

Proactive Insights

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Why FTSE 100 bosses need longer than five years to show their worth

Bosses of FTSE 100 companies are afforded more than twice the amount of time a Premier League football manager gets in the hot seat, but that's still not enough, according to Russ Mould, investment director at Hargreaves Lansdown.

The average blue-chip chief executive remains in charge for 5.1 years, much longer than the 2.1 years managers get, on average, in the revolving door that is England's top football league.

"While company chairmen and investors can sometimes be seen as obsessed with short-term results, they are models of patience compared to football club chairmen and supporters," says Mould.

READ: Aviva appoints new CEO ahead of results

Despite this relative patience, Mould argues that five years is still not long enough to truly determine the success of a CEO's time in charge.

"The secret sauce of investing is dividend reinvestment. But the real benefit of the compounding effect only starts to become really apparent after eight or ten years, so even a five-year average tenure for a FTSE 100 boss may not be adequate from the perspective of shareholders.

"There remains the danger that the average five-year CEO tenure can lead executives to focus on the value of their own shareholdings and stock options to maximise near-term return for themselves, potentially to the detriment of long-term holders."

As for the latest addition to the list of blue-chip bosses, Aviva PLC's (LON:AV.) Maurice Tulloch, investors have given him "a warm welcome" with the stock up 1.2% today to 437.1p.

But Mould warns shareholders to pay attention to his pay packet and bonus schemes when the insurer's annual report is published later this month.

"Shareholders must always read the annual report and accounts to assess how a chief executive is to be paid and what metrics will trigger any bonus payments or awards of stock or options.

"In the case of Aviva, its full-year results are due out on Thursday 7 March and the annual report should come out toward the end of the month, so the package awarded to Mr Tulloch will be of particular interest."

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