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# SECOND TIME IS A CHARM? REHIRING THE EX-CEO

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**ABSTRACT**

*There have been many Chief Executive Officers (CEOs) of public companies who have come back to lead the firm they once gloriously lead. Since 2005, among S&P 100 companies in the U.S., there have been six CEOs who have returned as CEOs at the same company, with Steve Jobs of Apple being an exemplary 2nd term CEO. This paper analyzes whether these two term CEOs have been successful in their second tour of duty based on changes in share price of their companies during their second tour. The data shows that overall; there is no clear pattern in terms of better performance for second term CEOs. Although the analysis of share prices shows that 2nd term CEOs outperform the CEOs they replace by a wide margin, that number is very highly skewed by astronomical success of Steve Jobs at Apple. Additionally, the analysis of this paper shows that with the exception of two returning CEOs all others were either founders or member of the Board of Directors. Finally, this paper briefly discusses measuring performance of CEOs using Environmental, Sustainability and Corporate Governance matrices.*

**JEL**: M1, G1

**KEYWORDS**: Stock Performance, S&P 500, 2nd term CEOs, ESG

## INTRODUCTION

For baseball and movie aficionados, Billy Martin and Elizabeth Taylor respectively are well- known figures. Billy Martin was named manager of NY Yankees baseball team a record five times and was poised to become manager for a sixth time before his untimely death (Salfino, 2014). Elizabeth Taylor was an Oscar award winner who was married eight times, which included two marriages with actor Richard Burton (Taraborrelli, 2011). In corporate world, the opportunity to come back as CEO at the same firm has gone through its ups and downs. From 1993 to 2003, there was an average of 10 ex-CEOs who came back at the largest 1500 companies (Jones, 2007). However, the rehiring of CEOs cooled slightly during the 2000s. Usually, only persons who have been able to come back as CEOs have been the founders or member of the Company's Board of Directors.

CEOs are the face of an organization and set the strategic direction for the organization. Today, CEOs face "enormous pressure to deliver outstanding performance investors demand--and to satisfy other, often conflicting constituencies." (Nadler, 2007). These conflicting and urgent goals have contributed to the frequent turnover in the C-suite. A study by Booz Allen Hamilton showed that in the United States in 2005 as compared to 1995, 54% more CEOs left their office, and third of those leaving left prematurely due to performance problems (Nadler, 2007). More recent data--from 2000 to 2007--shows that CEO turnover has increased by 16.7% and the average CEO tenure is slightly under 6 years (Kaplan & Minton, 2012). The selection of the CEO is probably the most important decision that a corporate Board of Directors makes. An improper selection can cost an organization money and lost market share. This decision becomes even more acute, when a poor performing CEO is a successor to a very high performing CEO. When the successor does not perform to stock market expectations, the tenure of the successor is abruptly cut short and if the prior CEO is on the Company Board, most likely the prior CEO becomes a very good attractive candidate. The ex-CEO seems to be a good bet for many reasons including: (i) prior superior performance, (ii) well versed in the company culture, (iii) held in high esteem throughout the

organization, (iii) knowledgeable about the industry the company operates in, and (iv) for the experience of being a CEO. Additionally a former employee "offers companies a known quantity, and of course, valuable experience. They 'know the lingo. They know the market. They know the ropes.' " (Lublin, 1996). Furthermore, some studies have shown that it is better to hire from within the organization (Adams, 2012). Usually, the only downside to the ex-CEO becoming a 2nd term CEO is a tarnished legacy (ChiefExecutive.net, 2013). This study shows that hiring the ex-CEO at the same organization does not necessarily lead to better financial performance for the organization. Of the twelve 2nd term CEOs analyzed in this study, six of them improved the firm's performance compared to their predecessors. In comparison to their predecessors, the increase in share price (as compared to the S&P 500) for the 2nd term CEOs was by 10,642 percentage points. However, this outsize number is heavily skewed by the extraordinary performance of Steve Jobs in his second avatar as Apple CEO. Additionally, there were few 2nd terms CEOs who did not meet the S&P 500 returns, but rather helped their shareholders by reducing the steep rate of stock price decline. Except for two 2nd term CEOs, all of the 2nd term CEOs were either founders or member of the Board of Director and or Chairman of the Board. The ex-CEO being member of the Board of Directors has important implication for a successor CEO. The successor CEO is in a very difficult situation since the Board closely monitors the CEO's performance and also he has to meet high standards set by the predecessor. The successor CEO can be replaced anytime because the ex-CEO is available to take over when the successor CEO stumbles.

As discussed later, today's CEOs are not only being evaluated based on financial performance, they are also being ranked on how their firms manage the other stakeholders, such as employees, environment, customers, and corporate governance issues (together "social" rankings). Although, for the purposes of this study the social rankings are too recent to make a meaningful comparison of social performance for the predecessor and 2nd terms CEOs. The remainder of this paper is organized as follows: a survey of literature is followed by a discussion of the data and its analysis, followed by concluding remarks.

## LITERATURE REVIEW

Interestingly, there is little or no literature on 2nd term CEO performance. More specifically, there is a single study by Fahlenbrach, Minton, & Pan (2006) that examines the performance of 65 rehired CEOs from 1993-2005 (Jones, 2007). Fahlenbrach et al., provide many useful insights regarding 2nd terms CEOs. They conclude that 2nd term CEOs do as well as other new hires, 2nd term CEOs are rehired mainly due to poor performance of their predecessors, and 2nd term CEOs are likely to have strong connection with the firm, such as shares owned and Chairman of Board status. This paper is similar to Fahlenbrach et al., in that it analyzes an organization's stock performance prior to and during the tenure of 2nd term CEO. It differs from Fahlenbrach et al., in two significant ways. First, this study examines data that are more recent and second, it only analyzes performance of 2nd term CEOs of S&P 100 companies in beginning of 2014.

Other researchers have studied CEO performance, with different matrices. Jalal & Prezas (2012) suggest that firms pay more, link compensation to stock performance, and get more benefit from hiring CEOs outside of their organization and from a different industry than their own. Kaplan & Minton (2012) discuss the increasing rate of turnover, and shorter tenure for CEOs for U.S. corporations, and the Board of Directors very high sensitivity to firm's stock performance. Hansen, Ibarra, & Peyer (2013) have compiled a list of top performing CEOs worldwide. Their ranking is based on long-term financial performance of their organizations and corporate social performance. According to Hansen et al., the best performing CEO in last 17 years was Steve Jobs, and highest ranked women CEO is Meg Whitman of HP. Their findings are impressive because Hansen et al. do not just analyze performance during the CEO's tenure but three years afterward. This metric ensures that CEOs create a pipeline of future managers and make decisions that benefit shareholders in the long-term. Their research also shows that in U.S., CEOs hired from outside the company usually do not perform better than internally hired CEOs.

Fahlenbrach, Minton & Pan (2011) conclude that firms with former CEOs as directors do better than firms without them. Eckbo & Thorburn (2003), argue that after bankruptcy CEOs that invested conservatively have a better probability to be rehired by the new owners than the CEOs who invested aggressively. Efendi, Files, Ouyang & Swanson (2012) find that CEOs are less likely to be rehired when involved with option backdating. Finally, a study by Hamori & Koyuncu (2013) shows that CEOs with non job-specific experience surprisingly outperform their peers who had prior job-specific CEO experience. Dennis, Ramsey, & Turner (2009) discussed the performance of Co-CEOs and state that Co-CEOs are unrelated to past or future performance and there is a weak positive stock price rise with Co-CEO management structure announcement. Dissolving of a Co-CEO structure correlates with decrease in the firm's stock price.

## DATA AND METHODOLOGY

The starting point for determining the 2nd term CEOs list was to review Form 10-K SEC filings for 2005-2014 of all S&P 100 listed companies (Price-Data, 2014) as of January 23, 2014. This review identified six CEOs who had been rehired as CEOs at the same corporation. They are Mike Ullman at JC Penney, Alan Lafley at Proctor & Gamble, Howard Schultz at Starbucks, Steve Jobs at Apple, Charles Schwab at Charles Schwab, and Michael Dell at Dell. In an effort to expand the number of CEOs analyzed, a BusinessWeek article (2009) identified four additional 2nd term CEOs who are included as part of this study. They are Stephen Luzco of Seagate Technology, Jerry Yang of Yahoo, Ted Waitt of Gateway, and Ken Lay of Enron. Although, E. Neville Isdell of Coca- Cola, Kirk Kerkorian of MGM, and David Duffield of PeopleSoft are included in the BusinessWeek article, they were not included in this study. E. Neville Isdell was CEO of Coca-Cola Beverages in Britain in his first term, and not the CEO of parent Coca-Cola; 10-K filings do not show Kirk Kerkorian as the CEO of MGM even though he may have been the de-facto owner; and David Duffield came back to PeopleSoft only for about two months to prevent hostile takeover by Oracle Corporation. Paul Allaire at Xerox and James Houghton at Corning complete the list of 2nd term CEOs. Thus, a total of twelve 2nd term CEOs' performance is analyzed in this paper.

It was determined that the performance of the CEOs would be based on stock performance because the stock price usually reflects all publicly available information about the organization and due to the increased sensitivity to firm's stock price by Board of Directors (Kaplan & Minton, 2012). Researchers usually use (i) stock performance relative to industry, (ii) performance of the industry relative to the stock market, and (iii) performance of overall stock market (Kaplan & Minton, 2012) when determining a corporation's financial performance based on stock price. In this study, and as shown in Table 1, performance is measured by first analyzing the direction of stock price (during the tenure of prior CEO, and during the tenure of 2nd time CEO), and also by comparing the change in stock price with the movement of S&P 500 index. Unfortunately, for some CEOs an increase the firm's stock price during his tenure does not guarantee continued employment. They are forced out because the stock price does not meet market expectation or lags the market or industry indices.

Traditionally the success (or failure) of a CEO was based on financial performance. However, recently specially after the banking troubles of 2008 there has been a determined effort towards measuring CEO performance by analyzing a company's social activities. Now companies are also evaluated on their relationship with other stakeholders and the environment. Companies need to work towards the well-being of the communities in which they operate, the environment, and their employees (Hansen et al., 2013). Some of the popular organizations that measure the environmental, sustainability, and corporate governance of organizations are: (i) MSCI KLD 400 Social Index, (ii) Newsweek Green Rankings, (iii) Global 100 Index, and (iv) Global RepTrak 100. Terms such as ESG (Environmental, Social, Corporate Governance), and SRI (socially responsible investing) are prominently used to describe organizational efforts in this arena (What is ESG, n.d.). Of the organizations analyzed in this study, Apple (48th place), Xerox (101st place), Proctor & Gamble (246th place), Starbucks (283rd place), and Charles Schwab (328th

place) are included in Newsweek's Green Rankings for 2014 (Newsweek, 2014). Unfortunately, Newsweek and other rankings do not go as far back as necessary to compare the social performance of CEOs in prior tenure. Study by Hansen et al. shows that there is no correlation between financial and social & environmental performance; however, many companies have been able to accomplish high numbers in both the financial and social/environmental matrices. Hansen et al also do not foresee the social performance measures to be as objective as financial matrices in near term.

## RESULTS

In his first term, Mike Ullman of JC Penney was dismissed because he could not provide the stock price appreciation that an activist shareholder sought. After Ullman's departure, Ron Johnson—who had led Apple's retail stores—was hired as the CEO. During Johnson's tenure, JC Penney stock price declined 58% while the S&P 500 gained 22%. This information and stock performance data for 2nd term CEOs appears in Table 1. Mr. Ullman was rehired and has been able to reduce the rate of JC Penney stock price decline. During Ullman's 2nd term, JC Penney stock price has declined by 39% while the S&P 500 has increased by 25% during the same period. Essentially, Mr. Ullman has not found an enduring formula for the ailing JC Penney. Mr. Ullman was not on the JC Penney Board prior to being asked to come back.

At Proctor & Gamble (P&G), Alan Lafley came back about a year ago. So far, the P&G stock has increased by 0.73% while the S&P 500 has increased by 21.38%. Clearly, he has not provided the returns the investors have sought. Surprisingly, Lafley's picked successor and predecessor—Robert McDonald—had increased the stock performance under his watch by 53.28% while the S&P returned 82.05%. This is an example of the extremely high standards set by Mr. Lafley, whereby any of his successor would have difficulty matching his performance. Another reason for Mr. McDonald losing his position was the presence of an activist investor/board member. Prior to his comeback, Mr. Lafley was not a member of the P&G Board of Directors.

Howard Schultz of Starbucks is also a super 2nd term CEO, who changed the way Americans drank coffee. He created an experience where coffee was much more than just a hot beverage for the average American coffee drinker. His predecessor oversaw a decrease of 20.13% in Starbucks' stock price, while the S&P 500 increased by 25% during the same period. On his return Mr. Schultz has engineered a stock price increase of over 336% while the S&P increased by 41%. Clearly, a very good performance for Starbucks and Mr. Shultz in his 2nd tenure. Mr. Schultz was a member of the Starbucks Board of Directors when he made his comeback.

Steve Jobs is also legendary as a CEO because he practically started a new industry. He popularized the personal computers via iPhone and iPad. Prior to his comeback, the Apple Corporation had fallen on hard times and lost close to 50% of its stock price while the S&P had gained 43%. Most remarkably in his 2nd tenure, Apple share price increased by a whopping 9,932%, in comparison, the S&P 500 increased by only 46%. Mr. Jobs was not member of the Apple Board of Directors prior to him being named the Interim CEO (and eventually the CEO for his 2nd term).

Charles Schwab was a founder of Charles Schwab and member of its Board of Directors prior to coming back as 2nd term CEO. Prior to his return, the company had lost about 3% of its stock price while the S&P 500 had returned about 18% during this time. In his 2nd tenure, the company stock price increased by 104% while the S&P 500 decreased by 104%. Mr. Schwab was a member of the Charles Schwab Board of Directors when he returned for his 2nd tour as the CEO.

Ken Lay was a founder of Enron. Due to crippling accounting and other irregularities, neither Mr. Lay's nor his predecessor could stop the continued downward spiral (and bankruptcy) of Enron stock price. Mr. Lay was a member of the Enron Board of Directors when he came back the second time.

Michael Dell is also a founder of the Dell Corporation and was a member of Board when he came back as the CEO. The predecessor CEO had overseen a decline of approximately 33% of Dell stock price. In his 2nd term, Mr. Dell has increased the company stock price by 33% and beat S&P 500 return of 21.63%. Unfortunately, due to continued challenges, Dell Corporation was taken private in October 2013. Paul Allaire was a member of the Xerox Board when he came back, but stayed on until a permanent replace could be found.

Even though many of the founders like Howard Schultz and Steve Jobs have flourished when they came back as CEO, the same was not true with Jerry Yang, CEO of Yahoo. In his 2nd tenure, under Mr. Yang's leadership, Yahoo's stock price declined by 60% while the S&P 500 declined by 46%. This is the second instance where the prior CEO had had done well but due to failure of meeting market's expectation he lost his job to the founder. Prior to his return as the 2nd term CEO, Mr. Yang's was member of the Yahoo Board of Directors.

Ted Waitt--a founder of Gateway--was unable to stop the declining stock price of the company. Acer acquired Gateway in 2007. Mr. Waitt was member of the company Board of Directors prior to his comeback as 2nd term CEO. Alternatively, James Houghton of Corning was able to rescue the company in his return. Mr. Houghton was member of the company Board of Directors when he came back.

Taken together, the twelve CEOs shown in Table 1 had an average index of 48.68 below S&P 500 during their first term compared with the average of 936.37 above the S&P 500 during their second term. This difference is accounted for by improved performance of Shultz, Jobs, Schwab and Houghton although Jobs accounted for most of this improvement. A paired sample t-test was conducted in Table 2 below to determine the significance of this improved performance in the index. The results shown below indicate that with the t-statistic of -1.16 with a p-value of 0.16, the difference in the paired sample of 12 companies was insignificant.

A common thread among all 2nd term CEOs was that they were either founders, members of the board or an iconic figure for the company. Moreover, the successful 2nd term CEOs were very transformational and visionary leaders. The two comeback CEOs who succeeded in remaking their companies to compete aggressively were Steve Jobs and Howard Schultz. This is explained by the fact they understood the competitive environment, and made necessary changes that were sorely needed. Others, while had similar backgrounds were unable to do so. Jerry Yang also a founder of Yahoo could not make necessary changes to counter his rivals. Two CEOs who are also facing a very difficult competitive environment are Michael Dell and Myron Ullman (JC Penney). Dell is "racing to the bottom of commodity barrel." (Jones, 2007). Only time will tell whether they will be able to make the changes that will help their companies compete again. Few CEOs also comeback to just stop the bleeding—at Xerox, P&G and JC Penney—which unnecessarily delays the critical steps that are needed to be taken in the first place.

Any successor CEO who follows the founder or the iconic CEO who is a member of the Board of Directors, should be very concerned. Any deficiency on the part of these successor CEOs can lead to very quick dismissal. A very fitting example of this situation is the recently hired (Satya Nadella) CEO of Microsoft. Two previous CEOs of Microsoft--Steve Ballmer and Bill Gates—sit on the Microsoft Board. Essentially, companies should avoid having the ex-CEO on its Board if it wants its newest leader to succeed.

Table 1: Comparison of Changes in Company's Stock for the First Term, 2nd Term and Versus S&P 500 Index Return

| CEO | Company | Avg. Company Stock performance prior to return | Avg. S&P 500 Index performance prior to return | Performance compared to S&P 500 | Avg. Company Stock performance during the 2nd term | Avg. S&P 500 Index performance during the 2nd term | Performance compared to S&P 500 |
|---|---|---|---|---|---|---|---|
| Myron "Mike" Ullman | J.C. Penney | 01/2012-03/2013 -57.74% | 01/2012-03/2013 22.33% | 80.07 below S&P 500 | 04/2013-06/2014 -38.85% | 04/2013-06/2014 25.48% | 64.33 below S&P 500 |
| Alan G. Lafley | P&G | 07/2009-06/2013 53.28% | 07/2009-06/2013 82.05% | 28.77 below S&P 500 | 07/2013-06/2014 0.73% | 07/2013-06/2014 21.38% | 20.65 below S&P 500 |
| Howard Shultz | Starbucks | 04/2005-12/2007 -20.13% | 04/2005-12/2007 24.85% | 44.98 below S&P 500 | 01/2008-06/2014 336.55% | 01/2008-06/2014 40.65% | 295.9 above S&P 500 |
| Steve Jobs | Apple | 02/1996-06/1997 -49.78% | 02/1996-06/1997 42.60% | 388.28 below S&P 500 | 07/1997-06/2011 9,932.14% | 07/1997-06/2011 46.11% | 9886.03 above S&P 500 |
| Charles Schwab | Charles Schwab | 06/2003-06/2004 -3.22% | 06/2003-06/2004 17.98% | 21.2 below S&P 500 | 07/2004-10/2008 104.27% | 07/2004-10/2008 -17.27% | 121.54 above S&P 500 |
| Ken Lay | Enron | 02/2001-07/2001 -49.96% | 02/2001-07/2001 -11.21% | 38.75 below S&P 500 | 08/2001-01/2002* -98.69% | 08/2001-01/2002 -5.58% | 93.11 below S&P 500 |
| Michael Dell | Dell | 08/2004-01/2007 -32.51% | 08/2004-01/2007 29.97 | 62.48 below S&P 500 | 02/2007-10/2013 33.40% | 02/2007-10/2013 21.63% | 11.77 above S&P 500 |
| Paul Allaire | Xerox | 04/1999-04/2000 -48.21% | 04/1999-04/2000 12.07% | 60.28 below S&P 500 | 05/2000-08/2001 -66% | 05/2000-08/2001 -22.79% | 43.21 below S&P 500 |
| Stephen Luzco | Seagate | 07/2004-01/2009 -13.67% | 07/2004-01/2009 -22.82% | 9.15 above S&P 500 | 02/2009-06/2014 1213.97% | 02/2009-06/2014 128.58% | 1085.39 above S&P 500 |
| Jerry Yang | Yahoo | 04/2001-06/2007 265.91% | 04/2001-06/2007 35.63% | 230.28 above S&P 500 | 07/2007-11/2008 -60.10% | 07/2007-11/2008 -46.28 | 13.82 below S&P 500 |
| Ted Waitt | Gateway | 01/2000-01/2001 -41.58 | 01/2000-01/2001 -6.13% | 35.45 below S&P 500 | 02/2001-02/2004 -21.59% | 02/2001-02/2004 -16.64% | 4.95 below S&P 500 |
| James Houghton | Corning | 01/2001-03/2002 -83.92% | 01/2001-03/2002 -10.65% | 73.27 below S&P 500 | 04/2002-04/2005 76.74 | 04/2002-04/2005 0.90% | 75.84 above S&P 500 |
| Total | | | | 594.41 Below S&P 500 | | | 11236.4 Above S&P 500 |

*Column 3 of Table 1 above shows the average stock return (for the same duration) for the company prior to the CEO's second term. Column 4 shows the average stock return of the S&P 500 for the same duration and period as column 1. Column 5 compares the company stock performance (column 3) with S&P 500 (column 4) to show whether the stock performance of the company was better or worse than the S&P 500 returns. Moreover, column 6 shows the stock return of the company during the CEO's second term, while column 7 shows the returns for the S&P 500 during CEO's second term. Finally, column 8 shows the difference between company stock performance (columns 6) and S&P 500 returns during CEO's second term. This table shows that as group the second term performance of CEOs was higher that their first term.*
**Enron filed for Bankruptcy Dec. 2, 2001. #The stock returns and dates don't align exactly, they may be off by few days due to weekend or holidays. All stock and S&P 500 performance data from Yahoo Finance and Google Finance.*

Table 2: T-Test Paired Sample for Means

| | Before | After |
|---|---|---|
| Mean | -48.680 | 936.37 |
| Variance | 18,195 | 8,046,710 |
| Observations | 12 | 12 |
| T-State | -1.160 | |
| P Value | 0.1400 | |

*This table shows the t-test paired sample for means analysis to determine the significance of this improved performance in the index. The results indicate that with the t-statistic of -1.16 with a p-value of 0.16, the difference in the paired sample of 12 companies was insignificant. There are 12 observations for this t-test.*

## CONCLUDING COMMENTS

The proposition of this research paper was to determine whether it is a good business decision to rehire a CEO who was previously a CEO at the same company. This paper reviewed the 2005 to 2014 SEC filings of S&P 100 companies to determine how many companies had a 2nd term CEO. Then a comparison of stock performance before and during the term of 2nd CEO was conducted. Research findings show that the company stock performance is higher for 2nd term CEOs than their predecessors. This research is limited by the fact that the data sample is small. Future research should analyze the stock performance data of S&P 500 firms and with a longer time span to give more validity to the findings.

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