

Change of CEO: Why, when, how?

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What leads a board to sack its top executive? Are dismissals mainly due to poor management or other reasons?

Contrary to received wisdom, poor results are not the main cause of CEO turnover, as is revealed in a [study](#) of CEO turnover in Spain's largest listed companies between 2001 and 2010 carried out by IESE Prof. [Guido Stein](#), with the assistance of Salvador Plaza and Lourdes Susaeta.

The research sheds light on the main reasons behind replacing a company's chief executive, revealing the average time that a CEO remains in his or her job, the average age at which they take up and leave the post, and the main differences between sectors.

Job stability

The authors analyzed the changes in 184 companies over a period of 10 years. More than half of these companies (53 percent) employed the same chief executive throughout this period, while a third (33 percent) changed their CEO.

This means that 14 percent of companies accounted for the majority of the 123 dismissals produced during the decade.

Those that changed their CEO twice represent around 10 percent of the sample, while those that appointed three or more CEOs in this period amount to almost 4 percent.

Curiously, the last two years covered by the study showed contrary behavior in terms of the number of dismissals. While 2009 was the most restless of the decade, accounting for 15

percent of total dismissals, 2010 was much quieter, producing only 6 percent.

Reasons for dismissal

Drawing on the published reasons for dismissal along with other complementary data, the study established that the main cause for dismissal of CEOs was mergers and acquisitions (30 percent), especially those involving hostile takeovers.

The other most frequently cited causes were planned successions (19 percent) and retirement (12 percent). In other words, natural turnover represented almost a third of the total.

It is interesting to note the high percentage of planned successions. According to the authors, this may be a positive result of better management and reforms introduced by companies adopting recommended codes of good governance.

Dismissals as a result of poor CEO performance are less frequent. Success leading to a move to a more prestigious job was behind 9 percent of the departures, while poor management accounted for only 7 percent.

Other reasons given for leaving were for personal motives or poor health (8 percent), disagreements about management policies (7 percent) and, to a lesser extent, death (3 percent) and scandal (3 percent).

Clearly, all this data must be interpreted with caution, as behind each dismissal there may be more than one cause: for example, disagreements about management combined with poor results.

What's more, sometimes the reason is not made public or the real motives are covered up to protect the reputation of the company or those involved in the dismissal.

Less than a decade

On average, the chief executives of Spain's largest listed companies remain in their jobs for an average of nine years, three more than the average in comparable markets.

However, there are significant variations in the mandates, depending above all on the sector and subsector in which the company operates.

The study shows that in sectors such as basic materials, industry and construction, the chief

executive's mandate is usually longer than nine years.

In more dynamic sectors, such as technology, telecommunications, oil and energy, and consumer services, CEOs tend to have a shorter shelf life of between five and eight years.

The sectors with the highest turnover of chief executives are financial services, real estate and consumer goods.

There was a notable peak in dismissals in the real-estate sector during 2006, which coincides with a significant increase in mergers and acquisitions.

Contrasting experiences

In the companies analyzed, the average age of CEOs leaving their post was 62.

In this section, the data show quite a high deviation of around 11 years.

Data on the age that CEOs take up their jobs are more homogenous. Some 30 percent of chief executives took up their posts aged between 50 and 55, although the average is slightly higher, at 56.

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