



Hiring A CEO: In-house or external? The eternal dilemma

Hiring a CEO: In-house or external? The eternal dilemma *An on-going debate within supervisory boards*

Germany, Austria and Switzerland, known as the 'DACH' region, are German-speaking countries where supervisory boards not only define profiles and requirements for hiring the CEO, they are also responsible for their appointment. Consultants and management auditors support these processes, helping boards to ensure that suitable candidates have the required skills and experiences.

However, experience shows that this is only one side of the coin: We strongly believe that the company's momentum plays a pivotal role in answering the question: Should this be an internal or an external hire?

We present three typical corporate dynamics:

Companies with a positive growth trend

After many years of experience, we are able to affirm that in the DACH economic area, two elements are critically important for successful corporate performance, especially in larger companies: A strong corporate culture and stability.

Another interesting feature we have noticed is that, if the company is doing well and on a positive growth trend, bringing in an external CEO would be regarded as disruptive and negative, creating instability.

The performance of CEOs coming from one's own ranks is usually significantly better than that of external individuals because they know and understand – better than an 'outsider' - all the do's and the don'ts of being an accepted and respected leader. In addition, a company showing stability attracts young professionals, so creating a solid talent pool for leadership by the next generation.

Technological know-how is an important determinant of growth in companies with a positive growth trend

The decision either to promote an in-house professional to the CEO level or to hire externally is more complex for small and medium enterprises - a large and significant sector of the DACH economies - due to their strong contribution to innovation and to exports.

First and foremost, in these companies, technological know-how is an important determinant of growth. And we have observed through the years that this is – in most cases - abundantly available at the middle-management level, so supporting the in-house solution. On the other hand, strategic foresight is needed to develop alternative products or services and to avoid the 'complacency' trap. In these cases, externally-recruited executives with a broader perspective achieve significantly better results.

Companies in change mode

Fundamental changes are always a challenge for an organisation, because most people tend to shy away from major change. There is much to suggest that a new CEO from your own ranks will find it more difficult than an external one. He or she may have become a prisoner of the corporate culture and its networks, which could prove to be a hinderance when drastic cuts or strategy changes are required. Despite being well qualified, he or she will not possess a diverse range of perspectives, nor understand other corporate cultures. The pros and cons must be considered. Ultimately, an interim manager with a clear view, a cool mind and no emotional baggage may well be the better choice.

Companies with private equity ownership are a special situation: In too many cases, we have seen in-house managers taking the helm due to their undisputed and comprehensive corporate knowledge, only to recognise after some time the difficulty in fully understanding the views and goals of their new shareholders.

An interim manager with a clear view,
a cool mind and no emotional baggage
may be a better choice for companies
in change mode

Companies in strategic reorientation

This is the most complex situation, because variables are not necessarily under one's control: Market trends, international financial crises, disruptive technologies, new competitors and many others are "new situations", with no "recipe" to solve them in most cases.

The CEO to be appointed in these situations needs, in addition to traditional hard and soft skills, deep experience in solving crises. He or she needs to be especially resilient. This "crisis experience" can be more easily found in an external executive, who brings a diverse background and skill set.

Consequence

In summary, the decision to appoint a CEO from within or externally requires not only an assessment of the candidates' personal hard and soft skills but also an assessment of the company's momentum.

No matter how carefully the profile was defined and which audits the person successfully and brilliantly completed, the final decision must consider the company's situation and its strategic perspectives.

Even in the case of a planned internal promotion, executive search consultants with their experience across companies, situations and industries are qualified to offer advice and counsel to decision-makers in supervisory boards, advisory boards and shareholder bodies.

Companies in strategic reorientation,
should consider a CEO candidate with
deep experience in solving crises.

Author



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With his extensive experience in the financial sector, in 2000, Rudolf began his career as an executive search practitioner where he focuses on managing assignments within the industrial, financial services, and private equity sectors.

Early in his career, Rudolf held a number of positions with the IKB Deutsche Industriebank AG in both Hamburg and Düsseldorf. While there, Rudolf gained extensive experience in corporate banking, corporate finance, product marketing, change management and due diligence for private equity funds.

Rudolf holds a Master's degree in Agriculture Sciences and Economics from the University of Goettingen.

Since 1988, EMA Partners has been serving local and international businesses across all industry sectors. The firm has been instrumental in helping its clients recruit thousands of leaders who have made a deep impact in their organizations and society at large.

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