The financial performance of listed companies: Does CEO tenure have an impact?

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ABSTRACT

It is widely held that CEOs are central to the successful financial performance of companies. Yet, little attention has been given to the correlation between CEO tenure and financial performance of companies specifically. The purpose of this study was to determine whether CEO tenure has an impact on financial performance of companies in South Africa. The financial performance variables for the study were ROA and ROE. The performance of 30 JSE listed companies from three industries, namely, mining, retail and real estate, between 1995 to 2007 was examined. This gave a total of 62 data observations across the selected three tenure categories: short tenure (one to three years); medium tenure (four to five years); and long tenure (six or more years).

The results showed that the average tenure for South African CEOs was four years; this was slightly lower than the findings of previous studies conducted in the USA. Medium and long tenure showed better financial performance for ROA than short tenure, while there was no statistically significant finding for ROE. Therefore from an ROA point of view, as tenure increases so does financial performance, until a certain point at which it is anticipated that lengthy tenure will lead to a decline in financial performance.

Key words: CEO tenure, financial performance, listed companies, ROA and ROE

DECLARATION

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

Signature: _____

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LIST OF ABBREVIATIONS

Abbreviation	Definition
AIDS	Acquired Immune Deficiency Syndrome
ANOVA	Analysis of Variance
BEE	Black Economic Empowerment
CE	Chief Executive
CEO	Chief Executive Officer
DRC	Democratic Republic of Congo
GDP	Gross Domestic Product
GEAR	Growth, Employment and Redistribution
HIV	Human Immunodeficiency Virus
IMF	International Monetary Fund
JSE	Johannesburg Stock Exchange
MD	Managing Director
PDI	Previously Disadvantaged Individual
RE	Real Estate
ROA	Return on Assets
ROE	Return on Equity
SA	South Africa
SAA	South African Airways
S&P 500	Standard & Poor's 500 Index
UK	United Kingdom
USA	United States of America

CHAPTER ONE: INTRODUCTION TO THE RESEARCH PROBLEM

The global financial crisis of 2008/09 has had significant impact on markets around the world, especially the stronger economies like the United States of America (USA) and the United Kingdom (UK). The entanglement of financial derivatives, coupled with the low sub-prime rates in the USA, has affected the economies of countries across the world, clearly illustrating the interconnectedness of markets globally.

The Western markets are mature with multiple players, competitors and substitute products. South Africa (SA), however, is a relatively new market, following the transformation of the economy after 1994, which has led to greater openness and the liberalisation of her markets. Yet, at the same time, South Africa enjoys a unique set of circumstances. The country has become the economic hub of the entire continent and almost every major conglomerate in the world has an office in SA. At several levels, the country is seen as the iconic state to which other African countries can aspire. This includes, for example, our democratic laws, good governance systems, stable liberalised economy and admirable infrastructure. South Africa's recent success in hosting the World Cup touted as "the best World Cup ever", validates and consolidates this notion of South Africa as the iconic African state.

In 1994 the Apartheid era came to end and the first democratic election was held in South Africa which led to a new beginning. Alongside the wide reaching political changes came the new economic policies to improve growth and to encourage foreign investment. The GEAR policy of 1996 was aimed at liberalising the economy and fast tracking growth which had experienced a major slump during the last years of Apartheid. Following 1994, the entire economical architecture was changed and a plethora of new policies and legislations were instituted. These include the GEAR, Trade Act, and Credit Act.

Liberalisation in response to globalization brought in more competition and more opportunities for South African companies. This meant that many commercial companies faced the challenge of adapting to a new market environment. At the same time, it ushered in testing times for companies in terms of performance and sustainability, which led to a sharper focus on the role of CEOs.

One of the key transitional elements of the new democracy was the advent of Black Economic Empowerment (BEE). According to BEE, companies were obliged to ensure recruitment of previously disadvantaged individuals (PDI's) to assist the economic transformation of South Africa. This meant that CEOs and other top management were appointed based on their previously disadvantaged status during the Apartheid system. The post 1994 era saw changes in the appointment of PDI's to senior management positions at the South African companies. Two more prominent individuals who were appointed after 1994 were Prof. Wiseman

Nkhluhlu and Sizwe Nxasana. There was an emphasis on greater accountability in the role CEOs play in a company's performance as well as a renewed focus on management and leadership training.

The Apartheid era was characterised by long standing management teams, who had occupied their posts for many years. However, this changed significantly with the introduction of BEE in the post 1994 period where the marketability and hence mobility of black CEOs increased. Given these internal changes to the economy as well as the need for companies to compete in the global markets, it became necessary for companies to understand all factors affecting their financial performance. Much of the discourse and research around financial performance of companies seemed to centre on leadership attributes and management skills. There was little discussion on the CEO tenure as a factor. Hence, it was considered that a study on the impact of the tenure of CEO on the financial performance of the company would be both timely and necessary. Furthermore, very little has been done to determine the affect of CEO tenure on financial performance in South Africa since the advent of democracy. The resurrection of the South African economy provided the ideal background from which to determine whether CEO tenure has an impact on financial performance for listed companies. Thus, given the history of South Africa, the beginning of a flourishing mining industry during colonial times, the Apartheid era with its "false economy" based on thwarted labour and discrimination laws; it was considered best that a research study on the topic of CEO tenure and financial performance should focus on the

period commencing 1995. The change of financial policy and control of the markets in SA 1994 meant that all companies had to adapt to the new system, thereby placing companies on a more equitable footing.

The objectives of this study were to determine the affects to financial performance, when measured against industry averages, of 36 listed companies in South Africa from 1995 to 2007. In July 2010, there were 88 different industries to list from on the Johannesburg Stock Exchange (JSE) (Johannesburg Stock Exchange, 2010). This study focussed on the mining, retail and real estate industries of the economy. Each of the selected companies from these three industries were assessed in terms of the impact CEO tenure had on return on assets (ROA) and return on equity (ROE). This helped to define the relationship between these variables in the South African context. These two variables were selected because they had been used in previous research conducted in North America. More importantly, the use of these two variables allowed for determining whether the findings of this study of South African companies resembled that of previous research conducted in USA and Europe. A bold and interesting analysis was conducted, given the discrepancies in the nature and environment of the markets, of such differing contexts such as USA and Europe on one hand, and South Africa on the other.

The main objectives of the research were:

- Objective 1: To determine if CEO tenure is linked to financial performance as measured by return on assets (ROA) and on how to define that relationship.
- Objective 2: To determine if CEO tenure is linked to financial performance as measured by return on equity (ROE) and on how to define the relationship.

From past research in the USA, it was found that the average tenure for most CEOs has been steadily decreasing over the decades (Kaplan & Minton, 2006). In a sample from Fortune 500 companies from 1992 to 2005, the average tenure was found to be 6.7 years and this was a shortest duration when compared to any previous decade (Kaplan & Minton, 2006). In this study, the expectation was that CEO tenure would to be consistent with or perhaps shorter than the findings of Kaplan and Minton (2006).

However, the determinants of financial performance lay with a number of factors. In addition, there are a number of different ways in which financial performance can be measured. In today's world, for listed companies, shareholder maximisation is the main goal. Companies would like to pretend that there are other goals, but in reality, corporate social responsibility can only exist if the company produces positive gains for shareholders.

There are a number of factors which contribute to the financial success of a company: 1) visionary leadership; 2) effective strategies and/or strategic planning; 3) strong management capacity; 4) market savvy and awareness of competitive advantages and; 5) research and development. However, the leadership of a company is the cog in the company. There is evidence that key to a financially successful company is the leader or CEO according to the literature.

Several CEO related factors affect financial performance, for example, 1) educational background; 2) executive management experience; 3) job and organisational fit; 4) ownership and; 5) tenure. Thus, it may not be as easy to prove that any single variable has impact, as it is to prove that a group of variables do. However, this study was limited to one factor mainly and it examined whether there was a correlation between CEO tenure and the financial success of companies.

Most of the literature focused on both CEO turnover and its affects on financial performance. Current research has been concerned with the changes to financial performance given a change in CEO. There are many CEO related factors which affect financial performance. Some of these individual determinants have been: 1) educational background; 2) executive management experience; 3) job and organisational fit; 4) ownership and; 5) tenure. Thus, it may not be as easy to prove that a single variable has an impact, as it is to prove that a group of variables do.

There is a dearth of research internationally on the impact of tenure of the CEOs on the financial performance of their companies. An early study conducted by Eitzen and Yetman (1972) examined the effectiveness of basketball coaches to team performance. While the context may be different, the principles remained the same. What effect does leadership tenure have on performance? A curvilinear relationship was found, which indicated that as tenure increased so did performance, but this was only up to a certain point, after which performance began to decline (Eitzen & Yetman, 1972). Ever since this finding, other researchers have been interested in the relationship between tenure and financial performance.

The USA and Europe led the way in research in these areas. There are studies that have focused on the S&P 500, or Forbes magazine's lists and how well these companies have performed financially, given a change in CEO. Even less research has been conducted on this topic in Africa and South Africa. Perhaps the political and economical environments in less developed countries make the analysis of a single variable much harder. Singh (1999) contended that the formation of capital markets in Africa is unjustifiable because the lack of human, institutional and financial resources meant that creation of stock markets in which listed entities operate would not benefit the broader society (Singh, 1999). Clearly it can be a challenge at times to determine the relationship between CEO tenure and financial performance in developing contexts.

It was pointed out earlier how the financial crisis of 2008/09 affected all markets across the globe even remote African countries. This illustrates the reach and influence of neo-liberal markets. According to the literature, it was found that in dynamically changing industries where tenure and financial performance have a negatively significant relationship (Henderson, Miller & Hambrick, 2006). Put another way, in dynamic environments, financial performance was at its best at the start of the CEO tenure and then gradually began to decline (Henderson, Miller & Hambrick, 2006). For most stable industries, the findings were consistent with those conducted in US by Eitzen and Yetman in 1972 (Henderson, Miller & Hambrick, 2006). The industries selected for this research sample, mining, retail and real estate could not be classified as dynamically changing industries. Thus, it is expected that CEO tenure and financial performance will increase to a certain point in time, after which, financial performance will decline as tenure continues to increase.

CHAPTER TWO: LITERATURE REVIEW

Despite being a developing country, South Africa is characterised by dual economy whereby developed and developing economies exist side by side. Hence, for the purposes of this study, it was important to consider whether the circumstances of CEO tenure in South African companies more closely resembled that of developed economies in the West, or of developing economies on the African continent. The focus of the literature review was to determine whether significant findings were made in previous research with regards to the research hypothesis proposed, namely whether CEO tenure affects the financial performance of the selected listed companies. In order to determine this, it was also necessary to review the literature on the differing economic contexts in which South Africa exists that is, developed and developing, and the changes in the SA economy since 1994. Thereafter, an argument was to be developed in support of the research hypothesis.

To begin with, a review of studies on developing African markets was conducted to understand slow growth on the continent and whether the South Africa, as a developing economy, has much in common with the markets on the continent.. Thereafter, South African context was examined to determine how the SA economy has developed and differentiated itself from the rest of the continent. In addition, the literature expanded upon the socio-political transition of South Africa and emphasised its impact upon financial markets and their functioning, given that this study is based on the period between 1995 and 2007. The empirical evidence

from previous research that examined ideal CEO tenures was reviewed. This research was conducted mainly in developed economies of North America and Europe Finally, the impact of CEO tenure on financial performance was considered. These theoretical models were then considered for examining similar hypothesis within the South African context. The evidence from these models was drawn upon to postulate what the findings of this research could be.

2.1 Africa

Over centuries, the African continent has been at the centre of economic interest and development debates. It has also been a continent of contradictions: rich in natural resources, including minerals such as platinum, diamonds and gold, but suffocated by poverty and disease. Many of the African countries, despite rich resources, for example the DRC and Zimbabwe, have been beset with poor governance and have became dictatorships, fuelled by self wealth aspirations and greed of the leadership (Collier & Gunning, 1999). According to Collier & Gunning (1999), there are four types of explanations for Africa's slow growth. The types of explanations include: 1) External-Destiny; 2) External-Policy; 3) Domestic-Destiny; 4) Domestic-Policy. For External-Destiny, they argued that distances to the coast or rivers meant that trade is very much restricted (Collier & Gunning, 1999). Many countries in Africa are landlocked which means that political borders have significantly affected economies which were trying to develop (Collier & Gunning, 1999). Hence, lack of infrastructure and transport systems has made it difficult to move goods to the coast for export. While in External-Policy, over inflated

exchange rates, unsustainable international debts, and high interest rates have all constricted African economies (Collier & Gunning, 1999).

In addition, the World Bank's Structural Adjustment Loans to African countries have "strings attached", what Stiglitz, in his criticism of the International Monetary Fund (IMF) loans and its failures to ensure development in the Third World, refers to as "conditionality" (Stiglitz, 2002). International trade policies and instances of neo-colonialism have led to the continued exploitation of Africa's natural wealth by foreign powers. In the past few years, there has been a renewed scramble for Africa by China, Brazil and other Southern.

In the Domestic-Destiny type, it was argued that low life expectancies, due to poor health services, coupled with high population growth were contributors to slow growth on the continent (Collier & Gunning, 1999). In addition, much of the continent has a tropical climate which has led to the prevalence of diseases such as malaria (Collier & Gunning, 1999). HIV/AIDS for instance has been a huge threat to African economies because of its destructive impact on the labour force, amongst other things (Collier & Gunning, 1999). Furthermore, African financial markets have been much smaller and more numerous than other developing countries (Collier & Gunning, 1999). This coupled with low income has meant that most African countries are economically disadvantaged.

In terms of the Domestic-Policy explanation, Governments were very autocratic towards the latter 20th Century (Collier & Gunning, 1999). They posed significant financial restraints on the private sector, which negatively affected the economy (Collier & Gunning, 1999). Dictatorships also meant that individuals could not be held accountable, and that delivery in general failed (Collier & Gunning, 1999). This coupled with financial regulation, economic control and policy interventions meant that markets were crippled and not functioning as they were intended too (Collier & Gunning, 1999). Thus, in the recent past, the development of financial economies in Africa has been challenging. One of the main questions that arise for companies, is how can management respond in order to create financial success? What are those factors and could CEO tenure be one of them?

Towards the 1980s and 1990s, the World Bank and IMF, began to structurally address financial reform in developing countries (Singh, 1999). According to Singh (1999), became fairly standard therefore during this period for African countries to develop stock exchanges despite having very weak private sector economies. The market capitalisation of African economies when compared to other developing economies showed interesting trends. In 1991 for instance, South Africa was by far the largest economy in Africa. However, there was a significant decrease in market capitalisation from 1991 to 1995 (Singh, 1999). What is interesting to note, is that the majority of sub-Saharan African countries experienced this same trend. While, on the other hand, the North African, Asian and other developing countries experienced an increase in growth (Singh, 1999).

Despite this trend, South Africa greatly exceeded all other African countries in terms of turnover ratios, trading values, market capitalisation relative to GDP and the number of listed companies (Singh, 1999). Therefore, South Africa seemed to have performed much better than the rest of Africa.

Overall, the advanced state of development of the South African formal economy and its successes over the decades supports the notion that the South African economy more closely resembled developed economies, rather than its developing counterparts on the continent. This suggested that the research studies on the relationship between CEO tenure and financial performance in developed economies that were conducted in the USA and Europe, have relevance for this study.

2.2 South Africa

South Africa's success in implementing economic reforms has not gone unnoticed and this has been attributed to its geographic location in a developing world context on the Africa continent and also the advantage of a vast coastline which can support global and regional trade (Vale & Maseko, 1998). This advantage has always existed and was even noted decades ago by Prime Minister at the time, Jan Smuts, who emphasised South Africa's strategic location to the rest of Africa in terms of trade (Vale & Maseko, 1998). With the liberalisation of South Africa's

economy in 1994, many leaders and economists, including former President Thabo Mbeki, proclaimed that South Africa had the potential to succeed in the way the "Asian Tigers" had in the 90s (Vale & Maseko, 1998).

In the post Apartheid period, the country placed as much significance on trade and global competitiveness as on the reforms in diplomacy (many countries established embassies in South Africa for the first time after 1994), which led to significant increases in wealth generation (Vale & Maseko, 1998). The new approaches meant that South Africa increased its investment in Africa from R3.7bn to R13bn after the elections, while trade also increased by 53% (Vale & Maseko, 1998). Increased international confidence in African markets and South Africa's openness as a result of new Gear (1995) policy and the impact of globalisation, resulted in substantial financial market growth from 1995 onwards (Vale & Maseko, 1998). It is clear that following liberalisation of the South African economy, there was tremendous growth of the financial markets and in 2006 South Africa experienced the highest growth ever (Parliament, 2007).

Perhaps it is important to define the concept of liberalisation with regards to the South African economy. The foundations and infrastructure for financial markets were in place prior to 1994, for example, the judicial system, banking sector and the structured of the capital markets (Lewis, 2001). The more important aspect the democratic Government faced was not to "create a market economy… but rather find mechanisms for making the existing market economy more competitive"

(Lewis, 2001, p.3). In truth, the real reason for the peaceful end to Apartheid was the near collapse of the Apartheid economy which had been brought to its knees as a result of international sanctions, civil unrest and unaffordable defence expenditure for wars along South Africa's borders.

Furthermore, significant redress was necessary to ensure that previously disadvantaged people could participate in the economy. The inclusion of previously disadvantaged in the growth and increased competitiveness of the new economy was pivotal (Lewis, 2001). South Africa was referred to as a dual economy with a developing and developed economy existing side by side. The formal financial system was considered first world in terms of its development and management (Lewis, 2001). The number of products and services developed by the South African market far exceeded the averages for other developing countries, to such an extent that the South African stock market was the 13th largest in the world (Lewis, 2001). The modernisation of economic operations was necessitated from the need for South Africa to compete on the global market and to redress the neglect of the Apartheid years (Lewis, 2001).

A striking example of the sophisticated nature of the market was the impact the Asian financial crisis in 1998 had on the economy. Due to low levels of foreign exchange exposure, South African markets were relatively unaffected by the crisis (Lewis, 2001). This meant that South African markets and those companies on the JSE could continue to demonstrate growth, while Asian markets struggled through

the turbulent times. Growth was fuelled by funds and capital markets were the optimal place for such funding. When liberalisation occurred, banking institutions, insurers and retailers all listed on the stock exchange (Lewis, 2001).

In a more recent study on the macroeconomic environment of South Africa after ten years of democracy, it was found was that the GDP per capita had been decreasing steadily from the late 1980s onwards but began to rise each year after the elections of 1994 (Frankel, Smit & Sturzenegger, 2008). The reasons they posit for strong performance echo those highlighted by Lewis in 2001 and include: 1) a well developed financial sector; 2) a strong and credible reserve bank; 3) low budget deficits and; 4) low public sector debts. These are only some factors that explain why South Africa has been such an economic success in Africa (Frankel *et al.,* 2008). Other factors would include South Africa's legitimate democracy, which was recognised globally and new economic policies which led to increased investor confidence, and the opening of trade barriers.

However, there were challenges for South Africa and its economy. At the initial onset of liberalisation, foreign and existing companies flooded into the South African market, with the aim of staking their claims to investment opportunities ahead of their competition (Carmody, 2002). This was performed to such an extent that South African companies, on the other hand, began to explore other markets on the continent and increased their investment in the region by 25% from 1994-

1998 (Carmody, 2002). This may be an example then of challenges leading to greater opportunities or expansion of South African companies into other markets.

Furthermore, with the boom in globalisation over the last two decades, many South African companies chose to list on European and USA stock exchanges, and by so doing, moved their headquarters out of the country (Carmody, 2002). This was done in an attempt to obtain cheaper capital, increase their foreign growth and thereby increase their competitiveness (Carmody, 2002). One of the well known examples of this trend was Anglo-American, who had a turnover of roughly $20bn in the 1990s and moved their head office to the UK in the late 1990s (Carmody, 2002).

More startling is the contention of Carmody (2002), in support of Singh (1999) who observed that fifty five percent of the JSE in 1998 was controlled only by the five largest conglomerates in South Africa. This seems to indicate that while South Africa could not be classified as a developing economy with the rest of Africa, it was neither impressive nor competitive enough to be classified alongside the established markets of Europe and the USA.

2.3 CEO tenure and company performance

Aside from the impact of globalisation, liberalisation and national economic and financial policy and system changes on the markets of countries and hence, the

successful performance of companies, CEOs are regarded as being central to the successful performance of companies. CEOs give direction and leadership to companies and their vision and the strategies they introduce can have a huge impact on the success or failure of companies.

Given this central role of CEOs, there has been a plethora of debate, discourse and research on leadership and management qualities, skills and attributes in relation to organisational performance over the past few decades. But little focus on whether lengths of time CEOs occupy their positions has any impact on the performance of companies. It would therefore be valuable to determine the ideal length of stay for a CEO at any company to ensure maximum benefits are derived in terms of the financial performance of the company. According to Kaplan and Minton (2006), financial performance may be defined as the changes to stock market prices.

In 2003, Allgood and Farrell wanted to understand the fit between CEOs and companies to determine the benchmark tenure for CEOs and found that the performance of the company was related to the CEO tenure. According to their study, performance seemed to increase for a period up to five years, upon which it began to decrease. Their study focussed on companies that made it onto the Forbes magazine list and their sample was based on 1524 companies over a 14 year period from 1981 to 1993. From this they concluded that on average most companies see increasing performance up to five years (Allgood & Farrell, 2003).

In a similar vein, Kaplan & Minton (2006) conducted research on Fortune 500 companies from 1991 to 2005, a period of 14 years, to understand the determinants of both internal and external CEO turnover. They followed all companies listed in 1991 until the end of the 2005 and thus did not consider new companies which may have entered the market after 1991 (Kaplan & Minton, 2006). The average tenure for the CEO in the United States, based on their sample, was 6.7 years (Kaplan & Minton, 2006). They also found that CEO tenure had been steadily decreasing decade by decade (Kaplan & Minton, 2006).

Why was there no continuously positive relationship between CEO tenure and financial performance? Why did it seem that for a certain period the relationship was positive and then became negative at some point? Ralf Katz (1982) measured the performance of research and development projects based on the tenure of the project team. The longer the tenure of the project team, the more unlikely they were to be innovative and to challenge the norm (Katz, 1982). Furthermore, the lack of innovation and acceptance of conventional thinking also meant that they were less likely to consider alternatives and would gradually conform to industry tendencies (Katz, 1982). The same rational would seem to hold true for many long serving CEOs. At some point they would tend to accept the processes in place and adopt more routine and less competitive stances.

In 1991, Danny Miller published an article which focused on CEO tenure and the alignment between the company and its environment. His hypotheses were similar to those of Katz (1982) in that he predicted that longer tenure resulted in a mismatch between the company and its environment and ultimately, this affected performance negatively (Miller, 1991). Miller found that as CEO tenure increased, so did their power and influence over others (1991). More often than not they surrounded themselves with like-minded individuals (Miller, 1991). The combination of these two factors led to a reluctance to change and an unwillingness to adapt causing the company to fail (Miller, 1991). Past performance clouded the judgement of CEOs the longer they were in office, leading them to become complacent and resistant to reorientation, because of their past success (Miller, 1991). Finally, it was argued that the longer the position is held, the more CEOs tended to develop the same habits, processes and methods of thinking (Miller, 1991).

The above studies indicated that lengthy tenure had a negative impact upon financial performance since it created a misalignment between the company and its environment due to the behaviour of the CEO. It was suggested that medium tenure is the most suitable period because it allowed for a thorough understanding of the business, while allowing sufficient time for effecting corrective measures in response to a changing environment (Miller, 1991). This contention lent further support to the findings of Allgood and Farrell (2003) and Kaplan and Minton (2006).

It may also account for why in dynamically changing environments, it is preferable for CEO tenure to be shorter than in more stable environments.

2.4 Financial Performance

In a study conducted by Salancik and Pfeffer (1980), they found no relationship between returns to common stock and tenure. They also found that profits were only marginally related to tenure (Salancik & Pfeffer, 1980). However, the strong debate about the importance of shareholder value when compared to other financial measures remained (Copeland, Koller & Murrin, 2000). It is a widely held belief that maximising shareholder value was the only goal of executive management (Copeland, *et. al.*, 2000). Hence, increasing these returns for shareholders was viewed as the measure of managerial performance and therefore defined the relation of CEO tenure. (Copeland *et. al.*, 2000).

The literature did not provide the definitive measure for financial performance. Some studies use a variety of measures whereas others only consider market returns. For the purposes of this research study, two measures will be utilised, namely, return on assets and return on equity. Both off these measures have been used in past literature.

Somewhat contrary to the findings which Allgood and Farrell published, is the study by Henderson, Miller and Hambrick in 2006, who conducted a literature review of

studies focussing on tenure of CEOs to determine levels of performance based on the duration of CEO and market or environmental factors (Henderson, Miller & Hambrick, 2006). They found that learning occurred most strongly from the appointment of the CEO and then gradually began to decrease over the years for dynamic industries (Henderson *et. al.*, 2006). They argued that this was due to constraints within the company and environment that facilitated the learning (Henderson *et. al.*, 2006). For more stable industries the literature seemed to suggest that the relationship was more like an inverted U (Henderson *et. al.*, 2006). This meant that as tenure increased, so did financial performance; however at some point the inverse of this would occur (Henderson *et. al.*, 2006). The research focused on a study sample of 98 CEOs in the food industry 228 in the computer industry (Henderson *et. al.*, 2006). They found that, for the food industry, the longer the duration of the CEO the better the performance of that company up to eleven years in office, at which point it began to decline (Henderson *et. al.*, 2006). Conversely, for the dynamic computer environment, the longer the CEO tenure, the more performance seemed to suffer (Henderson *et. al.*, 2006). Thus, their findings indicated that for more dynamic environments CEOs should have shorter tenure.

Not surprisingly, most of the literature for this type of study has been conducted in the United States. There have been some studies in Japan, China and Denmark, but very little on South Africa. It was clear from the literature that CEO tenures are much shorter now than what they were three decades ago. Moreover, the more volatile the industry, the shorter the tenure of the CEO. South Africa's market is

"relatively" new and the structure and make up of top management has changed radically due to policy and system changes. Yet, the opportunities for growth have been vast due to this change. Given the dynamism of the South African market, it may be predicted that South Africa would demonstrate an inverted "U" shape relationship between CEO tenure and financial performance and that this would be standard regardless of the industry.

CHAPTER THREE: RESEARCH HYPOTHESES

The objective of this study will be to determine how CEO tenure affects financial performance. Financial performance will be measured in terms of return on assets (ROA) and return on equity (ROE). Both of these ratios will be measured against industry averages of the various listed companies in South Africa from 1995 to 2007. This will help to define the relationship between these variables and CEO tenure in the South African context.

Previous research, albeit sparse as noted in previous chapter, has shown that there is more often than not, a correlation between increasing tenure with increasing performance. Although in many instance, this relationship begins to decline. At some point, as tenure increases, financial performance begins to decrease.

From a South African perspective, the market is relatively new when compared to North America and Europe. Many newly formed companies on the JSE find themselves in dynamic and constantly changing environments. Government policy, such as BEE, has had significant impact on the environment within which business operates. This has led to changes in CEOs in some companies. As well, the marketability of black CEOs has led to CEO turnover in certain instances. Given the newness and dynamism in the SA company context, the question this study poses is: does CEO tenure affect financial performance and is this relationship

similar or different to the findings of previous research? The following research hypotheses have been identified:

3.1 Research Hypothesis 1

The first research hypothesis which will be tested is to see if there is a significant relationship between CEO tenure and changes to ROA. Thus the null hypothesis was that CEO tenure has no effect on the ROE achieved by an institution, as all populations exhibit identical results. The alternative hypothesis would be that CEO tenure does have an impact on ROA.

$H1_0$: All populations are identical

$H1_A$: Not all populations are identical

3.2 Research Hypothesis 2

The next research hypothesis which will be tested is to see if there is a significant relationship between CEO tenure and changes to ROE. The null hypothesis for this was that CEO tenure has no effect on the ROE achieved by an institution, as all populations exhibited identical results. The alternative hypothesis would be that CEO tenure does have an impact on ROE.

$H2_0$: All populations are identical

$H2_A$: Not all populations are identical

CHAPTER FOUR: RESEARCH METHODOLOGY

It was determined that the methodology most suitable for assessing the relationship between CEO tenure and financial performance of listed companies was a quantitative research design (Zikmund, 2003). This took the form of descriptive statistical analysis of information derived from the McGregor BFA database on listed Johannesburg Stock Exchange companies, as well as annual reports of the selected companies.

4.1 Research Design

4.1.1 Sampling

When companies list on the JSE, one of the requirements is that they must define the industry within which they will operate, for example, mining, banking, construction and so forth (Johannesburg Stock Exchange, 2010). The JSE has some 88 different categories of major industries in which companies operate (Johannesburg Stock Exchange, 2010). The McGregor BFA website allowed for information to be obtained, both historical and current, on JSE listed companies (McGregor BFA, 2010). Therefore the population consisted of all JSE listed companies.

The time period of 1995 to 2007 was selected to test the hypotheses and was based on the following assumptions. Firstly, the nature of this study demanded that time served in a company as CEO was the dependent variable. Consequently, a

study of only one, two or even three years would not validate the findings. As pointed out earlier, the elections of 1994 and the accompanying changes to the South African economic, social and corporate landscape provided a clean slate from which companies could develop. It was for this reason that the year 1995 was considered an adequate starting point for the study. In the years following on 1995, there were significant changes in terms of policy, legislation, liberalisation of markets, mergers, BEE to name a few. It was posited that these changes would have affected tenure of CEOs in one way or another. In addition, the global financial crisis of 2008 and 2009 drastically altered the structure, make up and competitiveness of many companies which could have severely influenced the findings. Therefore, it was decided that the most appropriate end point for this study would be the year 2007. This would ensure that the data and findings would not be skewed by the sub-prime crisis.

The population was split into the JSE specific industries in South Africa. However with 88 different industries, if just the top three in each were selected to constitute a sample, the sample would have been on 3168 observations. Clearly, the sample needed to be more focused. The Reserve Bank of South Africa publishes information on the economy on a regular basis. One of their reports, entitled “Economic and Financial Data for South Africa” has highlighted the key information for the real, fiscal, financial and external sectors of South Africa (South African Reserve Bank, 2010). Under the real sector analysis, the report listed the following industries in terms of their contribution to GDP: 1) finance and insurance, real

estate and business services; 2) general government services; 3) manufacturing; 4) wholesale and retail trade, catering and accommodation; 5) mining and quarrying; 6) transport, storage and communication; 7) construction; 8) agriculture, fishing and forestry; 9) personal services and; 10) Electricity and water (South African Reserve Bank, 2010).

Three industries were then randomly chosen from the ten in the Reserve Bank report. The industries of mining, retailers and real estate were used to populate the sample. The sample therefore consisted of all the JSE listed companies from 1995 to 2007 across those industries. However, the sample needed to be further refined, in terms of the information gathered from the McGregor BFA website.

Many of the listed JSE companies in the sample were either dormant and did not have any financial information or there was missing financial information for certain years. In order to obtain an adequate data set, the information was filtered by firstly removing all listed companies in the sample that did not have financial data for each year from 1995 to 2007. Next, a review was conducted on each remaining company to determine whether it was a subsidiary, division or business unit of a larger company. If that was the case, then it was also removed from the data set.

Therefore the sample consisted only of JSE listed companies in the mining, retail and real estate industries, which had financial information present from 1995 to

2007 and were all at the corporate or group level. This provided a sample of 15 mining companies, ten retail companies and five real estate companies.

The names of the companies selected are provided in the following tables and all information was provided by Sharenet (2010). The table below outlines all mining companies included in the sample:

Table 4.1: List of mining companies included in sample

Number	Industry	Company Name
1	Mining	AFRICAN RAINBOW MINERALS
2	Mining	ANGLO AMERICAN PLC
3	Mining	GOLD ONE LTD
4	Mining	GOOD HOPE DIAMONDS LTD
5	Mining	HWANGE COLLIERY COMPANY LIMITED
6	Mining	IMPALA PLATINUM HOLDINGS LIMITED
7	Mining	LONMIN PLC
8	Mining	MERAFE RESOURCES LTD
9	Mining	METOREX LIMITED
10	Mining	NORTHAM PLATINUM LIMITED
11	Mining	PETMIN LTD
12	Mining	THE SOUTH AFRICAN LAND AND EXPLORATION COMPANY LIMITED
13	Mining	SIMMER AND JACK MINES LIMITED
14	Mining	TRANS HEX GROUP LIMITED

15	Mining	WHITE WATER RESOURCES LTD

The table below outlines all retail companies included in the sample:

Table 4.2: List of retail companies included in sample

Number	Industry	Company Name
1	Retail	AFRICAN & OVERSEAS ENTERPRISES LTD
2	Retail	CASHBUILD LIMITED
3	Retail	CLICKS
4	Retail	COMBINED MOTOR HOLDINGS
5	Retail	FOSCHINI LIMITED
6	Retail	ITALTILE LTD
7	Retail	JD GROUP LIMITED
8	Retail	MR PRICE GROUP LIMITED
9	Retail	NICTUS BEPERK
10	Retail	PICKNPAY

The table below outlines all real estate companies included in the sample:

Table 4.3: List of real estate companies included in sample

Number	Industry	Company Name
1	Real Estate	GROWTH POINT PROPERTIES LIMITED
2	Real Estate	HYPROP INVESTMENTS LIMITED

3	Real Estate	MERCHANT AND INDUSTRIAL PROPERTIES LIMITED
4	Real Estate	OCTODEC INVESTMENTS LIMITED
5	Real Estate	PANGBOURNE PROPERTIES LIMITED

4.2 Data Analysis

4.2.1 Independent Variable

After the sample was obtained, it then became necessary to determine changes in the CEO position for the respective companies. CEO tenures were determined based on a change in CEO from one financial year to the next. This was consistent with the approach used by Henderson, Miller and Hambrick (2006), who on the basis of year end financial data, only considered there to be a single change if the same person was not mentioned from one annual report to the next. This information was gathered initially via a Google search of press clippings and company specific media releases and then confirmed via the company's annual report.

There were often times especially during the late 1990's when there was no separation or distinction between the Chairman and CEO. In many cases both positions were held by the same person. Through an analysis of the annual reports it is clear that after the King reports (I and II), most of these companies split these positions to allow for two different people to occupy these roles. For the purposes of this research a person was considered to be a CEO if they held any of the

following positions as outlined by their company's annual report: 1) Chief Executive Officer; 2) Chief Executive; and 3) Managing Director. In cases where there was no mention of these positions, the person who was Chairman at the time was considered to hold both that and the CEO role. This approach is consistent with the one used by Henderson, Miller and Hambrick (2006). For every instance of this, an annual report from later years in the sample, would confirm that the Chairman held both roles up until a certain point. Further detailed breakdown of the naming conventions is provided in Appendix 1.

After the CEOs for the sample were obtained, they were then split into three groups. The first group was for all those who had served as CEO for one to three years. The next group was for those with a medium tenure of four to five years. The final group was for those CEOs who had served for six or more years in a company. This segregation into the different tenure lengths was at the sole discretion of the researcher. In past literature Lautsen (2002) found the average tenures for CEOs in Danish companies to be ten years. Kato and Long (2006) found that tenure for Chinese CEOs in listed companies was two years but that this was due to the relatively brief history of listed companies in China. Allgood and Farrell (2003), found the average tenure for CEOs in US corporations to be five years, while Henderson, Miller and Hambrick (2006), stated that they found median tenure for a CEO to be four years. Finally Jenter and Kanaan (2008) conducted research on CEO turnover and performance and they classified long tenure as holding office for more than eight years and short tenure as less than four years. It

is clear that there is no definitive method of allocating tenure into short, medium and long, given the averages and findings of past literature. Therefore any classification of CEO tenures for the South African context is applicable as long as it reasonable and indicative of data. It was thus decided to use one to three years as short tenure of which there were 34 data points. Medium CEO tenure of four to five years had 13 data points. Long tenure as defined by CEOs who have held the position for six or more years, had 15 data points.

This represented one half of the information that was required. The subsequent step was to determine financial performance of each company.

4.2.2 Dependent Variables

Financial performance was measured in terms of the average ROA and the average ROE over each tenure period. All financial information for the listed companies was obtained from McGregor BFA website. The McGregor BFA financial ratio definition sheet is provided as Appendix 2.

ROA was calculated as follows:

$$ROA = \left[\frac{(Profit\ Before\ Interest\ \&\ Tax) - (Total\ Profit\ Extraord.Nature)}{Total\ Assets}\right] * 100$$

This is the ability to generate profits from the company's investments in assets. For every R100 of assets held in the company they are able to raise R*x* amount of profit.

ROE is defined as:

$$ROE = \left[\frac{Profit\ After\ Taxation}{Total\ Owners\ Interest}\right] * 100 = x\%$$

This is the annual return on investment for shareholders. For example, for every R100 invested the annual return would be *x*%.

McGregor BFA specialise in financial analysis of data in South Africa (McGregor BFA, 2010). They have dedicated analysts and databases which capture financial information as it relates to South African financial markets (McGregor BFA, 2010).

The benefit of financial information that is sourced from secondary institutions, such as McGregor BFA, is that they provided financial ratios based on data gathered for all companies and the information was easily accessible (Venkatraman & Ramanujam, 1986). A limitation for the data sourced was that it did not account for differences in accounting policy between companies in the sample (Venkatraman & Ramanujam, 1986).

The measures of ROA and ROE were considered to be measures of profitability of a company. They were by no means the only ratios which can be used to assess a company. There are others such as efficiency, gearing, liquidity or market ratios. However, most shareholders are not concerned about the health and well being of a company but in the shareholder value being maximised. The debate as to whether shareholder maximisation is the only measure management are concerned with still continues today, but returns are what are valued mostly. Therefore, both of the financial ratios measure profitability and therefore financial performance for listed companies, since their sole aim is to maximise shareholder wealth.

4.3 Statistical test

In order to test whether mean differences exist between tenure categories, industries and the interaction between tenure categories and industries it was necessary to conduct an Analysis of Variance (ANOVA). One of the assumptions of an ANOVA is that for each population (e.g. tenure category), the response variable (average return on assets) is normally distributed (Zikmund, 2003). A Kurtosis measure and skewness coefficient was used to determine if the data set indicated a normal distribution. It was found that the data set did not exhibit normality and therefore a non-parametric test was used.

The nonparametric Kruskal-Wallis analysis of ranks test is based on the analysis of independent random samples from k populations (Zikmund, 2003). It was mentioned before that the ANOVA procedure requires the assumption that the k populations are normally distributed. Since the sample data suggested that the normality assumption was violated, the Kruskal-Wallis test was used to test for differences between k independent samples (Zikmund, 2003). The Kruskal-Wallis equation is represented by the following formula:

$$H = \frac{a}{n(n+1)}\left(\sum \frac{R_i^2}{n_i}\right) - b(n+1)$$

Where H = the Kruskal-Wallis statistic, a = 12, n = combined sample sizes of all groups, R_i = is the sum of the ranks of the ith group, n_i = sample size of the ith group and b = the number of populations (Zikmund, 2003).

4.4 Limitations

As stated previously the sample drawn did not take into account other factors which may impact upon the numbers. Changes to strategy, research and development and expenditure on fixed assets all impact upon the financials.

Furthermore, when CEOs do change it can often happen anytime during the year and not coincide with the end of the financial year. In some cases this occurred in

the sample. To standardise the approach when determining who was responsible for the company's performance, the following method was used. It was initially determined, through the annual reports, as to the exact date of the CEOs departure. Once this was known, the number of months between this departure date and the end of the company's financial year was calculated. If the number of months was 6 or less, the departing CEO was allocated as the CEO for that financial year. If the number of months was 7 or more, then the new CEO was credited with the financial performance in that year.

CHAPTER FIVE: RESULTS

This chapter presents the findings of this research. The first section presents the actual values of ROA and ROE exhibited by companies in the data set. This section also highlights the number of CEOs per tenure category and the number of previously disadvantaged individuals (PDI's) in the sample. A PDI includes all non-whites and women in its classification. The final section depicts the statistical outputs from the Kruskal-Wallis analysis on the data set. This section is further sub-divided to focus on the findings related to each research question.

5.1 Findings from the Data

The data was gathered as outlined in the previous chapter. The table below differentiates all CEOs into the three different tenure categories, namely, short tenure one to three years; medium tenure four to five years and long tenure six or more years. The table also provides the average ROA and ROE values for a company for the terms of the different CEOs in each tenure category. The complete raw data set can be found in Appendix 3.

Table 5.1: Sample data per tenure category

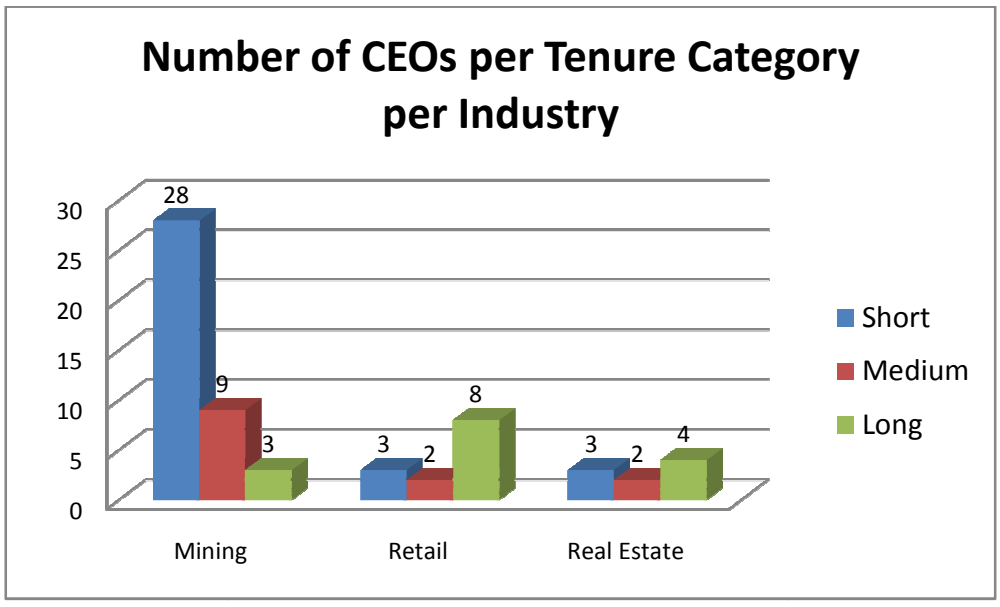
No	Short Tenure 1-3 years			Medium Tenure 4-5 years			Long Tenure 6+ years		
	Name	Average ROA	Average ROE	Name	Average ROA	Average ROE	Name	Average ROA	Average ROE
1	Richard (Rick) P. Menell	15.23	156.35	Steve Kearney	28.38	62.68	Tony Trahar	12.91	37.54
2	David	9.44	-23.06	Nicholas	26.19	368.57	Keith	47.52	204.57

	Murray			Morrell			Rumble		
3	Jan Steenkamp	5.69	26.84	Brad Mills	74.49	3.04	A. Simone Malone	36.23	149.82
4	Andre Wilkens	13.19	20.27	Terence McConnachie	4.29	-39.64	Pat Goldrick	7.96	24.62
5	Cynthia Carroll	23.53	58.93	Steve Phiri	9.78	-119.32	Trevor C Honneysett	11.27	19.68
6	WC de Waal	-0.06	-0.10	Ian C Watson	57.41	110.86	Jebb D McIntosh	10.98	70.32
7	P S Glyn	-0.67	-0.98	Glyn Lewis	56.81	140.19	Dennis M Polak	12.65	18.99
8	M J Betts	-0.55	-0.42	Calvyn Gardner	76.06	207.73	G A M Ravazotti	20.05	31.27
9	DG Williams	-1.21	-0.59	Sello M Rasethaba	30.17	348.50	Mias Strauss	13.90	18.77
10	Henrik Gideon Veldsman	-1.57	-1.63	Patricia Eve Shub	2.72	1.08	Alastair E McArthur	12.99	21.84
11	Stephen Thomas Ward	-24.07	-173.44	N C Tromp	2.07	5.24	Sean Summers	80.86	26.25
12	Neal J Froneman	-7.65	-20.67	Eric Prange	3.94	5.49	Tana Schultze	12.80	1.33
13	Godfrey Dzinomwa	31.30	90.11	Jeff Davis	12.78	16.79	Pieter G Prinsloo	8.01	29.49
14	Fred Gandiwa Moyo	-0.15	0.67				Peter N Lonsdale	5.86	0.80
15	David Brown	27.62	52.61				Jeffery P Wapnick	10.21	3.06
16	G. Edward Haslam	51.23	157.89						
17	W J Joubert	5.15	1.64						
18	Charles Denby Stockton Needham	70.47	-378.29						
19	Dawid Herman Warmenhoven	5.53	0.50						
20	Jan du Preez	6.41	24.62						
21	R M Godsell	-13.26	3429.40						
22	EFG Nealon	-320.49	66.26						
23	P H de Villiers	34.54	2132.84						
24	Lindsay B Robertson	-42.41	-43.18						
25	Izak Marais	-51.12	-160.24						
26	Gordon	-8.10	-4.36						

	Trevlyn Miller								
27	Peter Danchin	70.35	94.77						
28	Llewellyn Delport	23.09	45.01						
29	David Kneale	11.69	41.40						
30	Peter D Swatton	15.95	26.68						
31	J J Fourie	5.40	16.03						
32	David Kuper	8.35	-554.97						
33	Leon Norbert Sasse	7.92	-3691.19						
34	Craig Hutchison	7.11	4.20						

The most striking feature is the ratio of short tenure CEOs to the medium and long term categories. The number of shorter tenure CEOs is more than double the next grouping. The sample comprises of a number of different CEOs per tenure category per industry and is illustrated in figure 5.1.

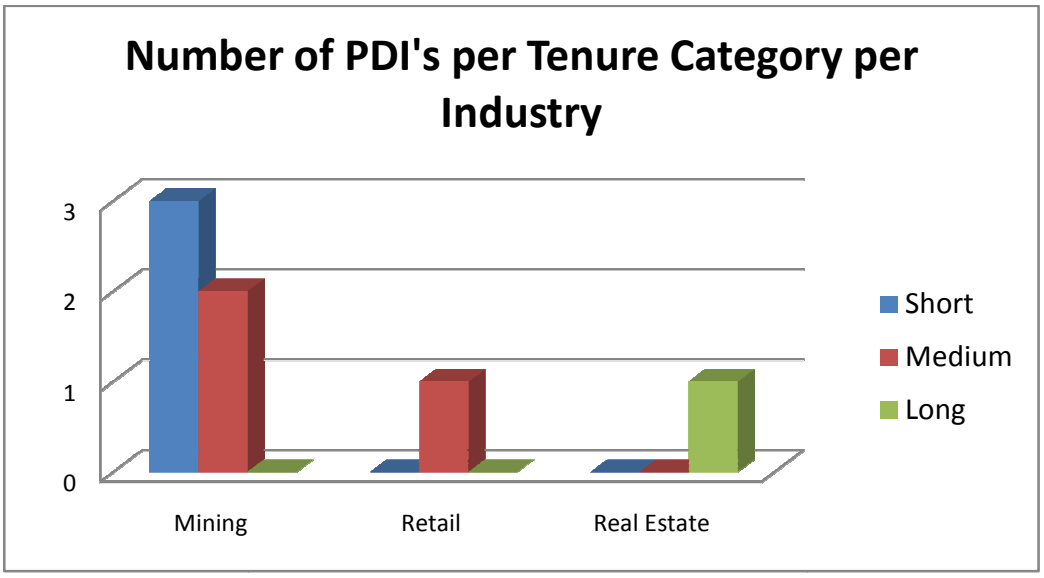
Figure 5.1: CEOs per tenure category per industry



It is evident that the mining industry provided the majority of data observations in the short tenure category. While the retail and real estate industries featured more prominently in the long tenure category.

Since the sample was drawn over a 13 year period, from 1995 to 2007, it provided interesting evidence about BEE policy and the inclusion of PDI's at the CEO level. The elections of 1994 and the advent of BEE policy meant that many companies needed to change their management structure to include more PDI's. The figure below highlights this number for the sample drawn:

Figure 5.2: Number of PDI's in sample



The results were somewhat disheartening, because despite BEE and other policies, it was found that the representation of PDI's at the CEO level remains

limited 13 years later. Mining provided the only number of PDI's in the short tenure sample. This figure was three out of 34 individuals for the entire short tenure data set. For the medium tenure category there were only two PDI's from mining and one from the retail industry. Finally the long tenure category was had two PDI's from real estate. This meant that the sample had eight out of the 62 total observations or roughly 13% which were previously disadvantaged individuals. Of the eight PDI's, three of them were white women.

5.2 Findings from the Statistical Analysis

5.2.1 Variables in the Analysis

- **CEOAROA** = CEO average return on assets
- **CEOAROE** = CEO average return on equity
- **α** = 0.05 and therefore the level of significance is 5%

Tenure categories:

- 1 – Tenure of between 1 to 3 years
- 2 – Tenure of between 4 to 5 years
- 3 – Tenure of 6 years or longer

Industry categories:

- Mining
- Retail

- Real Estate (RE)

Interaction between industry and tenure categories:

- **Mining1** – Mining industry and tenure between 1 and 3 years
- **Retail1** – Retail industry and tenure between 1 and 3 years
- **Real estate1** - Real estate industry and tenure between 1 and 3 years
- **Mining2** – Mining industry and tenure between 4 and 5 years
- **Retail2** – Retail industry and tenure between 4 and 5 years
- **Real estate2** – Real estate industry and tenure between 4 and 5 years
- **Mining3** – Mining industry and tenure 6 years or longer
- **Retail3** – Retail industry and tenure 6 years or longer
- **Real estate3** – Real estate industry and tenure 6 years or longer

5.2.2 Research Hypothesis 1 – CEO Tenure and ROA

The first research hypothesis which will be tested is to see if there is a significant relationship between CEO tenure and changes to ROA. Thus the null hypothesis was that CEO tenure has no effect on the ROE achieved by an institution. The alternative hypothesis would be that CEO tenure does have an impact on ROA.

The comprehensive descriptive statistical analyses for ROA can be found in Appendix 4.

Before the testing was conducted it was decided to delete two extreme values from the analysis when examining the CEOAROA as a response variable:

- **Observation 22:** Mining industry with tenure of between one and three years with CEOAROA of -320.493. When differences between tenure categories in terms of CEOAROA were investigated this value was deemed an extreme value in the analysis and therefore discarded.
- **Observation 53:** Retail industry with tenure of six years or longer with CEOAROA of 80.855. When differences for industry categories in terms of CEOAROA were investigated this value was deemed an extreme value in the analysis and therefore discarded.

Even though these two observations were removed from the analysis, not all the populations were normally distributed and therefore nonparametric techniques were used in order to test for differences in location of the different populations under consideration. The Kruskal-Wallis test was used to perform the analysis.

This first test was conducted to determine whether the populations (Tenure 1, 2 and 3) differ significantly when the response variable is CEOAROA. The findings of the Kruskal-Wallis test were as follows:

Table 5.2: Kruskal-Wallis test findings for CEO tenure and ROA

Wilcoxon Scores (Rank Sums) for Variable CEOAROA Classified by Variable Tenure					
Tenure	N	Sum of Scores	Expected Under H0	Std Dev Under H0	Mean Score
1	33	837.0	1006.50	67.299703	25.363636
2	13	495.0	396.50	55.730752	38.076923
3	14	498.0	427.00	57.215965	35.571429

Kruskal-Wallis Test	
Chi-Square	6.4820
DF	2
Pr > Chi-Square	**0.0391**

Since the $p - value < \alpha - value$, it can be concluded that there is enough statistical evidence to suggest that there is a significant difference in performance for the different tenure categories when examining CEOAROA.

When one examines the mean scores based on the test results it is clear that the best performance was detected for CEOs with a tenure period of between four and five years, followed by CEOs with a tenure period of six years and longer. This was the general result if the industries are not considered.

When the different industries were considered separately, in order to detect whether there are significant differences in performance (CEOAROA) based on tenure categories, the findings were as follows:

Table 5.3: Kruskal-Wallis test findings for CEO tenure and ROA for mining

Wilcoxon Scores (Rank Sums) for Variable CEOAROA Classified by Variable Tenure					
Tenure	N	Sum of Scores	Expected Under H0	Std Dev Under H0	Mean Score
1	27	439.0	540.0	32.863353	16.259259
2	9	258.0	180.0	30.000000	28.666667
3	3	83.0	60.0	18.973666	27.666667

Kruskal-Wallis Test	
Chi-Square	9.4627
DF	2
Pr > Chi-Square	**0.0088**

Since the $p-value < \alpha-value$, it can be concluded that there is enough statistical evidence to suggest that there is a significant difference in performance for the different tenure categories when examining CEOAROA. When one examines the mean scores based on the test results it is clear that the medium and long tenure show better performance than that of short tenure for mining companies.

Next are the results for the retail industry and they provided the following findings:

Table 5.4: Kruskal-Wallis test findings for CEO tenure and ROA for retail

Wilcoxon Scores (Rank Sums) for Variable CEOAROA Classified by Variable Tenure					
Tenure	N	Sum of Scores	Expected Under H0	Std Dev Under H0	Mean Score
1	3	21.0	19.50	5.408327	7.000000
2	2	3.0	13.00	4.654747	1.500000
3	7	54.0	45.50	6.157651	7.714286

Kruskal-Wallis Test	
Chi-Square	4.6978
DF	2
Pr > Chi-Square	**0.0955**

Since $p - value > \alpha - value$ it can therefore be concluded that the null hypothesis can not be rejected and it shows that there is not enough statistical evidence to suggest that there is a significant difference in performance between the different tenure categories when examining CEOAROA for retail. However, if the test was at a 10% level of significance, the null hypothesis could be rejected based on the test results.

The results for the real estate industry are provided by the following:

Table 5.5: Kruskal-Wallis test findings for CEO tenure and ROA for real estate

Wilcoxon Scores (Rank Sums) for Variable CEOAROA Classified by Variable Tenure					
Tenure	N	Sum of Scores	Expected Under H0	Std Dev Under H0	Mean Score
1	3	13.0	15.0	3.872983	4.333333
2	2	9.0	10.0	3.415650	4.500000
3	4	23.0	20.0	4.082483	5.750000

Kruskal-Wallis Test	
Chi-Square	0.5444
DF	2
Pr > Chi-Square	**0.7617**

Since $p - value > \alpha - value$ it can therefore be concluded that the null hypothesis can not be rejected and it shows that there is not enough statistical evidence to suggest that there is a significant difference in performance between the different tenure categories when examining CEOAROA for real estate.

All of the previous analyses were conducted independently of one another. The final use of the Kruskal-Wallis test was to determine the interaction between industry and tenure categories. This investigation resulted in the following findings:

Table 5.6: Kruskal-Wallis test findings for all CEO tenure categories and ROA for all industries

Wilcoxon Scores (Rank Sums) for Variable CEOAROA Classified by Variable Tensec					
Tensec	N	Sum of Scores	Expected Under H0	Std Dev Under H0	Mean Score
Mining1	27	670.0	823.50	67.299703	24.814815
Mining2	9	418.0	274.50	48.303727	46.444444
Mining3	3	142.0	91.50	29.483046	47.333333
RE1	3	74.0	91.50	29.483046	24.666667
RE2	2	50.0	61.00	24.283053	25.000000
RE3	4	113.0	122.00	33.744135	28.250000
Retail1	3	93.0	91.50	29.483046	31.000000
Retail2	2	27.0	61.00	24.283053	13.500000
Retail3	7	243.0	213.50	43.427142	34.714286

Kruskal-Wallis Test	
Chi-Square	16.0547
DF	8
Pr > Chi-Square	**0.0416**

Since the $p - value < \alpha - value$, it can be concluded that there is enough statistical evidence to suggest that there is a significant difference in performance for the different tenure categories when examining CEOAROA across the three industries. When one examines the mean scores based on the test results it is

clear that a longer tenure shows better performance than that of short tenure for all three industries.

The final analysis with ROA was to analyse the mean values in terms of industry and for each tenure category. This was in an attempt to predict what the actual values might be for future reference, based on past findings. The actual ROA values were plotted on a graph and their spread in terms of percentiles was analysed. The following were the results for the three industries only:

Table 5.7: Means analysis for ROA across all industries

Analysis Variable : CEOAROA CEOAROA							
Sector	N Obs	N	Mean	25th Pctl	Median	75th Pctl	Std Dev
Mining	39	39	18.01	-0.55	12.91	34.54	29.89
RE	9	9	8.55	7.11	8.01	10.21	2.96
Retail	12	12	10.63	6.68	11.48	13.44	5.30

As the data was not normally distributed in general it was better to consider the median score instead of the mean scores calculated in each industry. The median gives you the CEOAROA value where 50% of the observations in that category are less than or equal to the median value and where 50% of the observations were larger than the median value. Therefore, if a CEO were to enter the mining industry his ROA should be benchmarked against the median value of 12.91%.

The 25th Percentile is a value for CEOAROA where 25% of all the values are less than or equal to the percentile (e.g. real estate = 7.11) and 75% of all the values are greater than the percentile value.

The 75th percentile is a value for CEOAROA where 75% of all the values are less than or equal to the percentile (e.g. retail =13.44) and 25% of all the values are greater than the percentile value.

When a similar analysis was conducted for just the tenure categories, the findings were as follows:

Table 5.8: Means analysis for ROA across all tenure categories

Analysis Variable : CEOAROA CEOAROA							
Tenure	N Obs	N	Mean	25th Pctl	Median	75th Pctl	Std Dev
1	**33**	33	9.04	-0.67	6.41	15.95	25.24
2	**13**	13	29.62	4.29	26.19	56.81	27.62
3	**14**	14	15.95	10.21	12.73	13.90	11.69

The highest median was exhibited for tenure category two, which is for CEOs who have served for four to five years. It is noticeable that there is a difference between the median for shorter tenure when compared to the others. Clearly, tenure of four or more years is better.

As with the initial Kruskal-Wallis tests, the mean analysis has so far only considered the variables independently. When the descriptive statistics was used to describe the measures across the different industries and tenure categories simultaneously, the results are outlined below:

Table 5.9: Means analysis for ROA across all tenure categories and all industries

Analysis Variable : CEOAROA CEOAROA								
Sector	Tenure	N Obs	N	Mean	25th Pctl	Median	75th Pctl	Std Dev
Mining	1	27	27	8.96	-1.57	5.53	23.53	27.95
	2	9	9	40.40	26.19	30.17	57.41	26.66
	3	3	3	32.22	12.91	36.23	47.52	17.65
RE	1	3	3	7.79	7.11	7.92	8.35	0.63
	2	2	2	8.36	3.94	8.36	12.78	6.26
	3	4	4	9.22	6.93	9.11	11.50	2.97
Retail	1	3	3	11.01	5.40	11.69	15.95	5.31
	2	2	2	2.39	2.07	2.39	2.72	0.46
	3	7	7	12.83	10.98	12.65	13.90	3.72

Again, it is noticeable that there is a difference between the median for shorter tenure when compared to the other two categories; with the only exception being that of short tenure in retail.

5.2.3 Research Hypothesis 2 – CEO Tenure and ROE

The next research hypothesis which will be tested is to see if there is a significant relationship between CEO tenure and changes to ROE. The null hypothesis for this was that CEO tenure has no effect on the ROE achieved by an institution. The alternative hypothesis would be that CEO tenure does have an impact on ROE. The comprehensive descriptive statistical analyses for ROE can be found in Appendix 5.

Before the testing was conducted, it was decided to delete four extreme values from the analysis when examining the CEOAROE as a response variable:

- **Observation 18:** Mining industry tenure of between one and three years with CEOAROE of -378.29. When differences between tenure categories in terms of CEOAROE were investigated this value was deemed an extreme value in the analysis and therefore discarded.
- **Observation 21:** Mining industry tenure of between one and three years with CEOAROE of 3429.40. When differences between tenure categories in terms of CEOAROE were investigated this value was deemed an extreme value in the analysis and therefore discarded.
- **Observation 23:** Mining industry tenure of between one and three years with CEOAROE of 2132.84. When differences for industry categories in terms of CEOAROE were investigated this value was deemed an extreme value in the analysis and therefore discarded.

- **Observation 52:** Real estate sector tenure of between one and three years with CEOAROE of -554.973. When differences between industry categories in terms of CEOAROE were investigated this value was deemed an extreme value in the analysis and therefore discarded.

This first test was conducted to determine whether the populations (Tenure 1, 2 and 3) differ significantly when the response variable is CEOAROE. The findings of the Kruskal-Wallis test were as follows:

Table 5.10: Kruskal-Wallis test findings for CEO tenure and ROE

Wilcoxon Scores (Rank Sums) for Variable CEOAROE Classified by Variable Tenure					
Tenure	N	Sum of Scores	Expected Under H0	Std Dev Under H0	Mean Score
1	30	753.0	885.00	64.265076	25.10
2	13	442.0	383.50	53.630682	34.00
3	15	516.0	442.50	56.313853	34.40

Kruskal-Wallis Test	
Chi-Square	4.2228
DF	2
Pr > Chi-Square	0.1211

The $p - value > \alpha - value$ and therefore it was concluded that the null hypothesis cannot be rejected and it shows that there is not enough statistical evidence to suggest that there is a significant difference in performance between the different tenure categories when examining CEOAROE.

When the different industries were considered separately, in order to detect whether there are significant differences in performance (CEOAROE) based on tenure categories, the findings were as follows:

Table 5.11: Kruskal-Wallis test findings for CEO tenure and ROE for mining

Wilcoxon Scores (Rank Sums) for Variable CEOAROE Classified by Variable Tenure					
Tenure	N	Sum of Scores	Expected Under H0	Std Dev Under H0	Mean Score
1	25	400.0	475.0	30.822070	16.000000
2	9	217.0	171.0	28.248894	24.111111
3	3	86.0	57.0	17.972201	28.666667

Kruskal-Wallis Test	
Chi-Square	6.3196
DF	2
Pr > Chi-Square	**0.0424**

Since the $p - value < \alpha - value$, it can be concluded that there is enough statistical evidence to suggest that there is a significant difference in performance

for the different tenure categories when examining CEOAROE for the mining industry. When one examines the mean scores based on the test results it is clear that longer tenure and medium tenure show better performance than that of shorter tenure for mining companies.

Next are the results for the retail industry and they provided the following findings:

Table 5.12: Kruskal-Wallis test findings for CEO tenure and ROE for retail

Wilcoxon Scores (Rank Sums) for Variable CEOAROE Classified by Variable Tenure					
Tenure	N	Sum of Scores	Expected Under H0	Std Dev Under H0	Mean Score
1	3	25.0	21.0	5.916080	8.333333
2	2	3.0	14.0	5.066228	1.500000
3	8	63.0	56.0	6.831301	7.875000

Kruskal-Wallis Test	
Chi-Square	4.7445
DF	2
Pr > Chi-Square	**0.0933**

Since $p - value > \alpha - value$ it can therefore be concluded that the null hypothesis can not be rejected and it shows that there is not enough statistical evidence to suggest that there is a significant difference in performance between the different tenure categories when examining CEOAROE for retail. However, if the test was at

a 10% level of significance, the null hypothesis could be rejected based on the test results.

The results for the real estate industry are provided by the following:

Table 5.13: Kruskal-Wallis test findings for CEO tenure and ROE for real estate

Wilcoxon Scores (Rank Sums) for Variable CEOAROE Classified by Variable Tenure					
Tenure	N	Sum of Scores	Expected Under H0	Std Dev Under H0	Mean Score
1	2	6.0	9.0	3.000000	3.000
2	2	13.0	9.0	3.000000	6.500
3	4	17.0	18.0	3.464102	4.250

Kruskal-Wallis Test	
Chi-Square	2.1250
DF	2
Pr > Chi-Square	0.3456

Since $p - value > \alpha - value$ it can therefore be concluded that the null hypothesis can not be rejected and it shows that there is not enough statistical evidence to suggest that there is a significant difference in performance between the different tenure categories when examining CEOAROE for real estate.

Again, all of the previous analyses were conducted independently of one another. The final use of the Kruskal-Wallis test was to determine the interaction between industry and tenure categories for ROE. This investigation resulted in the findings reflected below:

Table 5.14: Kruskal-Wallis test findings for all CEO tenure categories and ROE for all industries

Wilcoxon Scores (Rank Sums) for Variable CEOAROE Classified by Variable tensec					
tensec	N	Sum of Scores	Expected Under H0	Std Dev Under H0	Mean Score
Mining1	25	626.0	737.50	63.688696	25.040000
Mining2	9	348.0	265.50	46.564471	38.666667
Mining3	3	147.0	88.50	28.482451	49.000000
RE1	2	24.0	59.00	23.466288	12.000000
RE2	2	52.0	59.00	23.466288	26.000000
RE3	4	96.0	118.00	32.588341	24.000000
Retail1	3	103.0	88.50	28.482451	34.333333
Retail2	2	42.0	59.00	23.466288	21.000000
Retail3	8	273.0	236.00	44.347116	34.125000

Kruskal-Wallis Test	
Chi-Square	12.4068
DF	8
Pr > Chi-Square	0.1340

The $p - value > \alpha - value$ and therefore it was concluded that the null hypothesis can not be rejected and it shows that there is not enough statistical evidence to suggest that there is a significant difference in performance for the different tenure categories when examining CEOAROE across the three industries.

The final analysis with ROE was to analyse the mean values in real terms industry and for each tenure category. The following were the results for the three industries only:

Table 5.15: Means analysis for ROE across all industries

Analysis Variable : CEOAROE CEOAROE							
Sector	N Obs	N	Mean	25th Pctl	Median	75th Pctl	Std Dev
Mining	37	37	49.79	-0.98	24.62	94.77	113.72
RE	8	8	-61.73	1.07	3.63	11.14	199.54
Retail	13	13	24.78	18.77	21.84	26.68	17.13

Therefore, based on the above, if a CEO were to enter the mining industry his ROE should be benchmarked against the median performance of 24.62%.

The 25th Percentile is a value for CEOAROE for real estate is 1.07. This is where 25% of all the values are less than or equal to the percentile and 75% of all the values are greater than the percentile value.

The 75th percentile is a value for CEOAROE for retail is 26.68. This is where 75% of all the values are less than or equal to the percentile and 25% of all the values are greater than the percentile value.

When a similar analysis was conducted for just the tenure categories, the findings were as follows:

Table 5.16: Means analysis for ROE across all tenure categories

Analysis Variable : CEOAROE CEOAROE							
Tenure	N Obs	N	Mean	25th Pctl	Median	75th Pctl	Std Dev
1	**30**	30	-3.30	-1.63	2.92	45.01	124.55
2	**13**	13	85.48	3.04	16.79	140.19	146.48
3	**15**	15	43.89	18.77	24.62	37.54	57.62

The highest median was exhibited for tenure category three, which is when the CEO served for six or more years. It is noticeable again, when compared to the findings for ROA in table 5.8, that there is a difference between the median for shorter tenure when compared to the other categories of tenure.

Finally, the description of the measures across the different industries and tenure categories were analysed simultaneously. The following highlights those findings:

Table 5.17: Means analysis for ROE across all tenure categories and all industries

Analysis Variable : CEOAROE CEOAROE								
Sector	Tenure	N Obs	N	Mean	25th Pctl	Median	75th Pctl	Std Dev
Mining	1	25	25	14.71	-1.63	0.67	52.61	74.74
	2	9	9	120.29	3.04	110.86	207.73	166.55
	3	3	3	130.64	37.54	149.82	204.57	85.15
RE	1	2	2	-275.39	-554.97	-275.39	4.20	395.40
	2	2	2	11.14	5.49	11.14	16.79	7.99
	3	4	4	8.67	1.07	2.20	16.28	13.91
Retail	1	3	3	28.04	16.03	26.68	41.40	12.74
	2	2	2	3.16	1.08	3.16	5.24	2.95
	3	8	8	28.97	19.33	23.23	28.76	17.25

Again it is noticeable that there is a difference between the median for shorter tenure when compared to the others; with the only exception being that of short tenure in retail.

Therefore based on the findings of this chapter, ROA provided a greater statistical significance to reject the null hypothesis and conclude that CEO tenure does affect financial performance. Whereas, ROE did not provide this statistical significance to reject the null and thus no conclusions could be made.

CHAPTER SIX: DISCUSSION OF RESULTS

In this chapter the research findings outlined in the previous chapter are discussed and juxtaposed against the studies reviewed in Chapter Two. The primary aim is to provide a theoretical background to the findings and postulate possible reasons as to why the null hypotheses were either rejected or not. The discussion focuses firstly on the African context which in this study represents developing world economies. Next, the discussion focuses on the South African context and in particular the new economic era since 1994 and the performance of the 36 listed South African companies selected for this study. Thereafter, CEO tenure is analysed and discussed independently of financial performance. The subsequent section addresses the impact of CEO tenure on financial performance in an attempt to answer the research hypotheses. The final section deals with a few limitations of this study and some thoughts on leadership.

6.1 Africa

As noted in the literature review, Africa is plagued by poverty, disease and slow growing and underdeveloped economies. In addition, life expectancies are low because poor healthcare and diseases, such as malaria and HIV\AIDS are depleting the labour force in many countries. Furthermore, Africa's trade with the rest of the world is uncompetitive. Africa does not have a strong manufacturing

sector and exports mainly raw materials while, on the other hand, it is dependent on widespread importation of manufactured products from Asia and Europe.

In Africa more often than not, most companies and even countries are ruled by long tenured leaders. The longer the tenure, the more likely leaders are to become complacent and predictable. As this happens they become less competitive and lose focus on the future, focussing only on the here and now (Katz, 1982). This means that leaders are unable to adapt to changes in the environment and their performance becomes weaker as their tenure increases. The outcome of this trend is mediocre or even poor financial performance which results in slow growth on the continent.

Leaders who have captained companies for long periods are likely to become stale in their ideas and resistant to suggestions from new and younger staff, who they sometimes perceive as a threat to both their position and authority. This is ultimately detrimental for the companies they lead.

This research showed that for ROA there was statistical significance to indicate a link between CEO tenure and financial performance; the same was not true however, for ROE. If African CEOs are made aware that CEO tenure is a factor, although not the only one, that impacts on business productivity and success, they may be able to take decisions about a possible ideal length of tenure to achieve

better financial performance of their companies and hence, improved economic growth on the continent over time.

6.2 South Africa

As discussed in the literature review, although South Africa has a dual economy, its private sector resembles a developed world economy rather than a developing world economy characteristic of the rest of Africa. This is true of both the pre and post Apartheid economies. However, 1994 was the start of something new for South Africa not only in terms of a new political dispensation and social rights for the people, but for the economy as well. The Apartheid Government had brought the Apartheid economy to a state of near collapse as a result of sanctions, civil unrest and unaffordable defence expenditure for wars along South Africa's borders (Lewis, 2001).

According to literature reviewed, the democratic Government led South Africa into a booming and stable economy. This is evidenced by the low impact the 1998 Asian financial crisis had on the local economy (Lewis, 2001). Due to low levels of foreign exchange exposure, South African markets were relatively unaffected by the crisis (Lewis, 2001). This meant that South African markets and most companies on the JSE continued to experience growth. As noted, there was tremendous growth of the financial markets and in 2006 South Africa experienced the highest growth ever (Parliament, 2007).

Most of the data support the view of a growing economy which more closely resembles that of developed countries. In this study, the ROA and ROE values in general increased throughout the 2000's. ROA showed that medium and longer tenures resulted in significantly better results than shorter tenures. The majority of data for longer tenures begin around 2000. It should therefore not be a surprise to see better financial performance in the late 2000's. The data set dealt only with figures and names starting in 1995.

If 1995 is the zero year, for example, then strong financial results would be seen only from 2000 and continue to grow for a period after that. Thus, it could be argued that CEO tenure contributed towards growing the economy during the 2000's. It is by no means the single or most significant reason, but from an ROA point of view, the statistical evidence is strong to suggest tenure played a part in financial success. CEOs who took office in the late 1990's and stayed in that position for 6 or more years, experienced better financial results than those whose tenure was of a shorter duration. However, this trend may also be attributed to the lag effect in seeing the changes implemented upon becoming CEO and the financial fruition of these results. Perhaps the reason that medium and longer tenure showed better results was because that is how long the lag takes to show its effect in the in the South African economy.

But what about the transformation of the South African economy, did it have an effect on financial performance of these listed companies? While no statistical tests were conducted on the impact of the transformation, a number of conclusions can be drawn from the data set. 13% of the sample exhibited a previously disadvantaged individual (PDI) as the CEO. Through the analysis of annual reports it was interesting to note that most of the transformational changes occurred at the board level. In other words, many board directors and executives were appointed after 1994, but relatively few PDI's were appointed to the CEO position.

After the publication of the of the King II report in 2002, many of the companies split the roles of the Chairman and CEO. The King II report on corporate governance in South Africa, indicated that it was the more responsible course of action, and that companies needed to comply with this or explain why they had not (King, 2002). It is around the time of the publication of the King II report, that the annual reports of companies reflect more PDI's assuming roles as Chairman. The likes of Tokyo Sexwale, Cyril Ramaphosa and Patrice Motsepe were amongst Chairman. Very few changes in terms of PDI appointments to the CEO position were found. Unfortunately, the implementation of BEE was not to be found widely at the senior executive level as the same names featured again and again at the helm of many companies. This confirmed the growing view expressed by many that BEE only benefits the select few and is not broad-based.

Therefore, it may be safe to assume, given the relatively low number of PDI's in the sample, that the transformational element did not impact upon the results of this study. While the structure and composition of the top management teams changed with the implementation of BEE, it seems as if most of the key decision making positions at this level were not occupied initially by PDI's. South Africa has only experienced 15 years of democracy, perhaps in the next 15 years, a sample of this nature will reflect a larger number of PDI's in the CEO position. The sample in this study demonstrates that whilst the liberalisation of the economy has provided many opportunities, it has not been as successful in ensuring, in keeping with the democratic government's intentions, the transformation of listed companies at the CEO level.

6.3 CEO Tenure

Several studies in the literature found that financial performance of companies were related to CEO tenure. Allgood and Farrell (2003), for example, were content that the performance of a company was related to CEO tenure. Their study was based around "match theory", which assumes heterogeneity in the worker-company match and that the value of these matches is not initially known by either party (Allgood & Farrell, 2003). According to Allgood and Farrell (2003), past literature on "match theory" suggests that most new matches end early. This would seem to indicate that the number of shorter tenures is higher than either medium or longer tenure because of this failure. The sample drawn from the JSE

showed that 55% of that sample comprised of shorter CEO tenures, while medium and long tenures represented 21% and 24% respectively.

Using the "match theory" in their methodology, Allgood and Farrell (2003), they found that the average CEO tenure was five years. When the JSE sample was drawn the following results were found:

Table 6.1: Number of actual years as CEO per tenure category

No.	Short Tenure 1-3 years		Medium Tenure 4-5 years		Long Tenure 6+ years	
	Name	Years as CEO	Name	Years as CEO	Name	Years as CEO
1	Richard (Rick) P. Menell	3	Steve Kearney	4	Tony Trahar	6
2	David Murray	2	Nicholas Morrell	4	Keith Rumble	6
3	Jan Steenkamp	1	Brad Mills	4	A. Simone Malone	6
4	Andre Wilkens	3	Terence McConnachie	5	Pat Goldrick	11
5	Cynthia Carroll	1	Steve Phiri	5	Trevor C Honneysett	10
6	WC de Waal	1	Ian C Watson	5	Jebb D McIntosh	8
7	P S Glyn	1	Glyn Lewis	5	Dennis M Polak	9
8	M J Betts	3	Calvyn Gardner	4	G A M Ravazotti	6
9	DG Williams	1	Sello M Rasethaba	5	Mias Strauss	11
10	Henrik Gideon Veldsman	2	Patricia Eve Shub	4	Alastair E McArthur	10
11	Stephen Thomas Ward	2	N C Tromp	4	Sean Summers	8

12	Neal J Froneman	2	Eric Prange	4	Tana Schultze	6
13	Godfrey Dzinomwa	3	Jeff Davis	4	Pieter G Prinsloo	6
14	Fred Gandiwa Moyo	1			Peter N Lonsdale	7
15	David Brown	1			Jeffery P Wapnick	9
16	G. Edward Haslam	3				
17	W J Joubert	2				
18	Charles Denby Stockton Needham	2				
19	Dawid Herman Warmenhoven	3				
20	Jan du Preez	1				
21	R M Godsell	2				
22	EFG Nealon	3				
23	P H de Villiers	2				
24	Lindsay B Robertson	3				
25	Izak Marais	2				
26	Gordon Trevlyn Miller	2				
27	Peter Danchin	1				
28	Llewellyn Delport	3				
29	David Kneale	2				
30	Peter D Swatton	2				
31	J J Fourie	2				
32	David Kuper	3				
33	Leon Norbert Sasse	3				
34	Craig Hutchison	2				

A simple arithmetic calculation revealed the average tenure of all the CEOs in the sample to be 3.96774 or four years. This is very close to the average tenure obtained by Allgood and Farrell in their study. The difference could be due to sample sizes or methodology used, but the result is reasonably close to their findings. This also indicates that the South African CEO tenure more closely resembles that of the North American findings in CEO tenure.

Kaplan and Minton (2006) used “agency theory” as their basis to conduct research. “Agency theory” attempts to explain the principle-agent relationship, by suggesting motivating factors to allow the agent to act in the best interests of the principle (Eisenhardt, 1989). Their study was on Fortune 500 companies, in an attempt to understand the determinants of both internal and external CEO turnover. While their study did not focus on the link between tenure and performance, they did find that the average tenure for their study was 6.7 years. Given the literature review and Kaplan & Minton’s findings, is it possible that South African organisations are replacing CEOs too soon? The results of this research indicated that for ROA both long and medium tenures showed better performance than that of shorter ones. This begs the question: should the average tenure therefore be slightly longer, perhaps five, six or seven years? The research findings here seem to suggest that in the South African context, CEOs are being replaced too soon. They are not being given enough time to develop effective strategies and see out the lag time before the financial results are obtained. If the sample had showed a higher average tenure, this conclusion might not have been postulated. However, given

the fact that both medium and long tenures generally tend to exhibit better ROA results, it is safe to conclude that the current CEO tenure of the sample is too short. It may be postulated that the ideal average tenure should be closer to the findings of Allgood and Farrell (2003), namely, between five and six years.

Ralf Katz (1982) found that the longer the tenure of the project team, or for purposes of this research the CEO, the more unlikely they were to be innovative and to challenge the norm (Katz, 1982). The lack of innovation and acceptance of conventional thinking also meant that leaders were more likely to conform to industry tendencies (Katz, 1982). This in turn would lead to mediocrity and a lack of competitiveness. In a related study by Miller (1991) it was found that as CEO tenure increased, so did their power and influence over others which often led CEOs to surround themselves with like-minded individuals, again stifling the possibility of planning for future innovations. This trend led to unwillingness to adapt to environmental changes causing the company to fail (Miller, 1991). Miller (1991), also suggested that past performance clouded the judgement of CEOs because the longer they are in office the more complacent they become. This view is further supported by Finkelstein and Hambrick (1990), who used the “upper echelons theory”, to test the moderating role of managerial tenure and conformity to industry averages. This theory states that people make decisions to fit their view of the world (Finkelstein & Hambrick, 1990). Their study considered the top management team’s tenure and the types of decisions that managers make based upon tenure (Finkelstein & Hambrick, 1990). They found that tenure tends to

restrict information processing and therefore top managers develop habits and rely on past experience instead of on new stimuli upon which to base their decisions (Finkelstein & Hambrick, 1990). It was found that a company's strategy tends to remain more constant as team tenure increases and this leads to a reduction in the adoption of unique strategies (Finkelstein & Hambrick, 1990). Therefore, conformity to industry averages increase as tenure seems to increase and this would lead to an uncompetitive company (Finkelstein & Hambrick, 1990).

The findings from this research have indicated that JSE listed companies exhibit a lower average tenure than findings from the USA studies reviewed. Clearly there is a middle ground for CEO tenure based on the literature. If companies are overly eager to appoint new CEOs, thereby reducing tenure, then they will find that the company's performance is not optimal. If companies are too complacent, then it is too their detriment. Maybe South Africa and the JSE have almost got it right as it was suggested that medium to long tenure, of five to six years is the most suitable period. This could be because it allows for a thorough understanding of the business, while being able to effect corrective measures in response to a changing environment (Miller, 1991). In other words, it gives new CEOs time to set in place new strategies and to implement these strategies. Companies with shorter tenures do not allow CEOs the time and opportunity to understand existing trends so that they can develop innovations to improve performance. On the other hand, where tenures are too long, the evidence of this study, supported by other studies

reviewed showed that CEOs can become complacent and resistant to change thereby losing their competitive edge and hence potential for high performance.

6.4 CEO Tenure and Financial Performance

As already alluded in a previous chapter, much of the current research does not focus on the explicit link between CEO tenure and financial performance. In some studies tenure is used as one of the variables (along with education, past experience and research and development expenditure, to name a few) to test financial performance. For most instances however, the link between CEO tenure and financial performance is examined where the dependent and independent variables of this study were swapped. In other words, financial performance is used to predict CEO tenure. Keywords such as succession planning, CEO turnover, CEO change, CEO retention, forced versus natural resignations are readily featured in the literature.

However, there were two studies which were relevant to understand the relationship between CEO tenure and financial performance.

Firstly, Henderson *et. al.*, (2006) used “contingency theory” as the basis for their study. “Contingency theory” assumes that changes to the company are based on changes to the environment (Henderson *et. al.*, 2006). In this instance the theory implies that as companies change their operations to better suit the environment,

the performance exhibited by those companies is enhanced (Henderson *et. al.*, 2006).

During their research, Henderson *et al.* (2006) they found that learning occurred most strongly from the appointment of the CEO and then gradually began to decrease over the years for dynamic industries. This coupled together with the "contingency theory" meant that they expected CEO tenure to increase with financial performance initially (Henderson *et. al.*, 2006).

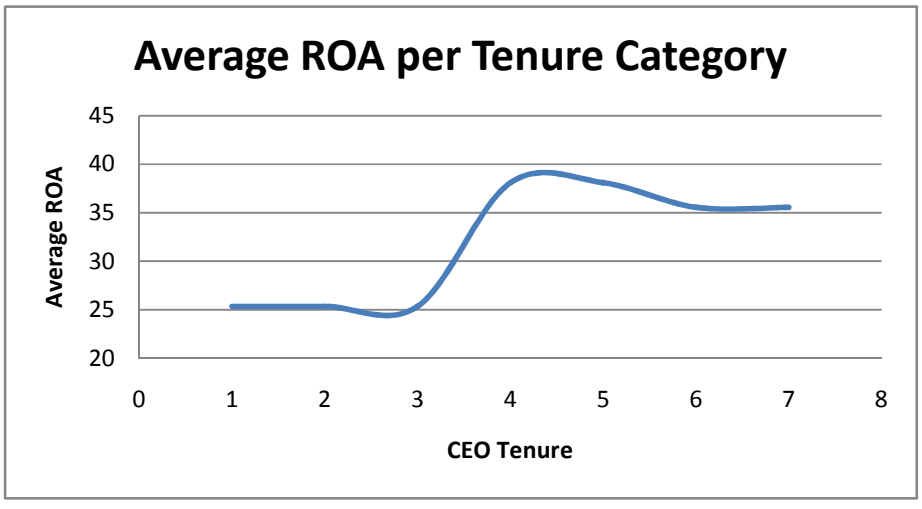
Henderson *et al.* (2006) found that long tenure lasted up to 11 years for stable environments after which point financial performance began to decline as tenure exceeded 11 years. For more dynamic environments tenure was at its peak during the first year and then began to slowly decline (Henderson *et. al.*, 2006). "Contingency theory" explained fully the different findings in their opinions. If the environment did not change as drastically, CEOs were able to adapt and produce long term results (Henderson *et. al.*, 2006). If the environment constantly changed, CEOs could not keep up with the rate of change and therefore performance suffered and began to decline (Henderson *et. al.*, 2006).

From this it was rationalised that CEOs pass through two phases during their time in office (Henderson *et. al.*, 2006). Initially there is a period in which CEOs learn by doing and gradually implement a strategic orientation that best suits the firm given the current environment (Henderson *et. al.*, 2006). This period or phase is known

as adaptive improvement (Henderson *et. al.*, 2006). In the next phase, which seems to be similar to the views of Miller (1991) and Finkelstein & Hambrick (1990), there is some point at which CEOs tend to become less innovative and instead, conform more to the industry norms (Henderson *et. al.*, 2006). Therefore at this point performance begins to decline as tenure increases (Henderson *et. al.*, 2006).

The findings by Henderson *et. al.*, (2006) and the other literature reviewed in this study indicated that increasing CEO tenure with increasing financial performance, led to the expectation that similar results were expected with this study. However, instead of the inverted "U" shape as predicted by most of the research for the companies in the USA, the findings of this study represented an "S" curve rather than an inverted "U". The graph below shows the trend of the average ROA findings.

Figure 6.1: The average ROA per tenure category across all sampled industries



Based on prior literature the most plausible explanation for this shape instead of the inverted “U”, is probably due to the developed nature of the USA’s economy when compared to the South African one. The USA has some of the most strenuous, competitive and dynamic business environments in the world. This means that when CEOs become complacent, their decrease in financial performance is much more pronounced due to the concentration of the market and the number of competitors. In the South African context the tail is beginning to decline, but it is not as steep as what was found for US companies. SA markets are not as saturated and as fully developed as the US’s. Furthermore, the transformation of the South African economy is relatively new, only 15 years old. Therefore, given enough time the tail end of the “S” curve is likely to decline as expected in the literature. It is the rate of this decline which accounts for the major difference between findings in the USA and the findings of this research.

Due to the “S” curve not exhibiting a definitive point of increase and then decline, it is difficult to assume conclusively that medium tenure is the peak. When the findings of the past literature are taken into account, this trend is highly likely but, nevertheless, it cannot be confirmed conclusively. The most logical conclusion to be drawn is that both medium and longer tenure showed significantly better ROA performance than shorter tenure. Hence, for South African companies, CEOs need to be given time to learn about the company, to develop new strategies and to implement these strategies.

With regards to the findings by Henderson *et. al.*, (2006) for dynamic (where financial performance was best at year one) versus stable industries (where financial performance was better as tenure increased), this research only included stable industries (mining, retail and real estate) by their definition. Therefore none of the findings should have exhibited best performance in the first tenure category and then steadily decline as tenure continued. The results of this study were consistent with Henderson *et. al.* (2006) observations.

Finally, Salancik and Pfeffer (1980) conducted a study to determine the relationship between financial performance and three other variables. These variables were management ownership, composition of the board and tenure of the chief executive (Salancik & Pfeffer, 1980). During their literature review they found other studies which indicated that: 1) in the face of declining profits for four or more years, CEOs were very likely to change jobs; and 2) there was a negative relationship between financial risk and CEO tenure (Salancik & Pfeffer, 1980). This along with other evidence suggested that they would find a positive relationship between financial performance and CEO tenure (Salancik & Pfeffer, 1980). Their findings showed inconsistent results. Performance in the general sense was only slightly related to CEO tenure (Salancik & Pfeffer, 1980). When they analysed returns to common stock, there was no significant relationship to tenure (Salancik & Pfeffer, 1980). Net profits exhibited only a marginal relationship to tenure as well

(Salancik & Pfeffer, 1980). Clearly their results were not as definitive as they would have liked.

The same is true for the results of this study. The first research hypothesis was to assess if there was a significant relationship between CEO tenure and changes to ROA. The alternative hypothesis was that CEO tenure does have an impact on ROA. In this instance, there was statistical significance not to reject the alternative hypothesis. There was enough evidence to suggest that CEO tenure does impact upon ROA.

The next research hypothesis tested was to determine if there was a significant relationship between CEO tenure and changes to ROE. The alternative hypothesis that CEO tenure does have an impact on ROE, was significantly rejected. This test was conducted across all three industries simultaneously. If individual industries were considered, only the mining industry showed significant results at a 5% significance level not to reject the alternative hypothesis.

From the Salancik and Pfeffer (1980) study, it is evident that the financial measures which they used differ drastically from one another. Common stock and net profit are not derived in a similar manner. Common stock is equivalent to ordinary shares and is valued daily based upon market speculation (Investopedia, 2010). It is a measure of investor confidence and fluctuates regularly. Net profit is derived from the financial statements produced by a company. Therefore the

disparity in the financial measures chosen by Salancik and Pfeffer (1980), could explain for their differing results. This raised the question about the implications for this research study.

In an attempt to answer this question, the equations for each financial ratio need to be carefully considered. Firstly, ROE or return on equity, the formula is given as the following:

$$ROE = \left[\frac{Profit\ After\ Taxation}{Total\ Owners\ Interest}\right] * 100$$

The profit after taxation is also known as net income. Net income is derived from taking the revenue from the firm during the year and subtracting the expenditure to run the business for that year (Investopedia, 2010). Therefore net income = revenue – expenses – depreciation – interest – tax – other expenses (Investopedia, 2010). Total owners interest is also known as shareholders equity and is the capital received from investors in exchange for stock (Investopedia, 2010). It is the combination of starting capital plus retained earnings (Investopedia, 2010).

The formula for ROA or return on assets is given by:

$$ROA = \left[\frac{(Profit\ Before\ Interest\ \&\ Tax) - (Total\ Profit\ Extraord.Nature)}{Total\ Assets}\right] * 100$$

Profit or earnings before interest and tax (EBIT) excludes payments on interest and tax (Investopedia, 2010). This is a very useful measure in that it states the operational profit of the business and allows for inter-company comparisons (Investopedia, 2010). Total profit extraordinary nature is derived from unusual or infrequent means and therefore is not a true reflection of profit generated from day to day operations (Investopedia, 2010). Total assets is purely the balance sheet value of all current and non-current assets (Investopedia, 2010).

This raised the question: Why the discrepancy in the findings of this research between CEO tenure and financial performance when ROE and ROA are used? One reason could be the discrepancy between the formulas in their use of net income versus profit EBIT. Net income is a rather easily manipulated figure. Items such as interest payments, depreciation and other expenses can all be deferred, changed or manipulated via accounting policy. Net income does not show the true reflection of a firms profit as generated by its operations. EBIT on the other hand, does indicate operational profits as depreciation, tax and interest payments are all excluded from the equation. ROA provides a more accurate reflection of business operations.

Another reason for the discrepancy could be how each formula makes use of debt. One of the biggest differences with these formulas is how leverage or debt affects the equations (McClure, 2010). Since shareholder's equity = assets - liabilities, when debt is increased by a company the equity portion decreases (McClure,

2010). In ROE, total shareholder's equity is the denominator, which means that a smaller value results in a higher ROE value (McClure, 2010). This does not translate into a better performing organisation, as the risks taken on by the additional leverage are not considered by the ROE equation.

When the equation is rewritten to solve for assets, total assets = liabilities + shareholder's equity. An increase in debt results in an increase in total assets. In the ROA equation total assets is the denominator and thus when debt increases the value of the ROA decreases. Therefore by increasing debt in a business, ROE would increase and ROA would decrease and vice versa.

Therefore the manipulation of accounting policy coupled with the effects of debt on the two ratios, could explain why CEO tenure did not exhibit statistically significant similar findings for financial performance of these two ratios.

6.5 Limitations

The following are some of the limitations with regards to the research conducted to determine if CEO tenure had an impact upon financial performance, as measured by ROA and ROE.

As already noted in previous chapters, the data set gathered did not lie within a normal distribution. It would have been wiser to include a much larger sample to determine if normal distribution was apparent.

Only two financial variables were selected. Both of these measure a firm's profitability. The assumption here is that profitability and shareholder maximisation are the most important financial indicators. The research would have been improved if more financial performance indicators were selected. However, the study intended to look at CEO tenure on its own and whether it had an impact on financial performance.

The sample focused on three randomly chosen industries out of the 88 listed industries. Perhaps a broader spread of industries could have provided more definitive results from an ROE point of view.

Tenure categories were selectively chosen by the researcher. Different permutations with perhaps more or less categories may have exhibited different results.

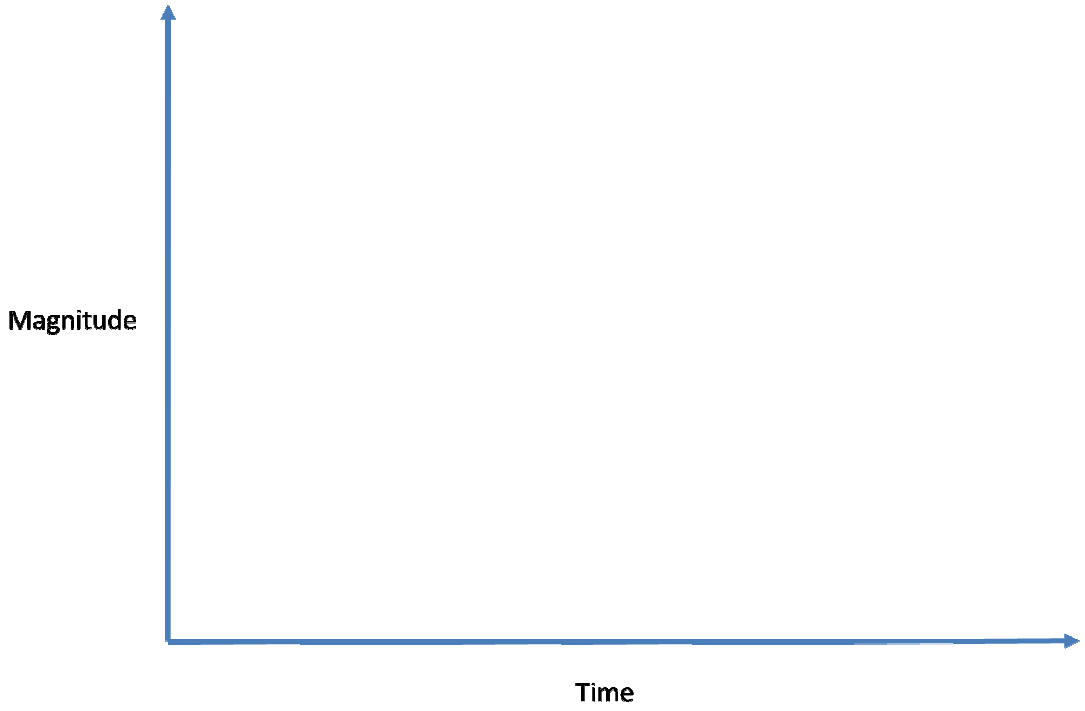
6.6 Leadership and the South African CEO Tenure Model

This section of the discussion attempts to provide some important insights in leadership and the role or CEOs. In addition, it also attempts to illustrate how CEO tenure should be viewed within the South African business environment.

One of the major concerns questions throughout the history of studies on leadership is what constitutes the most effective approach to leadership (Nkomo, 2010). In today's world leadership is abstract and a constantly changing concept (Nkomo, 2010). There are many schools of thinking on the subject. Some emphasise the hard skills whereas others focus on softer skills such as communication, flexibility and creative thinking. The concern for this study is how, for a single component of leadership, CEO tenure, can South Africans extrapolate the findings of this research to the entire JSE?

This research project focused on three industries within the JSE. Unfortunately, no real financial performance figures can be deduced mainly because different types of industries experience different financial performance. The concept of CEO tenure in the South African context, however, can be discussed across the entire JSE, regardless of the period if the following model is considered.

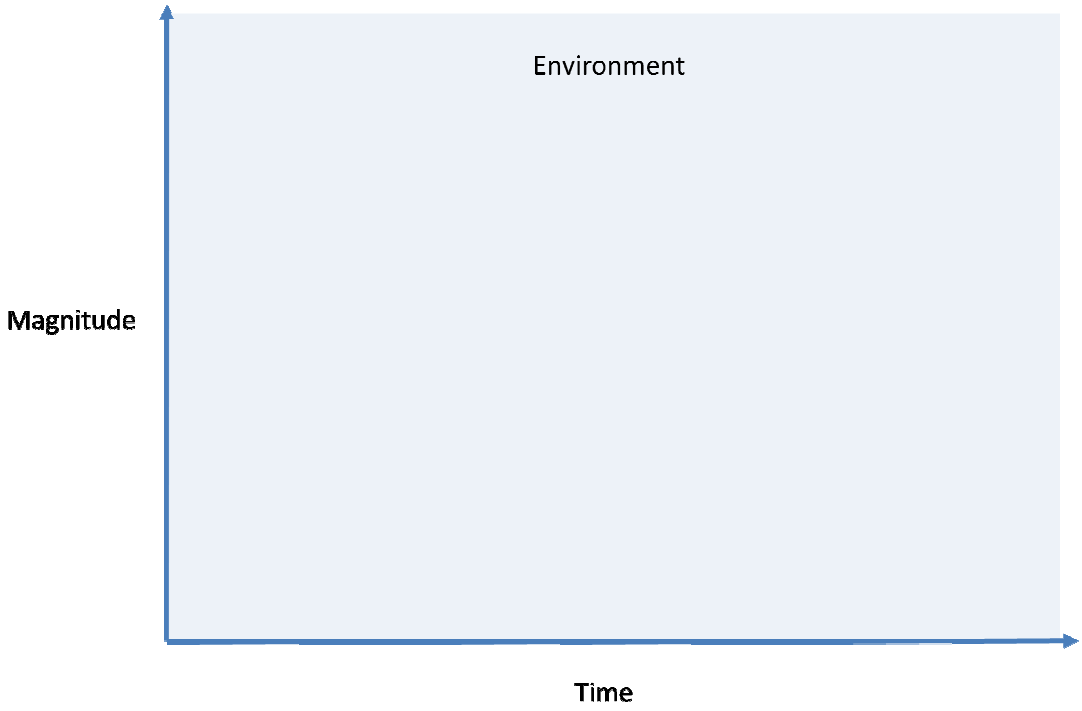
Figure 6.2: CEO Tenure Model Axes



Firstly consider the two relevant axes. The y-axis of magnitude and the x-axis of time. The y-axis has an increasing order of magnitude from top to bottom, while time does the same from left to right as indicated above.

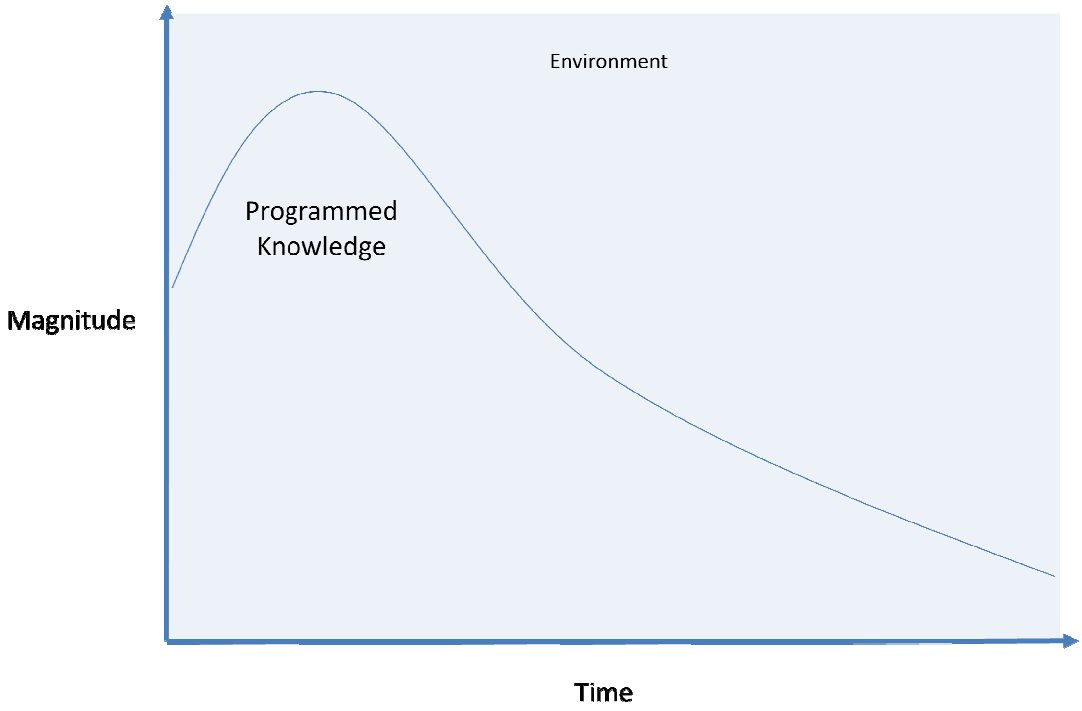
Secondly, the environment should be considered and it encompasses all aspects within this model:

Figure 6.3: Environmental component of the model



The third component to consider is that of programmed knowledge. According to Nkomo (2010) programmed knowledge is the intelligence individuals derive from their daily lives. Living in different areas during one's lifetime helps to shape one's view of the world and it helps to broaden a person's perspective (Nkomo, 2010).

Figure 6.4: Programmed knowledge component within the model

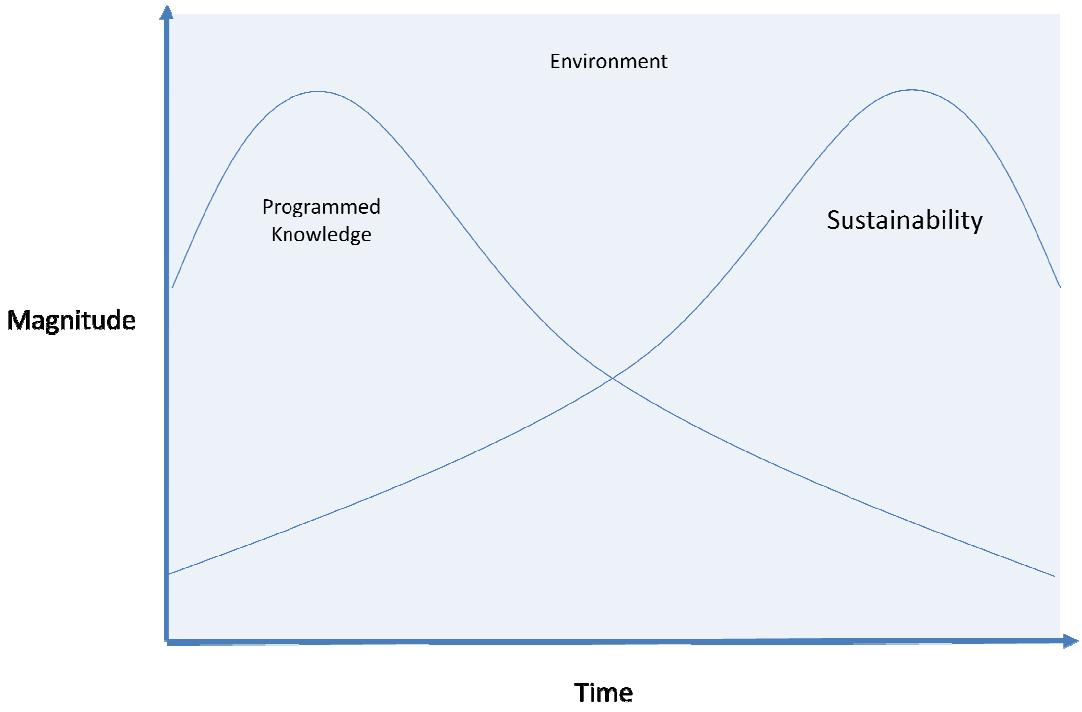


Learning happens most frequently from the beginning and then gradually begins to decline during our lifetime (Nkomo, 2010). The rate of intake declines as individuals combine that with their years of life experience.

The fourth component is that of company sustainability. Too often there are stories of individuals, who seek personal gain ahead of the company. This is often detrimental to the company. One specific example is that of Coleman Andrews who was supposed to lead South African Airways (SAA) into the future. Part of his solution was to sell aircrafts and develop new routes in an attempt to improve SAA's financial results. SAA's financial results were improved significantly after his first year in office. However, the board and the Department of Transport failed to see the long term effects of his strategy. He increased the debts levels in SAA to

an unsustainable level. The fleet was depleted with the selling of aircraft and could no longer service current routes. After being paid a ridiculous bonus, he was replaced and the carrier was no longer financially viable and had to be bailed out by funding from the government. This example highlights two key aspects about the emphasis placed upon the attainment of "good financial results". The first is that clearly financial indicators can be manipulated year on year. The second is that CEO tenure is not about financial performance, it is about creating sustainability within the company which was a key element in this model.

Figure 6.5: The sustainability component within the model

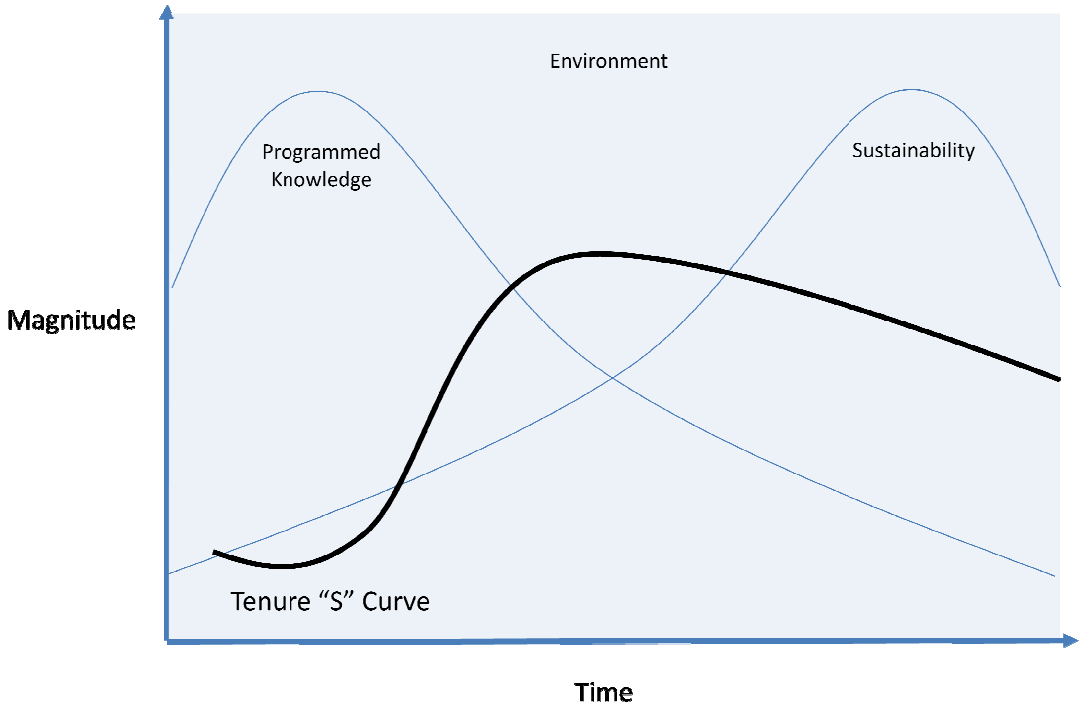


Sustainability is based on some form of continuity. According to Nkomo (2010) the challenge nowadays is that each person runs a company as a sprint race, instead

of a marathon. CEO tenure should be considered as a marathon and not a sprint. It is not sustainable to develop short term strategies for businesses. Long term decisions are necessary to ensure the sustainability of the company and its employees. At the same time, in a dynamic environment such as South Africa, long tenure for CEOs may be difficult to achieve. If CEOs cant respond rapidly to the environment changes they will be replaced (Nkomo, 2010). Nevertheless, this study seems to indicate that medium and long tenure is most desirable, which may assist in creating sustainability without leading to stagnation that may be the case of long tenures.

Now that the basic components are in place, the findings of this research can be added. The “S” curve for SA CEO tenure is inserted into the current model as depicted below:

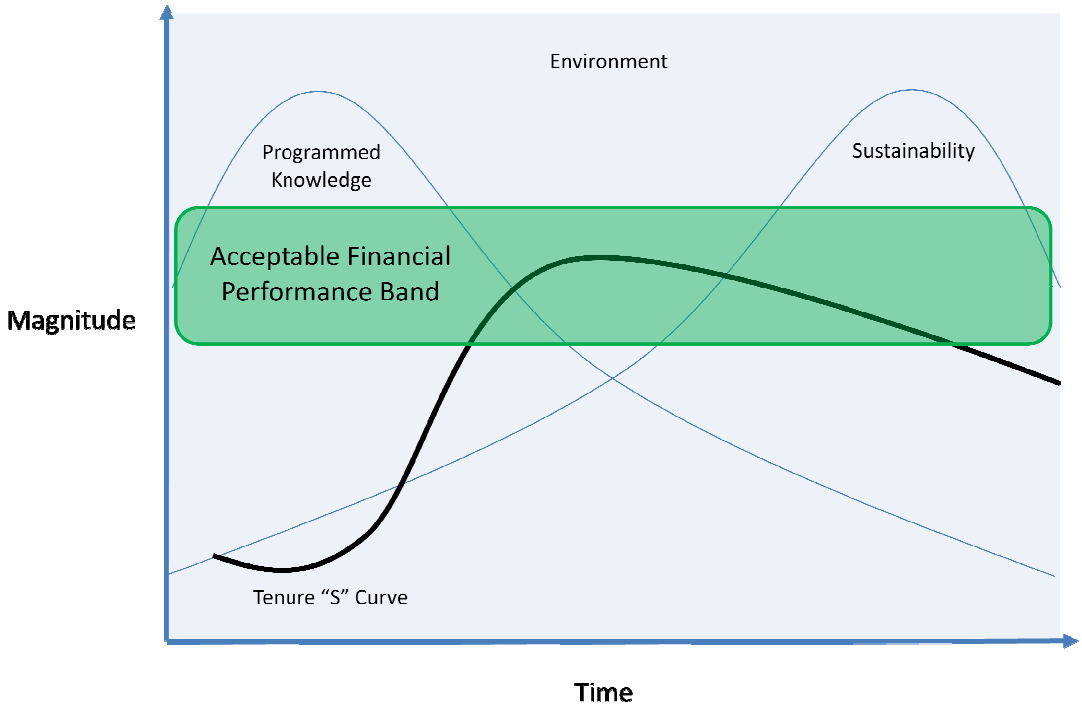
Figure 6.6: The "S" curve of SA CEO tenure within the model



From the above figure it is evident that short tenured CEOs are still in the programmed knowledge phase of the curve. There is still a lot to learn about the company. At some point their understanding will increase and so will the financial results. When medium and longer tenures are experienced there is sufficient knowledge gained, to exhibit an increase in sustainability for the company.

What then is an acceptable level of financial performance? Or put differently, where current companies on the JSE should focus their attention. The following figure depicts the acceptable level of financial performance:

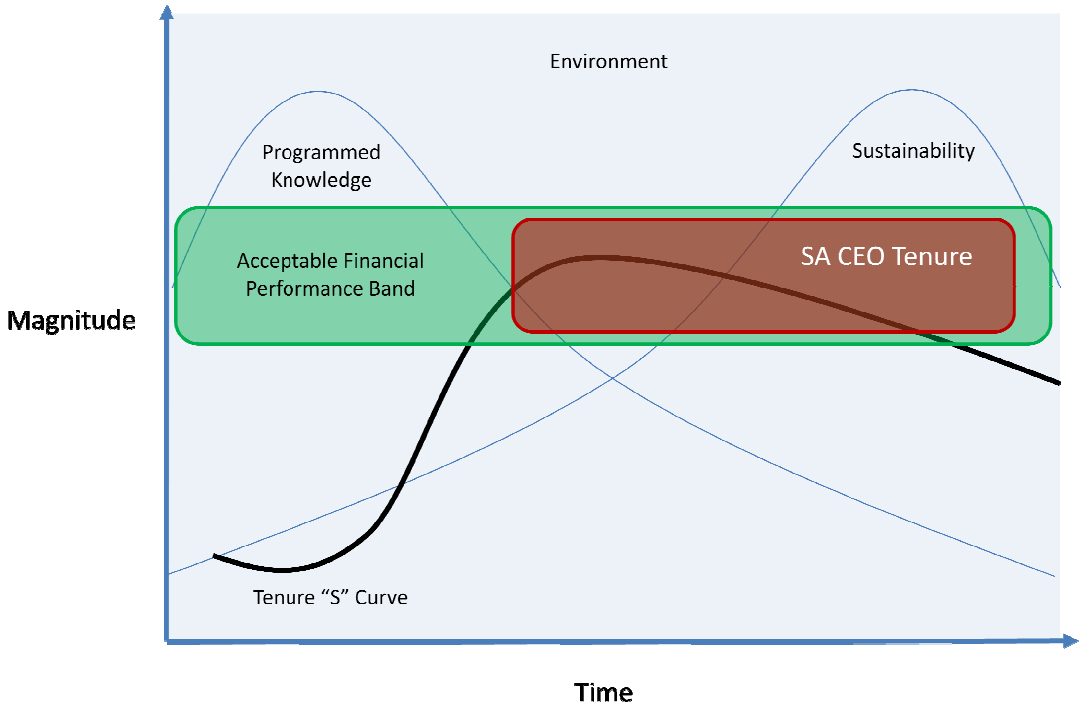
Figure 6.7: The acceptable financial performance band within the model



Within this band of financial performance, shorter CEO tenure is not preferred. Not only has the CEO not been given the opportunity to make the required changes to increase financial performance and sustainability, but CEO tenure is still characterised by the learning aspect. Medium and long tenures are preferred, but not for extremely long periods of time. As explained by the literature, at some point in the future long term tenure causes a decline in financial performance.

The final component of this model is to posit the appropriate CEO tenure, within the South African context. The figure below illustrates this point:

Figure 6.8: SA CEO tenure within the model



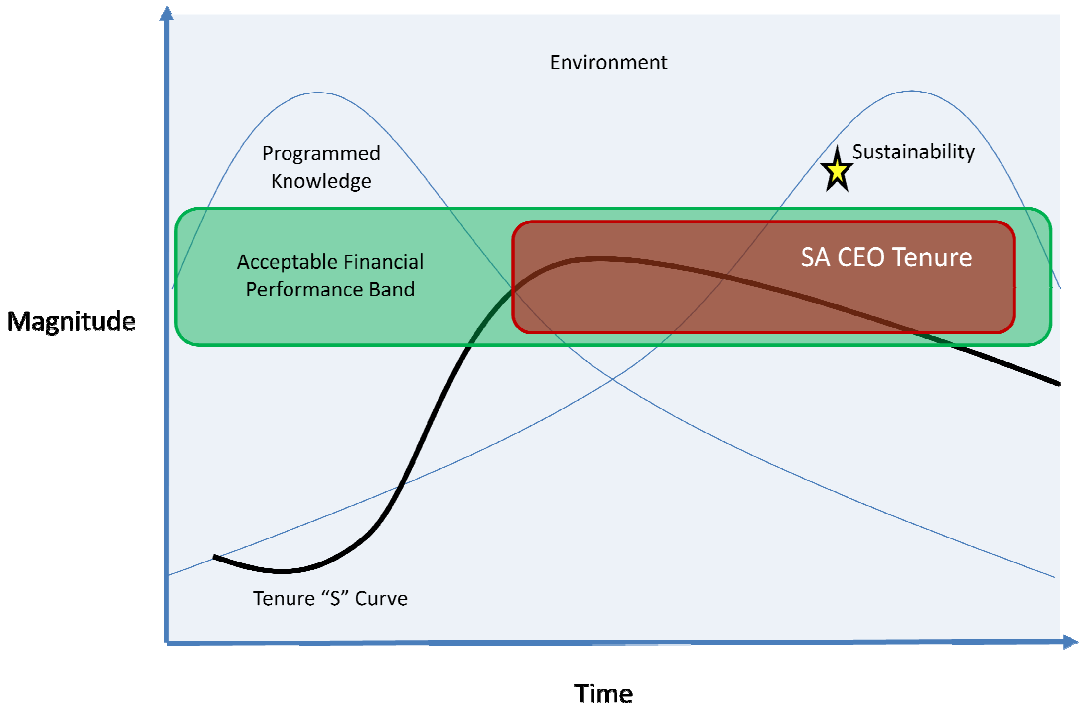
The typical CEO tenure for a South African company listed on the JSE, should therefore be considered with the elements of environment, programmed knowledge, sustainability, the "S" curve and the acceptable level of financial performance. Shorter tenures are not as ideal from an ROA point of view when compared to medium and longer tenures. It was stated earlier that the average CEO tenure, of four years, is perhaps a bit too short at and should rather be around five years.

Now that the South African CEO Tenure Model based on this study has been presented the question remains: how can it explain the South African context and what should boards or shareholders consider with regards to preferable CEO

tenure? In an attempt to answer this question, different points within the model and their meaning with regards to CEO tenure are posited.

Firstly, what if a JSE listed company finds itself located in a position indicated by the yellow star on the model below:

Figure 6.9: First illustrative point for SA CEO Tenure Model

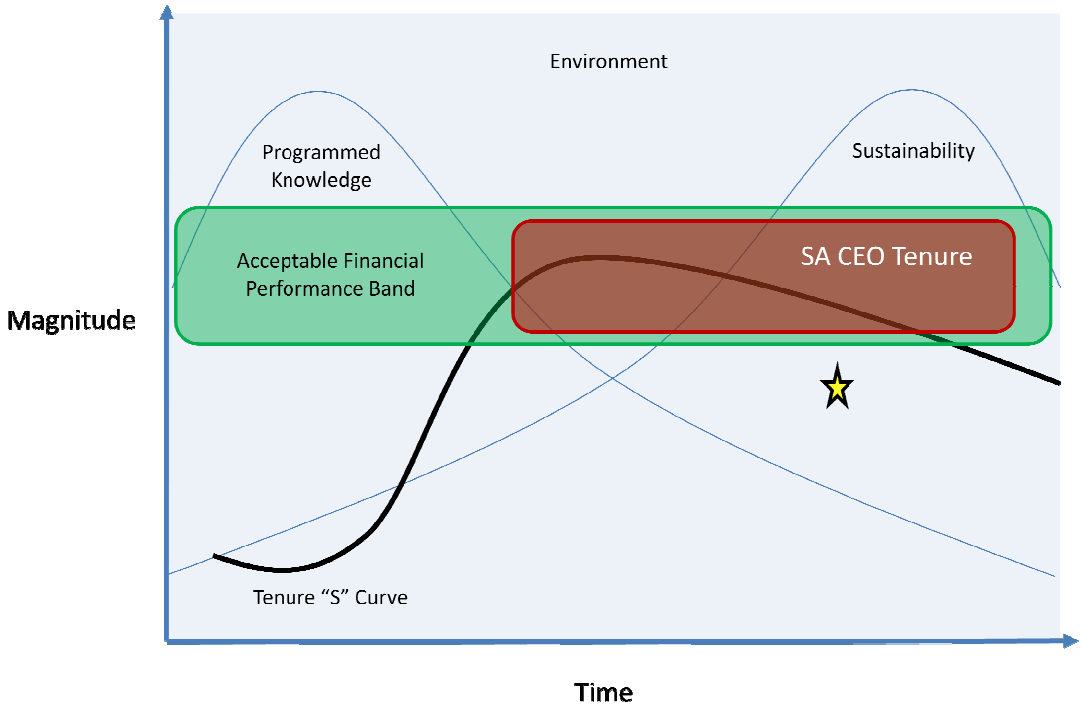


An analysis of the components reveals that the location is characterised by a low level of programmed knowledge. This should not have a negative impact upon CEO tenure. The level of sustainability has decreased. If that point were moved vertically downwards to be within the SA CEO tenure band, the area under the sustainability curve would be greater. Therefore, by moving the star to its depicted

position, the area of sustainability has decreased and the environmental risk the company faces has increased. Clearly though, the company is experiencing increased financial performance, but at the risk of decreased sustainability. The “S” curve indicates that the CEO has already had a long tenure, but as explained before the financial decline is not expected to be as steep as outlined in the literature because of the differing South African context, fewer companies and the newness of the economy here. Based on this finding, the boards of companies should be concerned and measures such as executive education and succession planning should be considered.

But what if the star were on the other side of the acceptable financial performance band as depicted in the graph below?

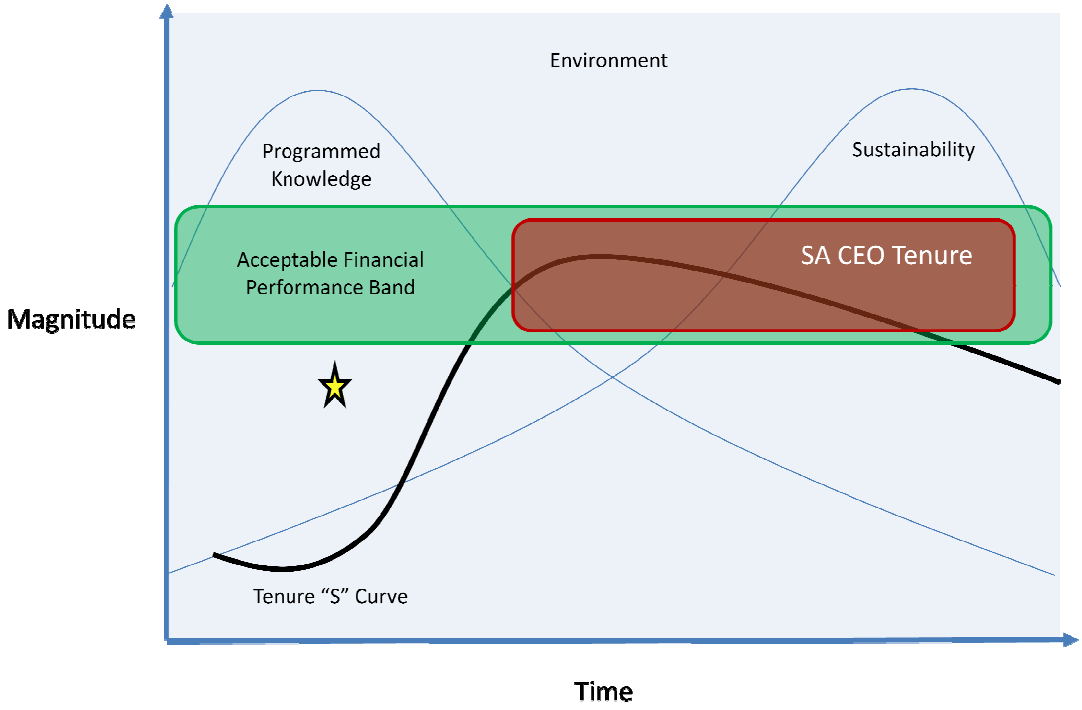
Figure 6.10: Second illustrative point for SA CEO Tenure Model



When a similar analysis is conducted the model indicates that again programmed knowledge is low. Sustainability has increased, which is offset by a decreased environmental risk. However, the financial performance of the company is below the acceptable level. With the CEO tenure being on the declining side of the "S" curve, the board should again be concerned. Clearly the CEO has become complacent and establishes a level of comfort within the job. The board should acknowledge that the CEO has become less innovative, has conformed to industry norms and has lost the competitive edge in the market. This may result in a decline in the company's performance as it loses its market share and is no longer able to maximise shareholder wealth. In this instance the board should consider succession planning and CEO retrenchment and replacement.

How should the board understand the model if it found itself on the programmed knowledge side of the SA CEO Tenure Model?

Figure 6.11: Third illustrative point for SA CEO Tenure Model

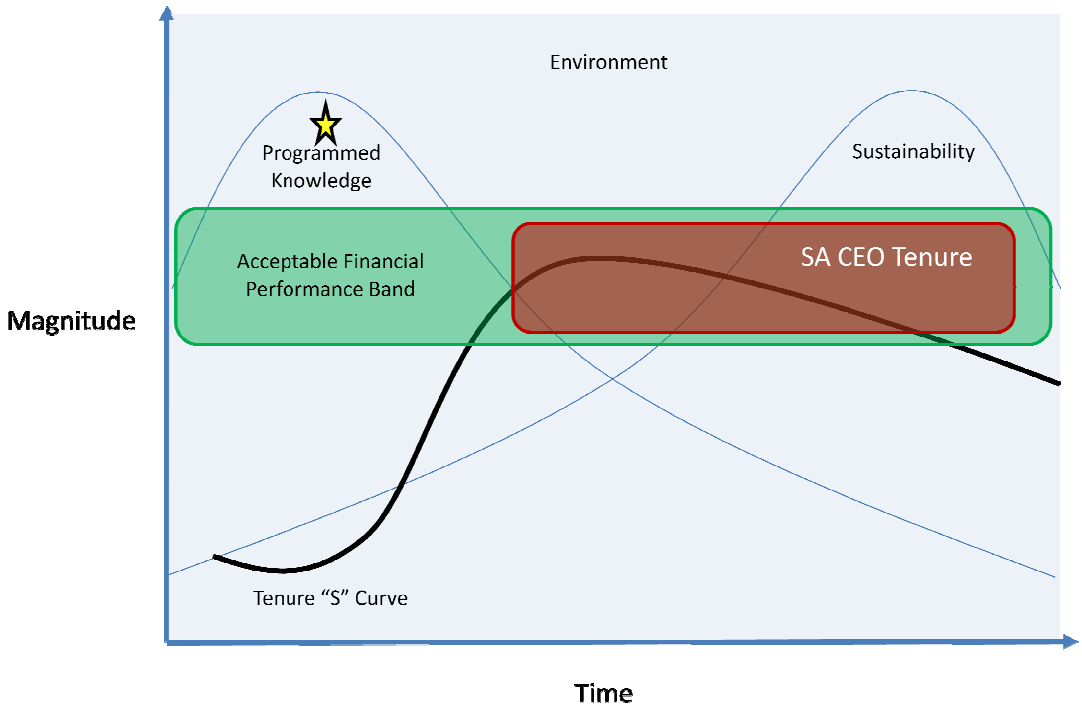


The area under the curve for the programmed knowledge component is high, indicating that the CEO is still trying to understand the nature of the business and how it fits into the market place. The sustainability of this company is low and therefore the environmental risk is high. The level of financial performance is low, but the CEO tenure curve will begin to show significant results once the programmed knowledge reaches an appropriate level and the lag time for the CEOs decisions to see financial success elapses. If the company finds itself in this position on the model, the board should be patient and allow CEO tenure to enter

its fourth or fifth year. The board should also consider executive coaching and mentoring, as well as allow previous CEOs to interact and make their previous experiences with the company, available to the current CEO.

The final point of consideration is when a company finds itself in the position depicted below:

Figure 6.12: Fourth illustrative point for SA CEO Tenure Model



Programmed knowledge and sustainability in this case is low. The financial performance however is extraordinary given the point on the "S" curve which the CEO is on. Two different conclusions can be drawn from this. The first is that of the SAA example for Coleman Andrews. The company's exceptional performance for

this period maybe due to unexpected sources of revenue, which boost financial performance, but are not sustainable or viable in the long run. The second conclusion is that CEO is the perfect match for the job "match theory" and has learned very quickly the intricacies of the company and the market. However, the SA CEO Tenure Model illustrates that levels of financial performance at this point are not feasible and again sustainability needs to be considered. In this instance the board should: 1) review company financial very carefully; 2) examine the relationship between the Chairman and CEO to ensure appropriate delegations and responsibilities are in place in terms of the accuracy of the financial statements; 3) revise the company's strategy to ensure a focus on increased sustainability; and 4) support the CEO by allowing him/her to have a medium to long tenure as CEO.

The SA CEO Tenure Model highlights the different components from which CEO tenure should be viewed in South Africa. The Model illustrates that those key aspects which may seem good for the company in the short term, may not be the most viable options in the long run. In addition, the Model advocates that CEOs be given the opportunity to fully understand the business environment and allow their decisions enough lag time to see financial results. Very often the board is quick to replace the CEO if financial performance is not adequate. The Model explains that there are other options which boards can consider other than to prematurely terminating an individual as CEO. As Nkomo (2010) concludes, ultimately, leadership is about what you do and not who you are.

CHAPTER SEVEN: CONCLUSION

7.1 Main Research Findings

When the statistical analysis focused on return on assets, across all tenure categories for all industries in the data set, there was significant statistical evidence to reject the null hypothesis. In other words, CEO tenure did have an impact on financial performance when ROA was assessed. However the same was not true for return on equity. The only significant result with regard to ROE, was that when mining was considered independently, across all tenure categories, there was a significant statistical finding to reject the null hypothesis. The remainder of the analysis for ROE did not provide any statistically significant evidence to reject the null hypothesis. The main findings of this research are captured in the table below:

Table 7.1 Main research findings

Research Question	Finding
Does short, medium and long tenure differ when the response variable is ROA?	Yes, there was statistically significant findings to indicate that medium and then longer tenure, showed better financial performance than short tenure.
Which tenure category showed the best financial performance for the mining industry when ROA was used?	It was medium tenure, followed by long and then short tenure.
Which tenure category showed the best financial performance for the retail industry when ROA was used?	No significant findings at a 5% level of significance. However, if a 10% level is used, then it was long tenure, followed by short and then medium tenure.
Which tenure category showed the best financial performance	No statistical evidence to suggest any relevant findings.

for the real estate industry when ROA was used?	
Does short, medium and long tenure differ when the response variable is ROA across all industries simultaneously?	Yes, generally medium and longer tenure showed better financial performance when compared to shorter tenure.
Does short, medium and long tenure differ when the response variable is ROE?	No statistical evidence to suggest any relevant findings.
Which tenure category showed the best financial performance for the mining industry when ROE was used?	It was long tenure, followed by medium and then short tenure.
Which tenure category showed the best financial performance for the retail industry when ROE was used?	No significant findings at a 5% level of significance. However, if a 10% level is used, then it was short tenure, followed by long and then medium tenure.
Which tenure category showed the best financial performance for the real estate industry when ROE was used?	No statistical evidence to suggest any relevant findings.
Does short, medium and long tenure differ when the response variable is ROE across all industries simultaneously?	No statistical evidence to suggest any relevant findings.

Thus based on the above, while ROA and ROE are both measures of profitability, the statistical analysis revealed that only ROA showed any significant findings.

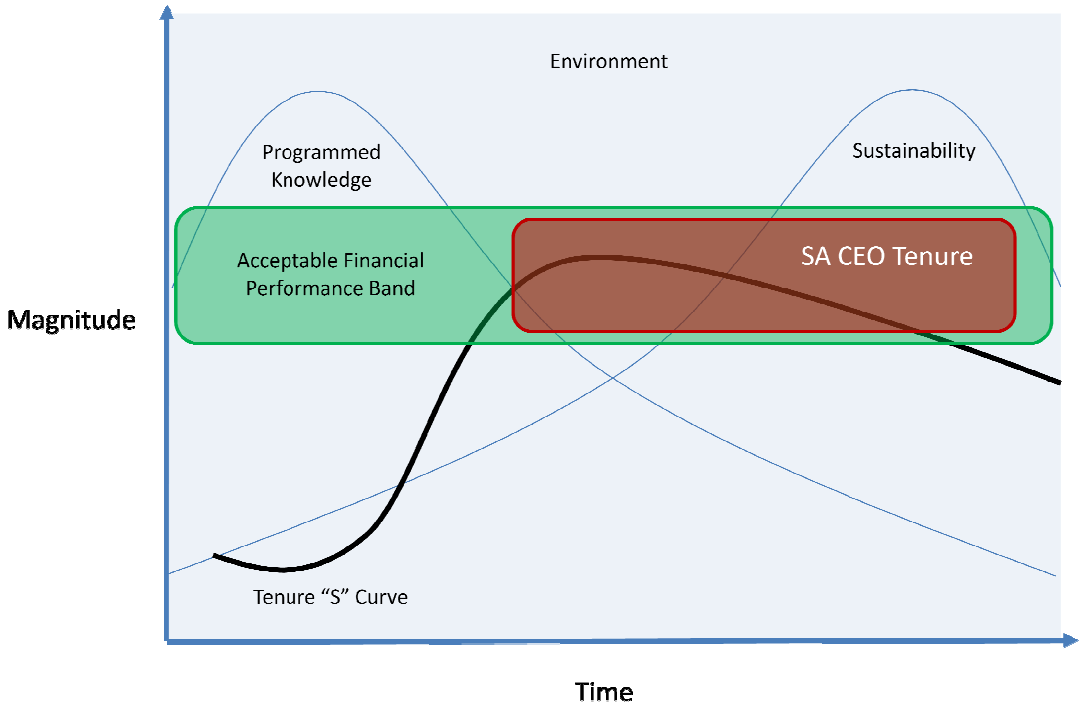
Previous literature conducted outside of South Africa indicated that the average CEO tenure was five years. The findings of this research indicated that it was closer to four years. While this is close to other academic findings, it was suggested that perhaps the SA average CEO tenure was slightly too short at four years.

Furthermore, an inverse “U” shape was expected for relating CEO tenure to financial performance. Instead, an “S” shape was exhibited. This was found to be consistent with the findings in previous studies conducted in the US. However, it was also posited that South Africa’s market was not as saturated with competitors and substitutes, or as old, as was the case in Western economies. Thus while it was an “S” shape, the curve was expected to decline with time in the future, indicating that performance would decline with extremely long tenures. This was explained and supported with both “match theory” and “agency theory”.

7.2 SA CEO Tenure Model

In an attempt to standardise the findings across the entire JSE and therefore the South African context, the SA CEO Tenure Model was developed. The model outlines how boards and shareholders should view CEO tenure and some of the decisions which can be considered depending on where the company finds itself in the model. The model is presented below:

Figure 7.1: SA CEO Tenure Model



The Model recommends that when a company finds itself not located within the SA CEO Tenure band, the following considerations by the company's board members are suggested, to remedy the situation:

Table 7.2 SA CEO Tenure Model Recommendations

Company's Position in Model	Board Considerations
Upper right hand side	• Executive education (executive MBA & short courses) • Succession planning
Lower right hand side	• CEO retrenchment • CEO replacement • Succession planning

Lower left hand side	• Executive coaching and mentoring • Top management team support of CEO and more rigorous involvement
Upper left hand side	• Review company financials meticulously for extraordinary items or those which could affect sustainability • Examine the relationship between the Chairman of the board and CEO to ensure appropriate delegations and responsibilities are upheld with regards to the accuracy of the financial statements • Revise the company's strategy to ensure a focus on increased sustainability • Support the CEO by allowing him/her to have a medium to long tenure as CEO

CEOs must be willing to adapt and exploit the given conditions. CEOs need to be given adequate time and opportunity to make effective decisions and see the benefits of those decisions. In the first place, CEOs, because their impact they can have on companies, should be recruited according to rigorous criteria and processes. Thereafter, allowed to remain in office for an average of five years. The old paradigms of immediate results or extremely long tenured CEOs ought to be changed. The business environment in today's world of post global recessions is extremely dynamic and is in a constant state of flux. CEOs must be able to adapt quickly and demonstrate innovation and the ability to generate results in both the short and long term. Part of this responsibility lies with the board of directors and their role in creating a sustainable company.

Does CEO tenure have an impact on the financial performance of listed companies? The answer is affirmative and it is this simple understanding which could improve a company's financial position and its sustainability. It all begins with the boards assuming greater responsibility for the calibre of CEOs they appoint and for the tenure they accord to CEOs.

7.3 Recommendations for Future Research

Given the paucity of research on the research questions posed in this research, further research in this area, particularly in relation to the African and more particularly South African context may be valuable in considering how to improve company performance. The findings of such research may be applied to any organisation within the private or public sectors. It is a well known fact that leadership is key to the performance of companies. Yet little research exists on tenure. Based on the questions and data set gathered for this study, some considerations for future research would include:

- To expand the data set to include more JSE industries
- To expand the statistical analysis to include profitability, gearing, efficiency and liquidity financial ratios
- To expand the years under investigation

- To redefine the tenure categories and conduct statistical analysis CEO tenure and financial performance
- To compare year on year data for financial performance applicable to the same CEO, instead of developing tenure categories
- To determine if the composition and diversity of the board affects CEO tenure and financial performance. Either simultaneously or independently
- To review board mandates and determine if failed succession planning affects CEO tenure. Boards may either appoint quickly and irrationally or may not be willing to change given their level of comfort in long standing CEOs, even though they are underperforming
- To examine the tenure of Chairman and Boards and whether this has an impact on financial performance of companies in South Africa
- To examine whether board members who sit on several companies have equal commitments to each company or whether there is a conflict of interests

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