



## THE LEX COLUMN

### Jobsolescence

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Do chief executives have a sell-by date? Last week the outgoing head of Henderson, the UK asset manager, said that no chief executive of a public company should hang around for more than 10 years. Others reckon that after about five years, in spite of their best intentions, bosses get complacent, lazy or simply run out of strategic or operational zeal.

The facts, however, seem to suggest that CEOs may be more like fine wine than old fish - they improve with time. Research by Manchester Square Partners examined CEO tenure and corporate performance for more than 200 listed UK companies. The results show no diminution of returns in earnings per share or share price for companies whose CEOs have been in charge for a decade. This trend also holds true beyond 10 years, although the paucity of long-standing CEOs makes the data unreliable.

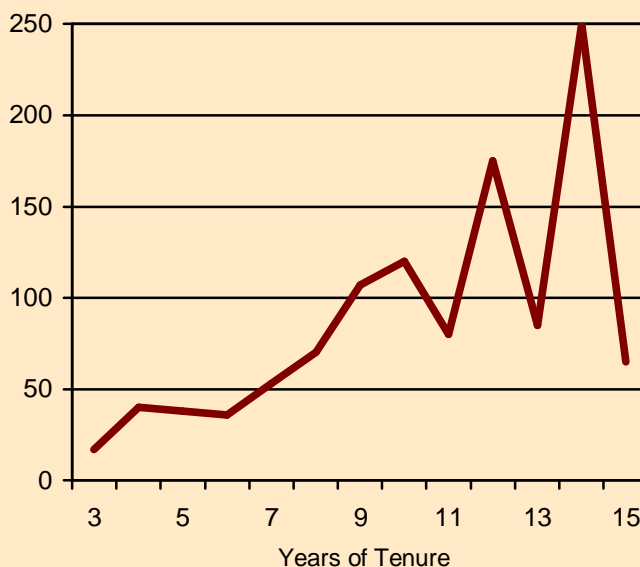
A similar conclusion was reached in the US by the University of Texas - at least for stable companies. In more cyclical industries, such as IT, returns were found to deteriorate much sooner into a CEO's tenure.

Of course there are other caveats to the UK study, not least the crudity of using earnings per share as a measure of performance. And the tail-end of the period under consideration - the 15 years to 2006 - was a time of rapidly accelerating earnings. From mid-2003, CEOs still lucky enough to be in the hot seat could have generated booming profits with their eyes shut. The same goes for rising share prices.

Still, the more practical conclusion from the study is not that CEOs keep their touch but rather that corporate performance seems to improve most rapidly during their third year in the corner office. Few executives are going to produce the stellar returns of Warren Buffett after almost 40 years at the top. But boards under pressure to fire their CEOs would serve their shareholders best by waiting to pull the trigger until at least year four - or perhaps by doing nothing at all.

#### Long-term CEOs do it better

Increase in earnings per share over tenure  
(% change)



Source: Manchester Square Partners