

ARTICLE

The next chemicals CEO: Three strategies for CEO succession in the sector

We analyzed the backgrounds of 129 CEOs of chemicals companies across the world and compared that with our analysis of CEOs at leading companies across sectors and around the world. The following are three key strategies to strengthen CEO succession in the chemicals sector.



**The next chemicals CEO:
Comparing the backgrounds
of chemicals CEOs with
CEOs across sectors**



Explore the data >

Major events over the past few years have made it clear just how much societal expectations of companies and their leaders have increased. In today's increasingly uncertain environment, more is expected from CEOs than ever before, not in the least speaking on behalf of their companies regarding a plethora of topics as well as being accountable for how their organizations deliver on critical issues such as climate change, diversity and inclusion, and well-being.

In the chemicals sector, new regulatory requirements are making doing business more challenging. In the EU, for instance, the REACH regulation has set a very demanding framework that aims to ensure protection for both human health and the environment. More broadly, the pressure to be sustainable is strong on two fronts: customers require sustainable materials and solutions, and regulators require reductions in emissions across the value chains. Additionally, investors are adding to that pressure by demanding science-based goals and clear links between sustainability goals and leaders' compensation.

It's important to stress that for the chemicals industry, sustainability is not only a constraint but also, in many cases, an existential challenge—and an opportunity. Chemical suppliers must reinvent themselves to provide sustainable solutions for a sustainable world. Not only will they be scrutinized as individual companies, they are part of multiple supply chains which in turn will be reviewed and assessed part of their clients' ESG strategies. A considerable number of chemicals companies are stepping up to the challenge.

This, in addition to the traditional challenges of cost competitiveness, safety, and cyclicity of raw materials, makes being a leader in this sector more challenging than in many other industries. And the leadership pipeline is already depleted because of low rates of recruitment starting decades ago, when the industry contracted in the 1980s.

From our own practical experience with CEO successions in the chemicals industry and beyond, and discussions with many leaders in the sector, we have identified **three key strategies** to strengthen CEO succession in the sector. To complement our on-the-ground perspective, we analyzed the backgrounds of 129 CEOs of chemicals companies across the world with revenues over US \$2.5bn and compared that with our analysis of CEOs at leading companies across sectors and around the world. For a deep dive into the data, click here.

1. Deliberately develop a diverse pipeline

The group of current CEOs is less diverse than their peers across other industrial sectors in terms of gender, executive backgrounds, or having cross-border or cross-sector experience.

The cornerstone of an effective CEO succession strategy is the board's ability to maintain a strong diverse talent bench that goes deep into the organization.¹ That requires boards and leadership teams to have a good understanding of where the high-potential talent is at least three levels below CEO. Boards should also recognize that the more diverse in terms of gender, race, ethnicity, socioeconomic backgrounds—or other characteristics relevant to specific markets—that talent pool is, the stronger, and larger, it will be.

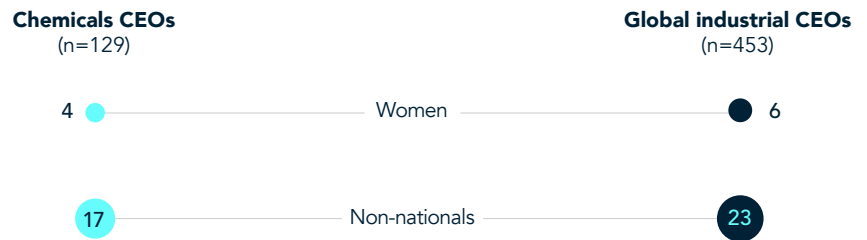
There is ample room for more diverse chemicals CEOs: the group of current CEOs is less diverse than their peers across other industrial sectors in terms of gender, executive backgrounds, or having cross-border or cross-sector experience. Retaining diverse leaders requires ensuring all top talent have access to the right opportunities to develop the skill sets and competencies needed to be considered a potential CEO profile. In the chemicals sector and all others, the main stepping stone roles to the CEO position remain head of division, chief operating officer, and chief financial officer.

¹ *Route to the Top: Today's CEO*, Heidrick & Struggles, February 2024, heidrick.com.

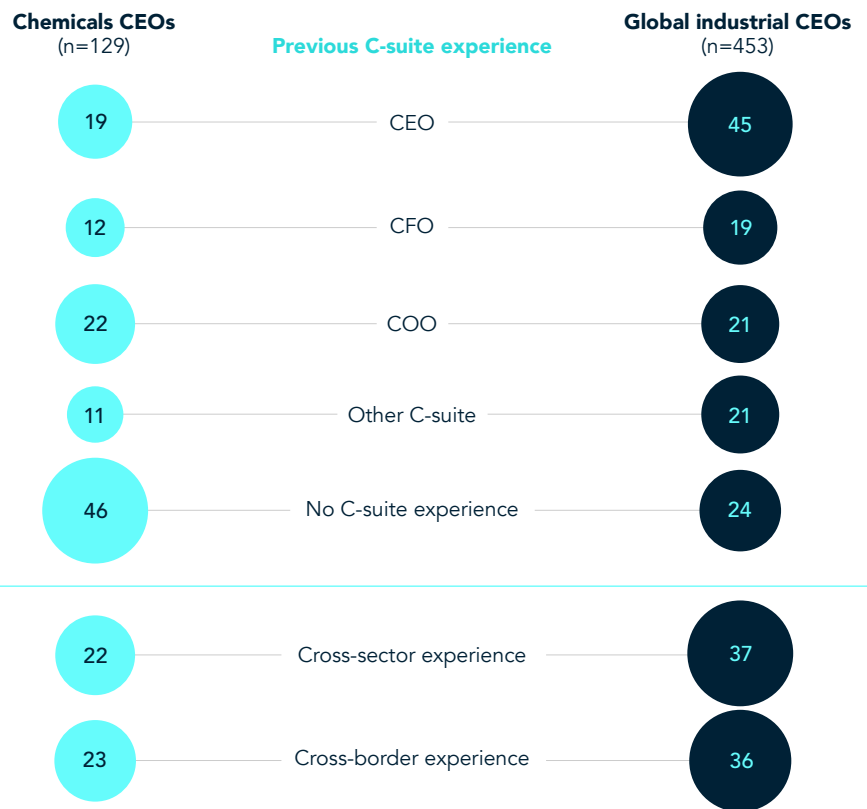
Regarding gender diversity particularly, the chemicals sector will have to double down. The past couple of years have shown that the industry is struggling: only one out of the 52 CEO appointments made between January 2021 and June 2023 in our study was a woman. And we see that women less often have P&L experience across sectors, which means they would benefit from being encouraged to take on such roles earlier on in their career, as well as positions that will provide cross-border experience; often by the time they reach the executive team, it might be too late to compete for the top role without a P&L track record.

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Gender and nationality, chemicals CEOs vs. industrial CEOs (%)



Professional backgrounds, chemicals CEOs vs. industrial CEOs (%)



Source: Heidrick & Struggles' analysis of the 129 CEOs of chemicals companies around the world with revenues over \$2.5bn, n = 129; and Route to the Top 2022, Heidrick & Struggles, heidrick.com.

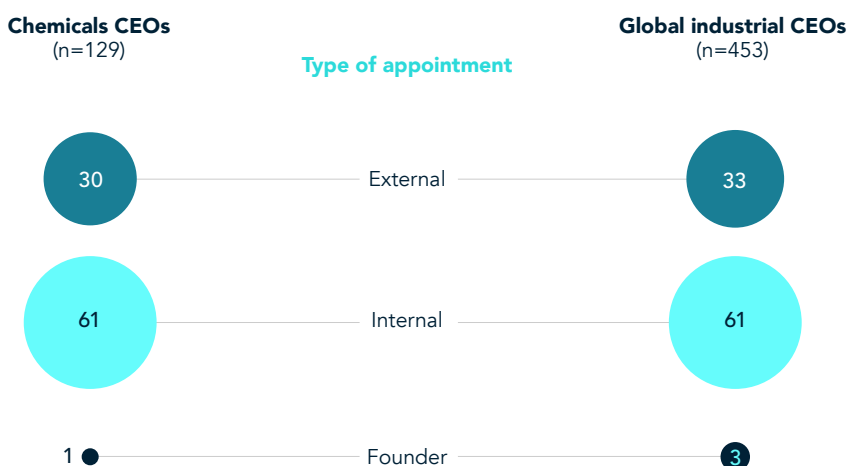
On the upside, chemical companies proved to have the ability to retain potential CEO talent, as the average time to appointment of current CEOs in the industry is 21 years, well above the 13.5-year average in other industrial sectors, which means that CEOs appointed internally in chemical companies were in their companies significantly longer when compared to their peers in industrials. The downside to this is that the path to the CEO role usually takes longer, which could be a significant deterrent for young, ambitious talent looking to grow within their organizations.

2. Leverage external hires to gain multi-sector, cross-border, and multi-functional experience—and challenge the status quo

Like many other specialized industries, the chemicals sector shows a clear preference for appointing CEOs internally. However, our recent conversations with boards and leadership teams revealed a common challenge: their immediate succession pool is not as strong as they would like it to be.

Often, they are faced with two choices: fast-track step up candidates who will need to stretch their capabilities in the role, or hire externally. Such a shift would be a significant change for the industry, because 61% of current CEOs were hired internally.

Type of appointment, chemicals CEOs vs. industrial CEOs (%)



Source: Heidrick & Struggles' analysis of the 129 CEOs of chemicals companies around the world with revenues over \$2.5bn, n = 129

There is no one-size-fits-all solution, but boards may decide that the benefits of fresh thinking outweigh the typical advantages of an internal promotion, such as stability and a smooth transition. For example, at a time where the industry is going through fundamental strategic shifts toward more sustainable models, companies could benefit from bringing in an experienced CEO from a market where there has been more progress in areas of strategic growth, be that sustainability or innovation, such as the renewable energy sector, for example.

Alternatively, boards could look for talent from sectors that their companies serve. For instance, if a chemical company is part of the pharma or food value chain, bringing in a leader from those sectors would augment their understanding of their customers and their end markets. However, when bringing in CEOs from other sectors, boards need to make sure that the new CEO benefits from a well-designed transition and also has a strong team of experts in the field, including a few sector veterans in critical leadership roles. At the moment, CEOs in chemicals companies lag behind other industrial companies when it comes to cross-sector experience (only 22% have it, compared to 37% in industrial sectors²), and cross-border experience (23%, compared to 36%)—and the sector would benefit immensely from an infusion of fresh perspectives.

At the moment, CEOs in chemicals companies lag behind other industrial companies when it comes to cross-sector and cross-border experience, and the sector would benefit immensely from an infusion of fresh perspectives.

2 Other industrial sectors include aerospace, defense & space, agribusiness, automobility, diversified services, energy, industrial goods & technology, process industries, transportation, and logistics & distribution.

3. Don't copy and paste the incumbent profile and selection criteria

Our research over time shows that the profiles of the incoming CEOs change very slowly. In our experience, we see that companies' instinct is to look for leaders with the same profile as the incumbent CEO. Current chemicals CEOs are on average the oldest at appointment across sectors, at 53, compared to 51 in the industrial sector, and, as we noted earlier, those coming through the ranks have the longest average time to appointment.

However, in the context of today's rapid changes and the need for a fundamentally different strategic approach, it's important that boards assess carefully what skills and capabilities a new CEO needs currently and the future, including not only experience and leadership skills but also the motivation and character of aspiring CEOs.³ Given the complexities and challenges of the industry, at the end of the day, the key question to ask to the finalist candidates is, "Do you really want to be the CEO of this company?" In fact, it's critical to explore an aspiring CEO's motivation to take on the role as part of the succession planning process, as boards need to make sure their focus is on transforming the organizations rather than personal gain.

When it comes to the chemicals sector, we see two critical capabilities, in addition to the traditional ones, that will ensure any person's fitness to lead their organizations:

- **Agility:** With all the uncertainty in the world, chemicals companies will need to adapt to continuous changes, from scarcity of raw materials, disruptive supply chains, pace of change, or regulatory demands to succeed. Our research has found that agility encompasses a set of underlying traits that allow leaders to adapt to this constantly evolving environment: foresight, learning, adaptability, and resilience.⁴ And while these skills are non-negotiable for any leader, they are sparse due to their complexity.
- **A strong passion for sustainability:** Sustainability has become central to many of the chemical industries' most widely respected companies' purposes and has been shaping their business and operational models—and now these companies are expected to live up to their promises in order to maintain their license to operate. Therefore, the next chemical CEOs will need to not only have been exposed to sustainability in various roles throughout their careers but also to have a true passion for sustainability and a strong drive to shape their organization for sustainable growth. The successful chemicals CEO will be able to weigh the increasing pressures from multiple groups of stakeholders by going great while doing good.⁵

Since boards will have less information and limited direct interaction with external candidates compared with internal ones, they should find ways to level the field. Assessments are a good way to reduce the information imbalance, and other tools such as case studies and simulations can level the field even more by examining how each candidate would take decisions and behave in a variety of scenarios. Such assessments also often give boards a clear picture of the CEO candidates not only for the immediate next CEO appointment, but also the ones considered to be step-up talent: not ready for the role at the time of assessment, but with clear potential in the future.

³ *Route to the Top: Today's CEO*, Heidrick & Struggles, February 2024, heidrick.com.

⁴ Steven Krupp and Becky Friend, "Agility for the long term," Heidrick & Struggles, heidrick.com.

⁵ Louis Besland, "The green accelerators: How purpose-driven leaders in chemicals are redefining leadership for the industry," Heidrick & Struggles, heidrick.com.

When approached this way, the CEO succession process becomes a pivotal mechanism in managing talent across several leadership layers, and the way it's executed can make all the difference in a company's ability to retain the very talented individuals who need further development before they will be able to take over as CEO.

At a time of exponential change for the industry that encompasses a generational handover, a transition towards net zero business, and geopolitical events that are reshaping supply chains, chemicals company boards have the opportunity to fundamentally redesign their approach to CEO succession. Building a strong and diverse bench internally, exploring the benefits of external hires, and carefully crafting the ideal CEO profiles will put chemicals companies into a strong position to find the right fit CEO for today, while starting to develop the next generation of leaders.

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Industrial Practice

Heidrick & Struggles' Industrial Practice helps industrial companies identify and recruit the leaders they need to succeed in this diverse sector.

Leading industrial companies need innovative global leaders who possess the strategic, operating, and financial skills required to win in this complex environment. They need commercially focused leaders who can develop distinctive value-added solutions. And, above all, they need leaders who have the ability to make both an immediate impact and a long-term contribution.

Our Industrial Practice experts combine unparalleled search resources with a deeply consultative approach, developing the ideal candidate profile based on each client's unique competitive challenges, business objectives, and leadership culture.

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