



# In or Out?

## Perspectives on internal and external CEO appointments

by Nick Harris

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Appointing a new CEO is likely to be the single most important people decision that most Boards and owners will ever have to make. And the choice on whether to make an internal or external appointment is often a difficult, and sometimes a highly emotional, dilemma.

Below, we give some summary perspectives on the relative merits and considerations of internal vs. external candidates. We have deliberately not referenced the many published studies on this topic, but rather have drawn on our own observations from previous C-level succession projects.

### Internal Appointment

- + Conveys a sense – particularly internally – of stability/continuity rather than disruption (i.e. ‘evolution not revolution’)
- + Sends a message that the company develops/promotes from within, up to the top level
- + Candidate is a well known commodity (i.e. you know exactly what you are getting)
- + Candidate already knows the organisation (therefore, no/little risk in terms of cultural fit)
- + Candidate’s learning curve is less steep (i.e. he/she knows what they are getting into; can be mentored ahead of time by the current incumbent)
- Less likely to act as a change agent; more likely to bring incremental – rather than break-through game-changing – improvement
- May be less likely to challenge and ‘stand up to’ the Board



### External Appointment

- + Conveys a sense – particularly externally and to the markets – that the company is continually striving to out-perform and is not ‘resisting on its laurels’
- + Sends a message that the company is committed to recruiting the best-in-class, global talent
- + Candidate brings in new knowledge and best practices from other organisations
- + Candidate will bring a fresh perspective, likely spotting both weaknesses and opportunities more readily
- Steeper learning curve; candidate must learn about a new environment and adapt to the culture (a comprehensive onboarding & integration programme is indispensable to mitigate the risk)
- Risk that internal candidate(s) become demotivated or leave

Thus there are pros and cons to both kinds of appointment. Appropriateness is situational: dependent on the current and future/looked-for state of the company, and the type of mission (both the ‘what’ and the ‘how’) which the CEO must accomplish.

External appointments are, by definition, riskier... However, (successful) external appointees typically drive greater value over time... So, the risk with externals is higher, but so too is the potential upside.

In conclusion, considering both internal and external options – objectively and rigorously – is best practice. And ultimately, the ‘right answer’ is the ‘right candidate’!



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