CEO Succession in Australia
The Chief Executive’s First Year
Contact Information

**Melbourne**
Soon Rabb  
Executive Advisor  
+61-3-9221-1905  
soon.rabb@booz.com

**Sydney**
Varya Davidson  
Partner  
+61-2-9321-2820  
varya.davidson@booz.com

Chris Manning  
Partner  
+61-2-9321-1924  
chris.manning@booz.com

**Kuala Lumpur**
David Hovenden  
Partner  
+60-3-2095-3188  
david.hovenden@booz.com

Elizabeth Hardwick, Ranjit Bhatia, and Raymond Au also contributed to this Perspective.
EXECUTIVE SUMMARY

The number of Australian companies appointing new CEOs continues to rise. In 2011, Australia recorded the highest rate of CEO turnover of any region during the year. Companies in Australia are also the most likely to hire new CEOs from outside the organisation—their boards of directors are apparently more inclined to look for new blood from other companies and industries, in hopes of introducing fresh thinking. This study looks more closely at the incoming class, and it provides advice from global veterans on how a new CEO can best navigate his or her crucial first year.
Booz & Company has been tracking the succession of CEOs against the backdrop of the worldwide economic recovery. In 2011 the turnover rate in Australia was particularly noteworthy at 23.5 percent: an 80 percent jump from 2010, and the highest rate since the study’s inception in 2000. This turnover rate was also much higher than the global average of 14.2 percent. Indeed, it most closely matches the rate in emerging economies such as Brazil, Russia, and India (see Exhibit 1).

The increase in the number of successions in 2011 is largely attributable to an increase in mergers and acquisitions. In 2011, the number of global M&A-related successions jumped to 22 events from 5 in 2010; these accounted for 37 percent of all turnover events (see Exhibit 2). Of the remaining turnover events, dismissals (that is, board removal of the CEO for reasons of poor financial performance or irreconcilable differences) and planned succession events (succession due to retirement, illness, or long-expected changes) made up 20 percent and 42 percent, respectively. The materials sector experienced the highest number of turnover events in 2011, followed by the financial and energy sectors.

**Exhibit 1**
The CEO Turnover Rate in Australia, 2000–2011

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<th>Year</th>
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**Exhibit 2**
Global CEO Turnover by Reason for Termination, 2000–2011

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Note: Sums may not total 100% due to rounding
OUTSIDER VERSUS INSIDER CEOs

Outsider CEOs (those recruited from outside the company) in Australia have on average outperformed insider CEOs (those who came up through the ranks of the companies they now lead) in the past decade, delivering an average annual shareholder return of 11 percent compared to the insiders’ 8 percent (see Exhibit 3). This is contrary to the global trend of insider CEOs generally performing better than outsider CEOs. Although it is recognised that insider CEOs may have knowledge of the company and culture as well as pre-established internal relationships, perhaps the insular nature of the Australian commercial environment means that outsider CEOs are more likely to be selected to bring in new insights, experiences in other regions or industries, and prior CEO experience. An outsider CEO is also more likely to pursue new opportunities and derive shareholder returns from new ventures.

Exhibit 3
Median Shareholder Returns for Australian Companies with CEO Turnover, 2000–2011

Source: Booz & Company CEO Succession Studies 2001–2011
It is worthy to note, however, that insiders performed substantially better than outsiders during the economic downturns in 2000 and 2008. One plausible explanation is that in difficult conditions, an insider CEO’s “tribal knowledge” of the company and strong internal relationships will enable him or her to support the company’s core capabilities and operations more effectively than an outsider would. Insider CEOs are particularly likely to be able to identify non-core operations and cut costs efficiently, compared to outsider CEOs who would not have as intimate an understanding of their companies.

In 2008, according to the CEO succession study that examined that year, Australian boards were increasingly leaning towards insider CEO appointments; 71 percent of the incoming CEOs in 2008 were hired from within. In 2011, the figure was only 49 percent. Although boards may have been more risk-averse in 2008, promoting trusted insiders in challenging times during that year, they now seem more willing to appoint outsiders to CEO positions. This change may also be popular with shareholders, as the appointment of a new outsider CEO often symbolises a fresh beginning for a company.

Although outsider CEOs on average generate superior returns in Australia, they are also more likely to be dismissed and have a shorter tenure than insider CEOs. Between 2009 and 2011, the average tenure for Australian insider and outsider CEOs are 5.0 and 4.2 years, respectively. Another disparity—a greater proportion of forced CEO turnover events for outsider versus insider CEOs—has increased over the past decade (see Exhibit 4).

Interestingly, there is a countervailing global trend. Companies are appointing a greater proportion of outsiders as CEOs despite insiders being better performing on average. This trend points to the possibility that boards are taking their fiduciary duties of considering a wide range of candidates more seriously, or that there has been an increased strictness in corporate governance policies in this area.

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**Exhibit 4**

Median Shareholder Returns of Companies with CEO Turnover—Insider vs. Outsider Outgoing CEOs

![Average annual total shareholder return chart](chart)

Source: Booz & Company CEO Succession Studies 2001–2011
INTERNATIONAL COMPARISONS

More broadly, the tenure of Australian CEOs continues to be shorter than global averages, with U.S. and Canadian CEOs having an average tenure three years longer than that of Australian CEOs (see Exhibit 5).

Two notable attributes of global companies and their outgoing chief executives, highlighted in the 2011 CEO succession study, are not reflected in Australian companies. The first is dual chairman/CEO appointments: It is rare to have both roles filled by one person. The second is the relatively common “apprenticeship” model of CEO succession, in which the outgoing CEO is moved to the board chairmanship and mentors the new CEO. The absence of these two trends in Australia is due to the difference in corporate governance guidelines in Australia, where the independence of the chairman is emphasised.

Exhibit 5
Median CEO Tenure in Office by Region and Insider/Outsider Status

Source: Booz & Company CEO Succession Studies 2001–2011
The details may vary, but the overall trends we have been following for the past several years are continuing. Every CEO faces the possibility of a short and intense tenure, particularly in Australia, with significantly greater pressure to perform and less room for mistakes.

New CEOs will, of course, find themselves under particular pressure to perform. The first year of running a company will bring with it a common set of challenges, including when to enact major changes in strategy and personnel and how to manage one’s personal life. The first year also represents a window of opportunity: It is a time when all the company’s constituencies may be more expectant of—and open to—changes in emphasis and direction, and a time when the CEO can make an impression.

The authors of this year’s global CEO succession study spoke to 18 CEOs, in a wide range of industries and geographies, who were happy to pass along their thoughts about the difficulties they faced, the successes they achieved, and what, in retrospect, they felt they might have done differently in their own first year. Below, we offer seven specific suggestions for how to weather the storms the first year is likely to bring, including some advice from Australian CEOs.

(For a more expanded account of the CEOs’ advice, see “CEO Succession 2011: The New CEO’s First Year,” by Ken Favaro, Per-Ola Karlsson, and Gary L. Neilson, strategy+business, Summer 2012, strategy-business. com/article/12207; and “Navigating the First Year: Advice from 18 Chief Executives,” by Ken Favaro, Per-Ola Karlsson, and Gary L. Neilson, strategy+business [online only], May 24, 2012, strategy-business.com/article/00110).

1. Deal with the obvious executive changes early.
The conditions under which newly appointed CEOs take control vary enormously: Their new company may be in trouble or perfectly steady. The previous CEO may have been dismissed for underperforming or recently elevated to the chairmanship. Or the changeover may be the result of a merger or acquisition, and fraught
with postmerger integration challenges. Whatever the situation, there will likely be executives who have their own agenda, and one or two who may begrudge having been passed over for the top spot, or whose presence is simply no longer required. As every CEO we spoke to noted, it is critical to deal with these executives early.

For Andre-Michel Ballester, the insider CEO of Sorin Group, a Milan-based maker of medical devices, moving quickly was vital—his immediate task was to restructure the unprofitable company, selling two of five divisions and creating a dramatically different corporate culture as soon as possible.

“The first issue is to create a leadership team very quickly, making decisions on who are the keepers and who are the leavers in the first few weeks,” says Ballester.

Once these vital early decisions have been made, new CEOs should spend the rest of the first year putting together the team of top executives with whom they can work, and who will provide the support necessary as the company’s ongoing strategy is refined or changed.

2. Be wary of changing strategy too quickly, even if you think the current strategy is wrong.

The temptation for new CEOs to put their own stamp on their company can be strong. Resist it, said many of the CEOs we spoke to. Take the time to make sure the company is on a sound footing before sending it off in a new direction.

That was the approach taken by Ronnie Leten when he became CEO of Swedish equipment manufacturer Atlas Copco in 2009, in the midst of the economic downturn. “My first thought on becoming CEO,” he says, “was to make sure we kept going, kept visiting the customers, safeguarded the business, and saved all the areas that needed to be saved.” Leten knew he had some restructuring to do to adapt to the new circumstances, but he didn’t want to confuse the organisation. His advice: “Don’t jump to conclusions immediately. Take the time to look around so you can get a full overview of the entire situation.”

As first-year CEOs move to develop strategy, they should take the time to look forward three to five years, to what the company, and its markets, might look like then. Doing so will allow them to think in terms of confirming or resetting its strategic direction, and then to determine both the set of capabilities the company will need to give it the right to win in its chosen markets and how to build those capabilities. “Strategy should be thought of simply,” says Osman Sultan, CEO of du, the United Arab Emirates telecommunications company. “Where are we today, and where do we want to go?” And once you’ve taken the time needed to develop your strategic direction, don’t waver; rather, communicate with conviction your vision of where the company should be headed.

3. Make sure you understand how every part of the company operates, and how it is performing.

New CEOs, even if they are insiders, are unlikely to be intimately familiar with the entire organisation, particularly in the largest companies. So it is critical that they begin learning about and analysing every part of the company early on in their first year.

This will allow them to think about making any necessary changes to the leadership team, and to get a head start on developing the strategies and building the capabilities that will be needed to move the company forward.

This is perhaps an even more important step for new CEOs from inside the business, who risk the perception that they will limit their role to being the “superboss” of their previous territory. “I think it’s important, especially in the initial phase, that you don’t hang on to your old job,” says Severin Schwan, CEO of pharmaceutical giant Roche. “You need to move on, and to make sure that the organisation immediately recognises that you are now in a new role. Because people always think, ‘This is the guy from that unit, so he looks at things from a particular angle.’ You have to get rid of this perception.”

4. Build trust through transparency.

Gaining the support of all the stakeholders is critical to success in the new CEO’s first year. Different constituencies will be watching closely, monitoring performance carefully; in the worst-case scenario, some will resent the new CEO’s rise to power. In this atmosphere, building trust is critical, and the best way to do that is to be as open as possible about plans and motives with all the critical players, and to move decisively in making the most pressing changes. “Absolutely key is transparency with all your stakeholders,” says Roche’s Schwan. “The moment you put issues or risks on the table and speak about them openly—with the board, with your colleagues on the executive committee, with external stakeholders, media, and investors—
that in itself creates trust. And that in turn triggers support: The moment you frame the topic, people become very interested in making it better and working at a solution.” And support is surely one of the most pressing needs of the new CEO.

Once gained, that trust will make the new chief executive’s job considerably easier, Schwan notes. “If you feel that you have the trust from key stakeholders, from your own team, from the board, from external stakeholders,” he says, “then the pressure is reduced. If you feel that the trust is being lost, then the pressure gets much higher.”

5. Be selective in listening to advice. As soon as his or her appointment is announced, the new CEO will inevitably be surrounded by people offering advice—board members, business unit leaders, customers, investors, even the press. Everyone has an agenda, but not all of the advice is in the best interests of the CEO or the company he or she has been hired to run. Indeed one Australian CEO received initial advice directing him to remove key executives. He never did and as time passed, those executives have become critical members of his team. Few people will be able to see the whole picture of where the company stands and what it needs. And it can be difficult, if not impossible, to sort out the valuable advice from the worthless. “Don’t listen too much to external advice,” says Ian Livingston, CEO of BT Group. “The truth be told, you’ve got to make your own call. It’s your decision, and most everyone actually knows that.”

Advice from key internal leaders, on the other hand, can be very useful, Livingston points out. “The best advice, actually, isn’t from shareholders, isn’t from brokers. The best advice I get is from CFOs and HR directors, because they’re people who have a view across the entire business.”

6. Yes, it is lonely, so find a sparring partner. A common theme among the CEOs we spoke with concerned the importance of finding someone, whether internal or external, from whom you can learn what you need to learn, or with whom you can discuss plans and people honestly and openly, knowing that the other person has no agenda other than your success. Increasingly, that role has been played by the current chairman. But no matter who that person is, or why the new CEO feels the need to turn to that person, every new CEO should look for a well-informed, objective sounding board. “Don’t for a minute think you’re capable of doing it on your own,” says Hamish Tyrwhitt, chief executive of construction and mining conglomerate Leighton Holdings, who set up a CEO peer support group as an independent sounding board.

Every CEO, for instance, will likely feel the need to learn on the job during that first year. Schwan found himself in that position when he became CEO of Roche. “I knew the organisation, of course, and I was a member of the corporate executive committee, so I knew my peers, and I knew the board,” he says. But he had been working for the company’s diagnostics business, and felt he had much to catch up on regarding the latest science under way in the company’s pharmaceutical efforts. So he made a conscious decision to go deeper into drug R&D. “I was looking for somebody who could literally teach me, and I found a very senior pharmaceutical executive whom I knew from the past, and who had retired in the meantime. He had enormous expertise in the area, but he was also known to be able to explain things in straightforward terms. I contacted him and he was very helpful—even excited to help me.”

7. Manage your time and your life with care. It should go without saying that the demands on CEOs are enormous, in terms of both time and pressure—perhaps especially early on in their tenure, when those demands are also unfamiliar. Every moment is important, and CEOs get little or no rest from the intensity.

“Don’t for a minute think you’re capable of doing it on your own,” says Hamish Tyrwhitt, Leighton Holdings CEO.
“You go from one very important decision to another,” says BT’s Livingston. “You might be with a senior government minister and go straight to a major customer, then straight to talking to 500 senior managers. Folks will say, ‘Well, this is a really important meeting’ or ‘a really important thing.’ It’s just consistent intensity as opposed to any individual event.”

The effort to balance one’s work and home lives can be overwhelming, many of the CEOs we spoke to noted, and getting it right is vital to success in the first year.

“I think the stability, the support from home, makes a huge difference” for the new CEO, says BT’s Livingston. “What you can’t do is to divide your attention between the two at once. I know executives who go home every other weekend or something, and it can be very hard. If you don’t have a very stable, very supportive home life, it can become too much pressure to take.”

One CEO conceded that finding a balance between work and home life is nearly impossible. His view is rather than managing a balance between the two, it is more important for a CEO to learn how to integrate work and home life. Roche’s Schwan believes that the pressure can get so intense that it can affect one’s health. “If you are not conscious about traveling, keeping these pockets for your family, switching off in a conscious way, you’ll get exhausted,” he says. “If you’re always working against your own biorhythms, you’ll get health issues. It happens all the time.” That’s why Schwan says he tries his best to keep his weekends free. “You have to keep a certain distance from your job. It’s not easy to switch off over the weekend. I know people who can go to bed and forget about the job and sleep extremely well. I wish I could always say that.”

The first year on the job will always be a tough one for CEOs. They must deal with a new and different set of stakeholders—the board, new direct reports, heads of potentially unfamiliar business units, potentially a new and unfamiliar chairman, and the shareholders and customers, too. And their responsibilities are now immense—to fix whatever might be broken, to reset corporate strategy, and to serve as the company’s public face.

For all those reasons, the first year is critical, and getting it right is key to the success of the rest of the CEO’s tenure. It is a brief window of opportunity during which the CEO must put his or her personal stamp on the company, and set it on course to navigate an uncertain future.

Ahmad Abdulkarim Julfar, Group CEO of Etisalat, an Abu Dhabi–based telecom operator, puts it succinctly: “Whenever new CEOs see any kind of opportunity, they should jump on it immediately. Opportunities have expiration dates.”

So it is particularly important that new CEOs learn as much as they can from other CEOs who have experience dealing with these changing circumstances. Our hope is that new CEOs, and those who aspire to be CEOs in the future, will find our analysis of the succession data—and the advice offered by the chief executives we spoke to in preparing this study—helpful in making the most of their opportunity.

**Methodology for the Australian study**

The Australian CEO succession study identified all companies listed in the ASX 200 since 2000, a data set spanning 251 companies. Research then revealed if and when a CEO turnover event had taken place for those companies since 2000.

Annual reports and press searches for each individual company were used to identify companies that had experienced a CEO turnover event. Annual reports identified the CEOs for each of the financial years and press searches complemented the data, confirming the turnover event and identifying the reason. A variety of print and electronic sources were used. Factiva was used to identify announcements of retirements or new appointments of CEOs, presidents and managing directors for the ASX 200 companies in each year since 2000. Total shareholder return data for a CEO’s tenure was sourced from Bloomberg and includes reinvestment of dividends (if any).

Each company that experienced a CEO change was analysed to confirm the change had occurred, the name of the outgoing executive, and the true reason for the turnover event.

Consistent with the global study, three reasons were identified for a CEO transition event: merger-based, in which a CEO’s job was eliminated after an acquisition; regular transition, which included planned retirements, the CEO’s acceptance of a position elsewhere, health-related departures, or death in office; and performance-related, which included any departure initiated by the board, attributed by the media to poor financial or managerial performance, or where there was a demonstrable underperformance but the departure was described as being for “personal reasons.”
About the Authors

Varya Davidson is a partner based in Sydney leading Booz & Company’s organisation, change, and leadership practice for the ANZSEA region. She specialises in strategic transformations with a focus on the people and organisation dynamics.

Rebecca Gravestock is a senior associate with Booz & Company based in Melbourne. She is part of the firm’s organisation, change, and leadership practice.
Booz & Company is a leading global management consulting firm focused on serving and shaping the senior agenda of the world’s leading institutions. Our founder, Edwin Booz, launched the profession when he established the first management consulting firm in Chicago in 1914. Today, we operate globally with more than 3,000 people in 58 offices around the world.

We believe passionately that essential advantage lies within and that a few differentiating capabilities drive any organization’s identity and success. We work with our clients to discover and build those capabilities that give them the right to win their chosen markets.

We are a firm of practical strategists known for our functional expertise, industry foresight, and “sleeves rolled up” approach to working with our clients. To learn more about Booz & Company or to access its thought leadership, visit booz.com. Our award-winning management magazine, *strategy+business*, is available at strategy-business.com.