# Zuckerberg or Buffett—Is youth or experience more valuable in the boardroom?

January 20 2016

In a new study, Yore found that mandatory retirement policies for CEOs may not be an effective solution for every company. Credit: MU News Bureau

Approximately half of the companies listed with Standard & Poor have adopted policies mandating retirement based on age. A new study from the University of Missouri has found that although these mandatory retirement polices represent an effective way to address underperforming CEOs, accumulated job experience improves performance and counters age-related declines.

"On the one hand, some studies have shown cognitive function declines with age, and we found that mandatory retirement policies can act as a mechanism to limit CEOs who serve beyond their effectiveness," said Adam Yore, an assistant professor of finance at the Trulaske College of Business at MU. "On the other hand, our study showed that experience is a significant positive factor of performance which could counter assumptions about age-related performance."

Forty-seven percent of Standard & Poor's corporate firms have adopted policies mandating retirement based on age. These policies allow firms to force individuals over the age of 65 to retire. The policies also are aimed at preventing CEOs from having undue influence over boards of directors simultaneously protecting shareholders from aged CEOs who may no longer be able to maximize shareholder wealth. Such policies bypass age discrimination laws due to exceptions for "bona fide executives" and "high-policymaking employees" in equal employee opportunity laws.

Yore analyzed data from 2,143 firms and found that although CEO age can be negatively related to firm value and operating performance, CEO experience is positively related to firm value and operating performance. Based on his research, Yore said experience largely offsets the losses associated with CEO age.

"This is not a black and white issue," Yore said. "What we do know is that any 'one-size-fits-all' model of governance will create more problems than solutions. Although we found that mandatory retirement policies can represent an effective form of corporate governance, in order to mitigate issues regarding the underperformance of older CEOs, a clear need also exists to account for all personal characteristics of executives, especially experience."

The study, "Silverback CEOs: Age, Experience and Firm Value," which is co-authored with Brandon Cline at Mississippi State University, will be published in an upcoming edition of the *Journal of Empirical Finance*.

Provided by University of Missouri-Columbia