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CEO Departures on the Rise and Age May Be a Factor

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Businesses may be looking to a younger generation to lead their companies as older, long-tenured CEOs step aside.

More than 90 CEOs left their positions in May, according to outplacement firm Challenger, Gray and Christmas, which reports monthly on CEO departures for U.S. companies. That's nearly 14 percent higher than the number that left the same month last year. For the year, 541 CEOs have left their posts, compared to 472 departures in the first five months of 2017, according to the firm's data.

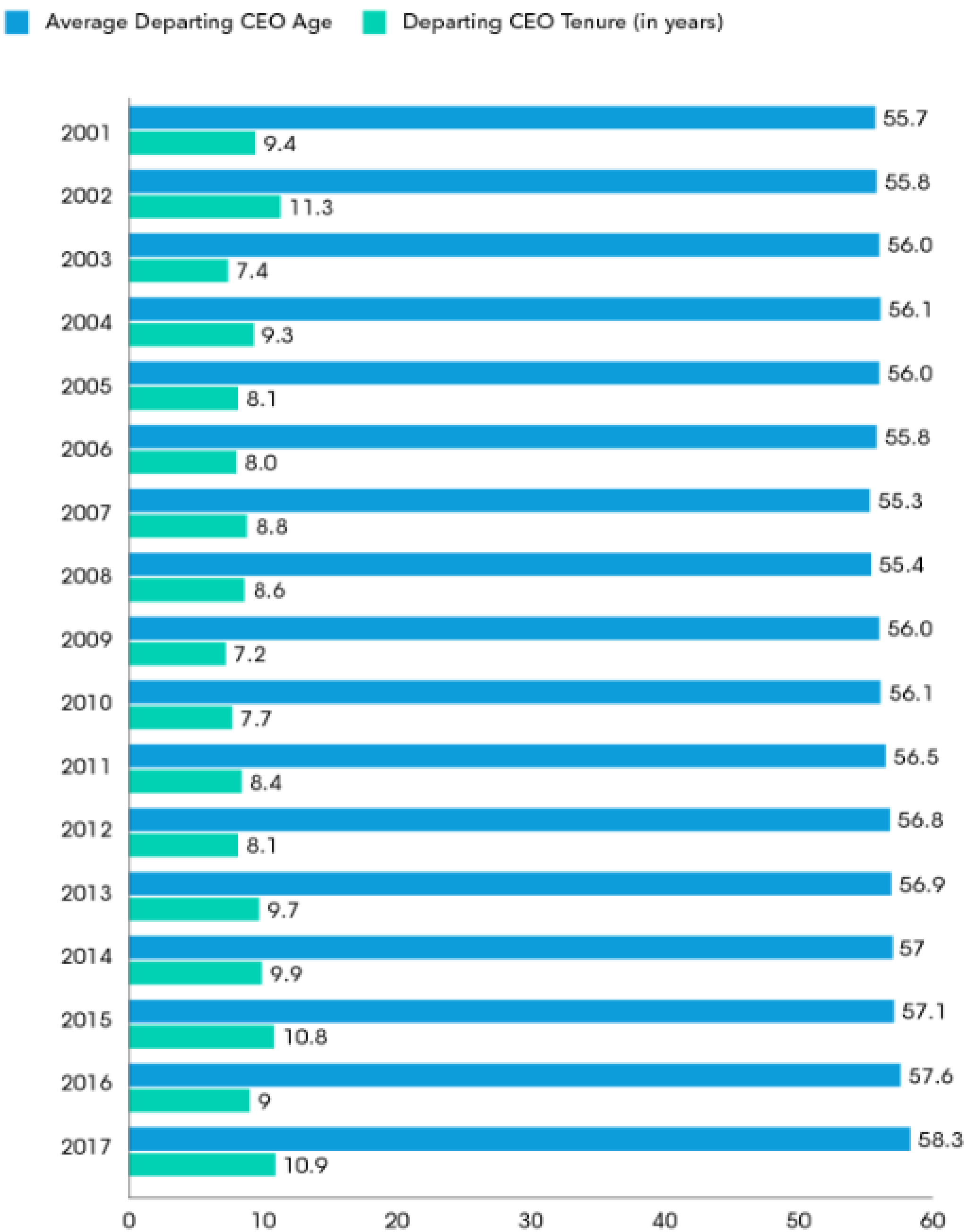
CEOs from well-known companies were among those departing. Papa John's saw its founder and CEO, John Schnatter, step away at the start of the year following controversial remarks about NFL players' protests during the national anthem, while Lowe's longtime CEO Robert Niblock, who led the company through the 2008 recession, announced plans earlier this year to step down. Both men are in their mid-50s and led their respective companies for many years.

Economic growth after the 2008 recession "appears to have stretched leadership tenure at U.S. public companies, with effects on CEO age," Matteo Tonello, managing director and corporate leader for the Conference Board, told Bloomberg Law. The average age of a chief executive officer with an S&P 500 company has increased since the recession, hitting 58.3 years in 2017, more than two years older than the average CEO in 2009, Tonello said. The Conference Board is a nonprofit business and research organization.

CEOs also began sticking around longer following the recession, Tonello said. "In 2009, at the peak of that recession, the typical CEO of an S&P 500 held his or her position for 7.2 years—the shortest average tenure ever reported by The Conference Board," he said. But by 2017, the average CEO had been with his or her company for nearly 11 years, the highest average since 2002.

According to data compiled by the Conference Board, 61 percent of CEO departures were because of retirement while 27 percent resigned or stepped down in 2017.

Age and Tenure of Departing CEOs With S&P500 Companies



Source: The Conference Board, 2018

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Younger Generation Stepping In?
Businesses also may be looking for a different skill set over experience, Tonello said.

"In the last two decades, the business community has started to appreciate skills that are not necessarily linked to the number of years of experience," he said. Instead, businesses are seeking out the younger generation of leaders who embrace new technologies and have better understanding of evolving customer needs.

"This explains why new incoming CEOs, on average, are in their early to mid-50s, while the appointment to the top job of executives aged 60 or older has become quite uncommon," Tonello said.

Greater diversity may be a factor as companies search for CEO replacements.

Company Performance, Mergers Also Factors
In recent months, companies such as JCPenney and Mattel that have struggled financially also have seen changes at the top.

JCPenney CEO Marvin Ellison left June 1 to move to Lowe's. That was after the department store chain saw its stock price fall from more than $10 per share in late 2016 to less than $3 in May 2018, according to Bloomberg data. At Mattel, after nearly a year and half of falling stock prices, the company announced in April that Margo Georgiadis would step down as CEO, though the company may stick to the turnaround plan Georgiadis spearheaded.

"Boards have been paying attention to the pay-for-performance paradigm for some time, in particular after the introduction of say-on-pay and the widespread demand by shareholders to engage with senior management and directors on pay policy," he said. Say on pay is a rule that gives company shareholders the right to vote on how the company CEO is paid.

The more recent pay ratio rule may also be driving more scrutiny as directors are sensitive to the reputational issues resulting from CEOs of poorly performing companies getting paid a handsome salary that is hundreds of times larger than the median employee.

Yet, it is too early to tell the impact of the pay ratio rule, as disclosures for most companies only began fairly recently, Tonello said.

Timothy Stark, director and client engagement manager for Equilar, said company mergers and acquisitions also have played a role in the rise in departing CEOs. Equilar provides information on board recruiting, executive compensation, and shareholder engagement.

In addition, Stark said fewer companies are going public and more are staying private. As a private company, people can come and go and no one will notice, Stark told Bloomberg Law.

Stark also cautioned that the jump in CEO departures this year may not necessarily indicate a trend. People are making decisions based on year over year numbers that show a spike, he said, but when looked at in five years, they may not be seen as a big difference.