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ARTICLE
IDEA WATCH

# Why Rookie CEOs Outperform

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# IdeaWatch

New Research and Emerging Insights

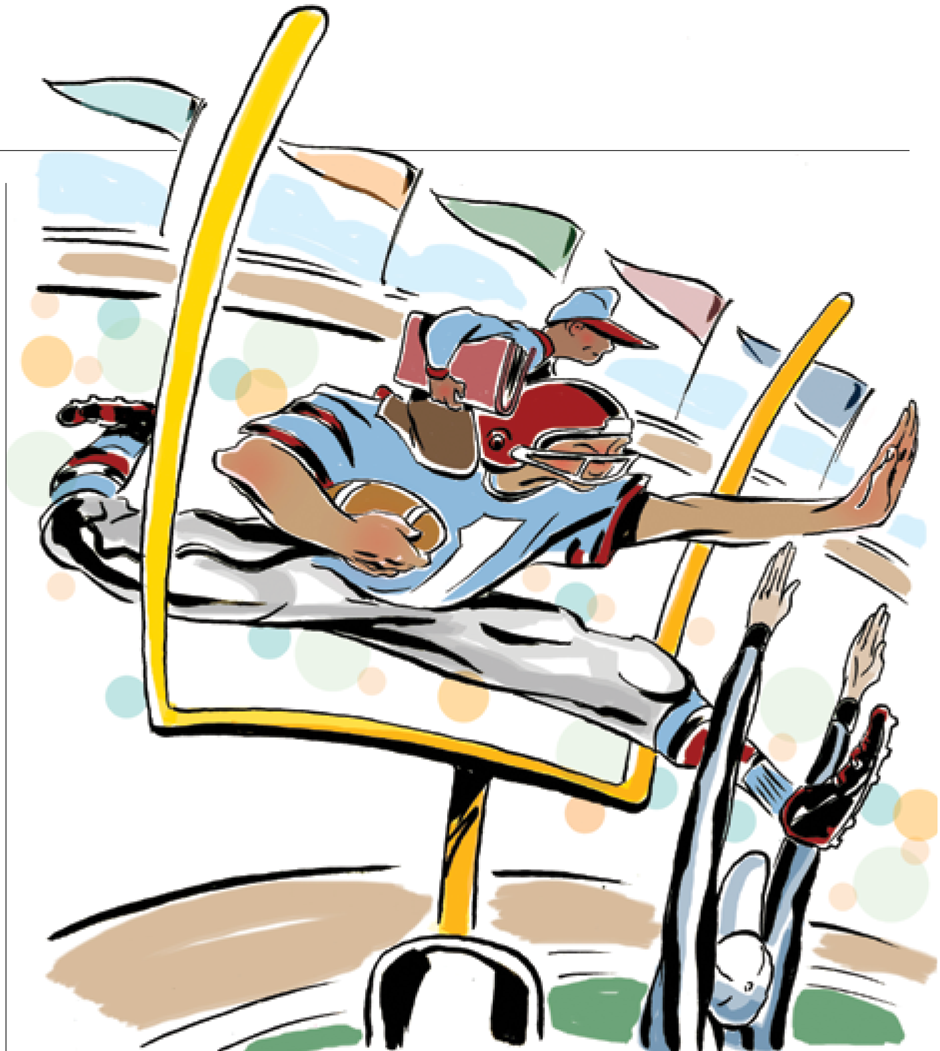
IN THEORY

## WHY ROOKIE CEOs OUTPERFORM

Experienced executives rely too much on old playbooks.

**WHEN SEEKING THE** best CEO candidate, boards might begin with lofty goals. But directors recognize that a botched succession could hurt their reputations (not to mention their shareholders), so in many cases they end up focusing not only on the upside potential of a candidate but also on the downside risk, asking: Who is the safest choice? Who is least

*Illustrations by* TIM BOWER



likely to fail? And their answer is often the candidate with prior experience in the top job. In fact, the share of newly hired CEOs who previously held the role has quadrupled since 1997 and now stands at 16%.

In most endeavors, experience is a good thing. But new research from the executive recruiting and leadership advisory firm Spencer Stuart finds that for CEOs, it often carries surprising costs. In a study of 855 S&P 500 CEOs appointed over a 20-year period, the researchers found that those with experience in the role consistently underperformed their novice counterparts over the medium to long term. First-timers led their companies to higher market-adjusted total shareholder returns, with less volatility in the stock price. Among CEOs who headed two successive companies, 70% performed better the first time—and for more than 60%, their second companies failed to keep pace with the overall stock market.

Why do so many seasoned leaders lag? Having interviewed 50 directors and CEOs, the research team believes it happens because they fall back on the playbook from their last job, become overly concerned with cost-cutting, and are less adaptable than rookies, who tend to pay more attention to top-line growth. "First-time CEOs' longer-term orientation and more balanced focus between profitability and revenue growth is reflected in their performance," the researchers write. "Even in challenged companies, first-timers attempt to lead through a mix of growth and return on capital." Rookies are also likely to stay in the role longer (nine years, on average) than experienced CEOs (six years), in part because they are generally younger.

Some of the difference in performance, the researchers explain, has to do with mindset. "In many ways, these results are not surprising," says Cathy Anterasian, who coleads Spencer Stuart's North American CEO Succession Services group. "We've been talking with boards over the past decade about the importance of curiosity, adaptability, flexibility, and the ability to confront problems with fresh eyes rather than with rules of thumb." First-time CEOs, she says, are more likely to approach problems in this manner.

Experienced CEOs did display some advantages, including wider access to external resources and to talent and other critical relationships. "There's also a speed component," says Claudius Hildebrand, Spencer Stuart's CEO data and analytics head. One two-time CEO reported that he accomplished as much in the first two years of his second stint as he did in the five years of his first stint. And although the research suggests that repeat CEOs focus too much on cost-cutting, their recognition of the importance of short-term results can be a plus. “Experienced CEOs know how to deliver value to shareholders and the Street, how to free up resources to fund what they may want to do next, and how to get some quick wins,” Anterasian says. In addition, she and Hildebrand point out, when a company is in trouble, the board may prefer an outside hire with a track record to an untested internal successor—so some of the performance differences may reflect the fact that experienced CEOs often face more-challenging circumstances.

Even leaving performance aside, there’s a troubling downside to relying on existing CEOs. The overwhelming majority of people helming large companies are white men: Just 6% of the CEOs of S&P 500 companies are women, and only 10% are ethnic or racial minorities. So when recruiters looking to fill a CEO job focus on that pool, they are perpetuating the lack of diversity in the C-suite. The preference for experienced chief executives, the researchers write, “represents yet another barrier to underrepresented groups.”

How can boards use these findings when planning succession? Before homing in on specific candidates, they should be clear about what challenges the incoming leader will confront and what his or her priorities should be. If the company would benefit most from a shorter-term leader who’s skilled at cost-cutting and creating quick wins that will please financial markets, an experienced CEO may be the better pick. But if revenue growth and a longer-term orientation are key concerns, someone new to the role may be more appropriate—and if boards *are* considering an experienced candidate in this sort of situation, they should conduct “an explicit dialogue about the type of talent needed based on the desired outcomes and specific business context,” the researchers say.

Boards should also assess how well candidates listen and whether they enjoy grappling with unfamiliar problems. When the research team interviewed CEOs who had succeeded in both their first and their second assignments, it learned that these executives were careful not to assume they knew all the answers the second time around. Rather than try to run the same plays again, they asked questions and explored what was different about circumstances in their new companies.

“With this research, we hope to shift the default,” Hildebrand says. Instead of presuming that experienced CEOs inherently have better qualifications than first-timers, boards should view them as having *different* qualifications—ones that might or might not mean superior performance.

And counterintuitive though it may seem, the researchers say that experience might be even less valuable during the current period of high uncertainty. “It’s the old adage: ‘What got you here may not get you there,’” Anterasian says. “During times like these, the ability to understand problems you haven’t seen before becomes much more important.”

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**ABOUT THE RESEARCH** *“Predicting CEO Success: When Potential Outperforms Experience,” by Claudius A. Hildebrand, Cathy Anterasian, and Jordan Brugg (white paper)*

IN PRACTICE

# “Hunger Is Worth More Than Experience”

*Before becoming CEO of Honeywell, in 2002,* ***David Cote*** *headed the automotive and aerospace firm TRW for seven months—too short a stint, he says, to be a big factor in how he led Honeywell. But as he began preparing for retirement, in 2017, he thought extensively about what characteristics and experiences would increase his replacement’s odds of success. (He shares those reflections in his recent book,* Winning Now, Winning Later.*) Cote spoke with HBR about the pros and cons of hiring a CEO with previous experience in the role. Edited excerpts follow.*

**How should boards think about previous CEO experience when choosing a new leader?**
In general, experience is overrated. Someone can have a bunch of different experiences but still not be a change agent. Experience can make directors feel more comfortable with a candidate, but the question is: Does he or she have the hunger to make a difference? When people start to lose that hunger, they don’t investigate things as deeply. Hunger is worth a lot more than experience.

**Are inexperienced CEOs more likely than others to be hungry?**
If somebody has no real reputation yet, they're going to be more driven to succeed. When I became CEO of Honeywell, some commentators said they didn't know if the company could be turned around—and that even if it could be, they weren't sure I was the person to do it. They pointed out that I wasn't Honeywell's first choice for the job. Those comments just increased my hunger.

**Were you surprised by the finding that previous CEO experience can hurt performance?**
I'd phrase it a little differently. Any leader needs to be open to all facts and opinions, recognizing that he or she will never know everything. Making an educated decision is like making a mosaic—you're putting all the pieces together to form a picture. An experienced CEO might say, "I've seen all this before, so I know what to do." That can get in the way of soliciting all the facts and really listening to what people have to say. As the leader, it's your job to be right at the end of a meeting, not at the beginning of it. Sometimes experience can be a detriment.

**Do you agree that experienced CEOs tend to focus more on cutting costs and improving margins and less on growth?**
I get frustrated by the implication that leaders have to focus either on growth or on productivity. Success is about doing both things at the same time. That's what we did at Honeywell: By boosting productivity, we created the income flexibility to allow us to perform well in the short term and also to invest in long-term growth.

**Inexperienced CEOs tend to be younger. Is that an advantage?**
None of us want to be sexist or racist or ageist. But when considering who should succeed me at Honeywell, I thought it important to find somebody who could stay in the job for at least 10 years. If you're in the CEO role for only three to five years, it can be hard to change the culture and get it focused the way you want to, especially in a large organization. So being young enough to have a long tenure was part of our criteria.

**What other factors do boards weigh incorrectly?**
It can be really seductive to try to determine what the future will be and then choose someone suited to that vision. That's usually spurious reasoning. Who could have predicted Covid, or 9/11, or the Iraq War? Nobody knows the future. It's more important to hire somebody who can figure things out.

Redux

*Photograph by* MATT FURMAN