

Insider or Outsider CEO?

As CEO successions loom large in the fate of today's enterprises, company boards have become better at defining the knowledge, skills, experience and leadership style that future corporate leaders must possess. But they continue to struggle whether it is better to look for the next CEO from inside or outside the organization.

Will familiarity with one's environment make a difference? Will an internal candidate have greater chances of hitting the ground running than one who is absolutely new to the terrain? How will an insider or outsider CEO approach his or her mandate differently?

I did a cursory check of new CEOs in Philippine private companies in the last 12 months, and counted seven appointments that were announced publicly. These ranged from industries such as manufacturing (Nestlé Philippines) to banking (Standard Chartered Bank, ANZ), insurance (AXA Philippines, Insular Life) automotive (Mitsubishi Philippines) and media (ABS-CBN). Only one — Nina Aguas, the new CEO of Insular Life — was an outsider.

The survey, though informal, seems to suggest that most Philippine board directors believe that being a home-grown executive gives you a head start over an outsider. One wonders what kind of challenges the new Insular Life CEO will be facing if this is the prevailing view in many local company boards?

Research by the Kelley School of Business and A.T. Kearney consultants on S&P 500 companies shows that those who chose insider CEOs outperformed other companies in terms of profitability and growth. Booz Allen Hamilton's succession study, which covered the world's 2,500 largest public companies, found that from 2009 to 2011 almost twice as many external CEOs were dismissed compared with insiders.

After three years, Yahoo's outsider CEO Marissa Mayer still has to deliver the promised turnaround and investors are getting increasingly impatient. On the other hand, Citigroup's insider CEO Michael Corbat enjoyed a 27% boost in compensation in 2015 as bank profits more than doubled.

These are Western studies and examples. In the Asian context, can we categorically say that insider CEOs are likely to be more successful? I'm afraid not. There are simply too many variables that come into play. Most of the research show that on average both internally and externally recruited CEO



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candidates are at par with each other. There are, however, special circumstances where outsider CEOs do better than insiders.

Recently, PwC's strategy consulting unit, Strategy&, found in a 2015 study that companies across different markets were making a deliberate choice to bring in outsider CEOs. From 2012 to 2015, boards chose outsiders in 22% of planned turnovers, double the 14% from 2004 to 2007. Drivers for the shift included the disruptive changes industries were undergoing and the realization that current skills sets and experience might be irrelevant to future challenges.

The insider CEO clearly has many advantages, foremost of which is familiarity with the internal terrain that allows easier navigation. Knowing the key players and where they stand and awareness of the corporate culture, the prevailing relationships and access to institutional memory — all these can be quickly leveraged to execute on new strategy. These are the stuff an outsider CEO will take a bit of time learning before he or she can chart a new direction.

Yet the outsider CEO equally has her own set of advantages. When there is history of poor performance that calls for replacing senior executives, the externally-hired CEO is less tied up with relationships that could impede a major organizational restructuring. The outsider also possesses that freshness

of point of view that challenges the status quo.

We are now a city planet, a highly globalized and interconnected web of people, organizations, nations and cultures moving and changing at break-neck speed. And ours is increasingly a VUCA world, an acronym that stands for volatility, uncertainty, complexity and ambiguity that was first coined by the U.S. military to describe extreme conditions in Afghanistan and Iraq.

The question is no longer just about “who” — choosing between an “internal versus external” leader. It is more of “how” or creating and sustaining a process where leaders, wherever they reside, learn to build capacity to adapt well to a highly unpredictable environment. **E**

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