



The Effectiveness of Changing the CEO

AV.consulting Research Paper

Dubai, March 2018



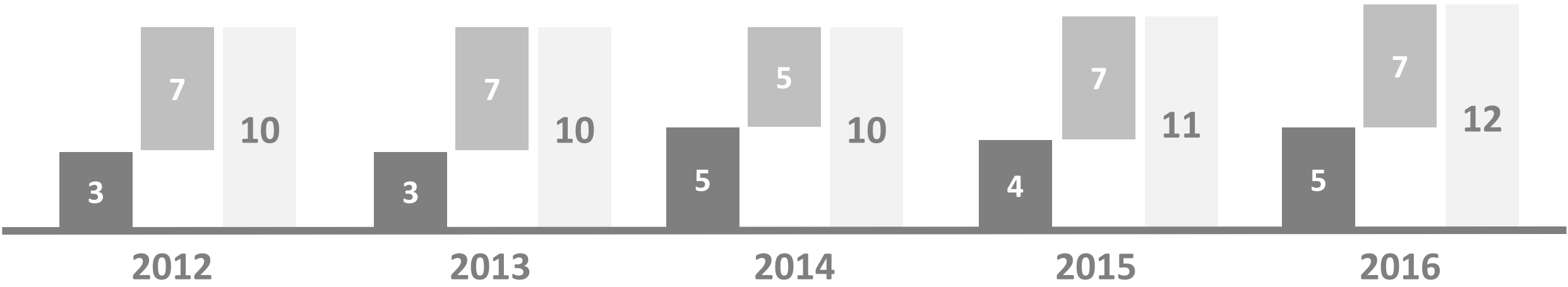
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All Global Sectors

Existing research highlights the high CEO turnover of recent years



- % Companies with a new CEO due to CEO retirement
- % Companies with a new CEO due to CEO resignation
- % Companies with a new CEO in fiscal year among Top 500 public companies



Objectives of our Research

1. Find out how likely are top performing companies to change their CEO
2. Find out how likely it is for companies with a new CEO to improve their performance



Scope of our Research

AV.consulting database of 10.000 largest public companies worldwide from finance and non-financial sectors

1200 largest public companies worldwide from non-financial sectors

By Size	Number
Sales >20 bn. USD	327
Sales >10; <20 bn. USD	374
Sales >5; <10 bn. USD	296
Sales <5 bn. USD	203
Total	1200

By Headquarter Region	Number
HQ in EMEA	309
HQ in America	467
HQ in ROW	424
Total	1200

By Sector	Number
Industry	683
Service	319
Trade	198
Total	1200



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14% of all companies across all geographies have changed the CEO in 2016


	Changed CEO in 2016	Did not change CEO in 2016	Total number of company in survey		Changed CEO in 2016	Did not change CEO in 2016	Total number of company in survey
HQ in EMEA	44	265	309		14%	86%	100%
HQ in America	68	399	467		15%	85%	100%
HQ in ROW	61	363	424		14%	86%	100%
Total	173	1027	1200		14%	86%	100%

HQ = Headquarters
 EMEA = Europe, Middle East and Africa
 ROW = Rest of the world

Source: AV.consulting database of 1200 largest public companies worldwide from non-financial sectors



The annual CEO change rate was high across industry sectors; the lowest change rate in trade

	Changed CEO in 2016	Did not change CEO in 2016	Total number of company in survey		Changed CEO in 2016	Did not change CEO in 2016	Total number of company in survey
Industry	103	580	683		15%	85%	100%
Service	47	272	319		15%	85%	100%
Trade	23	175	198		12%	88%	100%
Total	173	1027	1200		14%	86%	100%

Source: AV.consulting database of 1200 largest public companies worldwide from non-financial sectors




The annual CEO change rate was high across all company size clusters; it was the lowest at companies with sales below \$5B and above \$20B

	Changed CEO in 2016	Did not change CEO in 2016	Total number of company in survey		Changed CEO in 2016	Did not change CEO in 2016	Total number of company in survey
Sales >20 bn. USD	40	287	327		12%	88%	100%
Sales >10; <20 bn. USD	62	312	374		17%	83%	100%
Sales >5; <10 bn. USD	44	252	296		15%	85%	100%
Sales <5 bn. USD	27	176	203		13%	87%	100%
Total	173	1027	1200		14%	86%	100%

Source: AV.consulting database of 1200 largest public companies worldwide from non-financial sectors



The annual CEO change rate was high across all profitability clusters; it was the highest at companies with ROS below -2% and above 10%

	Changed CEO in 2016	Did not change CEO in 2016	Total number of company in survey		Changed CEO in 2016	Did not change CEO in 2016	Total number of company in survey
ROS 2015 >10%	58	334	392		15%	85%	100%
ROS 2015 >2%; <10%	75	459	534		14%	86%	100%
ROS 2015 >-2%; <2%	20	153	173		12%	88%	100%
ROS 2015 <-2%	20	81	101		20%	80%	100%
Total	173	1027	1200		14%	86%	100%

ROS = EBIT as % of Sales

Source: AV.consulting database of 1200 largest public companies worldwide from non-financial sectors



The annual CEO change rate was high across all profitability clusters; it was the highest at companies with ROA below -1%


	Changed CEO in 2016	Did not change CEO in 2016	Total number of company in survey		Changed CEO in 2016	Did not change CEO in 2016	Total number of company in survey
ROA 2015 >7%	56	315	371		15%	85%	100%
ROA 2015 >1%; <7%	78	542	620		13%	87%	100%
ROA 2015 >-1%; <1%	21	87	108		19%	81%	100%
ROA 2015 <-1%	18	83	101		18%	82%	100%
Total	173	1027	1200		14%	86%	100%

ROA = % EBIT in Total Assets

Source: AV.consulting database of 1200 largest public companies worldwide from non-financial sectors



The annual CEO change rate was high across all Market Cap Multiple clusters; it was highest at companies with a MC Multiple below 5

	Changed CEO in 2016	Did not change CEO in 2016	Total number of company in survey		Changed CEO in 2016	Did not change CEO in 2016	Total number of company in survey
MC Multiple 2015 >20	73	436	509		14%	86%	100%
MC Multiple 2015 >12; <20	54	300	354		15%	85%	100%
MC Multiple 2015 >5; <12	21	168	189		11%	89%	100%
MC Multiple 2015 <5	25	123	148		17%	83%	100%
Total	173	1027	1200		14%	86%	100%

MC Multiple = Market capitalization 2015 / EBIT 2015



Source: AV.consulting database of 1200 largest public companies worldwide from non-financial sectors



**How did the companies
with a new CEO perform in 2016?**



51% of all companies with a new CEO reduced their profits in 2016



	Changed CEO in 2016	Did not change CEO in 2016	Total number of company in survey		Changed CEO in 2016	Did not change CEO in 2016	Total number of company in survey
Profit growth >10%	51	436	487		29%	42%	41%
Profit growth >0%; <10%	33	300	333		19%	29%	28%
Profit growth >-30%; <0%	37	168	205		21%	16%	17%
Profit growth <-30%	52	123	175		30%	12%	15%
Total	173	1027	1200		100%	100%	100%

Profit growth = EBIT 2016 / EBIT 2016

Source: AV.consulting database of 1200 largest public companies worldwide from non-financial sectors



52% of all companies with a new CEO reduced their sales in 2016



	Changed CEO in 2016	Did not change CEO in 2016	Total number of company in survey		Changed CEO in 2016	Did not change CEO in 2016	Total number of company in survey
Sales growth >10%	28	200	228		16%	19%	19%
Sales growth >0%; <10%	56	399	455		32%	39%	38%
Sales growth >-10%; <0%	55	285	340		32%	28%	28%
Sales growth <-10%	34	143	177		20%	14%	15%
Total	173	1027	1200		100%	100%	100%

Sales growth = Sales 2016 / Sales 2015

Source: AV.consulting database of 1200 largest public companies worldwide from non-financial sectors



36% of all companies with a new CEO reduced their market capitalization in 2016

	Changed CEO in 2016	Did not change CEO in 2016	Total number of company in survey		Changed CEO in 2016	Did not change CEO in 2016	Total number of company in survey
MC growth >20%	49	299	348		28%	29%	29%
MC growth >0%; <20%	61	386	447		35%	38%	37%
MC growth >-10%; <0%	26	167	193		15%	16%	16%
MC growth <-10%	37	175	212		21%	17%	18%
Total	173	1027	1200		100%	100%	100%

MC growth = Market Capitalization 2016 / Market Capitalization 2015

Source: AV.consulting database of 1200 largest public companies worldwide from non-financial sectors



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Both the top performing and worse performing companies frequently change their CEO

% Companies with New CEO in 2016 in All Companies

By Return on Sales	% of Cluster
ROS 2015 >10%	15%
ROS 2015 >2%; <10%	14%
ROS 2015 >-2%; <2%	12%
ROS 2015 <-2%	20%
Total Sample	14%

By Return on Assets	% of Cluster
ROA 2015 >7%	15%
ROA 2015 >1%; <7%	13%
ROA 2015 >-1%; <1%	19%
ROA 2015 <-1%	18%
Total Sample	14%

By Market Capitalization Multiple	% of Cluster
MC Multiple 2015 >20	14%
MC Multiple 2015 >12; <20	15%
MC Multiple 2015 >5; <12	11%
MC Multiple 2015 <5	17%
Total Sample	14%

Source: AV.consulting database of 1200 largest public companies worldwide from non-financial sectors



There is a high probability that your company too will face a new CEO soon

% Companies with New CEO in 2016 in All Companies

By Size	% of Cluster
Sales >20 bn. USD	12%
Sales >10; <20 bn. USD	17%
Sales >5; <10 bn. USD	15%
Sales <5 bn. USD	13%
Total Sample	14%

By Headquarter Region	% of Cluster
HQ in EMEA	14%
HQ in America	15%
HQ in ROW	14%
Total Sample	14%

By Sector	% of Cluster
Industry	15%
Service	15%
Trade	12%
Total Sample	14%

Source: AV.consulting database of 1200 largest public companies worldwide from non-financial sectors



More than 50% of companies with a new CEO reduce their profits and/or sales in the first year after CEO exit

Structure of Companies with New CEO in 2016

By EBIT growth in 2016	% of All Companies with New CEO
Profit growth >10%	29%
Profit growth >0%; <10%	19%
Profit growth >-30%; <0%	21%
Profit growth <-30%	30%
Total	100%

By Sales growth in 2016	% of All Companies with New CEO
Sales growth >10%	16%
Sales growth >0%; <10%	32%
Sales growth >-10%; <0%	32%
Sales growth <-10%	20%
Total	100%

By Market Capitalization Growth in 2016	% of All Companies with New CEO
MC growth >20%	28%
MC growth >0%; <20%	35%
MC growth >-10%; <0%	15%
MC growth <-10%	21%
Total	100%

Source: AV.consulting database of 1200 largest public companies worldwide from non-financial sectors



Lessons Learned

- 1. Changing the CEO has a high risk of failure.**
- 2. If you want to change your CEO due to poor company performance, you should first persuade the incumbent CEO to mobilize your middle management for company-wide restructuring, including:**
 - Renegotiating your most important supplier contracts;**
 - Downsizing loss-making units;**
 - Optimizing sales with unprofitable customers or product segments;**
 - Reducing overhead cost.**
- 3. If you want to change your CEO to achieve strategic renewal, you should first persuade the incumbent CEO into proactive change management. You could:**
 - Allocate resources to those product/market segments with the highest growth potential;**
 - Develop unique growth capabilities;**
 - Define initiatives such as digitalization, process reengineering or strategic purchasing to achieve competitive advantages;**
 - Measure and benchmark key activities to achieve world class performance.**
- 4. If you change your CEO, consider appointing an independent director as a non-executive Chairman to the board to guide the new CEO at least for the first transition years.**



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Company Profile of AV.consulting

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Our Story:

AV.consulting was established in 2015 by the Ingolstadt School of Management Professor Dr. Andrej Vizjak, a former PwC and A.T. Kearney senior consulting partner, and his wife Sonja Vizjak, with headquarters in Dubai.

AV.consulting offers clients online support in implementing the vision to “Be(come) The First in the World”.

This vision is based on our Success Formulas Methodology, which won the 2013 Global Advisory Challenge, a contest among 20.000 advisors from all continents. The award was presented by a jury, comprised of global advisory leaders at one of the “Big Four” professional services firms, which chose Success Formulas as the most influential new consulting methodology.

The Success Formulas Methodology draws on statistical evidence based on a sample of more than 10.000 companies over a period of 15 years. The theories underlying Success Formulas have been published in several books translated into 12 languages worldwide, including English, Chinese, German, Italian, Polish and Russian.

AV stands for Ars Vivendi: digital consulting enables a flexible work schedule, mobility and home-office work, and attracts creative world-class experts, who prefer a modern way of life.



Our Clients:

Our vision is to (Be)come the “First Digital Strategy Consultants” in the World.

Our value proposition:

- Convenience and price advantage of digital consulting
- Unique strategy methodology and a database of 10.000 companies covering 15 years
- Problem solutions, from analysis to implementation
- Long-term commitment to client results

The initial clients of AV.consulting in 2015 were:

- A Dubai-based financial institution
- An international telecoms operator based in GCC
- A global food-production company based in Switzerland
- A global pharmaceutical company based in Switzerland

All four clients have unique capabilities and global leadership positions.

AV.consulting has since served more and more clients around the globe to (Be)come The First in the World.



Our Services:

Reactive change management support:

- Renegotiating your most important supplier contracts;
- Downsizing loss-making units;
- Optimizing sales with unprofitable customers or product segments;
- Reducing overhead cost.

Proactive change management support:

- Allocating resources to those product/market segments with the highest growth potential;
- Developing unique growth capabilities;
- Defining initiatives such as digitalization, process reengineering, strategic purchasing;
- Measuring and benchmarking key activities to achieve world class performance.

Appointing Andrej Vizjak as a non-executive Chairman to the board

- Coaching the incumbent CEO;
- Guiding the new CEO during transition.



Curriculum Vitae of Andrej Vizjak, the Founder and CEO of AV.consulting

Andrej Vizjak was born on May 9, 1965 in Ljubljana. Several times in his career, he has achieved world-class distinction. He completed his studies at the Economic Faculty in Ljubljana in record time and obtained his PhD at Munich University, Germany, at the young age of 24. His doctoral research was on strategic planning – today in this field, he is recognized as one of the most recognized experts globally.

Two years before graduation, he had already embarked on his consulting career, first in cooperation with McKinsey & Co and later at A.T. Kearney, where he was elected Principal in 1994 and Vice President in 2000. Afterwards, he achieved the leading market share in his South East European region. He was simultaneously studying at the Harvard Business School and appointed Professor at the Ingolstadt School of Management in Germany. As a board member and long-term consultant, he supported the development and implementation of Gorenje's vision to become the world's most design-driven innovator of home appliances.

He is the author of 25 books, published by globally leading houses and translated into 12 languages. With his Success Formulas methodology, he won the 2013 Global Advisory Challenge, a competition for the most influential consulting concept in the world.

Andrej Vizjak has leadership experience at the highest management level in multinational companies exceeding annual sales of \$10 billion. He served as Executive Vice President of the Bertelsmann media company during 1995–2000, when it became the largest book publisher in the world. He was a Senior Partner and Chief Innovation Officer for Central and Eastern Europe of PwC during 2010–2015, when it was the largest advisory company in the world.

In 2015, he founded, together with his wife Sonja Vizjak, the Dubai-based company AV.consulting, with the vision to create the first digital consulting company. Now he is advising other companies on how to be(come) the first in the world.



Selected consulting projects of Andrej Vizjak

Global clients:

Deutsche Telekom Group, a leading global telecom operator

Bertelsmann Group, a leading global media company

Novartis, a leading global pharmaceutical company

Hipp, a leading global baby food producer

Gorenje, a leading global producer of household appliances

Nice Label, a leading global marking and labeling software company

Regional companies:

Studio Moderna, a leading regional teleshopping company in Central and Eastern Europe

Gebrüder Peters, a leading local facility service company in Bavaria, Germany

MDM, a leading regional steel distributor in South East Europe

Jamnik, a small regional niche packaging company in Central Europe

Royal Vision Group, a leading local financial institution in the Middle East

Ooredoo, a leading regional telecom operator in the Middle East



Our Global Footprint:



Austria



Australia



Albania



BiH



Bulgaria



China



Costa Rica



Croatia



Czech Republic



Germany



India



Italy



Kosovo



Malaysia



Montenegro



Poland



Qatar



Republic of South Africa



Romania



Russia



Serbia



Singapore



Slovenia



Switzerland



UAE



UK



USA



Our Publications:

AV.consulting Research Papers

The Effectiveness of Changing the CEO

The Effectiveness of Crisis Management

The Effectiveness of Managing Growth

The Effectiveness of Family Owned Companies

Lessons Learned from Top Performing Industries

Lessons Learned from Global Industry Concentration

Books by Andrej Vizjak:

Be(come) The First in the World (2017, available on www.andrejvizjak.com)

Success Formulas for the New Decade (2011)

Competing Against Scale (2008)

Books co-authored by Andrej Vizjak:

Innovation Excellence in Central and Eastern Europe – a PwC Experience (Wiley Zurich, 2012)

Beating the Global Consolidation Endgame (McGraw Hill New York, 2008)

Media Management (Springer New York, 2003, 2010, 2013)

ANDREJ VIZJAK

Be(come) The First in the World



GV
ZALOŽBA

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MIKE KUBENA · MARK OKES-VOYSEY · ANDREJ VIZJAK

INNOVATION EXCELLENCE IN CENTRAL & EASTERN EUROPE

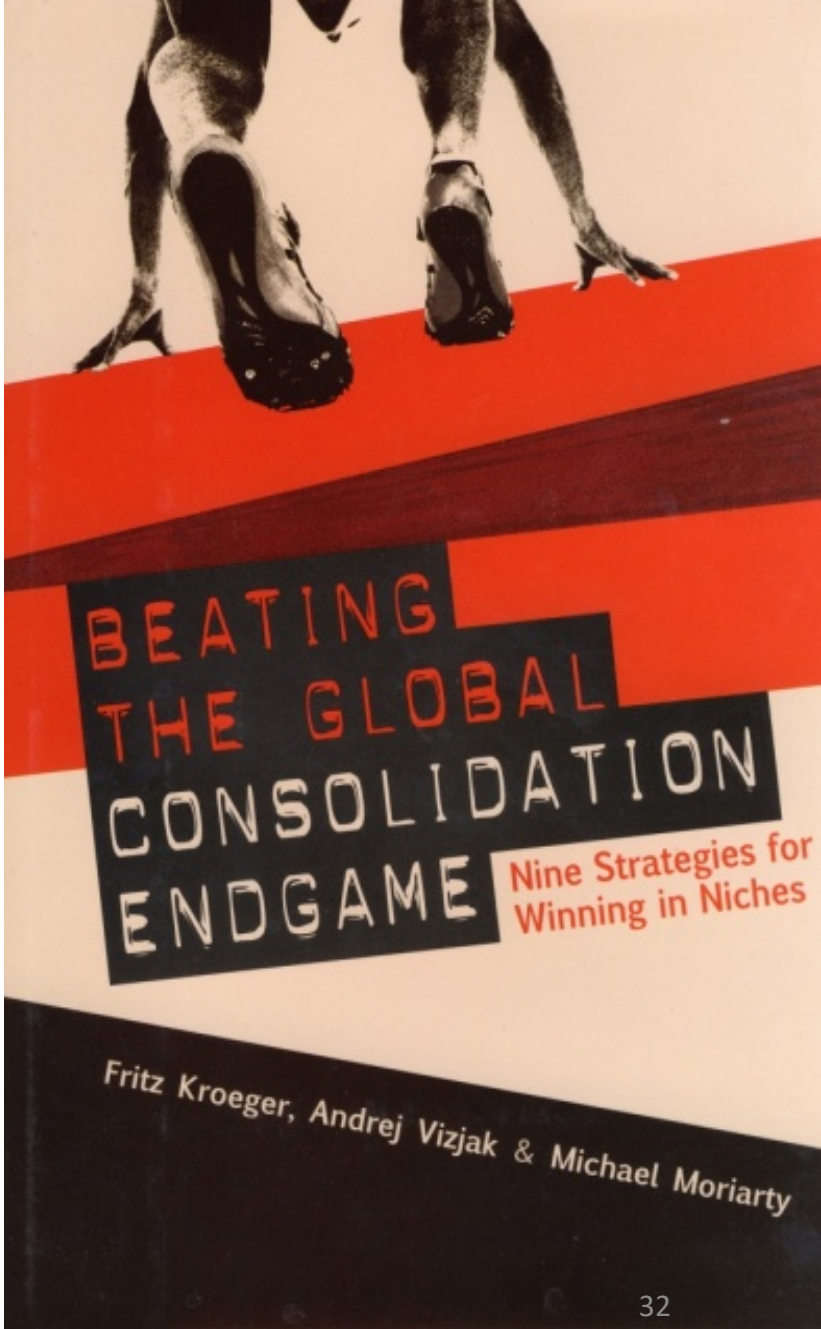
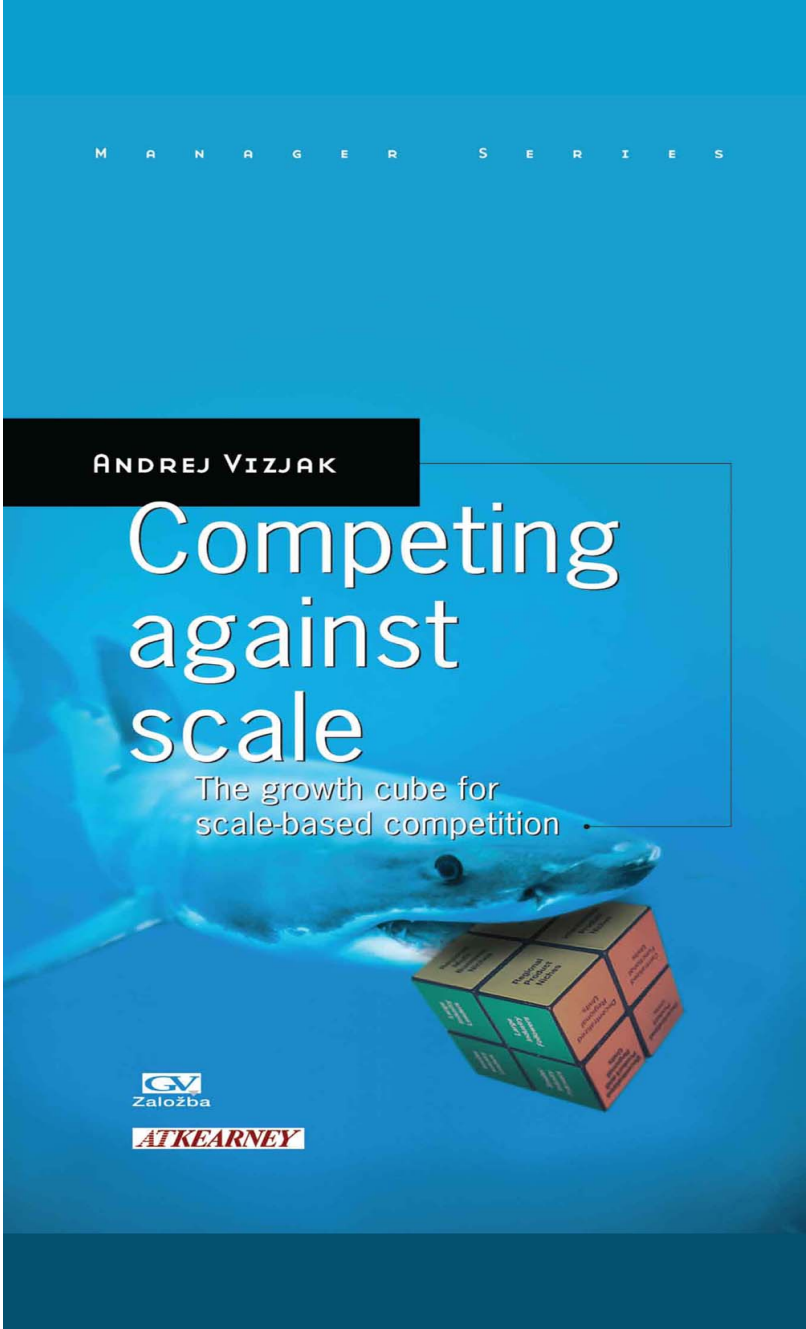
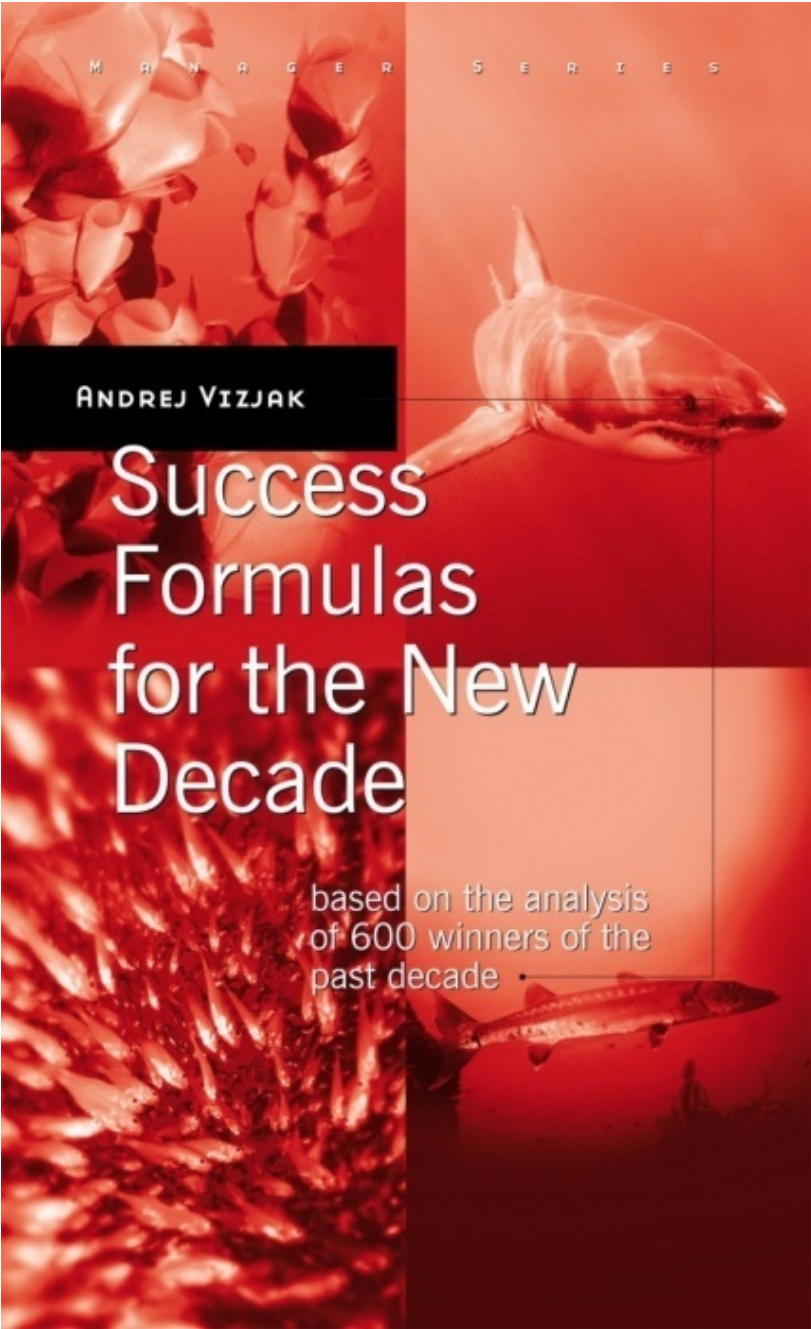
INNOVATION EXCELLENCE IN CENTRAL & EASTERN EUROPE

A PWC EXPERIENCE


WILEY

 WILEY

The PwC Wheel of Innovation Excellence comprises what innovation is all about and it can be used to systematically strengthen your company's power to innovate and, furthermore, speed up the process. Innovation excellence starts with setting a clear direction for the company and respective follow-up actions. All companies have individual DNA and can be categorized into four winner types. They all have an equal chance of being successful. Each type requires different approaches to follow the Wheel and needs different strategies to become sustainable. PwC's Success Formulas will help you make the right strategic decisions. After defining your own growth path the innovation concept develops concrete innovation strategies and processes as a framework, which puts innovation forward. The journey from trends and ideas to products has to be managed. Innovation today, due to the increasing importance of time-to-market, involves many people – inside and outside the company. Collaboration is necessary to identify breakthrough ideas within your overall network, which must comprise innovative people who are motivated by the rewards that will come with a successful product launch. Developing and assigning key talent for innovation teams becomes even more critical in times of perceived talent shortages. But employees alone – even if they are highly motivated – are not enough. The drive for innovation must come from top management through their support of a culture that is open to new ideas and systematic in its approach to delivering innovations. Creative leadership is necessary to foster innovativeness. Companies in CEE have great chances to outperform their Western counterparts or competitors through innovation because they are just at the beginning of a free market economy. Their newly appointed structures are less worn and decrepit as in many Western companies. However, there is still a long and rocky way to go. Several steps are necessary for a company to become a winner by innovation.





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