



CEO Turnover

By Bruce Dingman

CEOs of mid-market and larger companies, whether private or public, continue to find increased pressure to deliver better financial results while meeting stringent Sarbanes-Oxley requirements and also upholding the values and integrity of the organization. Many are not exhibiting the "grace under pressure" expected. A recent report by the outplacement firm Challenger, Gray & Christmas, Inc. showed that May saw 120 announced departures of chief executive officers, the fourth consecutive month of 100 or more changes at the top. Reasons given for the high level of turnover include planned retirements, performance records, post-Enron ethical issues, and changing priorities in corporate strategy. According to John A. Challenger, "There were no fewer than four companies that announced CEO resignations amid government and internal investigations or audits."

However, ethics does not seem to be the primary reason CEOs are being fired. A Booz Allen Hamilton report of large public companies reported in May that forced turnovers are strongly correlated with poor shareholder returns. Another interesting finding was that incoming CEOs brought from the outside were inheriting companies in worse shape than those of new CEOs coming from inside their organization. One conclusion is that internal candidates are often associated with the poor performance, and an outside candidate seems more able to affect a turnaround.

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