

The Boardroom Report

Announcing a CEO's departure

***“INVESTORS
NEED DETAILED
INFORMATION ABOUT
THE STEPS BEING
TAKEN TO FIND A CEO
REPLACEMENT AND
HOW THE COMPANY
WILL BE MANAGED IN
THE INTERIM”***

Communicating news of a CEO's departure is never an easy task for a board, but the fallout can be minimised if companies are prepared to be honest about the reasons for the departure, engage with the market and outline a strategy to find a replacement.

That is the view of Geoff Fowlstone, principal of Fowlstone Communications, which recently conducted a survey asking 10 leading Australian fund managers (who collectively manage funds over \$250 billion) their views as to how the departure of a CEO should be communicated.

The research found that investors react negatively when they are surprised by the departure of a CEO. This immediately prompts questions around strategic direction, operational issues and future company performance.

It also found that there is widespread scepticism around the common reasons given by publicly-listed companies when CEOs leave a business. In addition, the average length of tenure for CEOs with which investors are comfortable is five years.

“In the absence of obvious explainable factors (for example, a retirement), the departure of a CEO less than three years into his

or her tenure is immediately assumed to not have been voluntary,” says Fowlstone.

“Investors need detailed information about the steps being taken to find a replacement, and how the company will be managed in the intervening period. The thorny issue of ‘board renewal’ is also top of mind when a CEO's surprise departure is announced. Many investors take the view that changes at board level should coincide with a CEO's departure if there has been a major failure of strategy or ongoing poor performance.”

Fowlstone says investors like to see real evidence of the reason for the CEO's departure to allay concerns around the exit, including enough detail to verify that the reasons for leaving are correct.

“The well-honed practice of providing platitudes – such as leaving for personal reasons – simply does not work and raises more questions in the minds of major investors, amplifying the negative impact,” he says.

“Clearly this is a particularly thorny issue, frequently complicated by ‘non-disparagement’ [clauses] and confidentiality obligations. Reasons cited as most credible for explaining the departure of a CEO were: ‘due to irreconcilable differences with the board’ and ‘achieved what was set out on appointment’.”

According to Fowlstone, an earnings update coinciding with the announcement goes a long way to reassure the market that everything is on track.

“Transparency is imperative and board's need to be prepared to engage with the market and outline a process for finding a replacement and a credible plan on how the function will be managed in the interim period. Releasing a succession plan is one practical step to filling the information vacuum.

“As with any communication, context is also important here and the ‘tea leaves’ are read particularly negatively if the announcement occurs within 12 months of a major acquisition, or immediately prior to an earnings announcement.

“Boards also need to face up to accountability, particularly where there is a major failure of strategy or a performance blow out, but this needs to be done in an orderly fashion to ensure continuity of leadership in the company.”

→ *Contribute feedback*

Unique property opportunity (and not for just any Tom, Dick or Harriet)
www.treetopsnoosa.com.au