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Don't Set Your Next CEO Up to Fail

Thomas Keil & Marianna Zangrillo

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After a long and distinguished career in logistics and transportation services, in 2015 Per Utnegaard was appointed CEO of Bilfinger. The job was clearly a big challenge. Bilfinger, once Germany's second largest construction company, had been in financial difficulties for a number of years, and a prior CEO succession had already proved unsuccessful when Roland Koch, the former Minister-President of the German state of Hesse, failed to orchestrate a turnaround.

Less than a year after Utnegaard's highly publicized appointment, he left Bilfinger, and the search for a new CEO began again.

We shouldn't be surprised. CEOs come and go — even seasoned executives with previously unblemished track records. According to a study by Equilar, the median CEO tenure at Standard & Poor's 500 firms has shrunk to about five years, and one of us has found in ongoing research that over 15 percent of all CEOs depart within two years. [We're considering this piece as guest column for the back of the magazine, where we don't typically use endnotes… Can you provide a link to the working paper for the online version of this piece? If not, I think we're still fine to omit the citation as long as we allude to the "ongoing research" in running text. OK as edited?] The best laid plans – especially succession plans – often fall apart when they encounter reality. What *is* surprising is how shocked and appalled boards are when their CEO choices fail – sometimes repeatedly.

The financial costs of these poor choices are enormous. To find the right CEO (or one who appears to be right), boards routinely bring in search firms whose charges – related to the compensation of the people recruited – can easily reach seven digits. You don't want to repeat that drill year after year. And the costs extend beyond the selection process: A study

by the PwC consulting firm Strategy& estimates that companies destroy over $100 billion in market value annually through botched CEO appointments.

Of course, the organizations suffer, as well. If there is a vacuum of leadership at the top, uncertainty pervades the ranks, the vision becomes unclear, and from that typically follows a standstill in development, the departure of key talent, and often a decline in financial performance.

With so much at stake, what can companies and their boards do to increase the odds of success?

At the heart of many failed succession processes is the lack of a clear mandate. Boards often have only an implicit sense of what they want the CEO to do — in particular, how much they want the strategic direction and organizational model to change and how they expect the new leader to go about it. Clearly defining the mandate and matching it to the CEO's profile is critical. Yet, there is surprisingly little expert guidance on how boards can do those things effectively or on how leaders should act depending upon the mandate.

Over the past decade, we have interviewed more than 100 CEOs, executives reporting to CEOs, board members, and senior leaders of search firms. Our research suggests that CEO mandates can be divided into four types: continuation, evolution, transformation, and disruption. They each require different candidate profiles and different approaches to the job.

Continuation. Some firms want to continue their existing strategy under a new leader. This was the case at the Swiss-based elevator company Schindler when former CEO Silvio Napoli became executive chairman, with Thomas Oetterli following him in the CEO role. In this type of situation, the new CEO is tasked with executing a strategic path that was chosen under the predecessor. As at Schindler, the previous CEO often continues on the board, which

leaves relatively little room for the new leader to make changes. Continuation mandates are mostly the domain of successors from inside (like Oetterli) who need to fully buy into the existing strategy and are willing to work within a relatively tight framework set by the board.

Evolution. In the second type of mandate, boards seek mostly incremental adjustments to strategic direction. For instance, when Mark Schneider joined Switzerland-based Nestlé as CEO, the company was gradually shifting its portfolio toward a focus on health and wellness. Schneider was thought to bring relevant expertise for the revised scope of the business and the ability to accelerate change through his experience in acquisitions and divestments. When firms define an evolution mandate, the new CEO has leeway to adapt and refine the existing strategy. Because the changes sought aren't radical, leaders often are recruited from inside. But outsiders can be an option if they bring desirable skills to the organization, as Schneider did at Nestlé.

Transformation. In some situations, a fundamental transformation of the organization is required to achieve its strategic goals. For instance, when Erwin Mayr was appointed to lead Wieland Werke, a German manufacturer of copper products, the Europe-centered company aimed to expand its geographic footprint, and it needed to restructure its organization, processes, and systems to deliver on its global ambitions. Coming from a large U.S.-based multinational corporation, Mayr could draw on firsthand experience to help meet that objective. Transformation mandates leave the CEO substantial latitude to make such changes. The call for a decisive departure from the past often provides advantages to leaders from outside the organization, who can approach the job without legacy constraints.

Turnaround. The most extreme changes are called for with turnaround mandates. For instance, when Jonathan Lewis joined AMEC Foster Wheeler, the UK-based oil-industry services company had experienced years of financial decline and was at risk of not meeting its obligations to lenders. From day one, Lewis had to stage a turnaround to bring the organization back to a sustainable position. When boards (consciously or not) have this mandate in mind, the organization tends to be in financial distress. New CEOs need to take drastic action, often under intense time pressure. Turnaround mandates typically require financial and organizational restructuring experience and are best led by an external CEO who isn't tied in any way to the current approach.

The requirements of the four mandates are very different. But, in our experience, boards often spend too little time clearly identifying strategic development needs and the CEO profile that's best suited to meet them. As a result, they pursue appointments with a poor fit — and the leader often gets blamed for the fallout.

For would-be CEOs or those seeking new roles, it pays to be critical of their own profile, assessing how effectively they can live into the mandate, and to ask themselves how willing they are to work within its boundaries. If the mandate isn't clearly defined for them, they should ask pointed questions to suss it out. Without a close mandate/profile match, there's a high risk that the appointment will damage both the firm and the individual's career.

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