



HOW DO YOU PREDICT CEO SUCCESS?

The Case for a New Succession Planning Approach

Embracing the fiduciary responsibility placed on them after Sarbanes-Oxley, corporate boards have made great strides in CEO succession planning, adopting more sophisticated and nuanced processes and devoting more attention to their companies' talent management programs. As a result, more organizations are in a position to promote an insider into the CEO role, and, in fact, roughly 80 percent of new S&P 500 CEOs in the past five years have come from inside the company.

While boards today invest more time and attention into succession planning, current efforts too often produce generic, high-altitude strategic mandates, such as “get revenue growing again” or “restore operating margins,” and CEO profiles calling for qualities such as influencing skills and global fluency. These qualities are undoubtedly valuable, yet by themselves, they do not provide the necessary precision to evaluate succession candidates and understand their developmental needs — or, ultimately, to make distinctions between otherwise strong CEO candidates. In short, current approaches do little to define success for the next CEO or the capabilities that will be essential for leading the company in its next phase.

The lack of precision can be seen in several areas:

- > The articulated strategy is too rooted in the present and often includes status quo assumptions, rather than taking a view of where the company needs to be in five to 10 years.
- > The criteria for the future CEO are not based on a deep, analytical review of the company's financial performance versus industry peers; nor are they tied to the strategic, organizational and operational levers that the next CEO will need to employ.
- > Evaluations of succession candidates often are loose and relative to the roles executives are in today rather than mapped to the future. Complicating matters, predicting the likely success of internal succession candidates is even more challenging because the CEO role is vastly more complex than their current jobs.

What is called for is a new, more rigorous succession planning approach that is both more analytical and more forward-looking than the processes most boards employ today.

How boards can go deeper

No process can predict with 100-percent certainty that a specific individual will excel in the CEO role or that a succession candidate will be ready when the time comes. But in an environment marked by rapid and constant change, in which risks are greater, stakes are higher and there is less room for failure, boards can ill-afford to be satisfied with current practices. We believe boards can meaningfully improve their ability to identify and groom the strongest succession candidates with a process that does the following:

■ Focuses on company performance

The foundation of this approach is a clear-eyed, unbiased analysis of the company's ability to create value as measured by total shareholder return plus the drivers that are contributing to the company's financial performance — or underperformance — compared to industry norms. This analysis can inform a forward-looking roadmap for the organization, including the specific levers necessary to improve or sustain performance. These could include invigorating the innovation pipeline, applying disciplined cost management, pursuing specific growth targets in emerging markets or building new organizational capabilities to drive organic growth.

■ Defines criteria for the next CEO based on future performance drivers

To go beyond generalities, the board has to identify the very specific effect it wants the next CEO to have on the business and define the skills that it will take to accomplish that. The board of a company delivering solid

but unremarkable returns, for example, may want the next CEO to refocus on core businesses in untapped areas and lean toward a strong operator with a track record of success in new market development. For a poorly performing company where strategy is the primary contributor to lackluster returns, the board will have to consider whether to tap a turnaround specialist from outside the company. Even a company that has delivered consistently high returns versus industry peers must evaluate how it will continue to outperform, but also find ways to innovate, drive distinctiveness and avoid the complacency that can come with success.

■ Challenges traditional assumptions about succession candidates

With more precision around the future direction of the company and the leadership skills that will be required to execute against that strategy, boards will have to reflect carefully on the range and depth of the company's likely internal succession candidates — and consider whether changes in strategy, the nature of competition or customer behavior suggest the need to look at a wider group of candidates both inside and outside the company.

For example, boards may have to weigh experience in the business against other capabilities. For a struggling company or one for which the board has determined new skills are required, traditional succession candidates — typically the CEO's direct reports — may not have the necessary frame of reference or skill-sets. In industries highly affected by technology or globalization, candidate profiles may skew toward the ability to operate with incomplete information and take risks based on an intuitive understanding of where markets are going — traits related to critical thinking, judgment, decision-making and social intelligence — what we call Executive Intelligence.

■ Assesses succession candidates with a forward-looking lens

An organization's ability to predict CEO success also requires a frank view of candidates' readiness, including an understanding of their development needs based on the future direction of the company, and the likelihood of their being able to close those gaps suitably and in a reasonable amount of time.

Specifically, assessments should review candidates' track records delivering against the same strategic and operational levers that the next CEO will be required to pull, drilling down into the specific contributions individuals have made in the businesses they have run. A rigorous review of an individual's competencies, including the observations of others who can validate their performance in current and past roles, can reveal whether candidates have the relevant experience.

However, it is not enough to look at past accomplishments; boards should strive to gain an understanding of candidates' analytical capabilities, social intelligence and self-awareness — all skills that speak to an individual's Executive Intelligence and ability to succeed in more complex and demanding contexts. We have developed a proprietary approach to measuring these capabilities and found a distinct difference between people who may appear to have the necessary experience and those who possess the Executive Intelligence traits that are so critical for succeeding in the CEO role. In fact, CEO-ready candidates score a quartile higher on Executive Intelligence assessments than other senior executives.

Conclusion

Even as they adopt a more thoughtful succession planning process, boards should remember that no one individual can meet every requirement in equal measure; tradeoffs will be necessary. Boards will be in a better position to navigate these tradeoffs, and increase the odds of a successor coming from within, if they have defined success for the company — and the CEO — through a rigorous review of the performance of the company, its strategic imperatives and the necessary capabilities for the next CEO.

About Spencer Stuart CEO Succession Services

Spencer Stuart has extensive experience advising organizations and helping them prepare for a range of scenarios, from long-term controlled succession to emergency succession.

Our experience with best practices, our market knowledge and widespread access to leadership talent combine to make us a valuable partner for boards, chief executives and HR leaders committed to CEO succession planning.

We often act as a catalyst for boards to rethink or enhance their succession strategy. We take a dispassionate view of all available options, whether a client is considering internal talent alone or also seeking comparative assessment through external benchmarking.

Spencer Stuart works with clients across almost all aspects of the succession planning process including:

- > Developing the succession planning approach and process
- > Defining the future CEO requirements
- > Working with HR directors to assess internal talent and advise on development plans
- > Benchmarking internal versus external talent
- > Articulating plans across both the short and long term
- > Updating assessments and plans over time
- > Search
- > Transition counsel

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