

Newer consumer product industry CEOs more likely to issue recalls than veteran leaders

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Newly tenured CEOs in the consumer products industry are more likely to announce a product safety recall than CEOs who have been in the position longer, according to a new study of 25 years of recalls at

publicly traded companies.

"We believe this is the case because newly tenured CEOs can attribute blame for the recall to the previous CEO," said study co-author George Ball, associate professor of operations and decision technologies and Weimer Faculty Fellow at the Indiana University Kelley School of Business. "This phenomena is even more likely when the previous CEO left under poor circumstances, becoming more blame-able."

The study—published online in the journal *Production and Operations Management*—also finds that once CEOs have been in their role for about three years, they are more likely to allow recalls to go unannounced. The study co-authors argue that this may be because longer tenured CEOs are more likely to take the blame for news of bad product quality, and thus seek to avoid recalls when possible.

"We do not have data to demonstrate if this behavior is conscious or unconscious on the part of firms and their CEOs," said lead author Kevin Mayo, a Ph.D. candidate in operations and decision technologies at the Kelley School. "It may be a behavioral bias that CEOs are not even aware of, but the effects we find are very strong."

"A recent example of this phenomenon is the hesitancy by Peloton to recall their hazardous treadmills. John Foley, the CEO, has been in the role quite some time and is the co-founder of Peloton. He clearly knew he would—and has—taken the blame for Peloton's treadmill recall and how it was handled."

The consumer product industry is much more loosely regulated than other recall-intensive industries, such as autos, pharmaceutical drugs and [medical devices](#). The looser regulation by the Consumer Product Safety Commission—the federal regulator that oversees the industry—"creates an environment in which recall timing can be gamed by firms and their

CEOs to try to avoid the blame for problems," Ball said.

The other author of the paper, "CEO Tenure and Recall Risk Management in the Consumer Products Industry," is Alex Mills, associate professor of [operations management](#) at the Zicklin School of Business at Baruch College at the City University of New York.

The researchers used industry data including 125 publicly traded firms that experienced 307 new CEOs and 584 voluntary recalls from 1992 to 2016. They found that the issuance of a recall is 77 percent higher early in a CEO's tenure, or about the first three years on the job, compared to those who have led a company longer than that.

The study is the first to demonstrate a relationship between CEO tenure and recall decision-making. The co-authors propose several public policy recommendations to alleviate this problem, including that the Consumer Product Safety Commission learn from how the FDA manages drug and device recalls.

For instance, the FDA requires firms to report a "Defect Awareness Date" when they announce a recall. This allows the FDA to examine how long the problem was festering at the firm.

"The average time between defect awareness and recall initiation in FDA-regulated medical product firms is about 90 days," Mills said. "If CPSC collected such data, it would become more difficult to delay a needed recall. It's surely more than 90 days right now, for certain firms and certain CEOs."

The researchers also propose consumer product firms follow the example of auto, pharmaceutical and medical device firms that frequently have permanent board of director committees focused on product quality and recall decisions.

"In our review of publicly traded consumer product firms, very few had such board committees," Ball said. "This board governance recommendation can help directors oversee executive product quality decision-making and may help alleviate the problems we find in our study."

More information: Kevin Mayo et al, CEO Tenure and Recall Risk Management in the Consumer Products Industry, *Production and Operations Management* (2021). [DOI: 10.1111/poms.13576](https://doi.org/10.1111/poms.13576)

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