

The Causes of Top Executive Turnover

When members of the executive leadership team (ELT) leave, their company incurs high costs, financial and otherwise. Compared to a wealth of research into CEO departures, little is known about why other ELT members leave or how their reasons might be different from those of their bosses. New research in the *Strategic Management Journal* sheds light on the reasons that individual ELT members leave. The findings indicate that events related to relationships and reputation both promote ELT departures. ELT member reactions, however, depend on their relative status. Those paid relatively more – higher status members – reacted more strongly to reputational events but are less susceptible to the influence of relational events.

Key Takeaways:

- Top executive turnover can be personal and event-driven.
- Relational shocks (such as outside CEO succession or the departure of TMT peers) and reputational shocks (such as lawsuits against the company or shareholder activism) both promote ELT departures.
- Executives of higher status – those who are paid more than their peers – are more likely than others to leave after a reputational shock, and less likely than others to leave after a relational shock.

The researchers studied ELT members who joined firms of the S&P 1500 between 2003 and 2013. They tracked conditions relevant to their relationships (e.g., whether an outside CEO was hired or how many peer ELT members had recently left), and to their reputations (e.g., the number of lawsuits filed against the firm, or the number shareholder activism filings). They found that ELT members were about 18% more likely to

leave the firm after an outside CEO had been hired, but this effect was reduced for ELT members who were paid more than their peers, which was viewed as a reflection of their status. Lawsuits increased the likelihood of ELT member exit by about 11% and was stronger for higher-status ELT members.

In short, the research showed that events related to relationships and reputation drive ELT turnover, but depends on individual ELT members' status. They note that they did not distinguish between voluntary quits and dismissals, and more research is needed to better understand the full range of influential factors, and the nuance of their impact.

Source: Andrus, J. L., Withers, M. C., Courtright, S. H., & Boivie, S. (2019). Go your own way: Exploring the causes of top executive turnover. *Strategic Management Journal*, 40(7): 1151-1168. DOI: 10.1002/smj.3020.