The Right CEO For a Recession
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What type of CEO do you want leading your company when times get tough?

We recently analyzed the performance of the largest US public companies during the December 2007 to June 2009 recession, and compared the CEOs at companies with the strongest recoveries (top quartile) to everyone else.

**Big differences in strength of financial recovery**

By 2010 the majority (62%) of the 400 companies had returned to or exceeded their 2007 profit levels...

- **2007** $...
- **2010** $$$...

... However, the top 100 saw much higher levels of performance.

Average EBITDA change 2007-2010

- The **top 100 companies** had an average **95%** increase in EBITDA between 2007 and 2010.
- The **bottom 300 companies** were on average **11%** below 2007 EBITDA levels.

Finally, top performers were just as likely as everyone else to change their CEOs during the downturn period; about **30% in both groups** did so...

**One crucial distinction among CEOs**

CEOs in both groups were more likely to be company veterans than outsiders...

- 70% of top 100 companies started 2007 with a CEO who had been promoted from within, as did 78% of the bottom 300.
- ... and had equal time at the top.

Pre-2007 CEO tenures: 6.6 years for top 100 vs 6.0 for others.

However, the CEOs at top 100 companies had climbed the corporate ladder faster than others.

- Insider CEOs had an average tenure of 8 years at the company before becoming CEO at top 100, compared with 14 years for insider CEOs at other companies.

Finally, top performers were just as likely as everyone else to change their CEOs during the downturn period; about **30% in both groups** did so...

**What It Means**

A key learning from this research: Boards should challenge themselves to move outside their comfort zones in the CEO succession process.

Start earlier and look several levels down for high-potential candidates who could be CEO-ready faster with the right development opportunities

Choosing a CEO who does not fit the mold takes courage, particularly during challenging times. By preparing during good times, boards can increase the chances that their companies will emerge from the next downturn as winners.

Methodology: We looked at the companies on the S&P 500 list on January 1, 2007 and traced their annual EBITDA performance between that date and 2010, a full year after the recession ended. We excluded any company that received government assistance through the US government’s Troubled Asset Relief Program (TARP), and any that sold or went out of business during the period, leaving us with about 400 companies in total. In addition to financial measures, we also tracked CEO attributes at each of those 400 companies, including age, time in the role, past tenure at the company, previous roles and whether or not the CEO was a company founder.

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What type of CEO do you want leading your company when times get tough?

Two seemingly opposite answers are often given: The first would be a long-tenured insider who knows every nook and cranny of the company and has already seen it through multiple business cycles. The second would be an experienced outsider who can bring a fresh set of eyes to problems and challenges.

A company can have only one CEO at a time – so which one should a board choose?

To help inform this dilemma, we recently analyzed the performance of the largest US public companies during the December 2007 to June 2009 recession, and compared the CEOs at companies with the strongest recoveries (top quartile) to everyone else.

There are few quantifiable differences between the two groups of leaders. But those that emerged show the value of a hybrid type, the independent-minded insider who knows the company well enough but is not beholden to the old ways of doing things.

**WHAT WE ANALYZED**

We looked at the companies on the S&P 500 list on January 1, 2007 and traced their annual EBITDA performance between that date and 2010, a full year after the recession ended. We excluded any company that received government assistance through the US government’s Troubled Asset Relief Program (TARP), and any that sold or went out of business during the period, leaving us with about 400 companies in total.

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**WHAT WE FOUND**

Perhaps surprisingly, by 2010 the majority (62 percent) of the 400 companies had returned to or exceeded their 2007 profit levels. The top 100 companies ended up at least 28 percent ahead of their 2007 performance in 2010 and had an average 95 percent increase. While some of the bottom 300 companies also saw positive performance, their average as a group in 2010 was 11 percent below 2007 EBITDA levels.

Insiders dominated when it came to CEO selection: 70 percent of top 100 companies started 2007 with a CEO who had already proven themselves at the company, as did 78 percent of the bottom 300. However, the CEOs at top 100 companies had climbed the corporate ladder faster than others. They had an average tenure of 8 years at the company before becoming CEO, compared with 14 years for insider CEOs at other companies.

Interestingly, the differences in CEO tenures before the recession struck was minimal: 6.6 years for top 100 vs 6.0 for others. There was also no significant difference in the types of roles they held before becoming CEO or whether the CEO was a founder.

Finally, top performers were just as likely as everyone else to change their CEOs during the downturn period; about 30 percent in both groups did so. However, when selecting a replacement CEO, top performing companies were more likely to hire an outsider for the corner office, with 23 percent going this way compared to 17 percent at bottom 300 companies.
WHAT IT MEANS

Using the 2007 S&P 500 list and EBITDA metrics, we found that higher performing companies had CEOs who had spent less time in their organization before becoming CEO than lower-performing companies. These CEOs were independent-minded insiders who knew their companies well but had not yet become calcified in the status quo when they were appointed to their roles. This may have allowed them to effectively challenge past conventions and respond more nimbly in the face of a major economic crisis.

A key learning from this research is that boards should challenge themselves to move outside their comfort zones in the CEO succession process. While the 30-year company veteran who has worked her way through every function and level might be a good choice, someone with fewer years of experience but a more agile leadership approach may be a better one.

“The best companies assume that what they’re doing today will put them out of business or limit them in the future,” said Margot McShane, co-leader of Russell Reynolds Associates’ Board and CEO Advisory Partners. “Candidates with an unusual mix of experiences frequently have the ability to see things differently than others, as well as the curiosity, courage and conviction to take action when presented with a new opportunity.”

“It’s not just an objective perspective on the company,” she added, “but an objective perspective on the customer, competition and business landscape. They’ll take something that everyone thinks of as “blue” and see it as “yellow” or “green.”

In recent years, however, boards seem to be moving in the opposite direction of these success variables. Since 2015, large companies have appointed older CEOs, on average, than they did in the previous five years. Often, these are high-quality candidates and represent excellent choices. However, they may also be an indication that some boards are leaning toward overly safe and conservative options.

Identifying unconventional CEO candidates is a process that can – and should – start well before a transition looms. “A wise strategy is to begin succession planning early and on multiple fronts,” said Amy Hayes, head of Russell Reynolds Associates’ Leadership & Succession practice in the Americas.

“Leaders should develop internal candidates, while simultaneously bringing new high potential talent into the organization with enough time for them inspire confidence with key stakeholders in advance of a succession event.”

Choosing a CEO who does not fit the mold takes courage, particularly during challenging times. By preparing during good times, though, boards can increase the chances that their companies will emerge from the next downturn as winners.
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Russell Reynolds Associates is a global leadership advisory and search firm. Our 470+ consultants in 46 offices work with public, private and nonprofit organizations across all industries and regions. We help our clients build teams of transformational leaders who can meet today’s challenges and anticipate the digital, economic and political trends that are reshaping the global business environment. From helping boards with their structure, culture and effectiveness to identifying, assessing and defining the best leadership for organizations, our teams bring their decades of expertise to help clients address their most complex leadership issues. We exist to improve the way the world is led. www.russellreynolds.com.