



## Developments in predicting CEO success

New perspectives on identifying and assessing the essential traits of effective leaders

Senior executive decisions are incredibly high stakes and challenging. Especially at the highest levels, the difference between selecting the right leader and the wrong one is stark: The right leader sees changes in the world and market that can affect the business and mobilizes the organization to pursue the best opportunities. The wrong leader is more likely to miss the market developments that could be fatal to the business, or be unable to translate the threats into action. Complicating these decisions is that, far more often than not, they involve executives who have not previously served in the position, so by definition they lack a track record in the role that can be assessed.

To put this challenge in context, consider that in the U.S., for instance, 80 percent of Fortune 500 CEOs are first-time CEOs. The conundrum for boards: how to assess candidates for a position that is larger in scope, highly dynamic and vastly more complex than any of their previous roles, no matter how big or important, and where there is no “boss” to serve as a backstop.

This challenge is not a new one, but the tools for assessing executive talent have evolved. In the past, boards typically chose the next CEO by assessing candidates against a set of executive capabilities such as “ability to drive results” or “ability to lead people” as well as categories of experience in the relevant industry, market or geography. This approach provided useful insight about executives’ knowledge, experience and current ability, but left an important gap in the board’s understanding of the candidates. Namely, it shed little light on whether the individual could stretch beyond his or her current capabilities to deal with the complexities of the new role — whether he or she could grow into the job and change with it and with the company.

The difference between executives who can continually develop and excel at the highest levels of a business and those who can't is their Executive Intelligence.



More than a decade ago, Spencer Stuart pioneered a new assessment approach to close this gap and get at individuals' executive potential. This approach measured individuals' Executive Intelligence (ExI), quantifying their critical thinking,

conceptual thinking, social and emotional intelligence, and dynamic learning. Years of data and experience have since demonstrated the predictive power of these traits on executive performance — and their link to the performance of the business.

The idea of an executive's "potential" has gained traction more broadly, but too often the discussion pits executive potential against executive capabilities. With more than 10 years of data and real-world assessments behind us, we know that potential and capabilities both matter when assessing senior-level candidates. Furthermore, we have advanced our assessment so that we are able to not only evaluate individuals' current capabilities but also understand their overall executive potential and the specific capabilities they have the capacity to build.

### THE POWER OF POTENTIAL

How can a board really know whether the head of the company's most important business — who has exceptional operational skills and a track record of turning around troubled units — will excel as CEO, where defining and evolving strategy and interacting with the board and shareholders are top priorities? Or how can a CEO be confident that a successful regional CMO who excels at building relationships with regional and local leaders will become an effective global CMO, where the ability to drive innovative programs at the enterprise level and influence the C-suite defines success?

When assessing proven capabilities alone, leadership questions such as these can be difficult to answer. That's because most successful executives have built significant domain expertise, a strong skill-set relevant to their roles and solid relationships with the key players in the organization — all of which help the leader accomplish goals. But knowledge and capabilities are not enough to predict how a senior leader might do in the next role or other future roles that are more complex and ambiguous or very different in nature. As executives move higher in the organization, past knowledge and relationships become less effective tools for accomplishing business objectives. The context changes and executives must make sense of a much wider set of issues with less concrete information, and then conceptualize a clear plan, inspiring, engaging and motivating a large organization to act.

The difference between executives who can continually develop and excel at the highest levels of a business and those who can't is their Executive Intelligence. An Executive Intelligence assessment measures individuals' capacity to be successful in new, unfamiliar and complex situations — exactly the type of situations in which CEOs and top team leaders are tested. Higher scores equate to greater potential to take on these roles. CEOs, in particular, have to be able to stretch further and faster as they become less expert about any particular business or functional area and their purview continues to expand.

Executive Intelligence assessments measure three key dimensions: critical & conceptual thinking, interpersonal & social awareness, and self-evaluation & adjustment. Executives with strong critical & conceptual thinking are able to apply analytical judgment in complex and ambiguous situations and to produce big-picture insights from complex and disparate information. Someone with a high degree of interpersonal & social awareness is able

to see situations from multiple perspectives, and they can read and respond to others' emotional state to ensure a constructive interaction. Finally, executives who excel at self-evaluation & adjustment can change how they think and act in light of new information. See chart on page 4.

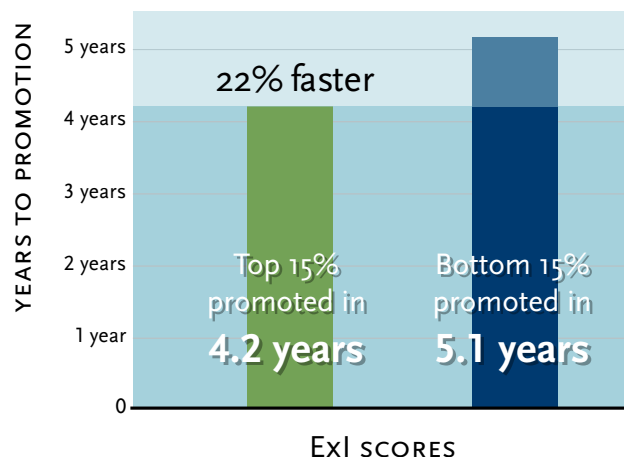
Our research has found that self-evaluation & adjustment is an especially powerful predictor of executive potential. Individuals who are strong in this area recognize and accept new information, even when it contradicts their own assumptions. They pursue constructive criticism, recognize their personal biases and flaws, and change their ideas and actions based on these sources of new or contradictory information. CEOs, in particular, benefit from learning intelligence. Because of their position of authority, CEOs tend to be insulated from ideas and information that contradict their thinking, either because they are farther away from the sources of new information or because others are more guarded about sharing potentially contradictory views. The CEOs who are best at this not only seize spontaneous opportunities to learn but also build channels to enable learning, for example, creating their own advisory councils to keep their thinking fresh.

Research has proven the connection between Executive Intelligence and the ability to grow into more complex leadership roles and have a positive impact on the business:

- » **Executives with high Executive Intelligence scores have far more room to grow.** Over time, executives with high potential will bypass others who don't score as well, and high ExI scores correlate with faster executive promotions. An analysis of more than 700 CEOs, managing directors, COOs and CFOs globally found that executives with high ExI scores were promoted 22 percent faster than executives with low ExI scores. In other words, these executives were promoted one year earlier on average than those with lower scores. These traits are especially important for CEOs who have to stretch more than any other executives. Not surprisingly, CEOs score distinctly higher than "CXOs" — as much as 15 percentage points higher — and CXOs score similarly higher than the next level of executives.

## High-scoring executives are promoted faster

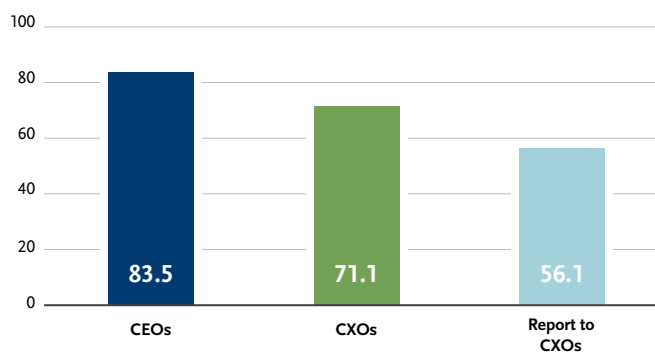
*Senior executives with high ExI scores were promoted faster than those with low scores.*



Source: Spencer Stuart

## CEOs have higher ExI scores

*Average percentile scores for each executive level*



Source: Spencer Stuart

- » **Businesses with higher-scoring CEOs perform better.** Another study examining the influence of top leader Executive Intelligence on business performance looked at measurable, publicly available data for 82 companies or large business units, finding that the CEO's ExI score at time of appointment predicted 16 percent of the variation in profit performance two years later.

## PUTTING INSIGHT INTO ACTION

Today, we are able to measure executives against a far more nuanced set of Executive Intelligence traits, revealing in much greater detail an individual’s raw potential to develop beyond current levels of experience and know-how. As a result, our assessments look not just at the executive capabilities a leader has today, but also which capabilities he or she is most able to develop and in what time frame. For example, we know a leader must be strong in critical & conceptual thinking to develop the highest levels of strategic thinking, while weakness in these will make the development of strategic thinking difficult or even impossible. An executive with interpersonal & social awareness is more likely to be able to collaborate effectively across the organization and influence others to achieve goals.

Put another way, executives’ ability to develop certain executive capabilities will be enhanced or constrained by their degree or type of Executive Intelligence. Someone who is strong at conceptual intelligence will be able to find and communicate big-picture ideas from chaotic information, but without a similarly high level of critical thinking ability, they may be unable to recognize all the steps required to implement the vision. A leader who excels at analyzing situations and problem-solving where he or she has a built-up knowledge base but has little patience for fact-finding or sorting through the details may not be the ideal choice to place in a completely new situation where quickly learning a new industry or geography is required for success.

### Executive Intelligence: Why it matters

	How it works	When it’s missing
<b>Critical &amp; Conceptual Thinking</b>	<ul style="list-style-type: none"> <li>• Questioning underlying assumptions</li> <li>• Anticipating unintended consequences</li> <li>• Identifying patterns in unformed information</li> <li>• Developing new concepts from complex streams of information</li> <li>• Seeing a single, integrated whole solution amid a mass of detail</li> </ul>	Executive may miss important details or unintended consequences, failing to analyze an unfamiliar situation correctly; may limit ability to drive long-term results; may also limit strategic thinking potential and ability to lead broad organizational change
<b>Interpersonal &amp; Social Awareness</b>	<ul style="list-style-type: none"> <li>• Looking at a situation from multiple perspectives</li> <li>• Considering broad, complex and organizational impacts of issues</li> <li>• Using balanced and empathetic reasoning</li> <li>• Recognizing and responding to people’s emotional states</li> <li>• Anticipating likely emotional reactions to decisions and discussions</li> </ul>	May limit an executive’s ability to collaborate and influence or to lead people effectively; can sabotage themselves or their programs by saying the wrong things or not doing the personal outreach that’s required; executive may also miss opportunities to bring multiple perspectives together
<b>Self-Evaluation &amp; Adjustment</b>	<ul style="list-style-type: none"> <li>• Recognizing and accepting new information</li> <li>• Pursuing and using constructive criticism</li> <li>• Recognizing personal biases and flaws in own ideas and actions</li> </ul>	Person may be viewed as unwilling to listen to contrary points of view, increasing the risk that he or she could miss important considerations or better alternatives; may be less culturally agile

The ability to predict long-term executive capability and identify the best opportunities for growth enables organizations to truly manage and develop their leadership talent as strategically as they manage and develop their business. Being able to evaluate the current and future readiness of succession candidates allows boards and CEOs to plan for succession with more precision — and more accurately consider who is the most ready today, who could be ready in a year and who has the most potential, even if he or she needs more time to develop that potential.

Knowing whether or not a succession candidate has room to develop certain capabilities may flag potential limitations that could be addressed by surrounding the leader with the right team or suggest that the person would be better placed in a different role. By contrast, the ability to see potential in individuals who have not yet been tested in the most senior roles may help to uncover exceptional leaders who would otherwise have been overlooked.

Consider the example of the CEO succession candidate with a track record of turning around troubled business units by cutting costs and headcount and rationalizing the supply chain. Because of his success in turnarounds — and because he was a less skilled communicator — he was viewed by the board as a superior operator, but not as a strategist. Yet, his Executive Intelligence scores indicated that he had the capacity to be much more strategic, despite a lack of experience. We encouraged the CEO and board to let the executive run the strategic planning process the following year, giving him access to more information about the business and enabling him to forge closer relationships with other senior leaders. Most importantly, it provided the opportunity for him to showcase his skills — and for the board to see him in a completely different light, giving directors the confidence in this leader's ability to develop into the CEO role.

## CONCLUSION

Few business decisions matter as much as the choice of leader, and the stakes of leadership decisions are greatest at the most senior levels of an organization. Traditional assessment methods that examine executives' capabilities and track record provide an important but incomplete view of candidates' readiness for promotion. Understanding an executive's readiness to move into the next role — and future leadership roles that require dexterity amid complexity and ambiguity — requires an assessment of executive potential.



More than a decade of research has demonstrated the predictive power of Executive Intelligence on executive performance as well as the performance of the business. Measurements of critical & conceptual thinking, interpersonal & social awareness, and self-evaluation & adjustment reveal executives' potential to excel in new, complex and ambiguous roles. Today, we can be even more precise about an executive's potential, pinpointing the specific areas where he or she has room to grow. The ability to identify the best opportunities for growth enables organizations to truly manage and develop their leadership talent.



## ABOUT SPENCER STUART

At Spencer Stuart, we know how much leadership matters. We are trusted by organizations around the world to help them make the senior-level leadership decisions that have a lasting impact on their enterprises. Through our executive search, board and leadership advisory services, we help build and enhance high-performing teams for select clients ranging from major multinationals to emerging companies to nonprofit institutions.

Privately held since 1956, we focus on delivering knowledge, insight and results through the collaborative efforts of a team of experts — now spanning 56 offices, 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 and many other facets of organizational effectiveness.

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