How the mighty are fallen

In the past two decades, the average tenure of a CEO has halved, and yet, in fewer than half the cases, the reason for their departure was solely because of poor performance.

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During his tenure as CEO of the Swiss bank UBS, Peter Wuffli was the envy of his peers. In 2005, at the height of the economic boom, *BusinessWeek* hailed him as “The Master of Zurich” credited with bringing “the glory days back to Swiss banking.” Then, in 2007, the subprime bubble burst, and UBS went into the red. It was forced to admit that its assets had shed more than $40 billion in value. Then the bank came under investigation for allegedly helping thousands of wealthy U.S. customers evade taxes. Today, Peter Wuffli and many of his ilk at other large companies – from Lehman Brothers to AIG to The Royal Bank of Scotland – have been knocked from their pedestals. Rather than being envied, many of these highfliers have been reduced to cautionary tales.

And with some justification. Those responsible for the worst financial crisis since the Great Depression surely deserved to be fired. When the economy goes belly up, CEO turnover doubles, as Jenter and Kanaan have shown. Behind these latest scandals, however, there is something else going on. CEO tenure has, on average, halved since 1990. And it can’t all be blamed on declining profitability.

Why the increased turnover at the top? Nine times out of 10 the answer is simple: Companies hire a new CEO because the old one retired, fell ill or died. The one case where something bad transpired may seem negligible, but given the fact that CEOs of large corporations control more capital than the governments of many nation-states, the effects of the one bad apple are catastrophic for millions.

To find out why CEOs fall from grace, we sifted through recent academic literature looking for patterns as well as for clues as to how failure can be prevented. What we found is that, in this field, there are no absolute truths. Almost all the factors held up by some authors have been questioned or qualified by others. Besides, there is no consensus as to what constitutes failure. In spite of these limitations, our study manages to shed some light on the obscure circumstances surrounding CEO performance.

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