

## CEO Career Experience and Initial Compensation

CEOs are well rewarded for their experience, but a debate exists about whether generalists or specialists are more highly valued. Experience in a variety of companies and industries offers a breadth, but deep specialized knowledge about an industry or company can also be valuable. Forthcoming research in the *Journal of Management* examines tradeoffs between generalist and specialist experience in predicting the initial compensation of newly appointed CEOs.

### Key Takeaways:

- Newly appointed CEOs with balanced generalist and specialist experience receive more compensation than those with highly generalized or highly specialized backgrounds.
- The reward for CEOs' balanced experience is higher when the hiring company had recently seen declining performance.
- The reward for CEOs' balanced experience is higher in less complex industries.

The researchers gathered data for 197 CEO appointments in large stock-listed companies in Europe between 2007 and 2013. They examined CEOs' initial total compensation, and the company's prior performance and industry complexity (measured as market concentration). They found that CEOs with moderate generalist experience (across industries and firms) earned

more than those with highly specialized or highly generalist experience. They also found that excess generalist experience was penalized less in complex industries, which require new and creative strategic approaches. Contrary to their expectations, excess general experience was penalized more when the hiring company had been experiencing performance decline. They interpreted this to mean that turnarounds can require a mix of leveraging existing strengths (which requires specialization) and introducing strategic change (which is enhanced by generalist experience).

The findings have implications for the career development of top executives, who might benefit from seeking a balance between depth and breadth of experience. The researchers caution that their focus on initial compensation ignores growth in pay that accrues to CEOs with increasing tenure. More research will be needed to better understand the role of experience in CEO pay and performance.

Source: Mueller, P. E. M., Georgakakis, D., Greve, P. Peck, S., & Ruigrok, W., (In press). The curse of extremes: Generalist career experience and CEO initial compensation. *Journal of Management*. doi: 10.1177/0149206320922308.