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Route to the Top

a Transatlantic Comparison of Top Business Leaders

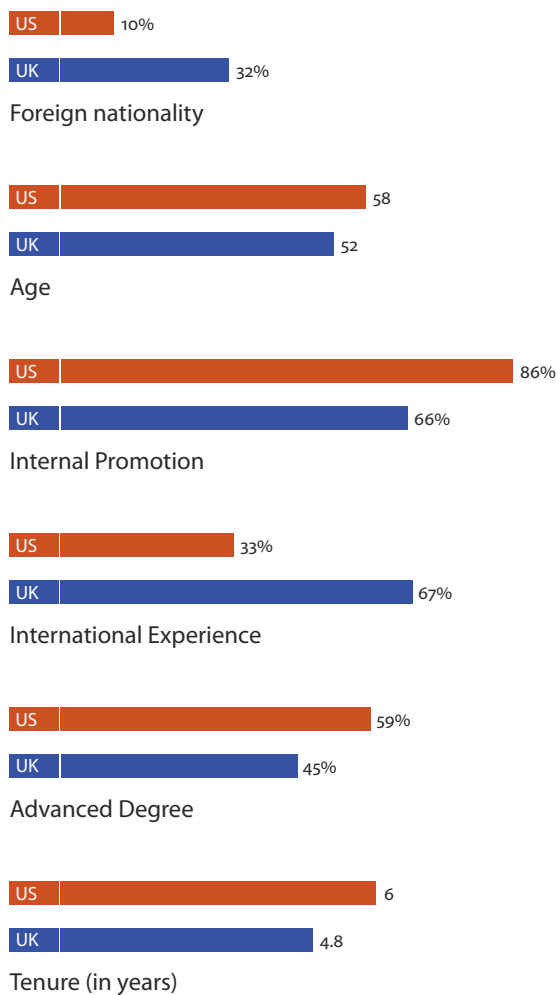
Dr Elisabeth Marx

The Chief Executives of the FTSE 100 and Fortune 100 populate the pages of the financial, and increasingly, the mainstream press. They make decisions that routinely affect millions of people, influencing economic, social and environmental outcomes. Yet who are these individuals? What are their common characteristics and what do they reveal not only about the business world of today, but who will succeed tomorrow?



In 1996, Dr Elisabeth Marx conducted the first Route to the Top study, analysing the backgrounds of the CEOs of the FTSE 100 Companies. This year, in the eleventh year of the survey, Dr Marx has also explored the CEO profiles of the Fortune 100 Index, allowing for the first time a transatlantic comparison of top business leaders.

This study provides us with a compelling snapshot of the world we live in, the leaders we reward and the progress still to be made¹.



This table summarises the key differences between the CEOs of FTSE 100 and Fortune 100 listed companies

Findings defy all cultural stereotypes

The most interesting finding is the counter-intuitive pattern this transatlantic comparison reveals. We, in Europe, expect the US to welcome foreign nationalities and reward youth, to prefer externally appointed newcomers, celebrate diversity and promote self-made men. Yet, the results defy all of these stereotypes.

Compared to their counterparts in the UK, Fortune 100 CEOs are less likely to be of a foreign nationality, they are older, are more likely to have been promoted internally rather than externally recruited, have largely gained their experience in the US, and are more highly educated. Moreover, in direct contradiction to the 'hire and fire' stereotype, US CEOs have longer tenure compared to those in the UK.

The results suggest that the FTSE 100 Companies in the UK and Fortune 100 Companies in the US take a very different approach to CEO selection. Whereas Fortune 100 Companies seem to value wisdom, develop better internal grooming and succession planning and have higher educated CEOs, FTSE 100 Companies put greater focus on international experience, welcome foreign talent and give 'young guns' a chance.

The findings show how fast the business landscape is changing and suggest we need to adjust our stereotypes.

¹ The data is based on the FTSE 100 Index of May 2007 and the Fortune 100 Index of May 2007. All the data is based on publicly available information.

Diversity of talent

The FTSE 100 reveals globalisation at work – the UK's CEOs and senior executives are a more diverse group than ever before. In the 1970s, the appointment of an American CEO in the British coal industry provoked howls of protest. Today in the UK, British Airways is run by an Irish CEO (who took over from an Australian), Vodafone is run by Indian-American Arun Sarin and Dutchman Ben Verwaayen runs BT².

In the US, these 'global' leaders are harder to find. One could argue that the US has sufficient home grown talent to fill its top company positions – that it doesn't need to look elsewhere. We would question this assumption. If the US market is not sufficiently open to global talent, top leaders will migrate to countries where they see different nationalities succeeding at the top of companies. This has the potential to be highly damaging for the US, and could see it facing long-term economic disadvantages, similar to the current gravitation of financial services from New York to London. On a broader political scale, the US must question whether all its long-standing diversity initiatives have been effective enough when it comes to the leaders at the top of its largest companies.

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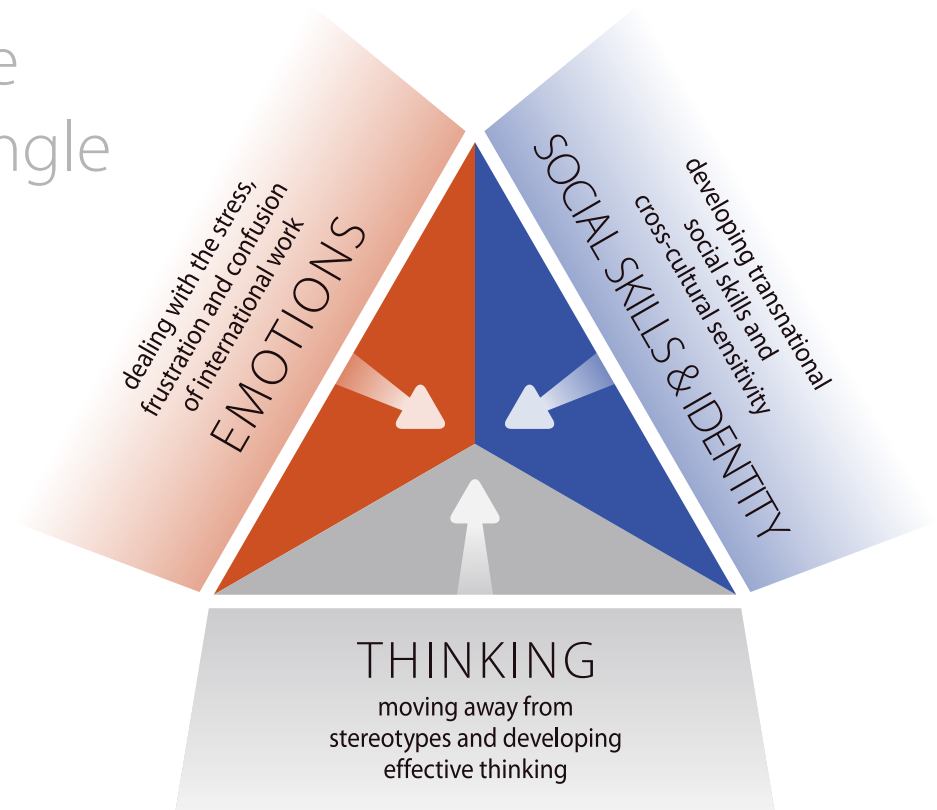
International experience – a future imperative?

In early presentations of this research, press and business leaders have been struck by the small number of US CEOs with international experience (defined as living and working for at least one year in another country) – 33% compared to 67% in the FTSE. Given the presence of so many global companies in the Fortune 100, they ask, why do US leaders have significantly less international experience than their UK counterparts and what are the implications of this? What effect does international experience have on a leader's ability to run a large organisation and is such experience a pre-requisite to being an effective global leader?

In earlier research, Dr Marx interviewed over 200 executives of various nationalities; these individuals believed that their international experience had improved their confidence in dealing with difficult and unpredictable situations, developed their social skills, strengthened their understanding of cultural nuances and reinforced their ability to think strategically – all aspects one would consider

² CEO – *The Low-Down on the Top Job*, Kevin Kelly, FT Prentice Hall, 2007

the Culture Shock Triangle



important in being an effective leader. The study underlined the fact that frequent short-term international trips cannot replace the experience of living and working in a different country and really trying to understand foreign counterparts.

So, in order to be a global leader you need to work abroad. And in order to be an effective global leader you need to work on the three dimensions of the Culture Shock Triangle: managing the stress, emotion and 'otherness' of international business, expanding your thinking and developing your social skills³. Executives who have been successful in international assignments have usually excelled in each area of the Culture Shock Triangle.

Exceptional personalities and talent, as many CEOs are, will already have the skills to match these requirements easily; others need to acquire them, ideally fairly early in their career. It is encouraging to

“in order to be a global leader, you need to work abroad”

see a trend for the younger generation of Fortune 100 CEOs to develop their talents outside of the US – 41% of Fortune CEOs under-55 have international experience compared to 30% of those over-55.

³ *Breaking Through Culture Shock: What you Need to Succeed in International Business*, Elisabeth Marx, Nicholas Brealey Publishing Ltd, 2001

Accountancy and Finance in decline in the UK but on the rise in the US

Accountancy and finance backgrounds are in decline amongst CEOs in the UK. In 2002, 41% of FTSE 100 CEOs had begun their careers in these sectors, in 2005 38% and in 2007 the figure had fallen to 34%.

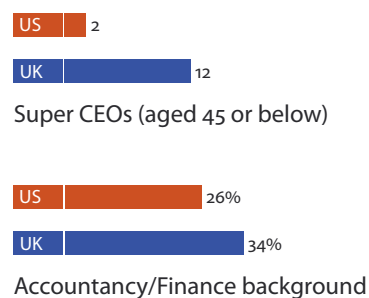
Meanwhile external CEO recruitment is on the rise, with internal CEO promotions at the lowest level in the eleven-year history of this study (66%). The FTSE 100's internally promoted CEOs are more likely to come from an accountancy/finance early career background – 38% compared to 21% of externally recruited company leaders.

The message would seem to be: if you come from accountancy/finance in the UK, you are better off sticking where you are and working your way up through the ranks. If you have a sales/marketing background, you can expect to move from company to company, as you leapfrog your way to the top. And this career path is likely to include a foreign posting too – 76% of externally recruited CEOs in the UK have international experience compared to 63% of those who are internally promoted.

The situation in the US is slightly different: the percentage of CEOs from an early accountancy/finance background is still lower than in the UK (26% compared to 34%) but accountants and financiers are increasingly taking up US CEO positions, indeed those CEOs under the age of 55 are more likely to come from an accountancy/finance early career background compared to older CEOs in the Index – 32% versus 20%.

Super CEOs are on the rise in the UK but not prevalent in the US

Super CEOs (those extremely young CEOs, aged 45 or below) are on the rise in the UK with twelve Super CEOs in today's FTSE 100, compared to six in 1996. In comparison, there are only two Super CEOs in the Fortune 100. An earlier analysis of the UK Super CEOs showed that these executives structure their careers differently: they are better educated, have worked for a larger number of companies, and stayed shorter periods of time in previous roles, compared to the older age group. In essence, they gain more diverse experience in a shorter period of time. The UK Super CEOs are less likely to come from an accountancy/finance background which is indicative of an overall decline in this type of background in the FTSE 100.



Founder CEOs unique to the US

Unlike the FTSE 100, there are several founders of Fortune 100 Companies who remain as the CEO, these include Michael Dell at Dell, Frederick Smith at FedEx, Angelo Mozilo at Countrywide Financial and Jim Sinegal at Costco.

Elite education on the rise

In both the UK and the US, further education is mandatory and elite education is preferred. Only 4% of the FTSE 100 leaders do not hold a university degree (compared to 37.4% in 1996). In the US, 59% of Fortune 100 CEOs also have an advanced degree, compared to 45% in the UK. As might be expected, the MBA is one of the most popular degrees with 32% of Fortune 100 CEOs holding this qualification compared to 16% in the FTSE 100.

33% of the Fortune 100 have an Ivy League education; in the UK elite university backgrounds are increasing – 26% of CEOs possess Oxbridge or Harvard degrees, compared to only 18.7% in 1996. This is the highest percentage in eleven years. The FTSE Super CEOs (those under the age of 45) predominantly have an elite education – 50% compared to 21% of the older generation and similarly, in the Fortune 100, CEOs under the age of 55 are more likely to have a Harvard degree than the older leaders – 24% compared to 8% of older CEOs.



Hold an advanced degree

CEOs in the UK's 'Most Admired Companies'

This observation is only relevant to the UK but provides an insight into what makes a good company great. Each year *Management Today* magazine ranks the UK's 'Most Admired' companies. Looking at this ranking, we find the companies which appear in the FTSE 100 have significantly more internally promoted CEOs (86%) than externally recruited leaders – this balks the UK trend and suggests strong succession management in these organisations.

Where are the women?

A common feature of the Fortune and the FTSE is also the least impressive – the very low number of female CEOs. In the US, women CEOs number just two. There has been a small increase in the FTSE, from no women in 1996 to three today: Marjorie Scardino at Pearson, Cynthia Carroll at Anglo American and Dorothy Thompson at Drax. Scardino and Carroll are both American and all three were externally recruited.

US 2

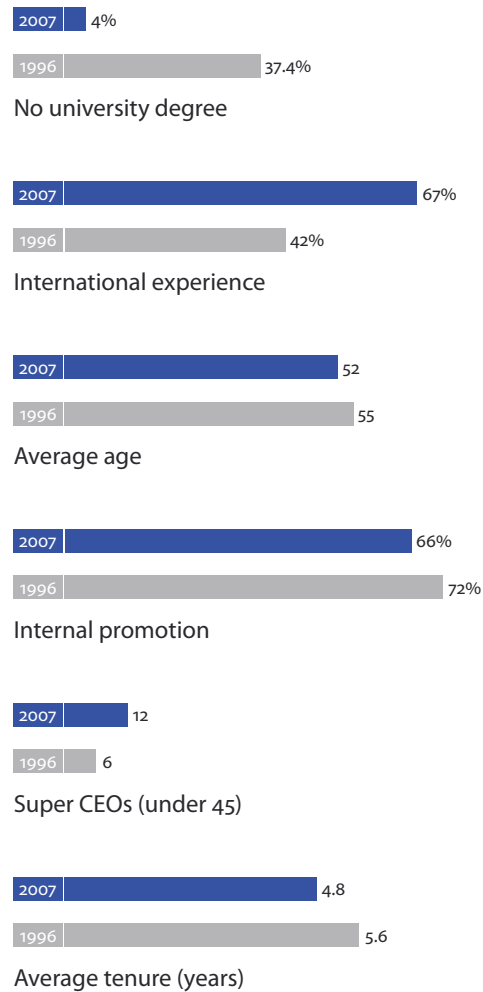
UK 3

Women CEOs

A snapshot of the changing face of the FTSE 100 CEO from 1996–2007

This transatlantic study forms part of an 11-year research project into changing CEO profiles. The motivation for undertaking this research came from two corners: first of all, as talent consultants to the largest corporations in the world, we need to understand changing trends in CEO careers so that we can properly advise our clients. Secondly, we are continually asked for career management advice by younger executives. What better people to look to as role models than the top CEOs?

By exploring their routes to the top, we can advise how the career path of an ambitious executive should be structured.



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Forthcoming research articles by Dr Elisabeth Marx:

- The Psychological Profile of CEOs
- Cultural Differences in Executive Profiles
- The Board Composition of Britain's Best Companies

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