Russell Ackoff Fellowship Proposal

Managing Uncertainty in Leader Retention:
How Firing on Firm Performance Can Be the Wrong Choice

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1.   Project summary

1.1   Introduction

Determining who should lead an organization is a crucial decision for any company or group; an enormous of amount of time and energy are spent on it as a result. In a variety of fields and with a variety of measures, it has been shown that poor performance gets you sacked. Within academia, there is a large body of literature that addresses this negative correlation between firm performance and top management retention. However, in some situations, causing turnover in the top spot does not solve the problem due to the fact that performance is mismeasured – good leaders are being fired and bad leaders are being retained.

There are a number of fields in which bounded performance constraints and reversion to the mean might result in management turnover that is inconsistent:
  – Venture capital funds
  – Investment funds
  – Sports teams
  – Endowment management agencies
  – Sales groups (in special settings)

The challenges of determining organizational leadership are compounded by the enormous uncertainty within the process. In effect, prior research has focused on the correlation between firm performance and leader retention, which is often insufficient.

1.2   Current work

We have recently begun some work looking into this phenomenon. To date, we have turned to sports teams in order to have a controlled industry in which to examine this effect. Having gathered historical football data from the NFL (1920-2008) on team performance and coaching turnover, we believe that this effect is present, although weakly demonstrated. By using strength

of schedule as an instrumental variable, we want to show the inconsistencies in the firing decisions and the impact on future team results. This link – from past to future performance – occupies a gap in the literature. We are now attempting to increase the statistical power of the data by broadening the set to include the NHL. Both of these settings have the extremely nice property that teams play a set number of games each season, although with variation in the teams seen, and performance is easy to measure in terms of wins and losses. This sets up a natural experiment for our retention question.

1.3   Research questions

We hope to address two main issues. The first issue, around choice, is the primary area of interest. (1) Do organizations fire leaders too soon? What does the data tell us about retention decisions and their timing? (2) What are the consequences of these decisions? How is firm performance affected after a retention decision, whether good or bad?

This research is applicable to a wide array of organizational questions. We note that even though some of these issues have been extensively covered, our approach brings new insight to the question, as it deals with causation and not merely correlation. As a result, this could have useful applications in any area where performance uncertainty is a factor in the strategic retention consideration.

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Devin Pope