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How Will Your Tenure Affect Your Performance?

Does a lengthy stint in the corner office inevitably blunt a leader's cutting edge? Not if the top executive has the knowledge and foresight to do what's necessary to stay sharp.

The CEO Program

This is part of a series of short articles that explore recent and relevant research about CEO thinking and behavior. We believe that the more people learn about the factors that influence their strategic leadership and decision-making, the more likely they are to develop stronger and better-balanced teams and lead their organizations to excel in the marketplace. At the end of each brief, we offer questions for consideration that we believe will help leaders—and aspiring leaders—see themselves more objectively and improve their own performance.

Tenure and the Ticking Clock

When a person becomes a CEO, is it just a matter of time before he or she loses the ability to be effective and to keep the company competitive? Do all CEOs inevitably become obsolete?

The answer is: No
but there can be a strong pull in that direction.

In 1991, professors Don Hambrick and Gregory Fukutomi, then based at Columbia's Business School, found that there were predictable "seasons" in a CEO's tenure (please see Figure 1). Theirs and others' research determined that firm value is highest in the "middle season" and that this value decreased if the tenure was too short or too long.[1]

Of course, there are advantages to professional newness, such as untapped enthusiasm and vigor. And professional longevity undoubtedly has its rewards, like accumulated on-the-job learning and experience, and the establishment of valuable relationships. Yet a recent study found that these latter rewards can be offset over time, especially if the CEOs relied on go-to behaviors, despite changes in the competitive environment. And the negative effects of CEO tenure multiplied over time, as CEOs gained power.[2]

The Bigger Picture

Fortunately, this is not the whole story. To get a broader perspective, we must take into account more than just time spent in the CEO role—specifically the time that came before in terms of previous professional experience, or "career variety." For more on this topic, see our earlier Research Brief.

A study published in 2016 (Crossland, Zyung, Hiller, and Hambrick) analyzed "career variety"—the professional and institutional experiences an executive has had prior to becoming a CEO. Profiling the CEOs of Fortune 250 firms, they found those with high variety "have personal penchants for change and experimentation… career variety [is] an especially potent managerial attribute." They warn us, however, that "CEO career variety is not necessarily meritorious or beneficial. One may engage in a lot of career moves because of failure, fear of failure, or simple boredom."[3]

Just as a CEO's past matters, so too does his or her investment in the future. Research from the Newcastle Business School in Australia used a longitudinal sample of 100 US manufacturing firms, from 1998 to 2008, to study CEO tenure, the influence of each company's executive team, and research and development (R&D). Their premise was that, if a CEO cares about a company's ability to innovate in the long run, he or she will continue to invest in R&D, even at the end of his or her career.

The researchers found that some attributes of the members of the senior management team, such as tenure and age, may amplify a CEO's inclinations to reduce R&D. But other attributes, such as functional experience and education, may diminish those inclinations, and instead support investments in R&D. In other words, the CEO does not operate alone.[4]

This suggests that obsolescence isn't inevitable, and that there are several actions a CEO can take to ensure that he or she stays relevant and valuable to the organization, right up until his or her retirement party, and beyond.

Looking Not Just Ahead but Around

We live in a world where innovation is arguably more critical than ever before. To avoid complacency and the loss of competitive edge—and a performance gap that can be impossible to close—a CEO must be purposeful about introspection and committed to ongoing growth. This involves:

- questioning one's established outlooks and approaches,
- surrounding oneself with an honest and diverse management team, and
- engaging with feedback and new information when building strategy.

Questions to Consider:

CEOs who have been in their jobs for more than five years might find it useful to ask themselves the following sets of questions:

1. What was my basic outlook and approach when I took on this job? In what ways has the company culture and competitive landscape changed? Has my outlook and approach served me well throughout my tenure? How might they continue to serve—or limit—the company in the future?
2. How similar am I to the members of my senior management team? Are we so like-minded that we limit ourselves and the company? Are we different enough that we push one another to think creatively?
3. What can I do now, in the next six months, and in the next year to ensure that I continue to be an effective leader? What can I do to keep my finger on the pulse of the company, and the industry in which we compete?

Figure 1: Five Seasons of a CEO's Tenure[5]

Essential CEO Characteristics	Season 1: Response to Mandate; Follows marching orders from Board or predecessor. May call for continuity, dramatic change, or something in between. Regardless, the new CEO works to develop knowledge and legitimacy.	Season 2: Experimentation; Open-minded and flexible. CEO has gained sufficient credibility to begin having a creative impact.	Season 3: Choice of an Enduring Theme; After conscious and subconscious reflection on everything s/he has done up to now in the role, recrystallizes their "CEO archetype".	Season 4: Convergence; Begins actions to reinforce the theme over long periods of incremental change; May relate to structure, staffing, processes, or functional area initiatives.	Season 5: Dysfunction; Outwardly, CEOs at this stage may show few signs of this stage since they may have been well socialized in 'impression management' and appearances. Inwardly, however, a laser-focus is dimming; openness and responsiveness to stimuli are diminished.
Commitment to Personal Paradigm	Moderately strong	Could be strong or weak	Moderately strong	Strong and increasing	Very strong
Task Knowledge	Low but increasing rapidly	Moderate but somewhat increasing	High and still marginally increasing	High and increasing slightly	High and increasing slightly
Diversity of Information sources	Many sources, primarily unfiltered	Many sources but increasingly filtered	Fewer sources, moderately filtered	Few sources and highly filtered	Very few sources and highly filtered
Interest and enthusiasm for task elements of the job	High	High	Moderately high	Moderately high but diminishing	Moderately low and continuing to diminish
Power	Low but increasing	Moderate and increasing	Moderate and increasing	Strong and increasing	Very strong, and increasing still

Endnotes

1. Donald C. Hambrick and Gregory D. S. Fukutomi, "The Seasons of a CEO's Tenure," Academy of Management Review 16, no. 4 (1991): pp. 719-742.
2. Peter Limbach, Markus Schmid and Meik Scholz, All Good Things Come to an End: CEO Life Cycle and Firm Performance, University of St. Gallen, March 2016, updated from July 2015.
3. Craig Crossland, Jinyong Zyung, Nathan J. Hiller and Donald C. Hambrick, "CEO Career Variety: Effects on Firm Level Strategic and Social Novelty," Academy of Management Journal 57, no. 3 (2014): pp. 652-674.
4. Mariano L. M. Heyden, Marko Reimer, and Sebastiaan Van Doorn, "Innovating Beyond the Horizon: CEO Career Horizon, Top Management Composition, and R&D Intensity," Human Resource Management, (2015) doi:10.1002/hrm.21730.
5. Hambrick and Fukutomi, "The Seasons of a CEO's Tenure," p. 729.