SpencerStuart

Discovering the Life Cycle of a CEO

Excerpted from *The Life Cycle of a CEO*

We are engulfed in the cult of the charismatic leader — someone lionized for displays of confidence who single-handedly propels a company to phenomenal success. This idolatry obscures the truth of what it takes to be a great CEO.

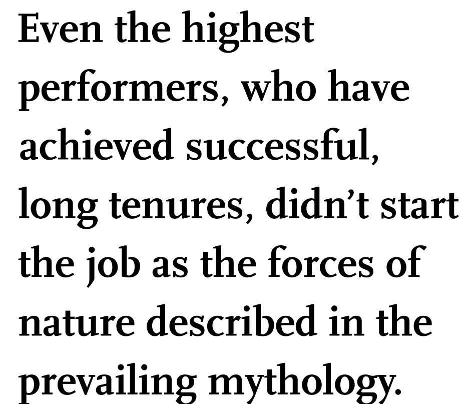
The mythologizing is unfortunate. It has popularized badly misguided notions about how a CEO can succeed in a job that's not only crucial to the economic foundations of our society but also cognitively, emotionally and physically challenging. It's little wonder that more than a quarter of those appointed last less than three years in the role. The mythmaking has also distracted from the many important lessons we can learn from observing how CEOs struggle mightily with the role's evolving challenges — and overcome them — throughout their tenures.

Central to the flawed depictions is the notion that CEOs succeed because they are the rare leaders who "have what it takes." Similarly, high performers are often heralded for the four or six or eight characteristics said to account for their success — be it extroversion, confidence or a large appetite for risk-taking. These studies give the impression that the people who most closely fit the mold are the most likely to succeed.

But the focus on traits and the skewed media coverage perpetuate the myth of the fully formed leader. We don't often hear about how those who eventually succeeded struggled in their early years and then again later in their tenure, even with great success behind them. The aspects of the job that CEOs wrestle with most in their early years, past the first 90 to 100 days, aren't highlighted. The particular challenges of the middle and later years, which require them to reignite their passion or engage in personal reinvention, also get relatively little attention.

In our own work helping CEOs build their skills and engage in personal development, we have seen just how flawed the perception of omnipotence is. Even the highest performers, who have achieved successful, long tenures, didn't start the job as the forces of nature described in the prevailing mythology. Many had serious deficits they had to work hard to correct once in the role. Then, even after successfully navigating the intense challenges of the first couple of years, they had to continue to put themselves through difficult growth processes.

Our book, *The Life Cycle of a CEO*, was born from an analytical breakthrough that can help dispel the myth. We investigated whether there was a systematic way to understand superior CEO performance over time — a common thread in how CEOs succeed. This insight would have value not only for those in the CEO role but also for boards of directors, analysts assessing company prospects and aspirants to the CEO job.



In our five-year-long study, we rigorously analyzed the performance of every 21st-century CEO of the S&P 500 throughout the years of their tenure. We then conducted over 100 interviews with CEOs and board directors about the demands of the job and how those demands had changed over time. We wanted to understand the leadership decisions CEOs made as well as how they developed the mental fortitude, emotional resilience and self-awareness required to learn and grow, seize new opportunities, and overcome emerging challenges. We also wanted to learn why those who stumbled in the job failed.

This research led to the discovery of the CEO Life Cycle, a series of five distinct stages of tenure. Each stage presents a unique set of headwinds and tailwinds that require CEOs to grow in new ways. At the highest level, the research shows how hard it is for CEOs to consistently outperform the market.

The CEO Life Cycle Project

The five stages of the Life Cycle are delineated by ups and downs of CEO performance that are associated with years of tenure rather than particular issues facing the company or economic headwinds and tailwinds. The Life Cycle pattern is as follows: a sharp rise in performance the first year followed by a significant downturn in the next year, with performance then rising again for several years of strong growth (generally years three to five) but giving way to another several-year period (generally years six through nine) characterized by stagnating performance. The last stage, starting with year 10, is a period of strong performance that is more stable year to year than in any other period.

These combined research avenues allowed us to uncover many commonalities in the CEO journey over the course of the five Life Cycle stages. These commonalities had been hard to see because every CEO journey is unique in many other ways. Every CEO starts the role with a particular set of challenges. Some are brought in to lead turnarounds, while others are expected to accelerate growth according to a predecessor's strategy. Key competitors may be struggling, or they may be eating voraciously into market share. Expanding globally or selling off underperforming businesses may be a priority. Shocks to the macroeconomy may pose an existential threat or present a golden opportunity. The industry may be riding powerful tailwinds or fighting long-term prevailing headwinds. The executive team may be highly effective or in need of a shake-up. The organization may be comparatively efficient, with a strong and motivating culture, or mired in outmoded systems and plagued by managerial infighting.

Because of these differences, every CEO journey, in all its detail, is unique. Yet within that wide-ranging variability, we found that commonalities abound in facing new challenges and seizing opportunities in each stage of tenure. We also uncovered commonalities about the inner experience of being in the role. These range from feelings of self-doubt and fatigue to mounting confidence and personal growth.

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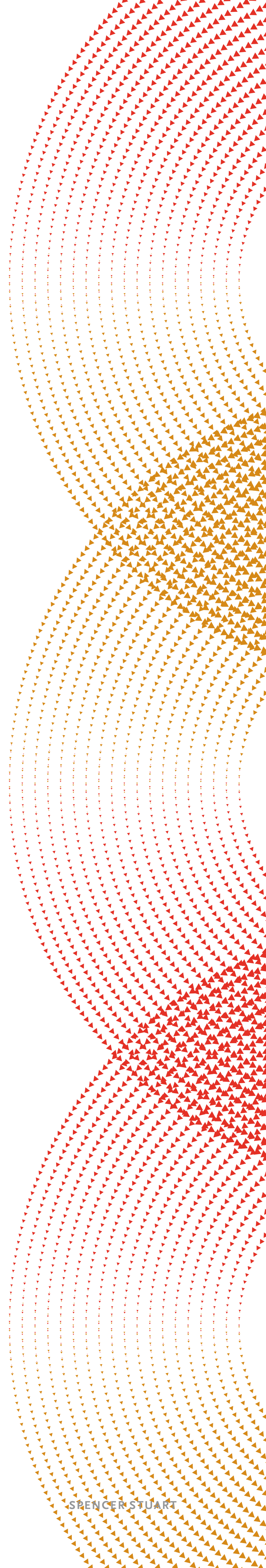
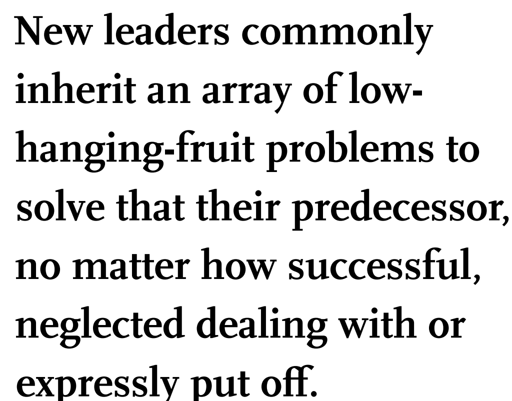
Before we offer an initial description of each of the Life Cycle stages, we should highlight that the Life Cycle is a model; any given CEO may progress to a next stage according to different timing. Moreover, the stages are not rigidly delineated by the years of a CEO's tenure. Many CEOs experience only two or three stages because they leave the role before progressing further. And, again, individuals have widely varying experiences of their stages because of the specific factors they face, their skill sets and their approach to challenges. **Following is an overview of the five stages.**





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Launch

CEOs often get swept up in a powerful "honeymoon" tailwind of optimism during the initial phase. Not only is the board of directors confident in its choice, but so are the markets. We found this optimism often leads to a boost in the share price. In the 20-year period we analyzed, companies outperformed the S&P 500 by 10 percent, on average, in a CEO's first year.

New leaders commonly inherit an array of low-hanging-fruit problems to solve that their predecessor, no matter how successful, neglected dealing with or expressly put off. The market generally anticipates these quick solutions, which can drive up the share price. Yet new CEOs are enduring intense daily demands and climbing a steep learning curve, which can make it difficult to sense and appreciate the optimism of other stakeholders.

These findings underscore how pivotal the first stage is to a CEO's overall success. Those who safely navigate the roiling waters and remain in the job — about 88 percent of new CEOs — generally move into several years of improving results, with early moves increasingly paying off.

Calibration

In the calibration stage, which generally starts in the second year, boards, markets and other stakeholders reassess a CEO's performance. For their part, CEOs may also perceive the need to reassess and perhaps adjust strategy or otherwise alter their plans.

If exuberance about the CEO's appointment led to an initial lift in share price, the calibration stage sees that trend reverse. Our data shows a stark downturn in total shareholder returns (TSR) for many CEOs in the second year. This is sometimes due to an excessive honeymoon lift or early moves not yet producing significant results — or, at least, results that market arbiters deem sufficient.

Among CEOs who enjoyed a honeymoon period, 73 percent achieved lower results in their second year, relinquishing 21 percent of TSR, on average.

Reinvention

Reinvention, starting around year three, is when a CEO's early moves begin to generate stronger results. If such results are kicking in, trust builds, both inside and outside the company. The most successful CEOs leverage that confidence to launch large-scale initiatives during this period, generally from years three to five. These moves might include pursuing M&A opportunities, stepping up R&D, launching important new products or pursuing ambitious global growth.

An intriguing finding from our analysis involves the multiple at which a company's stock is trading beginning in year three, which can be considered a good measure of the market's confidence in a company's leadership. Starting in year three, the multiple rises for high performers but decreases for low performers, and the degree of divergence increases over the next several years. This indicates that, by year three, the market has begun to differentiate which CEOs to put its faith in. Perception and reality have converged.

These findings underscore why 25 percent of CEOs are out of office by the end of their third year and why the highest year-to-year "dropout" rate (10 percent) is in year four. It's safe to assume the vast majority of these departures are forced: By this time, boards have determined from a wide range of indicators that the CEO is not making the decisions needed to drive performance. Tough as the first few years are, the next several are a proving ground where CEOs who aren't achieving satisfactory performance face increasing scrutiny. By the end of year six, 50 percent of CEOs have departed. Many departures may be voluntary exits, but that figure speaks powerfully about the tough demands of the job.

Complacency

In years six to 10, maintaining the drive to keep improving performance and evolving as a leader becomes particularly challenging, and many CEOs fall into complacency, especially those who failed to use the momentum of the reinvention period to identify new opportunities for the business. Although performance may not slide dramatically, it often stagnates. A pernicious cause of this misplaced comfort is the status quo bias, a cognitive quirk that leads us to be overly satisfied with the way things are rather than pursuing improvements. The complacency encouraged by the status quo bias often leads to a prolonged period of mediocre results. To combat this, CEOs must remain vigilant about threats and opportunities and continue to push for change and growth, recognizing that the board and other stakeholders may also be vulnerable to status quo bias.

For two out of three CEOs in our database, performance was lower in years six to 10 than in years one to five. Some lost the gains of the first five years altogether. Results may not actually dive into negative territory, but when they do, they vacillate up and down around a mean.

Legacy

A CEO's longevity in the role can pose challenges to achieving strong performance. For one thing, CEOs may find it increasingly challenging to get hard-hitting feedback. In the wake of a long run of impressive gains, potential critics of a CEO's decisions, including the board, may be reluctant to second-guess them. Our data shows that only about 3 percent of CEOs in their legacy years are forced out, demonstrating the deference shown to these long-serving executives. They're free to determine the timing of their departure themselves. This is true even in cases when it's clear that new leadership would catalyze a needed new wave of innovation.

The legacy stage, starting in year 10, represents the culmination of a CEO's tenure. For those still in the role at this point, this is a period characterized by a tricky, often psychologically challenging dual mandate: to keep pushing hard to drive performance while also shifting focus to prepare for their inevitable departure. Only a fraction of CEOs stay in the job longer than 15 years.

Legacy is bittersweet. In these years, CEOs often experience the gratification of seeing earlier transformations and investments come to fruition, and the likelihood that a good year will be followed by another steadily increases. Our data shows that CEOs who stayed in the role past year 10 were more likely than their counterparts with any other length of service to beat the S&P 500 over the overall course of their tenure.

The CEO Life Cycle will help leaders play a better game by anticipating the evolving challenges of the CEO role and preparing for them. It will help CEOs recognize when they are heading into a new stage of their tenure and stay vigilant about avoiding common pitfalls made in that stage. Additionally, it will help them stay on offense, proactively engaging in new learning and personal growth ahead of the curve, as they progress through the stages. The findings can also help boards anticipate issues CEOs may face and engage more vigorously to provide support at critical junctures.

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Privately held since 1956, we focus on delivering knowledge, insight and results through the collaborative efforts of a team of experts — now spanning more than 60 offices, over 30 countries and more than 50 practice specialties. Boards and leaders consistently turn to Spencer Stuart to help address their evolving leadership needs in areas such as senior-level executive search, board recruitment, board effectiveness, succession planning, in-depth senior management assessment, employee engagement and many other facets of culture and organizational effectiveness, particularly in the context of the changing stakeholder expectations of business today. For more information on Spencer Stuart, please visit **www.spencerstuart.com**.

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