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Winter Letter, December 2024

Dear friends, valued clients and business partners

In this year's Winter Letter, I would like to share with you my thoughts on misguided governance and overly dynamic CEOs. As always, I look forward to your valued feedback.

<u>Rethinking the Governance Model</u>

We're always astounded when the business world breaks yet another disaster story about cuts. "How could it have come to this?", we cry in disbelief. As usual, the reasons always reveal themselves to be multi-layered and complex. The fact that a large corporation and flagship company can wipe out almost 140 billion in stock market value in four years exposes the structural deficits of the current governance model – whether it is (institutional) investors who have tolerated non-performance for too long, boards misjudging the markets, or the dysfunctional *modus operandi* between boards and executive teams causing too much friction and inefficiency, resulting in misguided strategies.

Nobody is elected to a board of directors for the primary purpose of achieving positive corporate governance. It requires strong strategic skills, which most boards of directors and dynamic management teams like to claim is unique to them. On closer inspection, however, it often becomes clear that structured methods such as "foresight" or other strategy frames rarely come into play – if ever – and that the strategic process is mainly derived from experience or outsourced to a consulting firm.

What can we do about it? Our meetings, research, and executive search mandates have identified four fields of action:

- Firstly, boards are too heavily equipped with generic experience and outdated skillsets. Many boards lack the sophisticated future-proof elements they need for robust and consolidated opinion-forming, such as distinctive market-strategic, technological and innovation-fostering expertise. In many cases, the board itself requires reconfiguration.
- Secondly, the diversity of board members remains inadequate and in many cases too strongly focused on gender. What is needed is an approach to diversity that's adapted to the market and the business model in other aspects such as mindset, culture, internationality, ethnicity, and global perspective. A diverse board broadens objectivity and recognizes opportunities and risks on a wider scale.
- Thirdly, the future viability and relevance of companies increasingly depend on how they navigate in these times of macro-economic uncertainty, geopolitical change and conflict, an increasingly struggling labor market, and rapidly changing consumer habits. Boards of directors, especially those of international companies, are crying out for expertise that goes far beyond technical and market-specific topics.
- Fourthly, one of the most astonishing findings of our study on current governance and management issues, conducted together with the IMD Global Board Center, is the fact that 50% of board members are not happy with the current pipeline of future leaders. This calls for rapid action.

> The biggest leverage a board has is a high-performing CEO with a first-class management team. In today's liquid global labor market, there are capable leaders for every industry – but some demands on the perfect profile must be put into perspective, and learning curves must be accepted.

Dynamic CEOs and the need for reflection

What strikes me in my daily work with CEOs is the (overly) dynamic way many of them act. The number 1 priority of a CEO must be to install, develop, and retain a management team that is outstanding both professionally and personally. This is the only way to calibrate the management and give the CEO enough time for a well-founded and qualitative determination of strategic orientation, to consider the required technology and organizational development, to adapt and further develop the business model and the revenue mechanics, as well as the all-important exploration of the next business areas to become the key to securing the company's future.

The CEO motto "too good to be ignored", with media-friendly appearances as a figurehead, just doesn't leave enough room for growth. This is the management team's arena, as they can make more competent contributions through in-depth and specific expertise and knowledge.

The demands on CEOs have changed over the past 20 years in such a way that the originally sought-after strong personality with profound expertise and good leadership qualities is now more of a burden than a blessing for companies. The complexity, speed, and uncertainty of today's economy can no longer be effectively countered with these attributes alone. What we need is a new understanding of governance that is collaborative in character and incorporates an integrating, mobilizing, and orchestrating leadership. This is not about adopting a *laissez-faire* approach, quite the opposite. It's about providing further and more in-depth management coaching.

A CEO should have enough time and energy for the following three essential topics:

1. Overcoming and reducing complexity. This means the ability to recognize a wide range of influencing factors and integrate them in an evaluative manner for the future success of a company.
2. Orchestrating and enabling creativity and innovation. In other words, creating a mindset and a framework for action that invites and encourages employees to think, try out, and implement new things.
3. Creating an emotional connection that gives change and transformation projects a deeper meaning and, ideally, fosters intra-company commitment to the new schemes and processes.

Of course, there must also be enough time to take care of the main stakeholder groups.

With the Holidays upon us, I wish you and your loved ones a season of reflective calm. I look forward to our continued dialog and to seeing you again in due course.

Happy Holidays,

Roman Huber