

Diversity Matters in CEO Transitions: Here's How to Overcome the Pipeline Problem

In May, *Fortune* published its annual [Fortune 500 list](#), with some initially promising headlines touting “record numbers” of women and Black executives running Fortune 500 companies. But the promise of record milestones is quickly pulled back to reality as you read further. A mere 1.2 percent — or six — of 500 CEOs are Black. Two of these leaders, Roz Brewer of Walgreens Boots Alliance and Thasunda Brown Duckett of TIAA-CREF, are included among women CEOs as well, who make up 8.8 percent, or 44, of the 500 largest company CEOs.

In the 2020 U.S. census, women were 58.7 percent of the civilian labor force. Persons identifying themselves solely as African American were 13.4 percent of the total population. In this context, the underrepresentation of women and people of color at the top of the Fortune 500 is especially stark. This is an urgent matter. Not only are equity and inclusion linchpins of social cohesion and systemic confidence, in purely economic terms, the opportunity cost of excluding broad segments of society from leadership is steep.

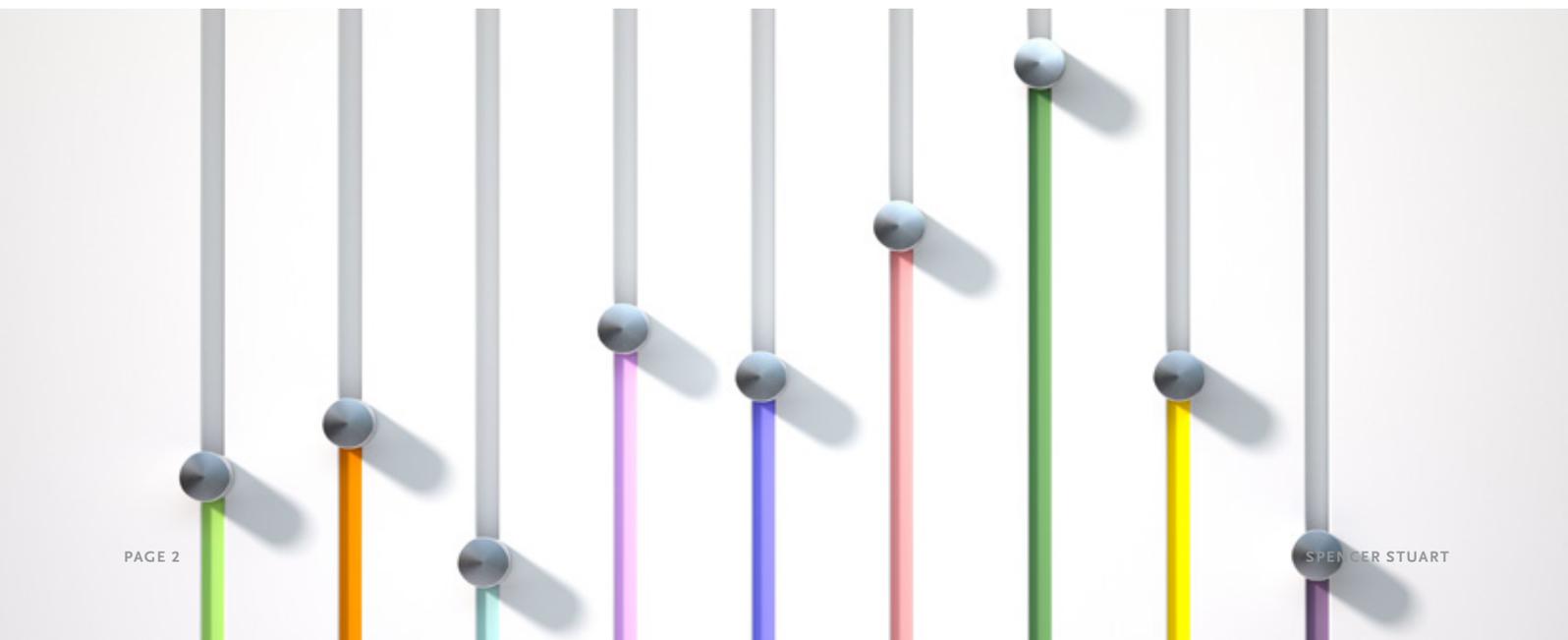
Why is change at the top so hard? To start, there's a glaring lack of diversity in the leadership pipelines of large companies. This limits options in CEO selection and further reinforces the status quo by increasing the sense of "otherness" of candidates from historically underrepresented groups.

- » A 2020 Stanford University study of Fortune 100 companies¹ found that women held 25 percent of C-suite roles, but only 13 percent of the positions with a high potential for promotion to CEO and external board opportunities (CEO, CFO and P&L leadership roles). Only 16 percent of C-suite roles — and 13 percent of positions more likely to lead to CEO and board roles — were held by leaders from historically underrepresented racial and ethnic groups.
- » Spencer Stuart's own research found that women are vastly underrepresented in the roles that are most likely to ascend to CEO. Women make up just 4 percent of COOs and divisional CEOs — the two most common CEO feeder roles by far — and 10 percent of promoted CFOs and "leapfrog" leaders promoted from below the C-suite. While we do not see gender-specific performance differences, we see that women do not yet have equal access and representation on the predominant paths to the CEO role.

Boards, CEOs and CHROs must reframe how they manage their CEO search and succession planning **today** so there is greater representation across all backgrounds in three, five and even 10 years. This requires consistent, deliberate efforts in six areas:

1. Setting intentional objectives
2. Building diverse leadership pipelines earlier
3. Maintaining the diversity of the candidate pool right up through selection
4. Balancing critical career experience with assessment for potential
5. Mitigating bias through education and vigilance
6. Providing post-selection support for success

¹ "Diversity in the C-Suite: *The Dismal State of Diversity Among Fortune 100 Senior Executives*" by David F. Larcker and Brian Tayan. Stanford Closer Look Series. April 1, 2020.



1 Set intentional objectives

An inclusive search or succession process will not happen by accident. Leaders charged with finding a new CEO must be explicit from the outset that they expect an inclusive process that produces a diverse bench of the highest-caliber talent at every stage. In some industries, finding talent from underrepresented groups is a challenge. Those leaders who embrace this challenge push their teams and advisers to examine what is essential in the role and to look broadly and creatively for their next generation of leadership. They connect the value of inclusion to the organization's strategy and purpose and ensure that biases that limit opportunities for women and people from historically underrepresented racial and ethnic groups are not allowed to creep into the process. In the end, this may not produce a "diverse outcome," however it will expand the talent pool, test assumptions against strategic objectives and, ideally, identify rich veins of future talent.

2 Build a diverse pipeline earlier

Making progress on diversity in the CEO leadership pipeline starts with defining the common routes to the top and ensuring that the assessment and selection processes for these roles produce diverse pools of the best talent at each stage.

To do this, boards, CEOs and CHROs should initiate the succession process early and cast a wide net, looking beyond the most-likely successors to include high-potential, seemingly long-shot possibilities — leaders who could become the right person given their development trajectory and the circumstances. This involves assessing a broad range of leaders internally to identify their development needs and potential to grow into viable candidates, ensuring they have robust development plans and regularly checking on their progress. A scan of external talent can illuminate leadership and experience gaps to develop and close with internal talent. Starting early also enables boards to plan for multiple succession options based on different strategic scenarios, ensuring they are developing leaders with the characteristics and capabilities that may be needed based on those scenarios.

CEOs play an important role in keeping the board informed about the development moves and milestones for potential successors. The CEO is the one closest to the ground, and what they say about up-and-coming talent, who directors may not know well, carries significant weight. Sometimes CEOs give potential successors a specific mandate meant to challenge the individuals, build their enterprise knowledge and accelerate their development — and give the CEO confidence in the person's succession readiness. To increase the likelihood that the board will also consider these executives as candidates when the time comes, we advise CEOs to go a step further and provide the board with a concrete and explicit overview of the development assignment, what success will look like, the time frame and how the board should assess individuals' progress toward developmental goals.

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Leaders must also pay attention to culture and whether the organization is an inclusive and equitable environment. Without creating the conditions for diverse talent to thrive, organizations increase the risk that they will lose their highest-potential leaders well before formal succession planning even begins. Effective organizations not only attract talent from diverse backgrounds, but they also set up paths for high potentials of every background to succeed and retain these leaders at higher rates, thereby developing a reputation as an importer of talent. Becoming a more inclusive workplace may require the organization to transform certain mindsets, behaviors and talent processes. This begins at the top.

When succession planning is strategic (five years or more before the CEO transition), the focus will be on development, an area where CEOs and CHROs naturally lead. One CEO we work with is consciously building a diverse pipeline of about a dozen potential CEO successors by starting early, intentionally including leaders from underrepresented backgrounds — including very high-potential leaders three or more levels down — and focusing on development. As part of the process, leaders are tasked with challenging roles that provide a platform for their growth and development. Because of the CEO's intentional effort to build a diverse pipeline, five or six years in the future when the successor selection process is underway, the board will likely have several proven leaders who are female and or from underrepresented groups to choose from.

Beware tokenism and the “status quo effect”

Those involved in the selection process must rigorously and intentionally manage the diversity of the leadership pipeline or candidate pool right up through selection. University of Colorado researchers found² that when a single member of a different group is added to a hiring pool of like candidates — for example, one woman in a slate of three male candidates — there is zero probability that the outsider will be selected. The team postulated that the presence of a single member of a different group emphasizes the “otherness” of the candidate and signals tokenism. However, the presence of two or more members of the different group(s) in the candidate pool creates a new status quo, normalizing their presence in the process and materially increasing the odds that all candidates will be fairly evaluated and the likelihood that someone with the nontraditional background will be selected.

Maintaining a truly diverse set of talent options throughout the process not only mitigates this “status quo effect,” it also serves at least two other significant purposes:

- » A rigorous process imparts to employees and stakeholders the seriousness of the enterprise's commitment to diversity, equity, inclusion and excellence.
- » It puts the successful candidate on notice that the enterprise requires an expansive view on talent and potential. Once they assume the mantle of leadership, it is incumbent upon them to continually improve the talent pool.

This requires those leading the search or succession process to leverage proven, objective tools to assess experience and potential and to proactively combat biases.

² “If there's Only One Woman in Your Candidate Pool, There's Statistically No Chance She'll be Hired” by Stefanie K. Johnson, David R. Hekman, and Elsa T. Chan. Harvard Business Review. April 26, 2016.

4 Balance critical career experiences with assessment for potential

The first step is to articulate a clear and sharply defined description of the role, incorporating the goals and ambitions of the organization based on a future-looking vision for the business and the competitive landscape.

It is important to be clear about what is — and what is not — a requirement for success in the CEO role. For example, there can be a tendency among boards to use experience in a certain industry or company as a proxy for specific skills. Selection for experience

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Delineating the specific experience that is necessary versus what might be nice to have opens the slate to high-potential leaders who may bring perspectives and experiences that are valuable for the future state of the business. We know from our research that boards can have a bias in favor of prior CEO experience

when selecting a new CEO. The share of S&P 500 CEOs with prior experience has grown from 4 percent to 16 percent since 1997. While many directors view the ability to increase shareholder value as a primary benefit of experience, our analysis showed no premium for prior CEO experience after the first four years. First-time CEOs produced higher market-adjusted total shareholder returns over their tenure, led three years longer on average and with less volatility in performance than CEOs with prior CEO experience. Freed from the conventional wisdom that experience is always better, boards and other hiring leaders can focus their selection on the most critical capabilities, mindsets and areas of potential needed for the role based on the desired outcomes and specific business context.

With a well-defined understanding of what is needed in the future leader, boards can fairly assess all likely finalists against the critical leadership criteria and evaluate the potential tradeoffs. One important lens to include in an executive assessment is potential. Our CEO research finds that the ability to adapt, learn and adjust is critical for top leaders today — whether they are serving in the role for the first time or have prior experience. Leadership attributes including agility, humility, empathy, resilience, adaptability and the capacity for judgment and decision-making in unfamiliar and ambiguous circumstances are essential leadership traits for responding to new challenges and ongoing disruption. Agility and potential, however, are less likely to be developed in traditional talent development approaches and more difficult to assess, so organizations may need to turn to an external partner with assessment tools that target potential. A robust and well-structured assessment approach that incorporates several rigorous, objective methods will provide multiple perspectives on executives and can help the board identify key indicators of potential and incorporate these insights into their succession discussions.



Mitigate bias through education and vigilance

Be aware of bias and the potential for bias in the succession process. Small and often unconscious biases can add up and adversely impact the diversity of the pool at each successive phase of a search or succession process. This ultimately makes it less likely that someone outside the status quo group will be selected in the succession process. Unconscious bias creeps into discussions at all levels of the organization. For example: *Will a woman be able to deal with an “aggressive” stakeholder base? Does she have the “stamina” to lead? We’re a traditional company, is this person really a cultural fit?* A multimethod assessment incorporated into the succession process minimizes opportunities for bias in candidate selection. An explicit discussion about or training in implicit bias is also recommended as it places the hazard of biased selection front and center in the process. Finally, directors must be willing to challenge faulty assumptions in the moment and, with the proper awareness and training, they will be confident to do so.

Support for success

Finally, since no one is ever entirely ready to be CEO, boards, outgoing CEOs and CHROs managing the selection of a new leader should identify the support that new leader will need to be effective. The traditional lack of access may create some experience gaps for women and people from other underrepresented groups that can be addressed through development, coaching or other kinds of opportunity or support.

Once the new leader is in place, this person will bring to bear a set of experiences and acculturation which may not be familiar to the existing C-suite and board. In the worst of circumstances, this can result in an “othering” of the new leader. A more conscientious outcome is to recognize that every leadership change results in cultural change. By maintaining intentionality on the changing norms and awareness of the potentially different style of the new leader from an underrepresented group, the board and C-suite leaders can better engage change as they should, as part of a natural organizational and leadership evolution.



Change is a constant today, requiring organizations to bring to bear a diversity of background, skills and perspectives to maximize the odds of success. Running a dynamic process to discover and develop your company’s next CEO means setting the stage for and building a pool of diverse talent so that the odds of finding the right future-state leader increase in the organization’s favor.



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