15 Signs Your CEO is Underperforming (And What To Do About It)

CEO succession is one of the board's most critical—and complex—responsibilities. But according to our Global Leadership Monitor, only 52% of board directors are confident in their ability to design a successful strategy for leadership succession at the C-level. Making the right decision in a timely manner can transform a business, while the wrong decision can result in a leader who is ill-suited for the company's culture and strategic priorities. Moreover, research from Harvard Business Review shows that CEO underperformance decreases total shareholder return, with underperforming CEO appointments in the S&P 1500 alone costing investors upwards of $291 billion every year.

When a board begins to sense that their CEO is underperforming, it's crucial to mitigate risks associated with CEO transitions and position the organization for continued success as soon as possible. However, **sensing underperformance can be delicate and challenging**, given indicators are often initially nuanced before they require urgent action.

To assist boards in recognizing and navigating this sensitive situation, Russell Reynolds Associates developed a list of **fifteen triggers to serve as indicators of and guide decision-making around CEO underperformance.**

The following five critical triggers provide insights into when the board should take urgent action:

01 Consistent poor financial performance

Prolonged failure to meet financial targets, persistent losses, or a decline in shareholder value.

02 Market share erosion

A continuous decline in the company's market share without a viable strategy for recovery.

03 Ethical or legal issues

Discovery of ethical breaches, legal violations, or conduct inconsistent with the organization's values and standards.

04 Failure to achieve strategic goals

Inability to implement or achieve strategic objectives set by the board, consistently falling short of organizational goals.

05 Inability to adapt to market changes

Failure to adapt to changing market conditions, technological advancements, or industry shifts, resulting in a loss of competitiveness.

Additionally, these ten more nuanced leading indicators of underperformance signal the need for change in the future:

06 Lack of accountability

Demonstrated lack of accountability for mistakes or poor performance, or a refusal to take responsibility for the organization's challenges.

07 Ineffectiveness in crisis management

Inability to navigate and manage crises effectively, leading to further harm to the company's reputation and stability.

08 Deteriorating company culture

Erosion of organizational culture, declining employee morale, or a toxic work environment attributed to the CEO's leadership.

09 Loss of confidence from key stakeholders

Stakeholders beyond the board—including leadership team members, investors, customers, external stakeholders, and/or partners—lose confidence in the CEO's ability to lead effectively.

10 Persistent communication issues

Ongoing problems with communication, transparency, or the CEO's inability to effectively convey the company's vision and strategy internally or externally.

11 Strained board-CEO relationship

Breakdown in the relationship between the CEO and the board, hindering effective governance and decision-making.

12 Loss or potential loss of key talent

Significant loss or risk of losing key executives or talent (regrettable attrition) due to dissatisfaction with the CEO's leadership.

13 Continued decline despite intervention

Board interventions, support, or resource provision fail to improve the CEO's performance.

14 Repeated failure to address feedback

Consistent receipt of performance-related feedback without taking corrective actions or showing responsiveness to constructive feedback.

15 Mismatch with current organizational stage

Misalignment between the CEO's experience, qualifications, and leadership style and the next phase of the organization.

We recognize that these points may *feel* like common wisdom to many directors. Yet more often than not, **CEO underperformance** is not addressed or addressed too late.

A variety of factors hold board directors back from removing a CEO: the fear that change will cause more disruption; not wanting to be an outlier or viewed as overly critical; a lack of objectivity; insufficient channels that support having these dialogs; the tension between being an effective director who supports the CEO and bringing topics of concern to the forefront; and the desire to show trust in the organization and its future success, to name a few.

However, ensuring the right person is at the helm is one of the most crucial parts of a boards' mandate. This requires an effective board culture that allows for constructive feedback, with mechanisms and communication outlets in place to support these conversations at the right time and place.

When CEO underperformance creates a crisis or **emergency succession** scenario, boards must identify viable internal successors and potential interim successors. If no immediate candidates are available, the board should consider who among its members could step in. Having a well-prepared plan is not only essential, but table stakes as a responsible board when embarking on this path.

When considering a **less urgent change**, the board should identify and cultivate internal successors and conduct continuous confidential strategic profiling of the relevant external CEO candidate pool in addition to the above. It is best practice to benchmark the internal candidates against the current external talent pool to determine if an external search is needed, and always keep the list of external candidates updated while you are developing your internal candidates.

Going forward, ensure that the organization has a **culture of disciplined, ongoing CEO evaluation and development.** Regularly evaluating the CEO and leveraging annual reviews to reflect on and update the role's forward-looking success profile helps the board proactively bring objectivity and structure to the conversation. It allows boards to focus on development and future needs of the organization while taking note of potential underperformance and begin planning for new leadership when necessary.

No board wants to find themselves addressing CEO underperformance. Our hope is that this checklist can be used as a guide to the necessary conversations that have to happen when this unfortunate situation arises. As the number of triggers indicating the need for change increases, boards can feel confident in the necessity of addressing CEO underperformance and preparing the organization for ongoing success.

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About Russell Reynolds Associates

Russell Reynolds Associates is a global leadership advisory firm. Our 500+ consultants in 47 offices work with public, private, and nonprofit organizations across all industries and regions. We help our clients build teams of transformational leaders who can meet today's challenges and anticipate the digital, economic, sustainability, and political trends that are reshaping the global business environment. From helping boards with their structure, culture, and effectiveness to identifying, assessing and defining the best leadership for organizations, our teams bring their decades of expertise to help clients address their most complex leadership issues. We exist to improve the way the world is led

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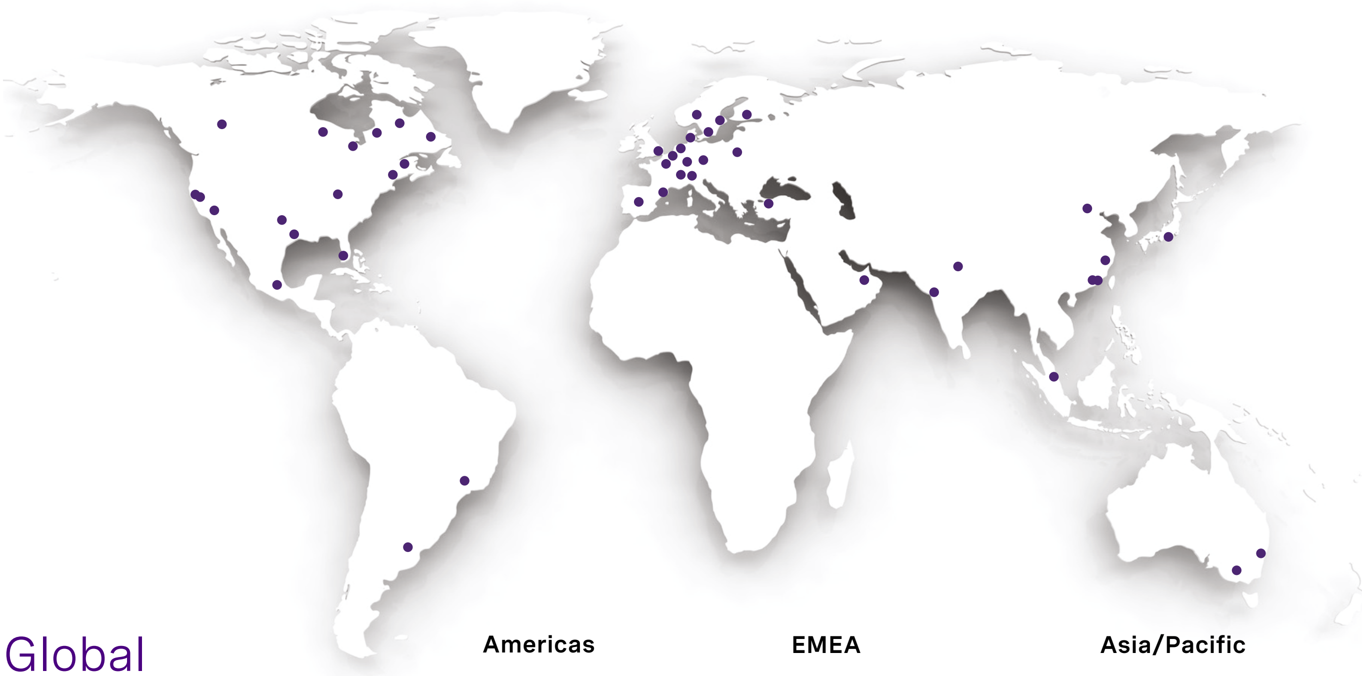

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