

Route to the Top 2019

The right CEO for the right time

The role of the CEO is changing and so are the skills and competencies being sought, according to our findings on newly appointed CEOs across 16 countries.



About

Route to the Top 2019

We combined data analysis and interviews to assemble a profile of what it takes to become a global CEO today, the skills and experience required, and how that picture is changing in the broader context of transformative economic and business shifts.

Our analysis provides not only insight into a composite view of the global CEO but also a look at some critical differences among the 906 CEOs of the companies listed on the following 16 country indexes: Australia, ASX 100; Belgium, BEL 20; China, SSE (top100); Denmark, OMX Copenhagen 20; Finland, OMX Helsinki 25; France, SBF 120; Germany, DAX and MDAX; Italy, FTSE MIB; Netherlands, AEX; Norway, OBX; Portugal, PSI-20; Spain, IBEX 35; Sweden, OMX Stockholm 30; Switzerland, SMI Expanded; United Kingdom, FTSE 100; United States, Fortune 100. The analysis has been conducted with data valid as of September 9, 2019.

To complement our data analysis, we interviewed CEOs in Australia, China, the United Kingdom, and the United States to weave in some regional perspectives.

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The right CEO for the right time

Our work with CEOs and boards, as well as interviews with leading company CEOs, provides context for the data on how today's CEOs have gotten to the top.

There is significant agreement on both the challenges currently facing CEOs and the competencies required to be successful in the position. Furthermore, it's clear that the job of the global CEO is continually expanding—and, as it does, traditionally valued skills and experience don't drop off; they are merely augmented.

There are demands from every corner of the corporate universe: shareholders, employees, communities, and various interest groups. Potential CEOs are expected to have led top-line growth and cut costs, like traditional CEOs, while also showing a proven ability to think and plan digitally about the business and to lead the transformative change required as expectations for delivering new products and services quickly ramp up. While not considered in previous generations to be integral to the CEO's profile, today's CEOs are also expected to inspire, motivate, and act as the communicator in chief. In addition to these at least somewhat measurable skills, CEOs now are also expected to have the leadership competencies required to build the cultures—including attracting necessary talent—that will make their organizations suited for the future.

"The role of the CEO is evolving because society is evolving. So boards' expectations of the CEO have also changed. In addition to day-to-day management of the company, CEOs also have to focus on the well-being of employees, environmental issues, and maintaining a good relationship with the community." Andrew Harding, Managing Director and CEO, Aurizon

Thirty years ago, the CEO may have been something of a mythical figure tucked away in the corner office. CEOs now are expected to be more approachable, be confident enough to show vulnerability but also resilient, engage with the organization at all levels, and manage, at least partly, by walking around. In other words, today's CEOs still have to accomplish everything their predecessors did—but in a more complex and public-facing environment.

Today's CEOs are also expected to inspire, motivate, and act as the communicator in chief.

"Empathy is absolutely critical for CEOs. In a politically uncertain world—with increasing divergence between the 'haves' and 'have nots,' you have to think carefully about how you show up as a leader and ensure you're in touch with your customers, employees, and wider stakeholders." Liv Garfield, CEO, Severn Trent

If all this is true across the board, it's equally true that success as a CEO also depends on the ability of an organization to match a CEO's expertise, leadership style, and personal characteristics with the specific challenges he or she will have to tackle while in the role. In other words, a great CEO for one stage of a company's growth, in one region, and operating within a relatively stable external environment may not be the right fit as circumstances change.

"I strongly believe the role of the CEO needs to be firmly grounded in the core strategies of the company. The demands on the CEO are far greater than eight or nine years ago, and the biggest difference is having to manage multiple constituencies effectively and consistently. Remaining focused on the company's strategic core principles enables a CEO to see around corners." Christopher Baldwin, Chairman, President, and CEO, BJ's Wholesale Club



And disruptive change continues across sectors, reshuffling traditional industry-leading companies with challengers and relative newcomers and spurring significant organizational change to adapt to and leverage these ongoing shifts. Such shifts often result in more inclusive organizations that are better able to apply the input of diverse groups to new challenges—but new organizational structures are an additional area that CEOs need to stretch to cover.

All in all, the job can be too big for one person to be expected to do everything. So today's CEOs of large multinational companies must also be excellent team builders and delegators. Indeed, the role of today's CEO might be compared to that of an orchestra leader who brings in the right instrument at the right time in service to the larger goal.

“One thing that has contributed to my effectiveness as a CEO has been the ability to recruit tremendous leaders. It has been instrumental in enabling us to punch above our weight because we have a fantastic team!” Christopher Baldwin, Chairman, President, and CEO, BJ’s Wholesale Club

All this means that boards must set priorities among the criteria they are seeking in a CEO based on their specific circumstances. In a company where an acquisition strategy is critical to growth, the CEO will ideally have overseen a successful merging not only of businesses but of cultures. On the other hand, a company emerging from an ethical crisis may focus on recruiting an outside CEO with a scrupulously vetted, immaculate personal record and a transparent style, with the ability to heal a wounded organization so that it is able to attract talent and investors.

“CEOs have to let the board know what they cannot do well so that it can compensate for any imbalance. CEOs and boards alike have to be comfortable with any skill and experience gap and accept that it’s unlikely any CEO will have intimate knowledge in all areas.” Andrew Harding, Managing Director and CEO, Aurizon

“The role of the CEO is evolving because society is evolving. So boards’ expectations of the CEO have also changed. In addition to day-to-day management of the company, CEOs also have to focus on the well-being of employees, environmental issues, and maintaining a good relationship with the community.”

Andrew Harding
Managing Director and CEO, Aurizon

A CEO for all stakeholders

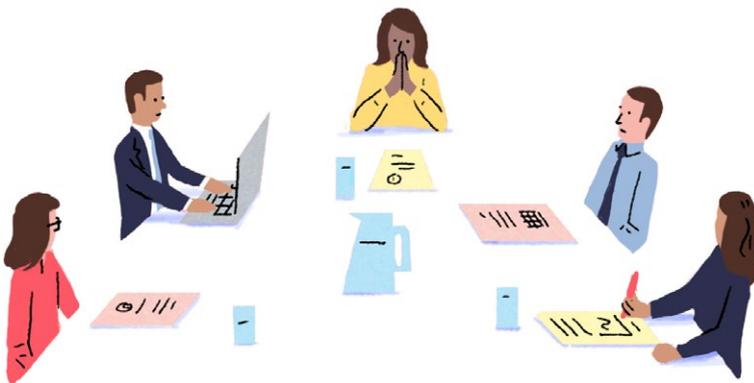
A relatively new addition to the list comprising desirable CEO experience is experience with environmental, social, and governance (ESG) investing, including the impact on consumers' purchasing decisions and direct impact on the bottom line.

Companies' ability to adapt to the lower-emission economy has already started to affect their credit ratings,¹ building on the pressure from regulators, investors, and consumers. Depending on the company and industry, familiarity with specific third-party corporate social responsibility (CSR) standards, certifications, and awards may be important background.

"Sustainability will be hugely important for the next generation of CEOs for a host of reasons. CEOs will need to truly understand the interrelationship of their business and wider macroenvironment issues, such as climate change, as well as the impact on society, policy, and the broader economy."
Liv Garfield, CEO, Severn Trent

In essence, the CEO is now not only the head of the business but also the standard bearer for corporate reputation and the myriad nonfinancial factors that can have a direct impact on the health of an organization, as these factors are increasingly crucial differentiators in making investment decisions.

¹ Billy Nauman and Anna Gross, "Credit rating agencies focus on rising green risks," *Financial Times*, November 2019, ft.com.



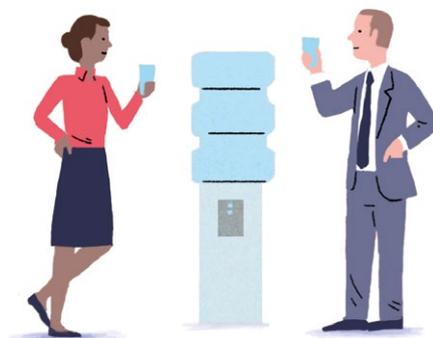
The continuing challenge of diversity at the top

Vocal demands from many quarters for increasing diversity in the ranks of public company CEOs—who still are overwhelmingly male and Caucasian—are difficult to ignore.

Our data indicate that gender diversity is still stuck in single digits, 5% globally compared with 4% last year. There has been significant progress on other measures that indicate diversity, notably CEOs with cross-border experience, who comprise 40% of CEOs globally, up from 30% last year.

While CEOs themselves are not yet as diverse as their workforces or customer bases, given future demands on organizations where diversity will grow in importance as a key differentiator that contributes directly to the bottom line, boards and CEOs have established diversity—of gender, ethnicity, nationalism, and industry background, among others—as a key criterion for developing next-generation leaders.²

A lack of relevant diversity is itself a risk from both an experience and a reputational perspective, at the CEO level and throughout the organization.



Despite the growing emphasis on developing and sharing responsibilities with the senior team, the CEO is still the chief decision maker. The selection criteria for a CEO, therefore, must leave as little as possible to chance to avoid potentially increasing risk. While the universe of qualified women and other diverse candidates is growing—and virtually all our client CEO searches now require a diverse slate—the pool for these candidates remains very small and attracting them is highly competitive. Regardless of their desire to appoint a woman or representative of another underrepresented group to the top spot, boards often feel compelled to stick with those they view as the safest bet.

But the other risk is playing it too safe. Boards have to strike the right balance. A lack of relevant diversity is itself a risk from both an experience and a reputational perspective, at the CEO level and throughout the organization. (See sidebar, “CEO succession planning and diversity.”)

² Vivian Hunt, Sara Prince, Sundiatu Dixon-Fyle, and Lareina Yee, *Delivering through Diversity*, McKinsey & Company, January 2018, mckinsey.com.

“People strategy is at the heart of all the other challenges CEOs will face in the next three to five years. Whether anticipating changes in the marketplace, technology, or economic cycles, a focus on people and diversity and inclusion is the foundation, especially for a consumer-facing company.” Samuel Wu, President, Asia Pacific, Whirlpool

So, while we may not yet see the surge forward of diversity in the CEO ranks, based on our research and ongoing work, we are hopeful about future generations of CEOs being ever more representative of our global society.

“As part of our talent succession planning process identifying and preparing potential successors to be CEO, we expose leaders to a variety of activities, especially with investors. Deeply understanding the strategic core is paramount. Giving them real exposure to the daily pressures of a CEO is invaluable.” Christopher Baldwin, Chairman, President, and CEO, BJ’s Wholesale Club

CEO succession planning and diversity

Our experience suggests that boards that take these five steps will put themselves in the best position to attract a diverse candidate when seeking a new CEO:

1. Start early.

Ideally, the CEO succession process should start as soon as a new CEO takes over. This leaves time to plan effectively and to augment any lacking skills and experience, especially for less-traditional candidates.

2. Broaden key selection criteria.

Boards can identify more diverse CEO candidates by casting a wider net to include those who may lack prior CEO experience but possess other P&L experience or relevant leadership experience.

3. Maintain focus.

Boards need a window into the development of future leaders, including regular updates and reassurance that the organization’s inclusion goals are an ongoing priority.

4. Measure and reward progress.

Monitoring the CEO’s success in building a diverse leadership team and potential successors will help accelerate greater progress.

5. See diverse talent as a valuable asset.

Boards increasingly view the overall leadership development process as a distinguishing feature of the company’s brand, attractive to investors, current employees, and potential and prospective employees alike.

Looking ahead

As the CEO's role grows and as considerations beyond quarterly profit become ever more crucial to long-term performance, personal leadership traits, alongside business acumen, have become key criteria for selecting a CEO.

One key trait of today's CEO is simply the resilience to manage such a role.

"I have learned through difficult periods as a CEO that resilience is everything. I believe that the ability to quickly recover from setbacks, rally for longer, and remain positive is a key differentiator for many top CEOs." Liv Garfield, CEO, Severn Trent

Also central to managing many of the aforementioned trends is the ability to gain and build trust—with the board, the senior team, employees, investors, customers, and other stakeholders.

"A primary consideration in CEO selection is trust, which needs to be built over time; you need to prove yourself. You also need the experience and skill set, which varies over time. The strategic capability to apply available data to see into the future and best position the company for growth is crucial as well. Finally, what is your people capability? Can you build strong teams? Are you a good listener?" Samuel Wu, President, Asia Pacific, Whirlpool

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Liv Garfield
CEO, Severn Trent

Insights from CEOs we work with every day, confirmed by our research, are heartening. We see leading CEOs and boards focused on meeting the critical need for capable, innovative leadership by expanding traditional CEO selection criteria, resulting in a greatly increased pool of candidates with the broader experience required to contribute as part of a collaborative C-suite.

"Regarding my own personal development, I am learning to be more bold. Traditionally, we have paid a lot of attention to risk and return on investment. But in the future, where innovation will be essential, companies will require more. To the next generation of CEOs, I would say, 'Be bold. Take a different approach. Make a big bet!'" Samuel Wu, President, Asia Pacific, Whirlpool

Hallmarks of new CEOs

To face the rapidly shifting challenges, companies are seeking a different breed of CEO than they were a decade or more ago. To capture whether there has indeed been significant change in the skills and experience companies are seeking in their CEO, in the data-focused section of this year's report we contrast newly appointed CEOs with their veteran counterparts, people with 15-plus years in the position.

C-suite experience on the rise

There is far greater demand for C-suite experience across the board, with the most striking change the increasing demand for CFO and COO experience. Nearly half of veteran CEOs had no C-suite experience prior to being appointed CEO, but that figure falls to 22% of newly appointed CEOs. And the idea that CFO and COO experience, along with prior CEO experience, are frequent routes to the top does indeed hold. Of the 78% of new CEOs with C-suite experience, 54% had prior CEO experience, 29% CFO experience, and 24% COO experience. Of the 51% of veteran CEOs with C-suite experience, 66% were previously a CEO, 11% a CFO, and 11% a COO.

Interestingly, this increased preference for new CEOs with CEO experience syncs closely with the findings of our Board Monitor Europe 2019 study,³ which show that many European boards are seeking experienced directors, with a particular emphasis on directors who have led companies through major change, preferably as CEOs.

³ Board Monitor Europe 2019, Heidrick & Struggles, September 25, 2019, heidrick.com.

CFO background in demand

The 2019 class of new CEOs, appointed within the past year, share a great deal with their predecessors appointed during the global financial crisis. In particular, we see increased demand, particularly compared with the veterans, for CFO experience, not surprisingly considered valuable in a time of slowing growth and financial pitfalls.

Previous CFO experience is back in demand.

Tenure (years)	CEO	CFO	COO	Other C-suite
<1	42%	22%	19%	6%
1-2	43%	14%	24%	10%
3-4	39%	22%	21%	5%
5-9	38%	19%	22%	10%
10-14	42%	25%	23%	2%
15+	34%	5%	5%	9%

Overall, however, the data show that 21% of all current CEOs had once been COOs, compared with 18% who had been CFOs. One reason may be that the duties of COOs align more closely with current CEOs. For example, 19% of CEOs with previous COO experience have a finance background and 24% a general management background, while only 2% of those who were previously CFOs have an operations background and only 7% general management.

Notably, most countries seem to have strong preference for one path over the other. In Germany, Norway, and Sweden, 29%, 28%, and 28% of their CEOs, respectively, had CFO experience, while COO experience is strongly preferred in the United States (52% of CEOs), France (29%), and the Netherlands (28%).

Among the 24% of CEOs in our study who didn't hold a C-suite role before being appointed CEO, 30% of them held global head of division or business unit roles, 13% were vice presidents or senior vice presidents, 12% had global functional roles other than finance or operations, and 10% were presidents or deputy CEOs. Interestingly, the



background and demographics of this group don't diverge significantly from global averages, with 5% women and 15% non-nationals in these roles.

Older at appointment

This year's new CEOs were older at their appointment, for both internal and external appointments: 52 years old for the new class versus 39 years old for the veterans still in the top role. It seems that experience counts more in an unpredictable global economic and business context in which new and radically different responsibilities have been stretching the CEO role.

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Internally appointed

Newly appointed CEOs were far more likely to have worked their way to the top internally, 73% of them compared to 47% of veterans. We know from our work with clients that, in challenging times, boards often consider it wiser to retain the CEO they know—assuming that CEO has been performing well and the business is relatively stable—than to switch to a new CEO, who will have to build a team and adapt to a new culture.

“When possible, most boards would prefer to appoint an internal successor to the CEO role. That's a risk-averse reaction. They would prefer to go a level down for a successor and take the time to prepare them than to go outside.” Andrew Harding, Managing Director and CEO, Aurizon

Diversity: A mixed picture

While we have seen only a moderate improvement in gender diversity, on an admittedly small base—with women comprising 9% of new CEOs versus 4% of veterans—by other important measures, diversity is making greater gains. More new CEOs are non-nationals (20%) compared to veterans (15%), and, perhaps even more

significant in a global economy where the CEO typically oversees many markets as part of the overall strategy, 44% of new CEOs now have cross-border experience, compared with only 30% of veterans who do.

More advanced degrees

An advanced degree is an increasingly frequent characteristic of CEOs, with 64% of new CEOs possessing an advanced degree, including 27% who have MBAs, compared with 46% of veteran CEOs with some advanced degree, 16% of them MBAs.

Far fewer entrepreneurs

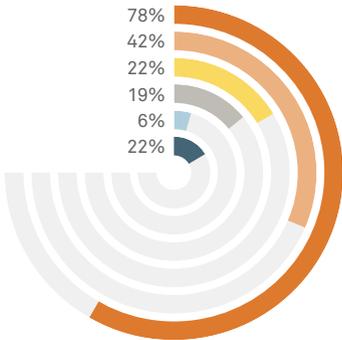
New CEOs are much more likely to have general management backgrounds (43%) compared with veteran CEOs (26%), as well as finance experience (27% versus 11%). And whereas 35% of veteran CEOs had a background as entrepreneurs, virtually none of the new CEOs have had this experience.

New CEOs are more experienced and are gradually becoming more diverse.

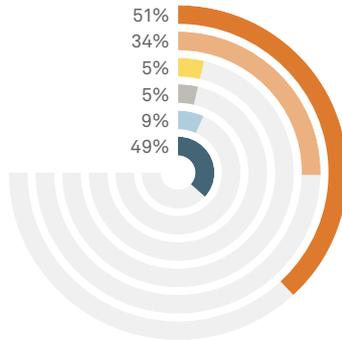
C-suite experience is on the rise overall, and CFO background is more sought after in new CEOs

- Overall C-suite experience
- CFO
- Other C-suite
- CEO
- COO
- No C-suite experience

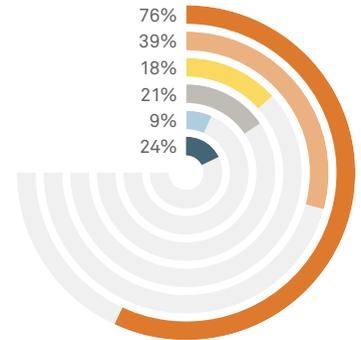
New CEOs <1 year



Veterans 15+ years



Global average



The new CEOs are older at appointment

New CEOs <1 year

52

Veterans 15+ years

39

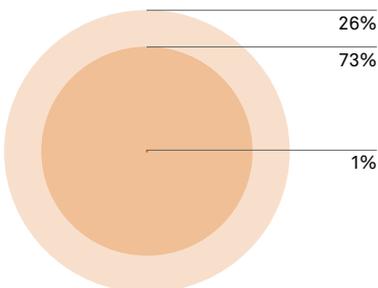
Global average

50

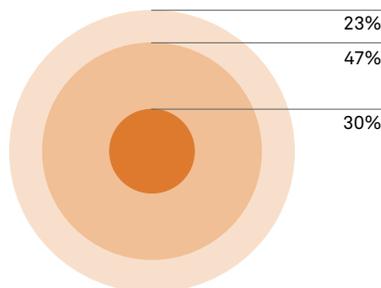
The new CEOs are more likely to be internally appointed

- Founder/cofounder
- External appointment
- Internal appointment

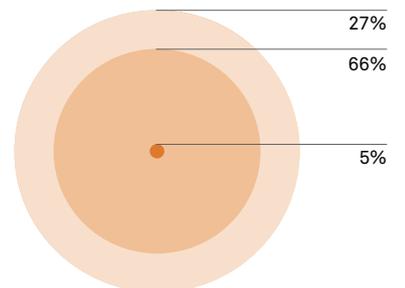
New CEOs <1 year



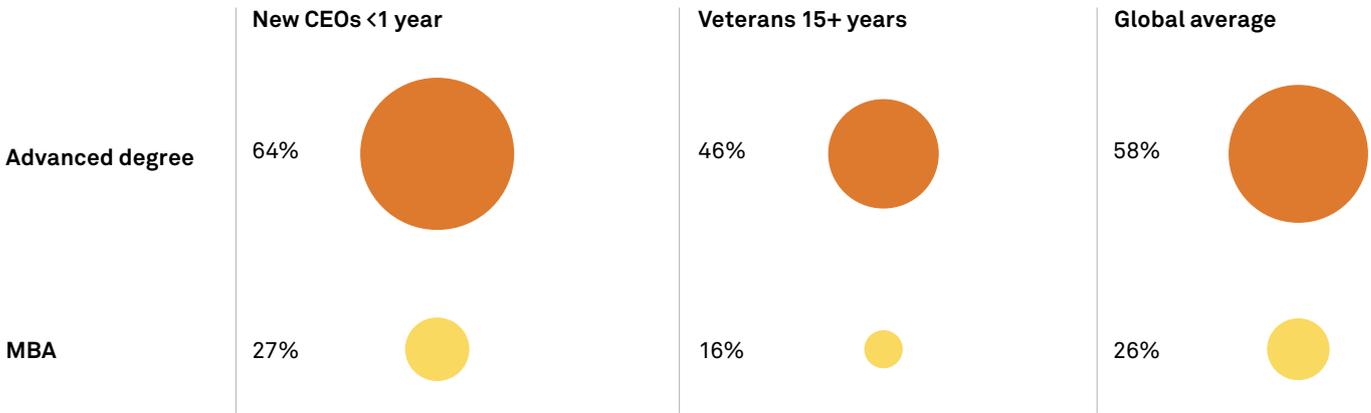
Veterans 15+ years



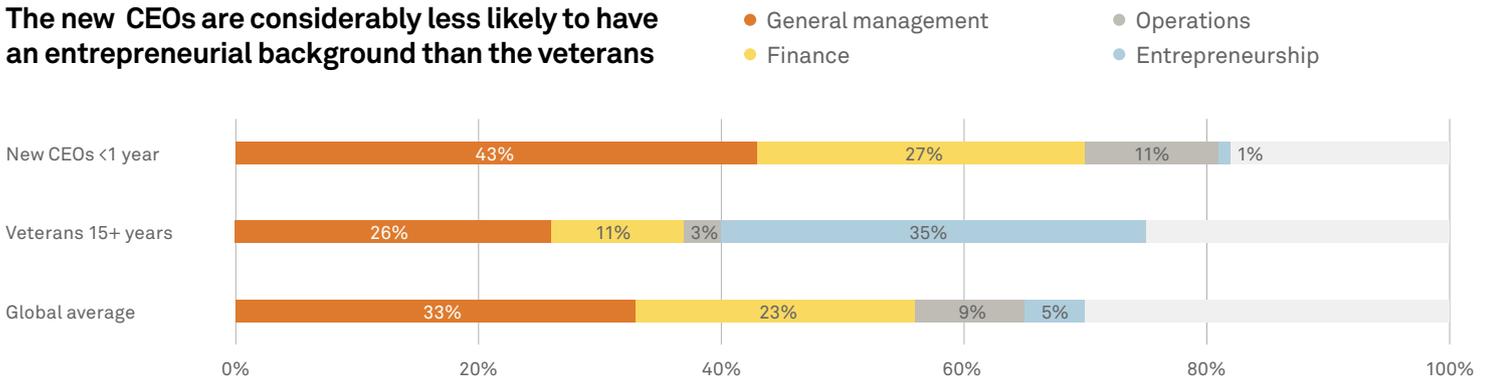
Global average



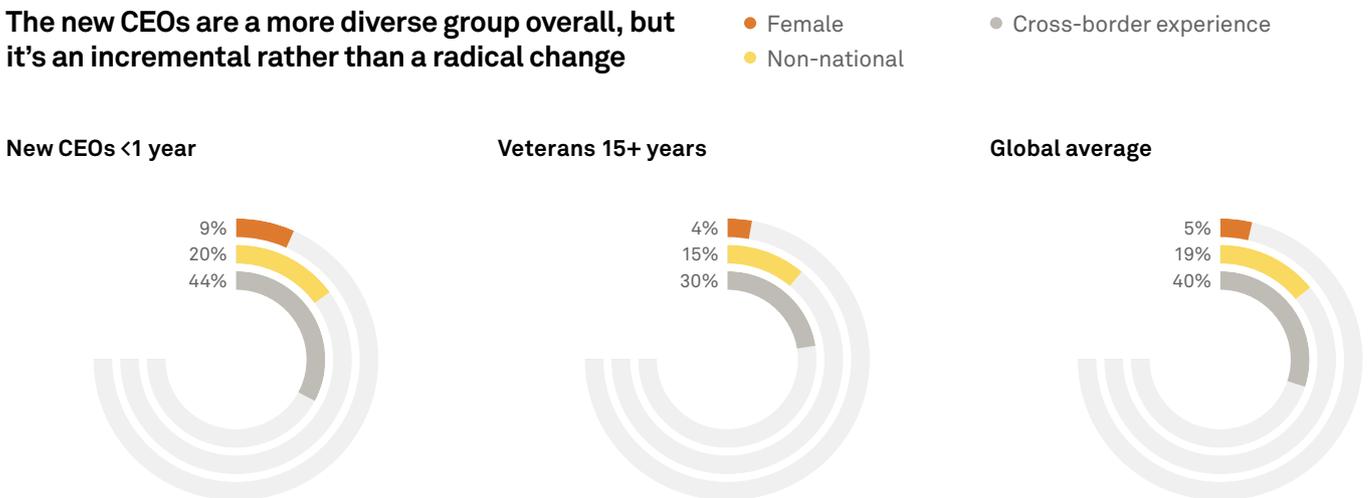
The new CEOs are more likely to benefit from a more advanced education



The new CEOs are considerably less likely to have an entrepreneurial background than the veterans



The new CEOs are a more diverse group overall, but it's an incremental rather than a radical change



Route to the Top 2019: Snapshot

Key demographics

Average age at appointment

50

Highest average: 53
United States

Lowest average: 46
Norway

Average age of CEO

56

Oldest: 89
United States

Youngest: 30
Germany

Percentage of CEOs appointed before they turned 45

21%

Diversity matters

Percentage of CEOs who are women

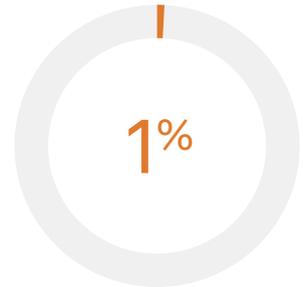
Globally



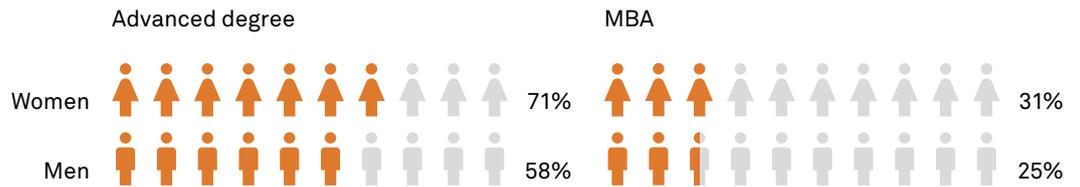
Highest: Norway



Lowest: China



Women have more advanced education



Beyond gender

CEOs who are non-nationals



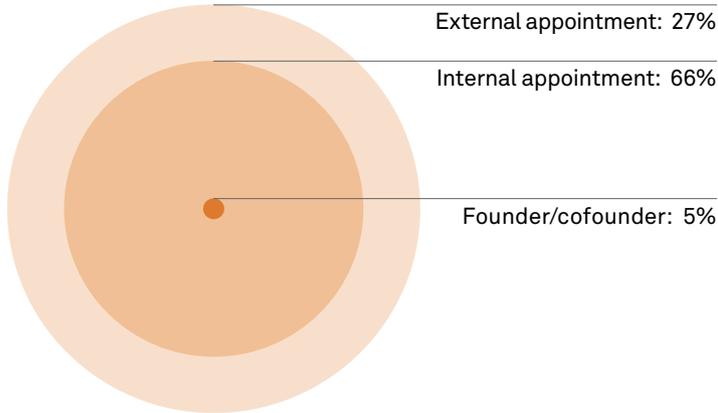
CEOs with cross-border experience



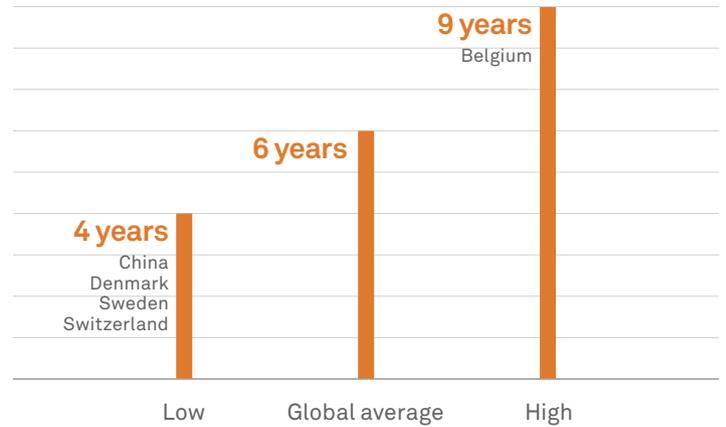
While we have seen only a moderate improvement in gender diversity, by other important measures, diversity is making greater gains.

On the role

How they were appointed



The average length of tenure



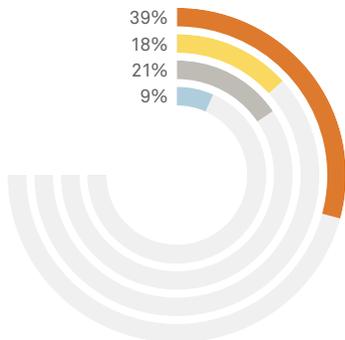
Good balance of CEOs with different tenure lengths



The routes to the top

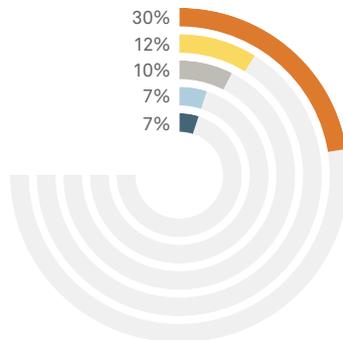
Of the 76% of CEOs with prior C-suite experience, CEO experience topped the list

- CEO
- COO
- CFO
- Other C-suite



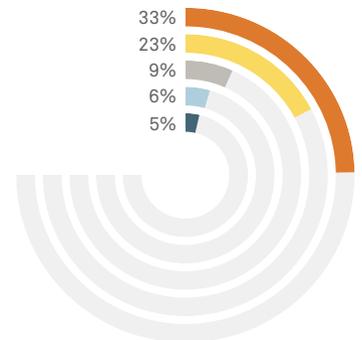
Of the 24% of CEOs with no prior C-suite experience, being the head of a division was the most common

- Head of division
- Head of function
- President/deputy CEO
- Head of region
- Vice president



The most common early backgrounds for CEOs

- General management
- Finance
- Operations
- Engineering
- Entrepreneurship



CEO & Board Practice

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