



Do You Know How Much Your Past is Influencing Your Decision-Making Now?

The **CEO** Program

This is the first in a series of short articles that will explore recent and relevant research with an eye towards broadening and deepening readers' understanding of patterns in CEO behavior. These briefs are not intended to diagnose or prescribe; rather, at the end of each brief, we offer questions for consideration that we believe will help our clients see themselves more objectively and improve their own performance.

We believe that the more CEOs learn about the factors that may influence their strategic decision-making, the more likely they are to develop stronger and better-balanced teams and lead their organizations to excel in the marketplace.

A CEO's past may influence current behavior in ways he or she may not fully recognize

Some CEOs who are appointed from outside of the company fare much better than others, and one key reason why that's so is the CEO's ability to develop a positive relationship with his or her board of directors in a timely manner. That's what research coming out of Arizona State University and published early in 2016 asserts,¹ and the finding makes intuitive sense, but what drives the ability to build that good relationship?

Past experience, in part. A CEO from "outside" will better manage board relations if he or she has worked with other, demographically diverse boards, the research found. If previous boards were less diverse than the current board, the CEO will tend to struggle building a positive working relationship. Ultimately, the research found, the outside CEO's prior experience with more diverse boards "can not only reduce post-succession CEO turnover and director turnover, but also improve firm performance."²

Earlier research from the University of Texas and the City University of Hong Kong complements these findings. These researchers discuss CEO experience in terms of "newness" with "new" having a meaning akin to "fresh." In other words, if someone has had extensive experience within a given company (as a director, or as the heir apparent), then they aren't really "new" even on their first day as CEO.³

The "newer" a CEO is, the more likely he or she will be to tap a wide swath of sources for knowledge to inform decision-making.⁴ According to the research, CEOs who have had more experience in top positions within the company, and/or were the "heir apparent" to the job of CEO, limited their search for new information, and as a result, limited the strategic ideas and alternatives they came up with or considered.⁵

The message: Diverse backgrounds can be advantageous. Past experience matters; it can broaden an individual's horizons, and may give them a boost when it comes to forging connections, seeking innovative views of the landscape, and making decisions based on robust information.

Why this research stands out

Most studies that look to establish patterns of CEO behavior focus on what happens after the CEO has taken the job. Those streams of research have led to the widely accepted argument that newly appointed CEOs, regardless of their past experience, are more likely to call for strategic changes, and that the longer they have been in the job, the less likely they are to want to take risks by pursuing innovative strategies.

The issue is that not all CEOs share the same tendency toward change when they arrive in the corner office.⁶

Interestingly, the researchers from the City University of Hong Kong and the University of Texas also considered the effect of previous experience that a CEO in question may have had outside the focal firm. They found that the length of time a person has spent as a manager in the same industry could also have the effect of limiting the extent to which that person conceives of different strategic ideas and/or considers

them relevant. Additionally, they found that if a CEO's prior experience was in a firm that had a significantly different strategy, then that fact, coupled with the CEO's "newness" would signal an increased openness to pursuing a different strategy.

What understanding "newness" can do for the CEO

With all this in mind, we encourage CEOs to look to their past to gain insight into what their "default" perspective might be (figure 1). Armed with that knowledge, they can balance it as needed, to ensure that strategic decisions are made on the strongest and most comprehensive foundation possible.

For example, a CEO with extensive internal executive experience might be purposeful about soliciting thoughts and ideas from people with diverse backgrounds. He or she might deliberately try to cast a wider net when seeking innovative ideas, or counsel on possible strategies.

Figure 1

Characteristics of low and high newness experiences	Questions to consider
<p>How many years have I spent</p> <ul style="list-style-type: none">• in the same organization?• in the same industry?• at a senior level in the same organization?	<ol style="list-style-type: none">1. How "new" am I? How has my mindset been shaped by my prior positions within this firm? With other firms?2. What is my "default" mindset with regard to strategic change? Do I cast a sufficiently wide net when looking for innovative ideas? How firm are my assumptions about my industry?3. Have any particular aspects of my background as a manager — at this company, or at other companies/in other industries — positioned me to take the optimal approach to considering and deciding on strategic change at this company at this time? Am I "primed" to take an objective and critical view of strategic issues?4. How can I develop a senior team that will balance my own natural mindset, and help me elicit the strongest possible performance from the company? Can "Newness" of some of my team members positively impact their openness or negatively influence resistance to change? How might I determine their "Newness?"
<p>What experience do I have working</p> <ul style="list-style-type: none">• in another industry?• for a competitor?• in a contrasting competitive environment?• in a company facing financial/strategic decisions dissimilar to what I now face?	

The US CEO Program is dedicated to architecting the long-term success of CEOs and the companies they lead. Leveraging the full depth and breadth of Deloitte's capabilities, the CEO Program offers innovative insights and immersive experiences to help new and experienced CEOs throughout their lifecycles: to navigate critical points of inflection; design a strategic agenda; and lead through personal and organizational change, disruption, and transformation.

Email the CEO Program at USCEOProgram@deloitte.com.

Contacts

Vincent Firth

Director and CEO Program Leader
Deloitte Consulting LLP
vfirth@deloitte.com

Benjamin Finzi

Director and CEO Program Leader
Deloitte LLP
bfinzi@deloitte.com

Endnotes

1. Zhu, D. H. & Shen, W., "Why do some outside successions fare better than others? The role of outside CEOs' prior experience with board diversity." *Strategic Management Journal* 2016.
2. Ibid.
3. David H. Weng (City University of Hong Kong) and Zhiang (John) Lin (University of Texas at Dallas), "Beyond CEO Tenure: The Effect of CEO Newness on Strategic Changes," *Journal of Management* Vol. 40 No. 7, November 2014, 2009 – 2032. DOI: 10.1177/0149206312449867 copyright The Authors 2012. The authors define CEO "newness" as "the extent to which a CEO can be considered as new or recent based on his or her experiences (or, specifically, lack of experiences) as a CEO, director, or heir apparent within the focal firm."
4. Ibid.
5. Ibid.
6. Ibid.
7. Ibid.

This publication contains general information only and none of the member firms of Deloitte Touche Tohmatsu Limited or their respective related entities is, by means of this publication, rendering business, financial, investment, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor. None of the member firms of Deloitte Touche Tohmatsu Limited or their respective related entities shall be responsible for any loss sustained by any person who relies on this publication.

About Deloitte Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms. Please see www.deloitte.com/us/about for a detailed description of the legal structure of Deloitte LLP and its subsidiaries. Certain services may not be available to attest clients under the rules and regulations of public accounting.