When an internal candidate loses a CEO bid, other opportunities arise

April 29 2022

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Companies often motivate executives by staging CEO tournaments—internal competitions to replace departing company leaders—but for those executives who lose the bid to become CEO, opportunities will probably arise elsewhere, according to a new study from a business researcher at The University of Texas at Austin.

In a study published in *The Accounting Review*, Eric Chan, an assistant accounting professor at UT Austin's McCombs School of Business, looked at 1,575 CEO tournaments involving 6,393 executives over 14 years. He found that 34% of the those who lost the CEO bid left their company within one year. But many of them ended up as leaders elsewhere, with 46% taking leadership jobs at other companies.

"As long as you have talent and experience, not being promoted is not the end of the world," Chan said. "The possibility of a promotion is a carrot to work harder."

But because only one contender can win, he wondered what happens to those who don't. Without the prospect of the top job to motivate them, how many might look at leaving, and how interested might other companies be in hiring them?

To seek answers, Chan partnered with Harry Evans of the University of Pittsburgh and Duanping Hong of Kennesaw State University. They gathered data on executive compensation and turnover for all S&P 1500 companies from 2002 to 2016.

The researchers found that executives who were not chosen as CEO:

- Missed out on average pay increases of 190%, or about $3 million.
- Waited an average of five years for another shot at becoming CEO if they stayed on.
- Saw their chances of promotion drop.

An incentive for leaving was that other employers found their skills attractive and wanted them. When comparing the résumés of those who didn't become CEO, the researchers found that the top half of the those not selected were eight times as competitive as the lower half.

"They had many qualities in common with the ones who actually did get promoted," Chan said. "It just happens that they didn't get the job."

The job market confirmed their competitiveness. High-ability workers who moved to other companies got average raises of 33%. By contrast, those who did not leave got average raises of only 5.8%

That should be reassuring to executives who may lose a CEO bid, Chan said. It could also be good news for corporate recruiters seeking C-suite talent. However, at companies where one person was designated as the next CEO, high-ability executives were 30% less likely to leave within a year of a CEO change.

"Tournaments may work well in terms of motivating people," Chan said. "But in the end, some high-ability executives who are not promoted will leave, because there are better opportunities outside. The external labor market agrees that these are talented people with a lot of good experience that can really contribute to another firm."

More information: Eric W. Chan et al, Losers of CEO Tournaments: Incentives, Turnover, and Career Outcomes, *The Accounting Review* (2022). DOI: 10.2308/TAR-2019-0486

Provided by University of Texas at Austin