POINT of VIEW

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Privately held since 1956, we focus on delivering knowledge, insight and results through the collaborative efforts of a team of experts — now spanning more than 60 offices, over 30 countries and more than 50 practice specialties. Boards and leaders consistently turn to Spencer Stuart to help address their evolving leadership needs in areas such as senior-level executive search, board recruitment, board effectiveness, succession planning, in-depth senior management assessment, employee engagement and many other facets of culture and organizational effectiveness. For more information on Spencer Stuart, please visit **www.spencerstuart.com**.

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From our CEO

Digital disruption, growing complexity and risk, and the accelerating pace of change — all of these forces have raised the stakes for boards and top leadership teams. They also spur new questions about the nature and impact of leadership, and the roles of culture, engagement and diversity in the success of businesses and other organizations.

Our new issue of *Point of View* explores some of the questions about leadership and culture that we hear more often today from our clients, especially related to making more informed leadership selection decisions, developing more effective top teams, increasing diversity and fostering cultures that support new strategic priorities — rather than serving as an obstacle to change.

Specifically, we examine how CEOs can unleash the power of the top team, highlighting seven questions CEOs can use to start thinking about what's working and what's not in their team. We look at the lessons from successful mergers — and those that failed — about how to get merger integration right, particularly the role of culture. We examine the findings from our survey of top women leaders, identifying four takeaways for increasing gender diversity.

We look at why boards are more likely today to select CEOs with prior board or CEO experience (and the link between experience and performance), and why more organizations are assessing for culture adaptability as well as culture fit. We also identify the traits that boards can look for to assess whether someone with no board experience has what it takes to contribute effectively in the boardroom.

On behalf of all of us at Spencer Stuart, I hope you find articles in this issue of *Point of View* that spark an idea or highlight a useful insight. As always, we welcome your comments.

Best regards,

Ben Williams
Chief Executive Officer
Spencer Stuart

Why Your Team's Not Working: How CEOs Can Foster World-Class Leadership Teams

How do I unleash my team?

For the CEO of a regional utility company, this question was central to her vision for transforming the company. As in many industries, companies in the sector face growing pressure to become nimbler and more customer-centric in the face of emerging competition. Transforming the organization to meet these challenges required new rules of engagement for the leadership team. Instead of silos, they needed coordinated effort. Instead of independent initiatives — "different chapters of the same book" — they needed a shared understanding of the vision and priorities for the business and a clear sense of how the work of individual departments and businesses tied together.

As the business environment gets ever-more complex, competitive and faster-paced, more CEOs are recognizing the importance of having the right people in the top team working together toward the same goals. In the case of this utility company, the leadership team embarked on an initiative to improve their effectiveness, agreeing on their vision and strategy and identifying their shared priorities and responsibilities. As they became "better together," leaders were no longer concerned solely with "my area;" the team evolved to be more engaged, interdependent and collaborative in pursuing overarching organizational objectives.

Think of a highly coordinated top team like the effect of a large stone dropped into a lake: it has a strong ripple effect throughout the organization, enabling people at all levels to focus on the right things for the business.

But, while there is greater recognition of the importance of having a well-functioning top team today, there's a good chance any one executive team is not high-performing. Only one in five is, according to some research.[1] Fostering an effective team can be hard, because it involves managing people — typically with a variety of personal styles and motivations — and getting them aligned and focused on the right things. As one CEO told us, "For the first time in my career, I feel the need to look behind, to see if people are following me."

1 Wageman, Ruth; Nunes, Debra A.; Burruss, James A.; and Hackman, J. Richard. Senior Leadership Teams: What it Takes to Make Them Great. *Harvard Business Review Press*. 2008.

The CEO plays the ultimate role in cultivating a high-performing team by creating the conditions that allow the team — and the larger organization — to work together toward shared objectives. CEOs with high-performing teams take responsibility for the development of the kind of team the organization needs to achieve its strategic aspirations. Here are seven questions CEOs can use to start thinking about what's working and what's not in their team.

- Do we have a clear vision and mission?
- What kind of leadership team does our business need?
- Do we have the right people?
- Does the team hold one another accountable for shared responsibilities?
- Do we make decisions and stick with them?
- Are we making the most of meeting time?
- Are we better together?

Do we have a clear vision and mission?

A startup biotech company amassed a virtual dream team of seasoned industry executives to help develop a new drug and bring it to market. But even a collection of superstars will struggle to do all the things they need to build the company — from defining a set of values for the organization and fostering a culture that engages and inspires employees, to pitching investors and communicating with regulators — without explicit agreement on the company vision and mission.

As one CEO told us after taking her team through the exercise of defining their vision and mission, "The bigger we think, the easier things tend to get." Carving out time to consider the big picture opens the team up to all kinds of different possibilities — unexpected partnerships, creative solutions to vexing problems — that might never emerge when the team is caught up in the internal day-to-day issues that narrow their perspective.

CEOs often assume that the vision and mission of the senior leadership team are self-evident, but it is not unusual for different executives to have varying views on the team's purpose. When the specific role of the team in achieving business goals isn't explicitly stated — and translated into objectives for each member of the team — it can slow decision-making, cause teams to work at cross-purposes and make it harder to get the right things done.

Diagnosing your top team

Do we all understand and are we all committed to the direction we are taking?

What kind of leadership team does our business need?

Teams can be more like golf teams — where individuals compete more or less individually and their scores are tallied — or like American football teams, where action is highly coordinated, and if one person misses an assignment, the play will fail.

The golf team model can be appealing because it's clear: everyone has a specific job, things get done, and it's easy to see each person's "score" based on the performance of the parts of the business the individual is managing.

Today, however, more unity and collaboration among management teams are required. Market forces require that organizations be able to change very quickly and they can't do that working in silos.

The highest-performing leadership teams recognize their shared responsibility in reading the external context for the business and shepherding the organization to get the outcomes their strategy requires. Together, they set direction and strategy and help define and role model a culture that supports the strategy. They do this through the people they lead and the processes and structures they establish. They also keep an eye on the organization's informal routines and communications to make sure they are helping to drive the right outcomes.

Diagnosing your top team

Are we looking in the same direction?

What degree of coordination and communication do we need based on the external environment and the challenges the business is facing?

Do we consistently perform well?

Do we have the right people?

The new CEO of a South African insurance company recognized that conflicts on his team were keeping them from working together on some key priorities. That this group would have disagreements and misunderstandings wasn't altogether surprising, given that the leadership team had been assembled from the combination of formerly separate companies and included a mix of expats and locals. The CEO suspected that the team's problems stemmed from lingering mistrust between groups of different backgrounds. Our diagnostic revealed something quite different: in fact, regardless of their background, executives on the team were frustrated about the underperformance of one person that wasn't being addressed.

It's not uncommon for CEOs to underestimate the disruption caused by the behavior or underperformance of a few people on the team. CEOs may over-focus on individual outcomes rather than the leadership behaviors that affect team responsibilities and dynamics. They may lack visibility into who is carrying more than their share of team responsibilities, or who is regarded as a less reliable player by their peers. Or they may not have a good sense of what best-in-class looks like in individual functional roles, especially those who have spent their entire careers in one organization.

Members of the top leadership team not only should be experts in their domain, but also be able to contribute credibly to key business issues outside of their specific area of expertise. CEOs should make sure they understand the strengths and weaknesses of individual team members and how their styles help or hinder the collective work of the team. Executive assessments, including external benchmarking, and a team diagnostic can surface weaknesses in capabilities, problematic behavior or differences in work styles and communication styles that can be addressed.

Diagnosing your top team

Are we clear who is part and not part of the team?

Do we have the right people in the right roles on the team?

Do we have a diverse set of inputs into our team?

Does the team hold one another accountable for shared responsibilities?

Finding ways to bring the team together around a shared goal — such as culture change or long-term "blue sky" planning — can reinforce the leadership team's shared responsibilities...

Every member of a CEO's team is responsible both for their specific operational or functional area and the enterprise-level responsibilities they share as a team. But teams sometimes don't explicitly define the aspects of the organization that they will co-own and co-create or hold themselves accountable for making progress on these shared responsibilities. Other times, teams over focus on short-term priorities to the exclusion of the long-term vision they should be working toward together.

Frustrated that the organization wasn't making progress on key business priorities, the CEO of an energy company determined that members of his team were more focused on their respective areas and individual agendas than their shared responsibilities. He decided to use a culture change initiative to help align the team, assigning each person as a sponsor for specific projects requiring collaboration across the business — such as increasing agility in the organization and improving cross-functional interactions.

Finding ways to bring the team together around a shared goal — such as culture change or long-term "blue sky" planning — can reinforce the leadership team's shared responsibilities and provide a platform for team members to agree on how they will individually support the enterprise goals. The CEO's role is to ensure the team remains anchored to the longer-term vision and how to get there, even as they tackle short-term goals.

Diagnosing your top team

Are we aligned on the most important responsibilities?

Do we make decisions and stick with them?

The best teams actively debate issues and then come together to work toward what was agreed upon. Some teams, though, don't fully deliberate — sometimes because leaders avoid challenging their peers, choosing to "pick their battles," and sometimes because of behind-the-scenes agreements not to challenge one another's projects. On other teams, too much time is spent driving consensus without coming to agreement. The CEO's role is to make sure that diverse perspectives are heard and that debates lead to decisions.

Once a decision is made, the team is responsible for carrying it out. Some organizations have trouble making progress on enterprise-level initiatives because team members "re-negotiate" the decision behind the scenes. They drag their feet on change, and, with a wink and nod, maintain the status quo. More effective teams encourage rich debate about issues, but once a decision is made, team members are committed to defending and carrying out the decision, both publicly and privately.

All eyes are on the management team, so dissent or a lack of commitment to a decision at the top team level cascades through the organization, crippling its ability to act. The team should role model and embody the direction they have agreed to take and collectively agree on how they will communicate the decision to the organization, considering questions like: How are we going to talk about the key objectives outside of this room? How will we respond to specific questions or concerns? What are the practical implications of this decision for my business unit or function? What will we do — or stop doing — to model the behaviors we want to encourage?

Diagnosing your top team

Do we handle disagreements and conflicts constructively?

Do we remain united even when we disagree?

Do we support each other to outsiders?

All eyes are on the management team, so dissent or a lack of commitment to a decision at the top team level cascades through the organization, crippling its ability to act.

Are we making the most of meeting time?

A common complaint about teams is that meetings become platforms for updates on individual functional and business unit results or devolve into lower-level problem solving. In more command-and-control style teams, for example, team members may wait for the CEO to signal his or her view. Or they are reluctant to raise concerns in a group setting, and a "you leave my turf alone and I'll leave yours alone" mentality emerges.

Some CEOs are comfortable with the go-around-the-room approach to meetings, believing it helps shine a light on problems the team is having. But this approach can waste an enormous amount of energy and encourage politicking, as individuals scramble to prepare their updates and practice in anticipation of every possible challenge.

Ideally, team meetings provide an environment where leaders can raise questions about key team issues, ask for help solving the problems they're facing and focus on the work that only they can do — cross-enterprise direction-setting, resource-sharing, prioritization and road block removal. Everyone's engaged and contributing, and the team is drawing on all the minds around the table. The CEO's role is to set the agenda for their meetings, keep discussions focused and make sure they lead to decisions, and ensure that there are agreed-upon norms for meeting behavior, such as attendance, participation and even cell phone use.

Diagnosing your top team

Do we all attend meetings and stay until the end?

Do we make good use of our time together?

Are we better together?

High-performing teams bring out the best in one another. They work in concert on shared goals and priorities. Individuals on these teams trust one another, communicate effectively and deal with conflicts constructively.

Teams build trust not just through familiarity — knowledge gained over time about one another's personal preferences, styles and how they'll react in certain situations — but by the willingness to be vulnerable within the team. Individuals feel safe sharing thoughts and doubts without fear of criticism or backlash. Low-performing teams have an atmosphere of distrust and cynicism; they feel restrictive and there is no multiplying effect where the sum is greater than the parts.

High-performing teams also interact differently from lower-performing teams. On high-performing teams, individual leaders balance advocacy — pushing individual points of view — with inquiry, listening to and building upon the opinions and ideas of others. They are outward looking — focused on clients, markets and competitors — and prioritize the needs of the overall business over their individual department or business unit. For example, a leader might be willing to give up head count in his or her own department to serve a greater business purpose. They also use much more positive than negative language, and they don't slip into bad habits when challenges arise or they are under increased pressure.

CEOs help create this environment by inviting the team into the dialogue. They model an open, transparent way of interacting, putting issues on the table, openly discussing the wins and the challenges of the business as a whole and its individual parts. They provide opportunities for the team to get to know one another on a more personal level and build trust. They have a pulse on interpersonal dynamics and how individuals on the team are feeling. CEOs also should consider how their leadership style affects these team dynamics, being willing to adjust the style based on the situation.

Diagnosing your top team

Are we able to give constructive criticism and feedback to one another and to accept it ourselves?

Are we good at making sure that everyone knows what's going on?

When one of us is under pressure, do others offer to help him/her?

Do we trust each other?

Do we feel supported?

Conclusion

High-functioning senior teams that are aligned behind a clear vision and mission for the business have a multiplying power. Their influence radiates throughout the organization, influencing the decisions, behaviors, engagement and work of people at every level. CEOs should consider what kind of team they need for the business and how to foster the environment that makes that kind of team possible. Finally, fostering a high-performing team is a continual process, requiring ongoing coaching, regular interactions, and clarity of purpose and mission.

The myths that can hurt team performance

Myth	Reality
If everybody in this room does their job, the business will be successful.	Focusing solely on individual performance can perpetuate silos and prevent cross pollinating of ideas and information.
We are a team because we call ourselves a team.	Teams underestimate the need to define their membership and purpose. Teams should be defined by their strategic purpose and have a clear mandate.
A team full of A players is an A team.	Research finds that individual excellence does not necessarily translate into team excellence. Factors such as alignment on shared purpose, trust and the nature of the team's interactions make a team more than the sum of its parts.
A workshop will solve everything.	Fostering a high-performing team is multifaceted and requires ongoing attention.
It's all about trust.	Increasing familiarity and trust among team members is important, but their work must be rooted in a shared understanding of the strategic needs of the business.

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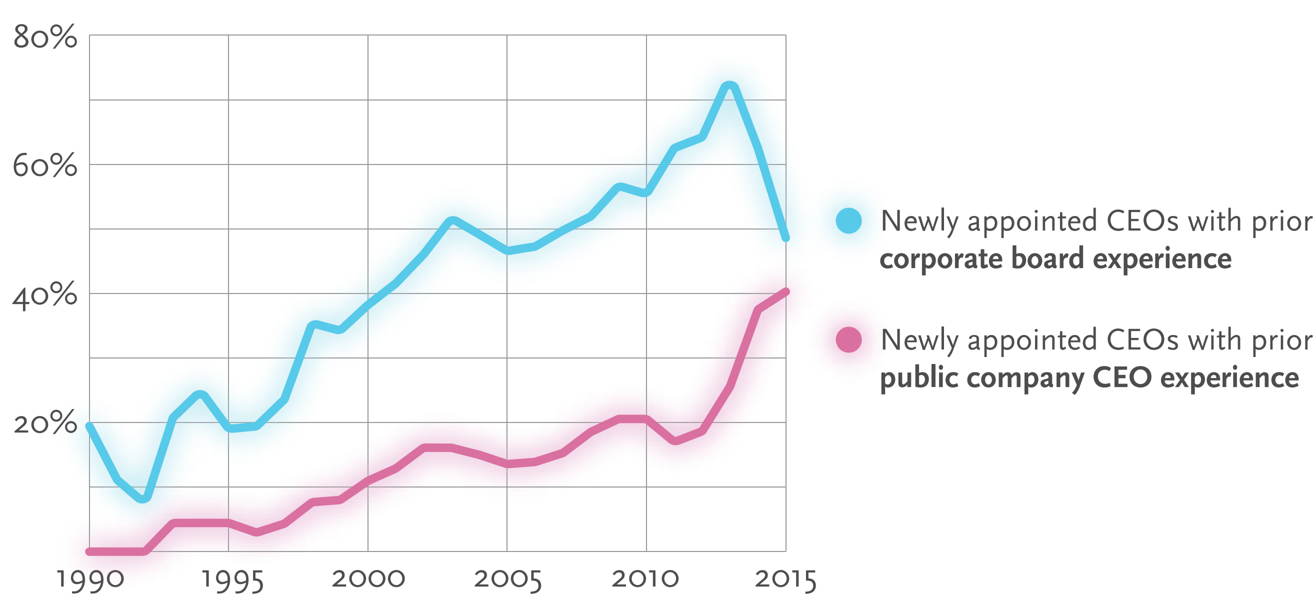
Prioritizing Experience

With the Stakes so High for Selecting the Right CEO, Are Boards Looking for a Safer Bet?

CEOs today face more pressure to perform quickly and more scrutiny from boards and shareholders when performance lags. The cost of CEO failure is high in missed opportunity, poor employee morale, lost customers and poor shareholder returns. Quantifying the costs of poor CEO performance, PwC estimated that forced CEO turnover globally costs shareholders $112 billion in total returns annually.[2]

As the stakes for CEO success have increased, we find a growing preference in our CEO search and succession work for prior board or CEO experience as selection criteria. New research confirms these observations from our client work. We analyzed the backgrounds, tenure and performance of 736 S&P 500 company CEOs who left office between 2004-2017. Before the 1990s, few CEOs had previously served as a public company CEO before moving into the role. That started changing in the mid-1990s, when the number of CEOs with prior CEO experience began to increase steadily. By 2015, 40 percent of the CEOs in our S&P 500 data set had prior CEO experience. In the same time frame, the number of new CEOs with prior public company board experience increased from less than 20 percent to more than 70 percent at its high.

Incoming CEO Backgrounds
(3-YEAR ROLLING AVERAGE)



2 Annual study of CEOs, Governance, and Success. Strategy&. 2015. https://press.pwc.com/News-releases/a-forced-ceo-turnover-costs-a-large-company-1.8b-more-in-shareholder-value-than-a-planned-turnover-a/s/59500595-0618-4863-9550-212c4da3d19d

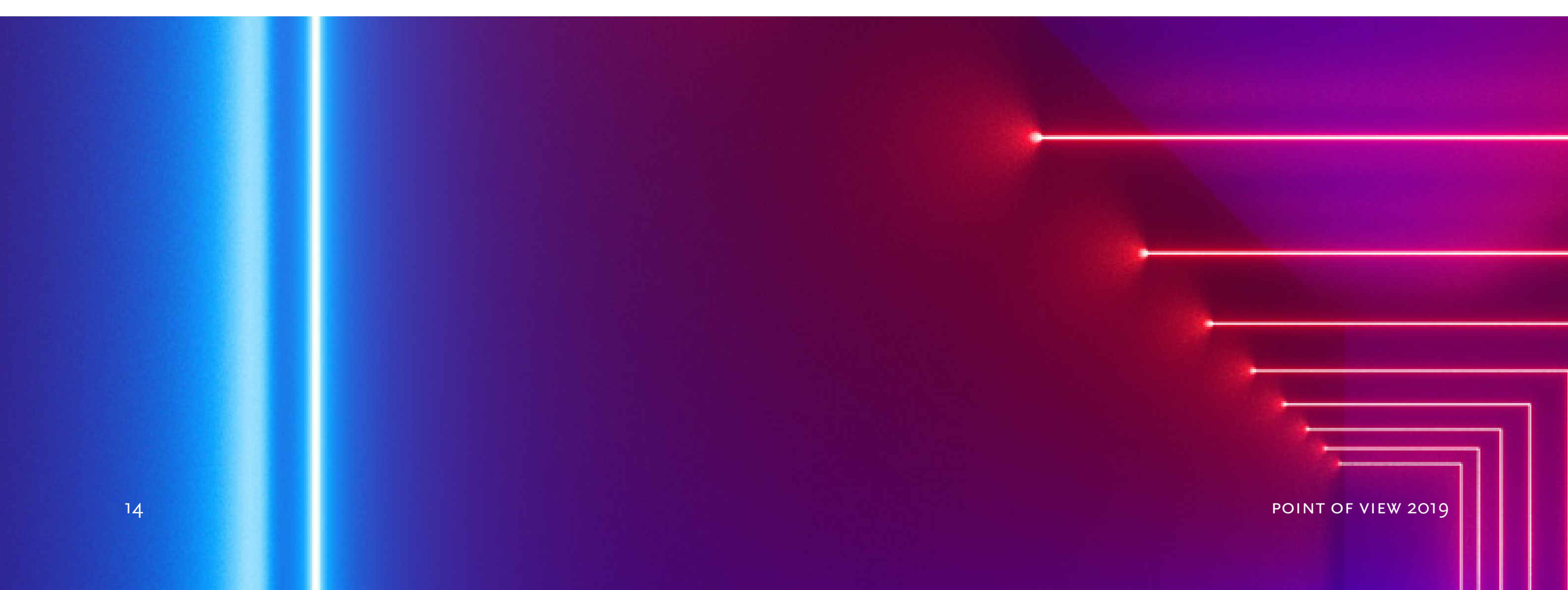
Common sense suggests that more experience is better, but is it? While boards appear to be showing a growing preference for these backgrounds, our study found no discernable link between prior board or CEO experience and greater total shareholder return (TSR). If value creation is not driving this trend, what is? Several developments — both on the supply and demand sides — help explain this phenomenon.

Changing board composition. Board demographics have changed dramatically in the past 20 years, particularly after the passage of the Sarbanes-Oxley Act (SOX) in 2002, increasing the supply of senior executives with board experience. As both the CEO job and board service grew more challenging, CEOs accepted fewer outside corporate board roles. Boards broadened their recruiting profiles in response to this shift and other demands (e.g., the desire to increase diversity in the boardroom or the need to add digitally savvy executives to the board).

With CEOs opting out — the percentage of new S&P 500 directors who were sitting CEOs fell from 53 percent to 19 percent between 2000 and 2018 — retired CEOs partially filled the void. Most of the remaining gap was filled with active and retired C-level executives. This group accounted for just 6 percent of new S&P 500 directors in 2000 versus 21 percent in 2018. Because board service is often seen as a valuable development experience for aspiring CEOs, many senior executives view board seats as an important career step.

While boards appear to be showing a growing preference for these backgrounds, our study found no discernable link between prior board or CEO experience and greater total shareholder return (TSR).

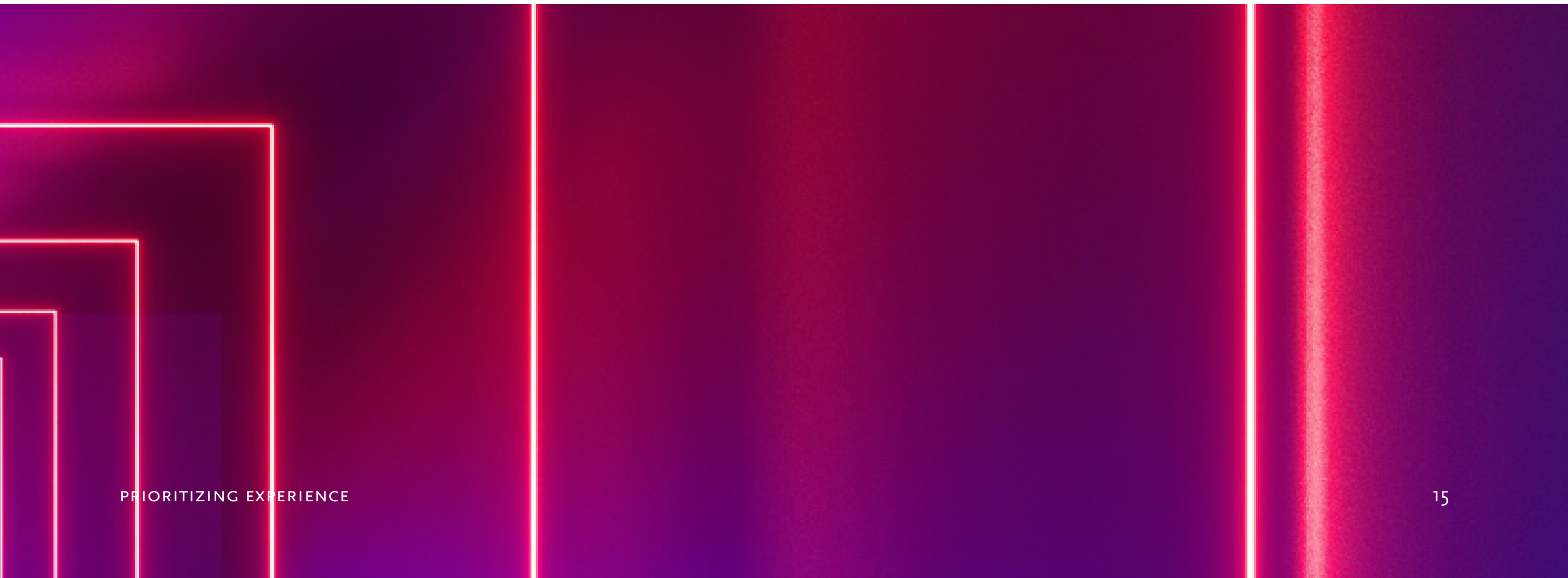
Changing perceptions about CEO longevity. Many boards are thinking differently about structuring the CEO role. For example, some boards may consider hiring CEOs for specific “chapters” or business needs, rather than viewing every CEO in terms of long-term legacy-building. Similarly, directors today are more comfortable with CEOs serving beyond age 65, for example, assuming a 60-year-old could serve seven or eight years as CEO.



Hitting the ground running. To supplement our research, we surveyed 48 experienced directors to better understand their views about the value of prior experience in CEOs. Nearly two-thirds (65 percent) agreed that prior CEO experience is valuable or extremely valuable, and 52 percent said the same about prior board experience. Directors viewed these backgrounds as providing new CEOs with a head start in areas such as communication with the board, governance perspective, pattern recognition, exposure to other functions and industries, and managing risk.

A safer bet. It's widely recognized among directors that there is a wide gap between the CEO and executives even one level down in the scope of the job and the required skill set. While most directors responding to our survey equated experience more closely with value creation, others viewed prior CEO experience as a factor in minimizing the risk of failure. This is hardly surprising given our human tendency to assume that someone untested in a role is more likely to fail than someone who has done it before, especially when a new role represents such a significant leap. And, given the pressure from activist investors, directors can be sensitive not only to performance risk — the possibility that someone without prior experience could fail — but also reputational risk — the potential for a negative market reaction to the hiring of an unknown and untested leader. This is one reason executives who have already built credibility and a strong reputation in the investment community are highly prized.

Assumptions about value creation. We found a strong correlation between directors who considered prior experience valuable and their belief that prior experience is important for increasing shareholder value. Directors who value these backgrounds — especially prior CEO experience — do so in large part because they view a past track record of value creation as predictive of future value creation. Directors express similar views in our work with clients. Boards that articulate a preference for prior CEO experience, especially in companies that are struggling, want candidates who can "hit the ground running." They expect that experienced CEOs will require less on-the-job learning: CEOs who have "done it before" should be able to quickly evaluate the situation and understand the levers to pull to make meaningful short-term and long-term change. The fact that we see no difference in value creation between CEOs with these backgrounds and first-time CEOs suggests that boards may be undervaluing potential.



Understanding when experience matters

CEOs who have "been there, done that" don't necessarily create more shareholder value, our research shows. So, when considering CEO candidates with prior CEO or board experience, it's important to do the following:

Consider the context. Success in one situation does not necessarily translate into success in another context. That's why it's important for boards to look deeper into CEO candidates' experience to understand how the circumstances in which they were successful correlate to what is needed in the current situation. The objectives for the role — whether the CEO needs to lead a turnaround, for example — represent just part of the context that should be considered. The context includes the external business environment, strategy, culture, organizational complexity and stakeholder expectations. For a business facing a changing competitive landscape, getting the strategy right may be the main business challenge that a new leader will need to address. Culture may be the primary business challenge for an organization that faces a war for talent and needs to improve employee engagement and loyalty. Only after carefully defining the business challenge, including the underlying conditions in which executives will have to lead, is it possible to understand what kind of leader is needed. Clearly, boards are responsible for leading this process, which serves as a basis for assessing CEO search or succession candidates.

Watch your biases and assumptions. Making assumptions about an individual's capabilities based on their experience or treating past experiences as a proxy for success can lead boards astray. We know of one example in which the board selected a fellow director as CEO in part because directors were hoping for more transparency and openness in the board/CEO relationship. Despite the CEO's past experience as a board director, he struggled to build a transparent, open relationship with the board. Boards should be explicit about why specific experience or capabilities are important and assess candidates against them. They also should assess executives' capacity to stretch, learn and adapt to new challenges and environments, which is important whether the person has prior CEO experience or is making the leap into the CEO role for the first time.

Understand candidates' drive and motivation. The job of CEO is difficult, and becoming more challenging all the time. Some CEOs might take another CEO position assuming it will be easier the second time, but our research indicates that there is no reason to believe this is true. Every role is different, and the CEO has to be prepared to be a beginner again, in mindset and energy. Even when a CEO has led an organization with similar business challenges under similar circumstances, boards will want to consider whether the person has the energy and motivation for the new role, and for what period of time. Do they have a compelling vision for the new business? Are their personal circumstances now the same or different? Are they as ambitious as they were?

Conclusion

CEOs today are more likely than in the past to have prior CEO or board experience. It's natural that boards would see value in these experiences, especially in giving CEOs an edge in communicating with the board, understanding board governance, managing risk and recognizing patterns. Our analysis of 736 complete CEO tenures, however, has found no correlation between previous CEO experience and shareholder value creation. This suggests that boards must carefully define the context in which the CEO will operate and articulate the specific capabilities, experience and leadership style required for success. What is more, they need to understand a candidate's capacity to stretch, learn and adapt, and their energy and motivation. From there, they can consider how individuals' prior experience can be specifically leveraged to address unique challenges for the role.

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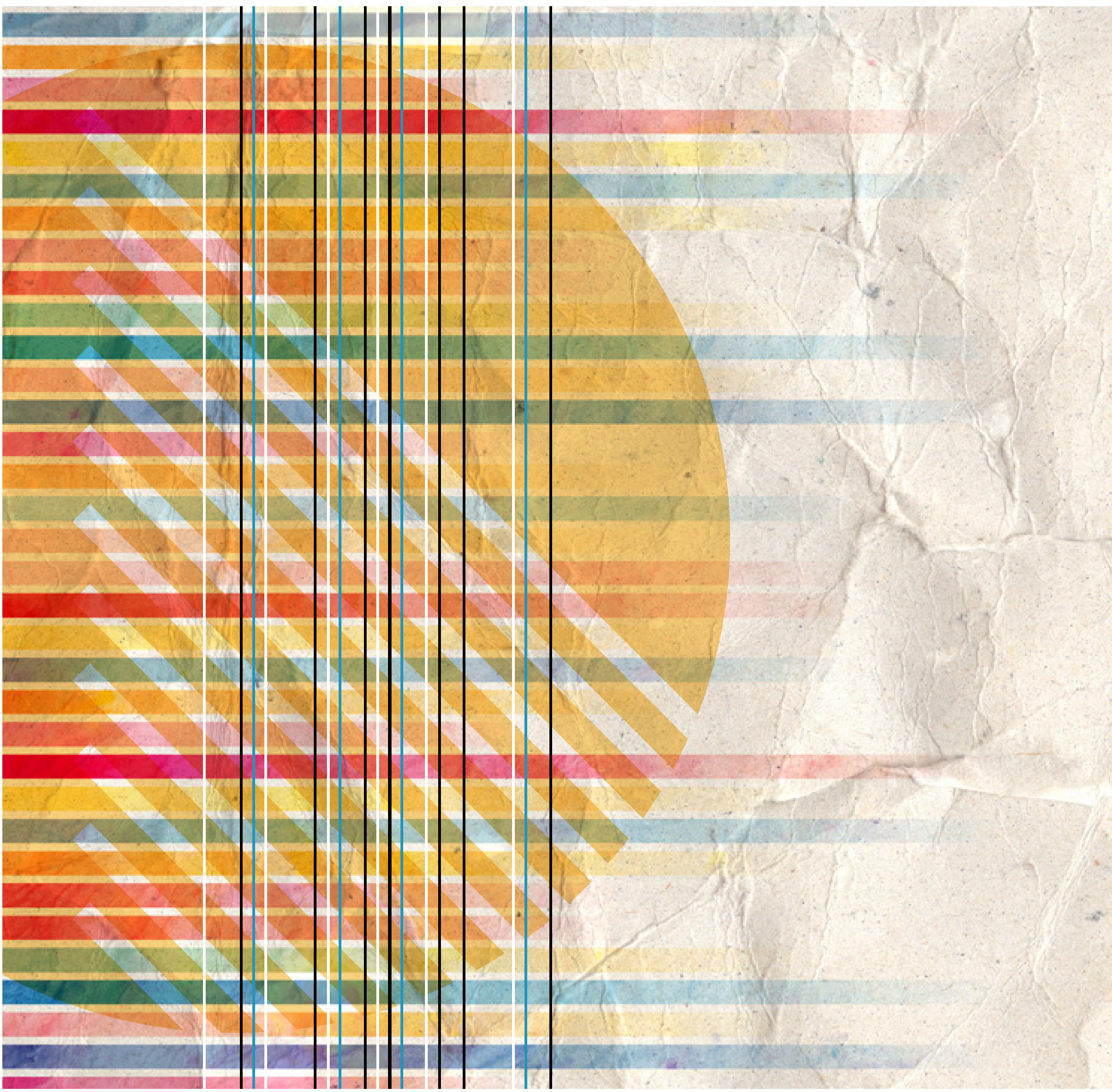
Expanding Views on Leaders and Culture

Why More Organizations Are Assessing for Culture Adaptability



For a long time, most organizations prioritized hard skills and proven experience when evaluating executives for senior-leadership roles. They looked for smart people with the right track record, with little concern about individuals' leadership styles or their impact on others. The assumption was that leaders would figure out the "soft stuff" in time.

Thinking about the right "talent equation" evolved as it became increasingly clear — and research affirmed — that capabilities alone can't predict whether someone can be successful in a position or organization. Attitude, motivations and leadership style are just as critical, if not more so, to how a person performs in a role. Recognizing this, organizations began to focus on culture fit and how individuals might relate to the culture and interact with others.

A new wave of research aided by novel "big data" approaches suggests that organizations should adopt an additional lens when assessing individuals for key roles: culture adaptability — how well a person can recognize culture traits and adapt to a style that's different from their own.

Thinking about the right "talent equation" evolved as it became increasingly clear — and research affirmed — that capabilities alone can't predict whether someone can be successful in a position or organization.

Why culture adaptability? The limits of culture fit and the need for more diversity

Interest in culture adaptability has increased as more organizations prioritize culture change and recognition grows about the risks of too little team and cultural diversity.

Because of the rapid pace of change in the business environment, it's often the case that business leaders want to evolve their culture in some way, typically to a culture that is more future-focused and strategically aligned. In our work with clients, it is very rare to come across a client who says, "We have exactly the culture we want and don't want to change it." In fact, looking across 400 companies whose culture we have assessed, 95 percent of organizations showed a preference for a more flexible culture than they have today.

In these cases, finding leaders who fit the current culture is not the goal. Evolving the culture requires having leaders in key roles who explicitly don't fit the current culture, but more closely align with the culture the organization is trying to foster. A company undergoing a digital transformation for example, may want a change agent who can model a more inquisitive, adaptive, bold and action-oriented culture. Other organizations simply see value in increasing the diversity of styles — "culture adds" — who can reduce the amount of sameness and groupthink — which in turn has benefits to innovation and complex problem-solving.

The concept of "culture fit" itself has taken on more ominous undertones for some because of the way fit has been defined in many assessment approaches. In their push to assess for culture fit, some organizations defaulted to evaluating individuals in terms of the similarities in their backgrounds or interests to others on the team — does the person play golf, come from the same Ivy League school or have mutual friends, for example — which research has shown does little to get at real culture fit and reinforces biases in the hiring process.

But the studies also suggest that overemphasizing culture fit — as opposed to culture adaptability — could cost organizations some of their most effective leaders.

A new body of culture research

Even when assessments of culture alignment are research grounded and avoid those measures of "sameness" that reduce diversity, there is growing recognition of the value of culture adaptability, fueled in part by the rise of new techniques for researching culture. These include tools to analyze language use in emails or comments on online job boards or company ratings found on sites such as Glassdoor.com.

Researchers at the Stanford Graduate School of Business and Berkeley Haas School of Business, University of California created an algorithm to examine the language used in company emails as a way to study culture and culture fit. The study[3] evaluated the emails between 600 full-time employees of a mid-sized technology company — more than 10 million in all — sent between 2009 and 2014. Researchers analyzed 64 categories of language style, including curses, expressions of positive emotion and the use of concrete imagery. They also looked at how many employees left the company, both voluntarily and involuntarily.

This research showed that culture fit does produce meaningful outcomes. One benefit of fitting the culture is that people who more closely fit the culture tend to move into management positions more quickly. Meanwhile, people who didn't fit the culture of the organization were more likely to be fired. But the studies also suggest that overemphasizing culture fit — as opposed to culture adaptability — could cost organizations some of their most effective leaders. Researchers found that the people with the best chance of success didn't fit the culture perfectly but were more adaptable; they picked up on culture differences and adjusted their leadership approach intentionally to better align with a group dynamic.

3 "Look Beyond "Culture Fit" When Hiring." Insights by Stanford Business. Walsh, Dylan. February 1, 2018. https://www.gsb.stanford.edu/insights/look-beyond-culture-fit-when-hiring

How can organizations begin assessing for culture adaptability?

The emerging insight about the role of culture adaptability in individual success within an organization has important implications for hiring and promoting. There are a number of ways to assess for culture adaptability.

Career track record. One sign that a person is more culturally adaptive is a demonstrated willingness to engage in and adapt to new environments and new work challenges, for example, taking jobs in different countries, industries or company functions. Jobs in vastly different environments test individuals' ability to broaden their way of thinking and learn from different people and new ways of working.

Capabilities. Proven leadership experience in managing organizational change in complex environments is another strong indicator of culture adaptability. This can be assessed through behavioral interviewing methods and by asking current and former team members how a leader adjusted their approach to changing situations.

Personal style preferences. Assessment tools that illuminate personal style preferences, such as Spencer Stuart's Individual Style Profile, also can signal greater culture adaptability. Leaders who are more flexible and comfortable with change — people who thrive in learning-oriented, enjoyment-seeking or purpose-driven organizations — are more likely able to have adapted their personal strengths to be different from their natural drives.

Reference checking. Seeking references from people who have worked with the leader also can provide clues about the person's own style and how they interact with others with different styles. Do others recognize their adaptability? Do they have examples when the leader adapted to another person's very different style?

Measures of intellectual agility and social intelligence. Measures of social intelligence, learning intelligence and intellectual agility can identify individuals who have high degrees of self-awareness and ability to recognize and navigate complex social environments. These traits are stronger in people who are more culturally adaptable.

As our understanding of the talent equation continues to improve, we've moved from assessing leaders exclusively on their skills and track record to incorporating culture fit. While alignment with culture remains an important consideration when selecting leaders, there are risks in overemphasizing it, particularly in a world where more organizations recognize the value of diversity and inclusion. A growing body of research demonstrates the role of culture adaptability to individual success. Organizations that are able to identify individuals who can adapt to the prevailing culture, to new culture aspirations and to other's preferred styles will be in the best position to leverage culture diversity and grow along with the business.

Author

Jeremiah Lee (Boston)

Women Leaders: How We Got Here

From Sponsorship to P&L Opportunities, C-Level Women Share the Factors That Contributed to Their Success

Line management roles are critical building blocks for senior-level general management, and can open doors to C-suite and board opportunities, including the CEO role. Market-facing P&L roles give leaders direct responsibility for leading people, strategy and operational priorities, as well as broader exposure to the business, more visibility and more risk. Because success in these roles is less dependent on having deep expertise in one area, leaders must be agile and able to "learn as you go." Serving in a P&L role earlier in one's career provides more runway to build the kinds of experiences boards are looking for when selecting a CEO. And for women aspiring to top GM roles, it provides clear metrics on performance, placing them on a level playing field with men.

Yet, we know that women get these opportunities less often than men. Women hold fewer than a quarter (24 percent) of senior roles globally, Grant Thornton[4] research found. A review[5] of female representation on executive committees of Fortune 100 companies found that women accounted for 22 percent of EC roles in the Americas, 15 percent in Europe and 4 percent in Asia. While there are more women in C-suite roles than in the past, many serve in functional leadership positions that typically do not lead to the CEO office.

To explore this topic in more depth, we surveyed 85 C-level women at S&P 500 companies about their careers, including the personal and external factors that helped them succeed and the barriers they faced. The respondents are in leadership roles one and two levels below C-level, and just over half currently have P&L responsibility.

Here are four takeaways from the survey for women and for companies striving to increase the gender diversity of their leadership teams.

4 Global Gender Balance Scorecard. 20-first. February 2018. https://20-first.com/wp-content/uploads/2018/09/2018-20-first-Global_Gender-Balance-Scorecard.pdf

5 Fairchild, Caroline. Women CEOs in the Fortune 1000: By the numbers. *Fortune*. July 8, 2014. http://fortune.com/2014/07/08/women-ceos-fortune-500-1000/

Career champions and support: ensuring women get the sponsorship they need

Sponsorship, particularly by senior male leaders, proved to be the most important external factor boosting women's career advancement. Seventy-nine percent of respondents ranked male sponsors and champions as one of the top three sources of valuable career help they received, with 28 percent saying it was the most important. As one respondent explains, "I had the good fortune to have several very strong male mentors who invested greatly in me, including by: giving me direct, and sometimes difficult, feedback that greatly increased my self-awareness; and by giving me promotions and new projects that offered me an opportunity to grow."

Sponsorship fuels career advancement in a variety of ways. Research has found that sponsors, more than mentors, provide advice for getting and succeeding in new roles, and also use their influence and connections to open doors and help the people they sponsor reach new roles. Sponsors tend to give women the confidence to take risks they might hesitate to otherwise — for example, to take a role sooner than they might feel ready, or to push out of their comfort zone to pursue a P&L role. The visible support sponsors provide also can play a role in controlling for unconscious bias and expanding women's network of relationships.

Unfortunately, studies also find that men are more likely than women to have this sort of sponsorship.[6] Men tend to be sponsored by more senior-level leaders with the organizational clout to advance their careers, while women tend to have more mentoring-like relationships focused on providing support and guidance, leading to lateral moves rather than promotions. Worryingly, some fear that women's access to senior-level sponsors may only decrease in the wake of the #MeToo movement if men become more reluctant to form professional relationships with women in their organizations.

Because of the importance of sponsorships to advancing women, organizations that prioritize gender diversity will want to find ways to encourage and facilitate these sponsorship relationships. Sponsors should encourage the women they mentor to seek out jobs with P&L responsibility, and women should recognize that they may need to push themselves out of their comfort zone and be aggressive about going after P&L experience, a critical stepping stone for C-suite or board opportunities.

In contrast to the importance of sponsorship to advancing women's careers, just a scant 2 percent of women ranked institutional leadership programs (whether or not they were geared toward women) in the top three reasons behind their achievement. It's not clear whether respondents to our survey viewed these programs as less effective because they did not participate in them or because they did believe the programs meaningfully contributed to their career advancement.

6 Ibarra, Herminia; Carter Nancy M. and Silva, Christine. Why Men Still Get More Promotions Than Women. *Harvard Business Review*. September 2010. https://hbr.org/2010/09/why-men-still-get-more-promotions-than-women?referral=00134

Overcoming unconscious bias and assumptions that limit women's opportunities

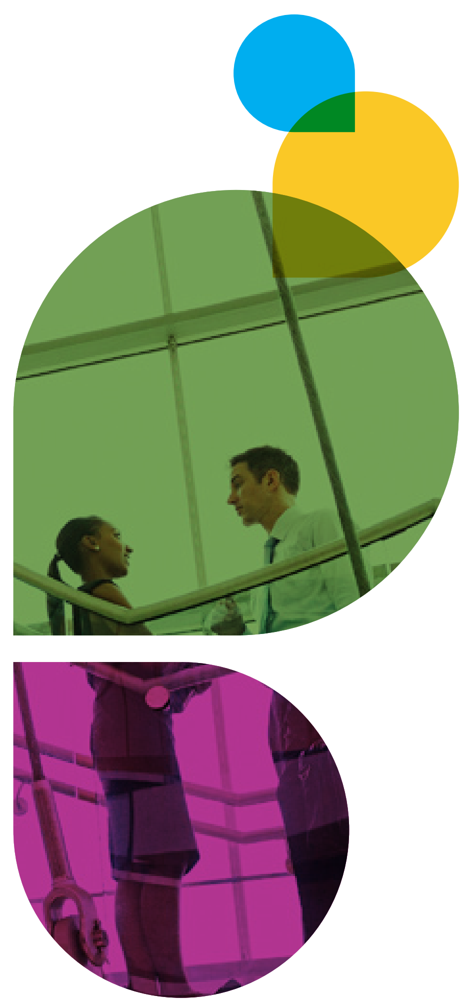
Both in the closed questions and the comments in our survey, we saw strong themes around unconscious bias, exclusion from informal networks or social activities, higher standards for women and assumptions about women's interests or capabilities.

An overwhelming 86 percent of respondents said unconscious bias had a moderate or big impact on their career advancement, and 76 percent pointed to different standards for women than men. One woman wrote about "Not being given direct feedback or guidance because they were afraid of hurting my feelings ... [and] having unfair assumptions made about my intentions and capabilities without someone to advocate for me." We hear similar comments from the women we meet and advise through our work. One told us, "When I resigned from my last job to take a bigger role at a competitor, my boss said, 'I thought you didn't want to travel given family responsibilities.'" Another woman said, "There's a cultural bias against seeming too eager, but if I don't do a bit of campaigning for myself, people assume I am not willing to make the personal sacrifices in order to move up, whereas for the men, they just assume they are."

Avoiding making assumptions about women's aspirations and interests and setting the expectation that leaders will reach out to people with diverse backgrounds can help overcome these challenges. Even the simple step of making leaders aware of these kinds of biases and assumptions — making the unconscious conscious — can make a meaningful difference. Leaders should be encouraged to look beyond the people who are raising their hands and proactively reach out to qualified people with diverse backgrounds and encourage them to apply.

Women also can find themselves at a disadvantage in hiring or promotion into key roles, particularly those with P&L responsibility, when subjective measures are used erroneously as a proxy for certain capabilities (such as "presence" for leadership) or when culture fit is considered in terms of similarities in backgrounds or interests. To remove biases that disadvantage women, organizations should adopt structured assessment approaches that focus on how well candidates align with the specific capabilities, leadership style and expertise required for success in the role, minimizing the influence of subjective measures and assumptions.

Even the simple step of making leaders aware of these kinds of biases and assumptions — making the unconscious conscious — can make a meaningful difference.



Steering their destiny: relationship-building and risk-taking

Among the factors within their control, women in our survey point to a combination of personal drive, career planning and performance as essential to their success. Nearly all ranked "Consistently delivering outstanding results" in the top three personal factors for success, with 88 percent saying it was the most important. Women also credit their success to innate traits such as perseverance, resilience, confidence, optimism and adaptability. "I got noticed because I was a hard worker and a top performer," one survey respondent wrote.

Relationship-building is important for career advancement, regardless of gender. Some women can be uncomfortable with what they perceive as the politics of corporate life and prefer to let their work speak for itself, assuming that hard work and doing a better job than the next person is all they need to do. But, it's important to recognize that, especially in the upper reaches of an organization, relationships and networking are critical, as senior-level leaders have to make decisions about the handful of people that they trust to run the company.

It can be a challenge for women to develop relationships in the same way that men do, as women may not get invited to social activities such as golf or the fantasy football league. Seventy-seven percent of the women in our survey felt that being left out of informal networks or social activities was at least a moderate barrier to their career advancement.

Helping others, tapping into external networks and finding authentic ways to build relationships with people across the organization can help women create a network of people who may later bring opportunities or serve as advocates and allies. Many women find it helpful to reframe their view of "politics" in terms of the human dynamic playing out in business and think of relationship-building as a skill to learn like any other.

Seventy-seven percent of the women in our survey felt that being left out of informal networks or social activities was at least a moderate barrier to their career advancement.

Proactively managing your career

About half (48 percent) of the senior-level women in our survey aspire to join a corporate board, and 35 percent say they would like to be CEO. The vast majority (88 percent) are confident they can achieve their career aspirations, although only 62 percent think it's possible at their current company.

More than half (56 percent) of the women in our survey attributed their success in part to proactively managing their careers. It is important to think longer term about your career aspirations and route up to avoid inadvertently closing the door to certain opportunities. Many women (and men) truly prefer a specific function, such as marketing or finance, and strive for leadership roles within the functional area. As one survey respondent told us, "I love being a CHRO and find great personal satisfaction from what my team and I accomplish. It is a passion for me, and one I want to continue."

Other leaders do not realize until it may be too late that an early commitment to a function, versus taking what might seem like a risk on a P&L role, can limit their CEO options later. "What contributed to my success (technical competency) has also had a limiting effect," one confided. "I followed a technical path to the top of my field which was great, but it then became very hard to move sideways because I hadn't had P&L responsibilities." Another said, "I love marketing, but I realize now that it is an unlikely path to CEO. When I was committing to it, and being rewarded for being good at it earlier in my career, I didn't know that."

Speaking up about your interests and longer-term aspirations early and often can encourage others to think about you when openings arise. Don't assume people in the company, even your manager, know the next move you want to make or where you see your career going over the long term. Communicate the value that you bring to the organization and learn how to advocate for yourself in a way that you're comfortable with. Even for leaders at the most senior levels of an organization, others may make assumptions about your interests and aspirations if you don't articulate what you want. Sixty-four percent of respondents said managers making untested assumptions about their mobility or career aspirations was a barrier to career advancement, with 20 percent saying it was a significant barrier.

In addition to speaking up about your interests and aspirations, women aspiring to top leadership roles have to be willing to take risks. It's well documented that women are more likely than men to think they need to meet all the qualifications for a position to apply for a role. Nearly half (46 percent) of the high-achieving women we surveyed agreed or strongly agreed with the statement, "I tend to raise my hand for new jobs only when I meet all the qualifications." Recognizing this tendency and getting comfortable with not being completely "ready" for a new role may help more women get comfortable with taking career risks. Once they do make a leap into a new role, they are likely to learn that they are able to "figure it out" and succeed.

Conclusion

Research points to the same conclusion: gender diversity in leadership is good for business (as is diversity in general, for that matter). It's better for financial performance. It inspires more innovation. Yes, it has societal benefit, but it also provides a company with competitive advantage and is considered a key enabler of growth. A recent Credit Suisse report,[7] for example, found that companies where women made up at least 15 percent of senior managers had more than 50 percent higher profitability than those where female representation was less than 10 percent.

Our survey of senior-level women leaders underscores ways that both women and organizations can achieve greater gender parity in leadership.

Women should:

> Find comfortable ways to build relationships and networks, recognizing relationship-building as a skill like any other.

> Take more risks, including pursuing P&L opportunities earlier. Understand that you don't need to feel 100 percent "ready" for the next move.

> Make conscious career choices, including your functional focus, and speak up about your interests and longer-term aspirations.

> Sponsor other women. As you move into more senior levels, consciously sponsor and mentor up-and-coming women in the organization.

Organizations should:

> Ensure that programmatic diversity initiatives include real sponsorship by male (as well as female) executives. Sponsors should provide women support and encouragement to take career risks, especially P&L opportunities.

> Take steps to minimize unconscious bias through education and more objective assessment standards. Make leaders aware of common biases and the need to ask women about their interests, aspirations and mobility (rather than assuming the answers).

> Use structured assessment approaches that assess individuals against the specific capabilities, leadership style and expertise required for success to minimize the influence of subjective measures.

Authors

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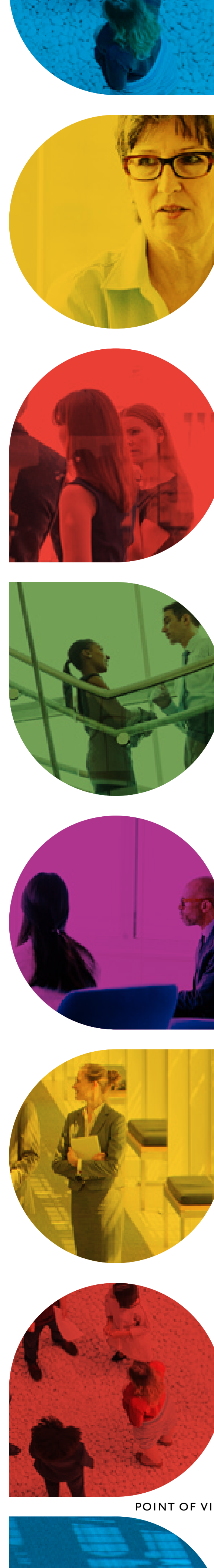

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7 The CS Gender 3000: The Reward for Change. Credit Suisse. September 2016.
credit-suisse.com/media/assets/corporate/docs/about-us/research/publications/csri-gender-3000.pdf

Personal success factors

	Percent ranking in the top three
Consistently delivered outstanding results	99%
Proactively managed my career	56%
Built relationships within my organization (internal network)	41%
Negotiated salary increases	28%
Made a lateral move to broaden my experience	25%
Pursued further education/training	18%
Developed my professional network	13%
Put off having children until I reached a career milestone	9%
Looked for new jobs in different organizations	8%
Volunteered time for community or non-profit organizations	2%
Joined a board	0%

External success factors

	Percent ranking in the top three
Male sponsor/champion	79%
Supportive supervisor	49%
Female sponsor/champion	34%
Rotational developmental assignments	31%
Internal network	26%
Female mentor	21%
Male mentor	18%
Professional network	15%
General leadership program	13%
Early management training program	8%
Executive coach	5%
Leadership program, especially for women	2%
Women's leadership group within my organization	1%
Diversity initiatives within my organization	1%

Career barriers

	Did not experience	No impact	Moderate impact	Big impact	Mod/big combined
Unconscious bias	2%	12%	59%	27%	**86%**
Exclusion from informal networks or social activities	6%	18%	58%	19%	**77%**
Women held to different standards than men	17%	8%	45%	31%	**76%**
Promotions based on "who you know" versus performance	13%	15%	44%	28%	**72%**
Managers making untested assumptions about your mobility or career aspirations	20%	17%	44%	20%	**64%**
Overt bias	18%	27%	42%	13%	**55%**
Lack of formal process/objective criteria for succession planning	18%	31%	39%	13%	**52%**
Hostile work environment	31%	24%	30%	16%	**46%**
Lack of flexibility in working hours	34%	33%	25%	8%	**33%**
Lack of adequate maternity/family leave	42%	35%	21%	1%	**22%**

Finding the Right Fit: Assessing First-Time Candidates for Non-Executive Directors

In this era of rapid technological change and market disruption, boards have their work cut out to keep pace with what is happening in their own companies, let alone in the broader, converging business environment. To remain relevant — to be able to make a meaningful contribution to strategy and challenge management effectively — boards need to refresh themselves continually and seek out directors who can bring in much-needed knowledge and experience from the front line.

One of the board's most important tasks is to identify potential new directors and assess their suitability for the role. This task is made all the more difficult by the fact that an increasing number of high-quality candidates have not served on a main board before. Many nominating committees are nervous about appointing executives who lack boardroom experience, and with good reason — board appointments involve a long-term commitment and mistakes can be painful and costly, disrupting the equilibrium of the board and damaging the reputations of those concerned.

That said, a growing number of first-time directors are being appointed to boards. According to research published in the *Spencer Stuart Board Index*, 33 percent of S&P 500 appointments and 32 percent of FTSE 150 appointments in 2018 were new directors serving on their first corporate boards.

Many of these directors bring knowledge in fields such as cybersecurity, AI, machine learning and industry 4.0 technologies; others have firsthand experience in digital transformation, organizational design, customer insight or social communication. The demand for such cutting-edge expertise is likely to rise, which means more first-time directors finding their way into the boardroom in the coming years.

To reduce the risks, and to help them make the very best appointment decisions, nominating committees need a robust framework for assessing not just the suitability of a candidate's expertise, or whether they will mesh with other directors, but most importantly how well they will adapt to the role of non-executive director itself.

Board experience not essential

Fortunately, lack of experience is not the barrier to service on a board that it once was. By isolating the intrinsic qualities needed to be effective as a non-executive director and measuring the extent to which candidates possess these qualities, Spencer Stuart is able to assure nominating committees that the people they put forward (some of whom may come from outside the corporate sector) will have what it takes to contribute effectively in the boardroom.

A curriculum vitae (CV) and references are the typical starting place for sizing up candidates for their potential fit against the non-executive director role specification, since they will paint a picture of the candidate's accomplishments and likely provide insight into skills the board might find desirable. However, that's all they are — a starting point.

For example, the nominating committee must consider references in context. Although referees may speak highly of an executive's accomplishments, this praise will almost certainly relate to a different type of role from that of serving on a board. Nominating committees must search for indications of strategic vision as well as the ability to think laterally, learn quickly and exert influence by working through others.

For any board role it is essential to delve into a candidate's character and temperament, as well as his or her background. We recommend that boards assess prospective first-time directors against five key attributes: interpersonal skills; intellectual approach; integrity; independent mindedness; and inclination to engage.

Candidates strong in these five areas are most likely to be capable of contributing as all-around directors, in addition to the specific knowledge, skill or set of experiences that makes them interesting to boards.

Interpersonal skills

First-time board candidates must understand that they are signing on to a team. They must be willing and able to adapt to differences in the way fellow board members think and operate, adjusting their communication style accordingly.

An active executive seeking to join a board will need a change in persona to some extent. Many first-time directors struggle to understand the distinction between a governance role and a management role, and their interventions can easily become disruptive instead of constructive. It can take time and energy to help them understand the expectations (and limitations) involved in being an independent director, so it is essential to establish whether an individual is capable of making this critical mental adjustment prior to appointment. Inside a business, the onus is on the leader to make executive decisions, whereas in the boardroom decisions are more likely to be formed through compromise and consensus.

While boards want active executives who can bring up-to-date knowledge and specialist expertise, they must be careful to avoid people whose primary instinct is to interfere in operational matters or other areas of management responsibility. Candidates who become interested in non-executive directorships have often achieved success in their careers by taking charge of their own development and by leading teams — that is, being out front and driving results. Such behavior is counter-productive in a board member.

Our experience is that the most effective non-executive directors are "leaders of leaders," that is to say people who think strategically and communicate persuasively while developing the leadership of those around them. They know how to exercise soft power and understand that their job is to listen carefully and speak sparingly, providing challenge, advice and support to management, not trying to run the business. There is, of course, plenty of middle ground where directors can contribute their special expertise to collaborate with management — particularly in the realm of strategy.

2

Intellectual approach

Most board roles should be filled by people with intellectual confidence and strategic capabilities. Board directors are setting the overall direction for the business in a fast-changing world and therefore must have the cognitive power and flexibility to make good judgments in ambiguous, complex, changing environments. It is therefore important to assess first-time director candidates for their ability to handle complexity and ambiguity; the ability to simplify issues to their essence in order to make sound, logical decisions; and the ability to transfer their skills to different environments.

To identify candidates with these abilities, including the capacity to use influence and build trust to persuade other leaders, nominating committees might look at individuals in complex business structures where multiple visions compete for prominence. Divisional leaders, for example, rarely act with total autonomy and must work with their peers as part of the larger organization to advance their goals.

Another source of candidates could be people who have served on the board of a joint venture in which their parent company holds a minority stake; in those situations, candidates have had to influence a business that they don't control, which can be a good proxy for being a non-executive director. In some instances, nominating committees may consider candidates with high intellectual standing outside the corporate world — from academia, government, supranational institutions or non-governmental organizations (NGOs), for example.

3

Integrity

This can be a difficult area for nominating committees to assess. Board director candidates have usually achieved a great deal in their careers, but their integrity in dealing with people and the degree to which their decisions have been guided by principles may be less obvious. When assessing candidates for board directorships, it helps to consider whether they have looked beyond their own narrow interests to contribute to the well-being of others and the organization as a whole. Integrity and humility are valuable assets in the boardroom. Independent directors may not be required to speak a great deal, but they are expected to be thoughtful and leave their egos at the door. The most effective directors find ways to challenge orthodox thinking, yet are willing to listen to a range of arguments, admit errors and be honest with themselves.

4

Independent mindedness

Independent mindedness is most apparent among people who are at ease with themselves. Unlike those who feel they have to justify their presence in a room, independently minded candidates do not feel compelled to demonstrate their knowledge or to receive recognition. They view service on a board as an opportunity to learn. They enjoy the challenge and give-and-take of discussion, and have the intellectual confidence to think for themselves while engaging with fellow directors in a collaborative manner.

The most effective directors find ways to challenge orthodox thinking, yet are willing to listen to a range of arguments, admit errors and be honest with themselves.

5

Inclination to engage

Most active executives will be joining the board of a company in a different industry from the one where they spend most of their time; there may be only a tangential relationship between the two industries. For this reason, candidates should be able to demonstrate a genuine interest and enthusiasm for the company they are about to join and the sector in which it operates. This means not only that they will have read relevant financial documents, but also that they will have taken the time to learn about the history of the company, its capital structure and market positioning, as well as the issues, competitors, and forces affecting the organization. They will be able to demonstrate their knowledge of the company and its environment by the types of questions they ask during interviews with company management and current board members. They will be curious about the cadence of board discussions and relationships among members.

QUESTIONS FOR BOARDS TO CONSIDER

Interpersonal skills — Has the person demonstrated an ability to build relationships with all kinds of people? To influence and to gain trust and support from others? Can the candidate use diplomacy and tact? Listen and adjust appropriately to others' input?

Intellectual approach — Can the candidate handle complexity, or simplify issues to the essence to make sound, logical decisions? What is their comfort level with ambiguity? Does he or she have the ability to look ahead? To transfer knowledge and experience to different environments?

Integrity — Will the candidate adhere to an appropriate and effective set of core values and live by them? Is she or he honest and truthful? Is the person authentic, self-aware and confident enough to "be oneself"?

Independent mindedness — Can the candidate set out and defend a position, even when this means going it alone? What about the ability to maintain positive relationships amid conflicts about ideas?

Inclination to engage — Is the candidate motivated to invest time and effort in learning about the organization and staying up to date with it? Is she or he diligent enough to follow through with commitments?

Financial competence

When assessing the suitability of a first-time director, boards should probe their level of financial literacy. Since board members have to approve financial statements, they must be comfortable reading a balance sheet and digesting income and cash flow statements. Beyond that, consider the broad array of financial matters that may come before a board — mergers and acquisitions, capital allocation, dividend payouts or share repurchases, and so on. Because so much boardroom discussion revolves around decisions that have financial implications, board members must have more than a passing knowledge of finance.

Our experience is that nominating committees tend not to assess the financial acuity of directors candidates in any great detail, either because they make positive assumptions or because they are embarrassed to probe. However, first-time directors who lack financial competence are going to have to learn fast or they will only be able to offer a limited contribution.

One possible way to assess a first-time director's financial smarts might be to engage the chair of the board's audit committee to evaluate the types of questions posed by a candidate. If certain shortcomings surface during these discussions, but the candidate is strong enough otherwise, the assessment can highlight areas where the company might provide training and support through mentors or other means as part of a successful onboarding.

Putting it all together

Evaluating candidates for board membership is both an art and a science. Sound judgment is required to collect the right evidence and weigh the benefits against the risks. Context must be factored, too: an individual might be an excellent prospect as a non-executive director, but just not on that particular board.

While there is no definitive way to predict whether a first-time board member will be a success, we believe that a systematic approach to assessing the intrinsic qualities of a candidate significantly reduces the level of uncertainty surrounding such an appointment. Moreover, it helps identify ways in which the board chair can help the new director integrate effectively and get up to speed with the critical issues facing the board.

Authors

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A Tale of Two Mergers: Seven Key Takeaways from Successful (and Unsuccessful) Mergers

Mergers always get the adrenaline pumping among an executive team. There's lots of excitement about the value of the deal — the prospect of cost savings or new revenue from sales and distribution synergies, the addition of new geographic markets or the combination of complementary products. All these expectations are usually grounded in careful due diligence, so the fanfare seems justified. Why then, do so many mergers fail to deliver the value promised?

One major factor is that the CEO and executive team are under tremendous pressure to deliver results quickly to justify the deal to board members, shareholders and their own organizations. For this reason, they often focus too much on the "hard" (or intentional) elements of the deal such as the strategy, synergies, tax and legal issues. And they focus too little on the more challenging "people" (or interactive) elements of the deal — how people are selected for key roles, what sort of culture and structure the strategy requires, the differences between the two organizations, and how people are feeling about the integration.

We know of one medical device merger in which the CEO picked most of the post-merger senior team based on his own "gut" feeling — which, not surprisingly, resulted in most of the team coming from his acquiring company. Meanwhile, he failed to articulate a strong value proposition for the combined company's A-list talent or align the top team on a common path forward and, as a result, many of them retired. Nor did the team articulate an ideal culture for the company or the leadership team's role in modeling the culture, resulting in low engagement from employees across the organization.

Within 18 months of the merger's close, the transaction had proved to be a massive failure. The combined company lost market value. Shareholders revolted and board members ousted the CEO. Given the attention the merger demanded pre and post close, the company wasted more than two years.

Alternatively, with a more structured, strategic approach to the people side of a merger, the outcome can be much different.

Take the example of the merger of two food retailers. Before the merger even closed, the cultures of the two organizations were assessed, helping leaders of each to better understand their own culture — using neutral language to articulate who they are and how they operate. Having a shared culture vocabulary to work from, the integration team, which represented both organizations, was able to come together to explore similarities and differences in their distinct cultures, and set a shared aspirational target culture based on the value creation thesis of the deal. The target culture became a key part of the strategic framework, organizational design and selection practices as part of the merger integration.

After the integration, the strategic framework and culture work informed the creation of a leadership capability and behavior model, which helped bring the cultural priorities to life by defining great leadership at the combined company. The model, in turn, became the basis for a comprehensive leadership development institute and was built into key leadership processes, including selection, development and succession planning.

This approach accelerated the company's leadership in coming together to be effective and productive in a volatile retail landscape. Two years later, when the stresses on many integrations are usually becoming apparent, the company was posting strong revenue and profit increases and was pursuing important strategic initiatives, such as revamping its brick-and-mortar offering and pursuing an omnichannel strategy with digital as a key focus area.

Getting the people side of M&A right: seven takeaways

Achieving cost savings is an aim of many mergers, but the real value of most deals stems from sharing best practices, innovation, the development of new products and solutions, and maximizing the combined customer bases, technology, products, etc., so that they're better together. All of this depends on having a clear purpose, vision and strategy, a leadership team that is aligned on the strategic vision and operational imperatives, and a culture, systems and processes that support the business envisioned by the deal. When the integration doesn't plan for these factors, companies may gain some of the cost synergies, but won't capture the true value of the merger.

Here are seven takeaways for merging companies.

1

Tackle the tough leadership decisions early. Some organizations seem to take a Darwinian approach to leadership selection: assigning co-heads to certain roles and seeing who survives. Either people get fed up and leave — with potentially the wrong person staying in the role — or two separate teams continue on, reinforcing the divide.

Ideally, leadership selection starts with taking a fresh look at the organizational structure based on the strategy for the combined business, rather than working from existing job titles. Many roles will be similar, but others may change in scale, scope or complexity. Reviewing the organizational structure in light of the strategy also may reveal important gaps. For example, if innovation is critical to the strategy, is there a need for a role that is specifically responsible for managing that?

Once the roles are defined, fact-based, objective assessments are critical. An independent management assessment process provides a consistent view of executives across companies, minimizes fears of favoritism by applying objective standards and speeds up decision-making.

A frequent observation in mergers is that leaders who are known to be high-performing executives fail to deliver in a more complex merger environment. Why does a senior leader who has mastered the execution of a strategy in their prior organization struggle in the context of the merger?

Most organizations use a very narrow definition of leadership when selecting top leaders for the merger. They often focus on individuals' depth of knowledge or experience in a subject area and typically evaluate executives on their track record in their current or most recent positions. They may weight an attractive personality trait such as charisma or energy heavily. But the knowledge and skills that propel executives in a previous role (usually in a more stable environment) are not good predictors of their ability to excel in a merger context. As a result, when organizations focus on these strengths rather than the leadership attributes that are essential to success in a merger, they can make the mistake of placing a strong performer in a position beyond their capabilities.

In our work supporting client merger integrations, which has included thousands of executive assessments, we have seen that some leadership traits and skills matter more than others. These include:

> High-stakes decision-making
> Ability to recognize interpersonal dynamics and navigate politics and social complexities
> Team building and developing of people
> Influencing and collaboration
> Humility and substance

M&A is complicated, and successful integration requires the most sophisticated, diverse and ambidextrous leadership of all.

2

Plan for the team you need now AND 18 months from now. Business is ever changing, but in an M&A situation, change is even more imminent. Some people will inevitably leave the organization. Meanwhile, the priorities of the business will evolve over time. So begin thinking about succession early, using assessments to identify and develop up-and-coming leaders with the capabilities and leadership traits for key roles.

3

Articulate a value proposition for top performers. In the wake of the announcement, competitors will try to woo A-players away. And while compensation is always part of the equation for people, it is rarely the only deciding factor — not to mention that a company's retention bonus can usually be matched or exceeded by a competitor's signing bonus. The very best talent care deeply about the strategy of the company and whether they're going to be part of something great. They want to understand what their place will be within the new organization. The value proposition should explain to the top talent why they should stay. One client we worked with, for example, touted the entrepreneurial culture that leaders intended to build, and encouraged individuals to take a similar approach to building the career they want.

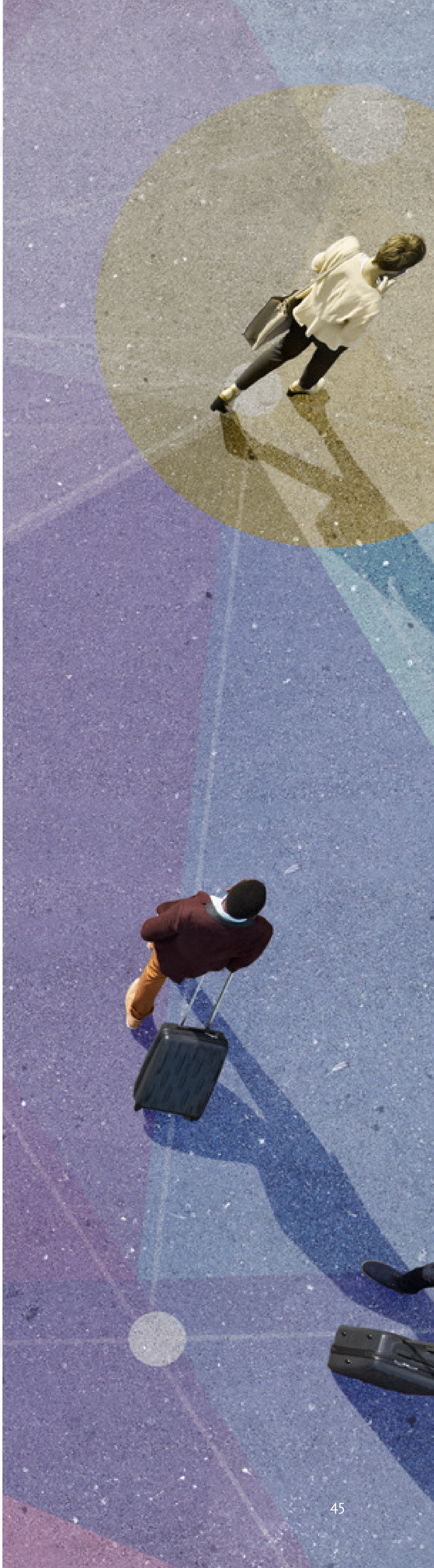
4

Build trust and reduce fear through clarity. Often, the new senior team is expected to “just get on with it,” with little clarity about individuals’ specific roles or responsibilities. But when bringing together people from two distinct cultures, opportunities abound for misunderstandings, mistrust and confusion. Lack of trust at the senior level can cascade down the organization, paralyzing the integration.

The leadership team should also bear in mind that, for much of the organization, it’s business as usual. They may be hearing very little about the status of the merger or what it means for the business. In the information vacuum, they may be more fearful than excited about what comes next.

The leadership team should create clarity early and be as transparent as possible, especially about what is changing and not changing. They should over-communicate, and acknowledge that this is an emotional event for people.

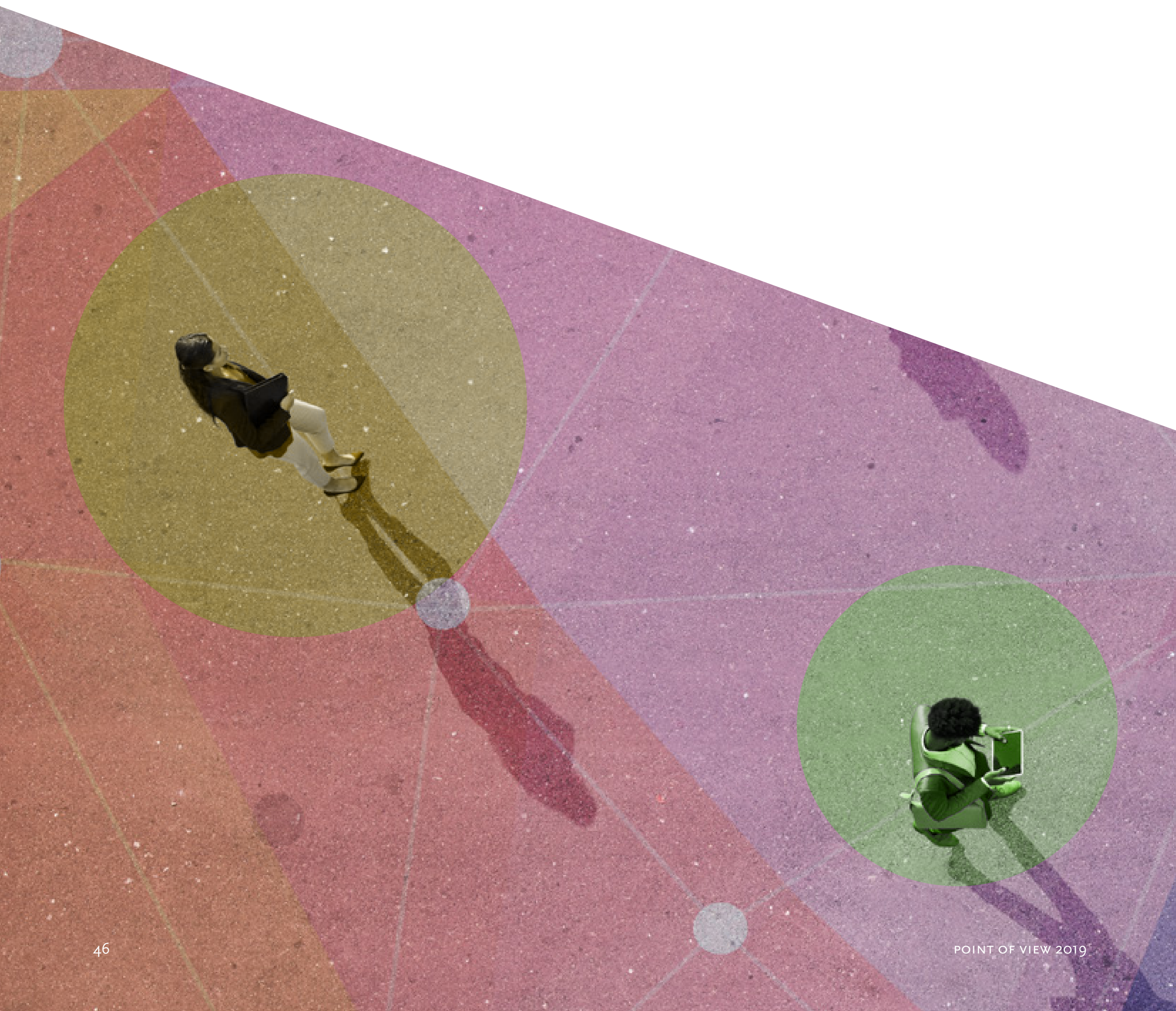
For the new leadership team, clarity goes a long way toward building trust. Being open and transparent about goals, challenges and responsibilities sets the tone. Clarity means defining the rules of engagement for the new top team — including the mission, mandate, individual and team roles, decision-making responsibilities, meeting logistics and purpose, information sharing and conflict resolution. What are the rules of the road, how are we going to work as a team and how are we going to have difficult conversations?



5

Define how the organizations are alike — and different. In the initial excitement, leaders often focus on what each organization uniquely brings to the table — the complementary strengths and resources that they hope will enable the combined business to be better than the sum of its parts. These include customers, markets, technologies, information, tools and infrastructure. Different cultural characteristics may also be perceived as assets; for example, a learning-oriented culture to a company whose strategy requires it to improve its ability to innovate.

The merger integration process should identify the values and culture preferences the organizations share, because they can help serve as a foundation for building trust between people from the different organizations. But it also should articulate the differences that could get in the way of people working together effectively: the differences in leadership styles, operating models, technology systems and cultural elements that will cause conflict, especially when people are under stress.



6

Don’t delegate your responsibility to model the new company culture. Culture is a big part of making a merger work, and it is your responsibility as a leader to own and role model the future organization’s values and culture. Often, though, oversight of people and culture decisions are delegated to a communications or human resources team, running parallel — rather than across — the integration work. Real culture change can’t happen unless it’s aligned with the strategy for the business and is integrated across the merger planning and execution activities, including leadership selection. Leaders also should consciously model the language and behaviors they are trying to build in the new organization. Replacing phrases like, “What we used to do” with “What we will do,” and spending time with people from the other organization will help signal the shift.

7

Manage your energy. Integration takes longer than you think. After what can be months of negotiations and due diligence, the real work begins: delivering on the aggressive targets and ambitious goals. Fatigue can set in among senior leaders, especially those coming from the acquired company who may not feel like they got exactly what they wanted from the deal.

The most successful companies don’t treat the deal and the integration as a transaction. They view it as another building block in a legacy of company. They pace out the changes, rather than trying to do everything at once, which can create more confusion within the organization. Leaving some things to be done once the integration is complete allows the best ideas and expertise from across the combined organization to be brought to bear on finding the solutions.

Authors

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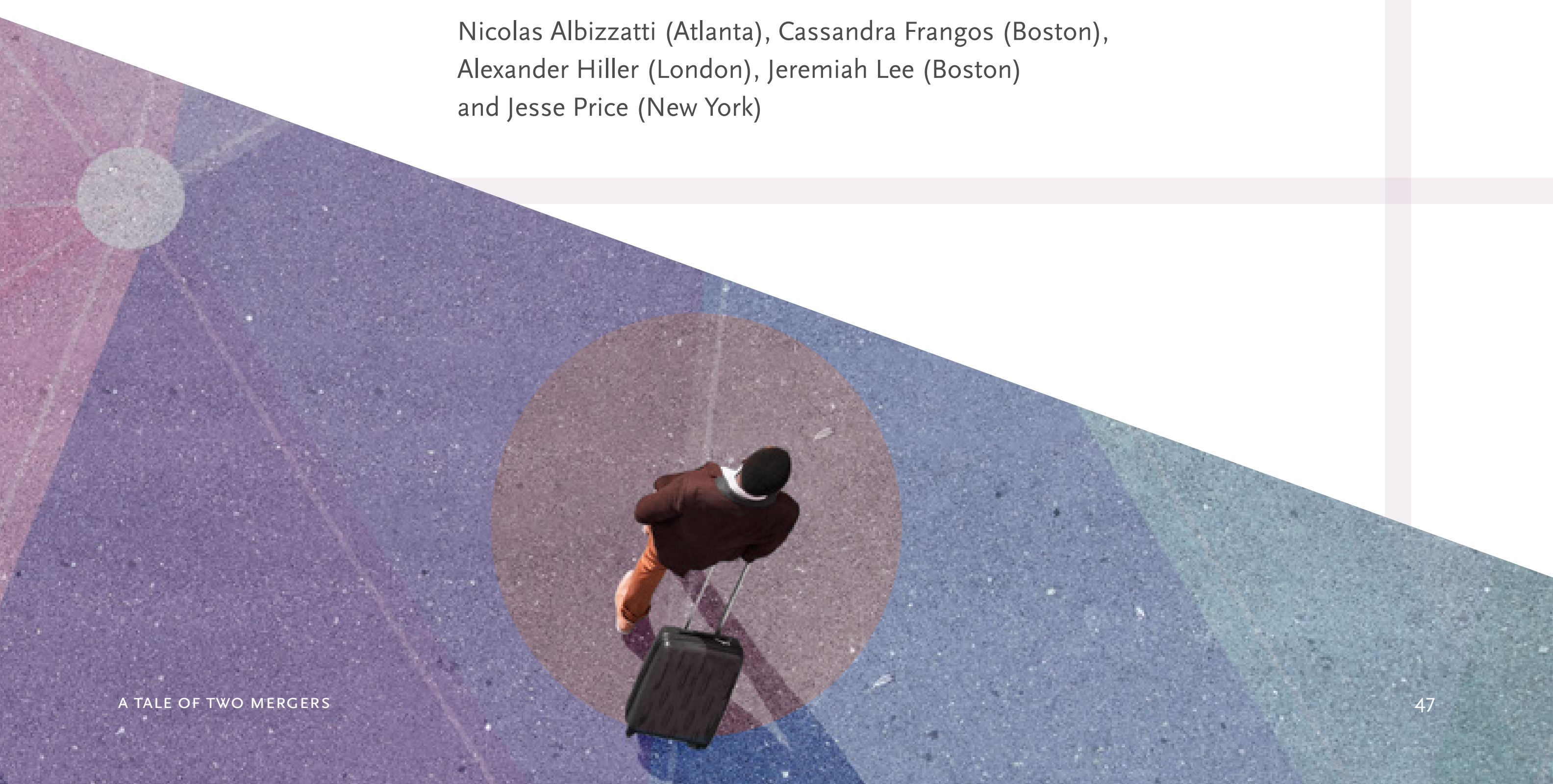

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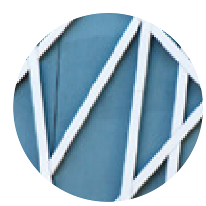

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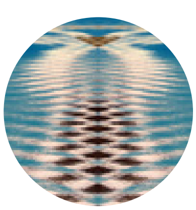

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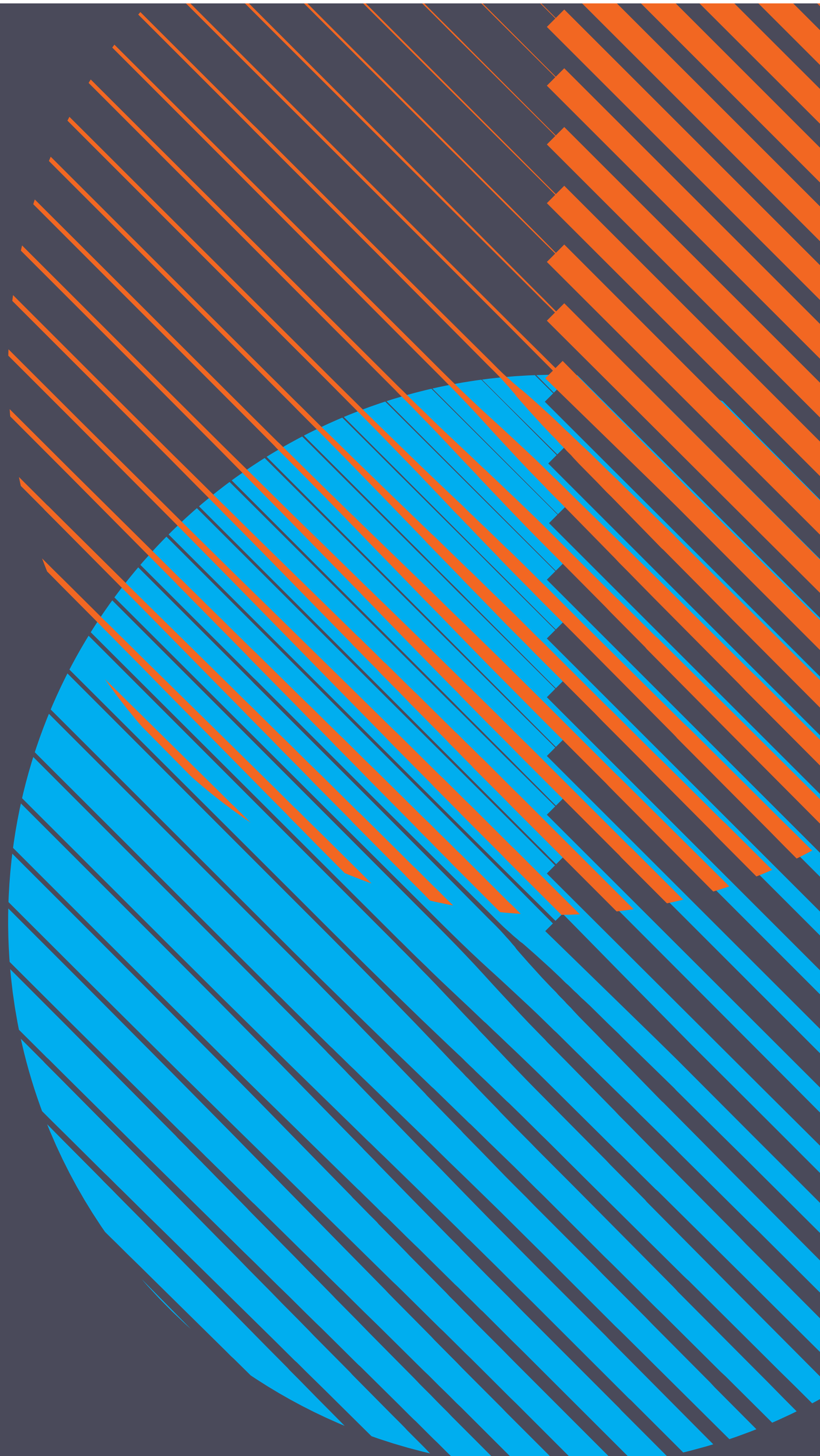

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