Leadership

Expect Heavy CEO Turnover Very Soon

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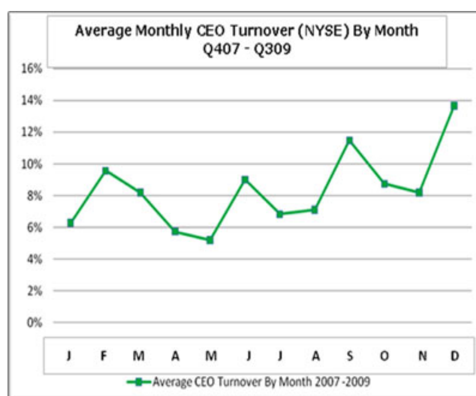
'Tis the season.

If history is any predictor of what's in Santa's goodie bag for the chief executive officers of U.S. publicly traded companies, it looks like a lot of them--perhaps 100 or more--will be receiving pink slips between now and the beginning of the coming New Year. Of them, approximately 25 will be delivered at companies on the New York Stock Exchange. Why? Surprisingly, it's not the downturn. It's the recovery and the effects of changing regulations.

Researchers at Crenshaw Associates, the New York-based senior executive development and transition firm, have observed that the fourth quarter is now the largest quarter for announcing top leadership changes at NYSE-traded companies. It accounts for nearly a third of their annual total. In addition, December has become the largest single month, representing 14% of a year's total CEO departures. Historically, this wasn't the pattern.

CEO turnover has increased dramatically over the past decade. In the 1990s, roughly 5% of CEOs would be replaced annually, and the average tenure of a sitting CEO was nine years. During the past four years, the average CEO turnover rate has risen to 15% a year, and the average tenure has dropped to 4.8 years. Departure statistics from Challenger, Gray & Christmas, an outplacement firm, show that 2009 is tracking toward another record high for CEO departures, judging from annualized year-to-date figures through October.



The number of CEOs whose terminations or retirements are announced by Jan. 1 may be greater this year than ever. We've seen a marked increase in the number of CEO departures from NYSE companies during the last month of almost every quarter recently, and based on the rates seen early in this quarter, the December numbers will be very high.

The experience of the last recession gives further evidence that a lot of CEOs could be sacked this month. In 2001 and '02, CEO departures rose at the onset of the recession, declined during the downturn phase and then increased again during the recovery phase. It appears that boards tend to ride out turbulent times with their leaders in place, letting them batten down the hatches and make the necessary cuts while carrying bad numbers to the Street. Then, once it's apparent that a recovery is in sight, the board becomes more inclined to make a leadership change, giving a new CEO a fresh start, distance from the tough decisions of the recent past and a chance to take advantage of the rising economic tide. If this happens again now, as the data would indicate, then recent headlines about improving business conditions may contribute to a bumper crop of furloughed CEOs this month.

Gayle Mattson, executive vice president and global practice leader for the board and CEO practice at DHR International, an executive search firm, concurs and says she has noted a recent increase in CEO search assignments.

"The increase we're seeing in active CEO searches suggests that boards are again looking at the future leadership needs of their companies, not just at the short-term impacts of the economy. We expect to see this trend continue as the recession ebbs," she says.
Regulatory change is also contributing to a potential increase in CEO turnover. For many corporations, 2009 will go into the books as a less than stellar year. Consequently many boards may favor timing their decisions to make an already bad year worse rather than add to the burden for the new year ahead.

Accounting rules have long permitted companies to book the expenses they associate with the termination of a CEO to the year in which the decision is made, even if the decision isn't acted on until the following fiscal year. Sarbanes Oxley, however, has greatly curtailed the latitude boards have in this regard. "Prior to 2002 companies, could make the decision in to sack their CEO on Dec. 31 and book the associated expenses to that year even though they might not actually execute the decision until, for instance, February or March of the following year," says Jerry Elliott, chief financial officer of The Weather Channel. "Sarbanes-Oxley now requires boards of public companies to announce their decision to replace their CEO (and CFO) within four business days. That means that if a board elects to terminate its CEO on Dec. 31 of this year, it will have only until Wednesday, Jan. 6, to announce it." Consequently there are now more December announcements of CEO terminations than there were before Sarbanes-Oxley.

Looking at today's high CEO turnover levels and the near-term potential for even higher ones, the challenge facing boards may not be the decision to change CEOs as much as the need to change the way they go about selecting the new one. If boards use the same process they used to select the CEO they're letting go of, why should they expect any better success this time around? Today's incredibly high turnover rates will only be reduced when boards adopt a different selection model to ensure they get leaders who fit. The problem is systemic.

For the CEOs who get sacked, however, it will be too late. Santa is undoubtedly already making his list and checking it twice. So, as the holiday season arrives, expect an increased number of CEOs who won't be in as joyous and cheery a frame of mind as they expected. Out with the old and in with the new, as they say. 'Tis the season.

Nat Stoddard is co-author of The Right Leader: Selecting Executives Who Fit and chairman of Crenshaw Associates, a New York-based consulting firm that advises senior executives and boards on leadership development, career transition and succession.