when angry:** Using emotional volatility as a management tool.
8. **Negativity or "Let me explain why it won't work":** The need to share negative views.
9. **Withholding information:** The refusal to share information to maintain an advantage.
10. **Failing to give proper recognition:** The inability to give praise and reward.
11. **Claiming credit that that we don't deserve:** Overestimate our contribution to success.
12. **Making excuses:** The need to reposition annoying behavior so people excuse us.
13. **Clinging to the past:** The need to deflect blame away from ourselves.
14. **Playing favorites:** Failing to see that we are treating someone unfairly.
15. **Refusing to express regret:** The inability to admit we're wrong.
16. **Not listening:** The most passive-aggressive form of disrespect for colleagues.
17. **Failing to express gratitude:** The most basic form of bad manners.
18. **Punishing the messenger:** Attack the innocent who are usually trying to help us.
19. **Passing the buck:** The need to blame everyone but ourselves.
20. **An excessive need to be "me":** Exalting our faults as virtues.

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