Are Interim CEOs a Better Solution Than Toughing It Out?

We came across an interesting study from the US regarding interim CEOs. Last year, there were nine Interim CEOs in place at major US companies. Notably, more than two-thirds of the 13 identified publicly traded companies led by Interim CEOs since 2003 dramatically outperformed an index of peer companies by a median of 10.8%.

Despite the perception that these CEOs are primarily transient caretakers, analysis reveals that these executives’ performances may be underestimated.

Other interesting findings are:

- On average, an Interim CEO’s tenure was 159 days or 5.3 months, ranging from 59 to 300 days.
- During the service of the nine outperforming Interim CEOs, their company’s share price gained a median of 18%.
- In addition to the nine (69%) outperforming Interim CEOs, the stock of three (23%) Interim CEO-led companies underperformed an index of peer companies. The share price of the remaining Interim CEO-led company (8%) matched its peer index. (Returns were calculated from the last trading day before the Interim CEO started through the last trading day of his/her service as Interim CEO.)
- Among all Interim CEO-led companies examined over the past three years, the median company outperformed an index of peer companies by a significant 8.1%.

CEOs continue to depart at a rapid pace as corporate boards
take more active roles in overseeing executive performance. As CEO tenures shorten and former CEOs depart unexpectedly, boards frequently find that successor CEOs are not identified or properly groomed for the chief executive position. Interim CEOs represent a solution until boards can find qualified successors or gain confidence in the Interim CEO’s leadership ability.

Interim CEOs may deliver superior stock market returns because the market is rewarding the board’s decision to change leadership. Shareholders may experience relief that the company’s strategic direction is finally in new hands and that the short-term Interim CEO will make the necessary tough decisions.

In Australia, Interim CEOs have tended to be an existing board member (often the chairman) who takes on the full time CEO role until a permanent replacement is found. This is a low risk approach that provides the board with a full time “insider” who can better assess the capability of internal candidates prior to making a permanent appointment.

Should a chairman who becomes Interim CEO receive CEO remuneration? Guerdon Associates’ view is yes, he/she should. However, the board may wish to consider special incentive arrangements to reflect the nature of the role. These may be heavily short term weighted, given that the company is likely to be in distress, and the incumbent will resume his/her role as non-executive chairman after a successor is found, presumably within 12 months. On the other hand, the board may decide that the role not receive incentive pay, as it is a temporary full time extension of the board director role to conserve shareholder capital in times of distress.