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## Functional Roles and Executive Turnover

Center for Executive Succession

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## FUNCTIONAL ROLES AND EXECUTIVE TURNOVER

It's no surprise that executive turnover can hurt firms, but research to appear in the *Strategic Management Journal* shows that losing top executives is more harmful to a firm when the executives have roles that focus on coordinating internal processes instead of roles that focus externally. When several departures occur in the same time period, firms are put more at risk when the group is made up of executives from different functional areas, compared to a departure of the same number for just one function in the firm.

### Key Takeaways:

- Firm outcomes depend not only on whether executives leave, but on who leaves, individually and collectively.
- The departure of executives with internally-focused roles is more harmful to firms because their jobs depend on firm-specific knowledge and experience.
- Losing executives from different functions at the same time is more detrimental than losing several from the same function.

Using data on the executive teams in every advertising agency in New York City between 1924 and 1996, researchers looked at the impact of executive departures on the likelihood of agency dissolution. The departure of top executives made the collapse of the firm about 12% more likely on average, and more so when top executives left to work for competitors. But turnover among executives with internal roles (like ad production) put the firm at more risk than the departure of those with external roles (like client management). For instance, losing an administrative executive increased the risk of failure by 20%, but losing an account executive actually reduced the risk.

The researchers reasoned that external functions require more knowledge that transfers across firms - about the industry and the market. Internal functions require knowledge and skills that are specific to the firm and not available in the labor market. They also explained that a more diverse group of leavers increased the risk because they represent the loss of knowledge that affects the firm more broadly and disrupts strategic competitiveness.

The authors note that future research is needed to understand whether these findings apply beyond the New York advertising industry, and to learn more about the specific knowledge that executives take with them when they leave.

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