

DISCOVER THE DNA OF FUTURE CEOs





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Korn/Ferry International is a premier global provider of talent management solutions. Based in Los Angeles and with a presence throughout the Americas, Asia Pacific, Europe, the Middle East and Africa, the firm delivers an array of solutions that help clients to attract, develop, retain and sustain their talent. Korn/Ferry has acquired Whitehead Mann, a leading talent management firm in the UK and France. The combination of firms delivers 80 years of talent management, consulting and search capabilities. Visit www.kornferry.com for more information on the Korn/Ferry International family of companies, and www.kornferryinstitute.com for thought leadership, intellectual property and research.

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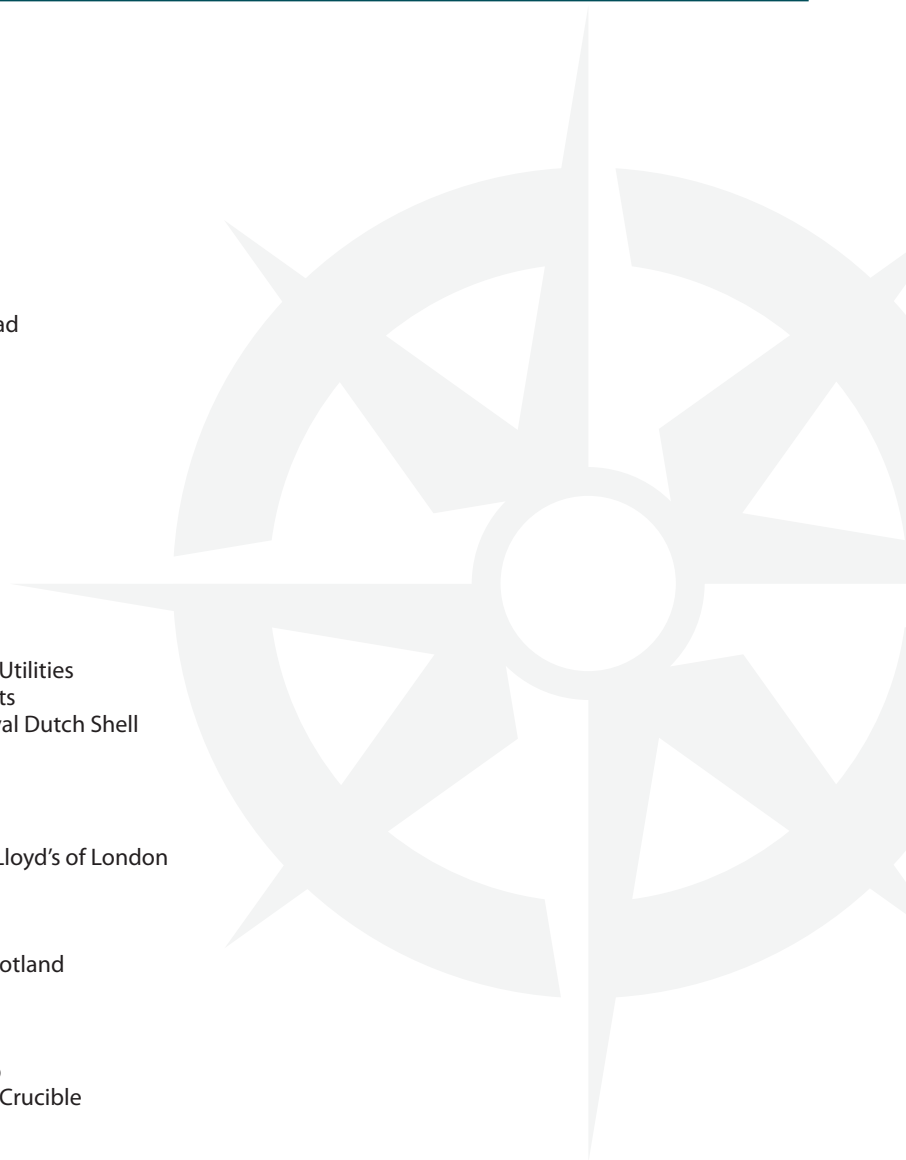
Acknowledgements

We would like to thank the interviewees who gave up their time to take part in this project and those that completed the survey. Some asked to remain anonymous but many of them are listed below. Thanks are also due to the partners at Korn/Ferry Whitehead Mann who carried out the interviews and produced such rich and thought-provoking feedback.

List of interviewees

Helen Alexander CBE	NED, Rolls-Royce and Centrica
John Allan CBE	Chair, DSG International
Mark Allen	CEO, Dairy Crest
Maria Antoniou	HR Director, EON
Celia Baxter	HR Director, Bunzl
Sir David Bell	Executive Director, Pearson
Adrian Bellamy	Chair, Reckitt Benckiser
Joerg Boder	Former HR Director, Alliance Boots
Sir Patrick Brown	Chair, Go-Ahead Group
Tom Brown	HR Director, Rolls-Royce
Nick Buckles	CEO, G4S
Mike Campbell	People Director, easyJet
Mark Clare	CEO, Barratt Developments
Tracy Clarke	HR Director, Standard Chartered
Adam Crozier	CEO, Royal Mail
James Cullens	HR Director, Hays
Mike Cutt	Former HR Director, Thomas Cook Group
Stephen Dando	EVP and Chief HR Officer, Thomson Reuters
Gareth Davis	CEO, Imperial Tobacco Group
Julie De Groot	HR Director, Next Retail
Rolf Deusinger	Former HR Director, Kohlberg Kravis Roberts
Tanith Dodge	HR Director, Marks & Spencer
Andy Duff	CEO, RWE npower
Mel Ewell	CEO, Amey Group
David Fisher	HR Director, Lloyds Banking Group
David Fison	CEO, Geoffrey Osborne
Andrew Formica	CEO, Henderson Group

Anthony Habgood	Chair, Reed Elsevier and Whitbread
John Harker	HR Director, Citi
Dominic Harrison	CEO, Gala Coral
Philippa Hird	NED, HMRC
Steven Holliday	CEO, National Grid
Orlagh Hunt	HR Director, RSA
Peter Johnson	Chair, The Rank Group
Gary Kildare	VP HR, IBM
Alec Luhaste	HR Director, Severn Trent
Sir Michael Lyons	Chair, BBC Trust
Graham Mackay	CEO, SABMiller
Steve Marshall	Chair, Balfour Beatty
Sheila Maxwell	HR Director, Lonmin
Dr John McAdam	Chair, Rentokil Initial and United Utilities
Jayne Mee	HR Director, Barratt Developments
Hugh Mitchell	Chief HR & Corporate Officer, Royal Dutch Shell
Paul Moody	CEO, Britvic Soft Drinks
Glen Moreno	Chair, Pearson
Alan Parker CBE	CEO, Whitbread
Maria Pilfold	HR Director, Taylor Wimpey
Dr Martin Read	NED, Invensys, Aegis Group and Lloyd's of London
Kathryn Riley	HR Director, Thames Water
John Rishton	CEO, Ahold Group
Michael Robinson	HR Director, Man Group
Neil Roden	HR Director, The Royal Bank of Scotland
Jeremy Roffe-Vidal	HR Director, Cap Gemini
Andrea Rosen	NED, Hiscox
Martin Sawkins	HR Director, Rentokil Initial
Ian Smith	Former CEO, Reed Elsevier Group
Tim Stevenson OBE	Chair, Travis Perkins and Morgan Crucible
Arnold Wagner	HR Director, Smiths Group
Mervyn Walker	HR Director, Anglo American
Paul Walsh	CEO, Diageo
Imelda Walsh	HR Director, J Sainsbury
Angela Williams	HR Director, Land Securities Group
Tony Williams	Former HR Director, Kingfisher
Robert Woodward	CEO, SMG



Foreword

What drives tomorrow's leaders? How does your organisation identify a successful future CEO? These are the interesting questions which Korn/Ferry Whitehead Mann's latest research has sought to answer.

There are no shortage of candidates keen for the top job. However, many will be unsuitable and the perfect fit is, in my experience, hard to spot. With CEO tenure reducing and shareholder expectations increasing, companies must have the right leader in place, but also successors 'in-waiting' in order to give themselves the greatest number of possible options. An appreciation of what is driving individuals towards the CEO role and how best to go about identifying and developing talent are key business challenges for all Boards.

This report delves into whether CEOs are created through circumstance and environment or born with the skills to succeed. It covers differences between men and women aspiring to the CEO role and the view of respondents on their own organisations' succession planning.

Throughout my career I have felt that one of the organisation's tasks in identifying their future CEO is knowing the difference between relentless drive at the expense of others and someone who can galvanise and lead. The latter is always much tougher to identify.

Sir David Lees,
Chairman of Court,
Bank of England

Introduction

Globalisation, economic change, more stringent regulation and tougher governance make realising shareholder value increasingly difficult. Never has it been more critical for companies not only to have the right leader in place, but a visible pipeline of high potential individuals ‘in-waiting’.

In our previous study, “What makes a great CEO?”, one interviewee described the role as: “a relentless seven-days-a-week job that demands a joy of being unpopular.” Despite the immense challenges of the role, its prestige and visibility continue to create no shortage of people who aspire to become a CEO. So why do people strive to attain this pinnacle position and how do organisations identify the right attributes to make sure they invest in those individuals genuinely capable of reaching the top job?

Executive summary

Korn/Ferry Whitehead Mann interviewed 70 CEOs, Chairs, NEDs and HR Directors to understand what are the most important drivers and characteristics of those with future CEO potential and how to identify them.

We asked interviewees about related issues including whether CEOs are born or made, and what differences there are between men and women aspiring for the CEO role. Critically, we asked respondents to rate their organisations’ succession planning.

The challenge for organisations in identifying their future CEOs is to distinguish between blind ambition and true potential, the latter often being harder to identify.

DNA of future CEOs reveals hidden complexities

Most respondents agreed with John Allan, Chair of DSG International: “For the majority of CEOs, money is not the prime driver”, rather they are driven by challenge, achievement and recognition. One interviewee said that their CEO “loves the challenge: the tougher it gets, the more he likes it.”

More cerebral characteristics such as judgement, strategic thinking and learning agility were rated as more important than outwardly visible strengths such as drive and energy.

“People who have blind ambition tend to get very bitter when they miss out on what they see as a step along the way to the top job, and that often affects their performance.”

Sir Patrick Brown,
Chair, Go-Ahead Group

He or she who shouts the loudest?

Confidence can be a misleading quality and we have found that aggression, arrogance and egocentricity undermine rather than lead to success. Sir Patrick Brown, Chair of Go-Ahead Group said: “People who have blind ambition tend to get very bitter when they miss out on what they see as a step along the way to the top job, and that often affects their performance.” A balance between inner strength and outer confidence is demonstrated by the highest potential future CEOs. Shyer, quieter people with potential may miss opportunities.

The view of Mark Clare, CEO of Barratt Developments: “Women have to be ‘outstanding’ to get there compared to men” was a theme that consistently emerged from our interviews.

Not just DNA: CEOs are made

Almost all respondents agreed that while the raw materials must be present, success occurs when high potential individuals are exposed to a broad range of challenges early in their career. Anthony Habgood, Chair of Reed Elsevier and Whitbread explained: “A good CEO often has had a broad range of experiences in his / her career, across functions and geographies, as well of course as having had P&L responsibility over many years.”

This could go some way to explaining the increased challenge for women – with experience and responsibility gained during late twenties and early thirties being so important – how do organisations ensure that women do not miss out on opportunities?

Poor CEO succession planning is failing corporate futures

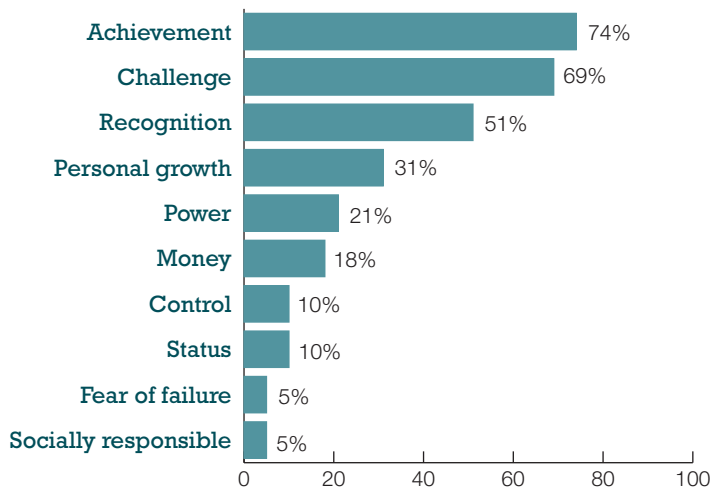
Given the complex characteristics-set and ‘drive’ required of the future CEO, and the resultant challenge of identification, it is perhaps no surprise that only 8% of respondents rated their succession planning as excellent. “I don’t think that many organisations do it [succession planning] well...those that do, work hard from graduate level to put employees in situations to adapt and learn.” Nick Buckles, CEO, G4S. With the likelihood that governance in the UK follows the new SEC ruling in the US stipulating detailed disclosure of succession plans, improvements in this area must be made.

The DNA of future CEOs reveals hidden complexities

CEOs of the future have complex and creative problem solving profiles, driven in the most part by a desire for challenge, achievement and recognition. The desirable drivers of the highest potential individuals are difficult to spot. Organisations need not only the know-how to identify and assess talent, but also the means to develop it.

We asked respondents to pick the top 3 drivers for potential CEOs.

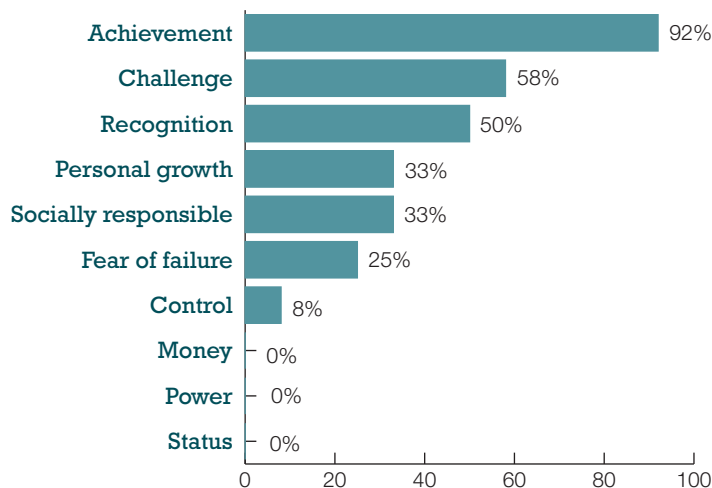
Please pick the top 3 potential drivers / motivations for would-be CEOs



When asked about the drivers for CEOs of both genders, money was seen as a top driver by 18% of respondents, status by 11% and power by 21%.

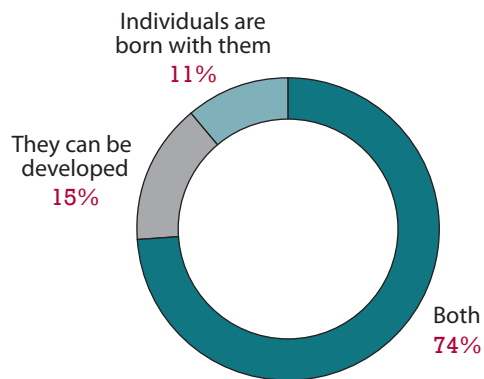
Although two thirds of our survey respondents saw no difference between the drivers for men and women to become CEOs, those that did see a difference dismissed money, status and power as important motivators for female CEOs in-waiting.

If there is a difference between men and women, please pick the top 3 potential drivers /motivations for would-be female CEOs



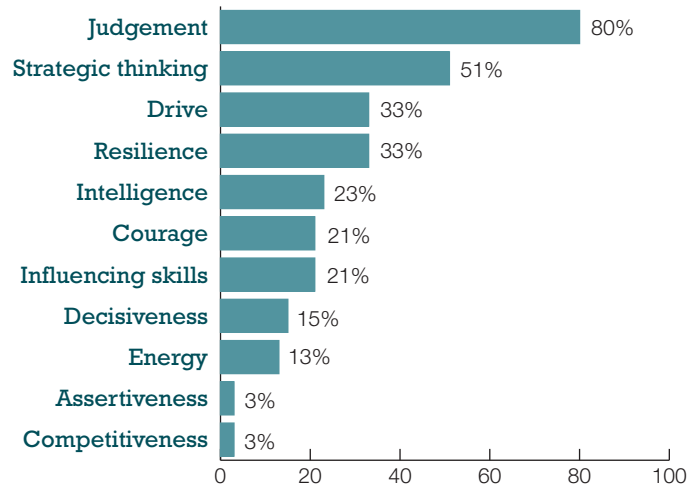
Most notably of all, only 1 in 5 survey participants thought that future CEOs, whatever their gender, are born with all the drive they need to become business leaders. The majority agreed that it was more often the case of “a bit of both”; CEOs may be born with some drivers and develop others. They may have raw talent, but this needs to be identified, encouraged and nurtured.

Can you develop these drivers or are future CEOs born with them?



When asked to pick the top 3 characteristics that indicate CEO potential, perhaps unsurprisingly, judgement and strategic thinking were rated as the most important and yet neither are attributes that necessarily present themselves to managers. In fact, as more forthright colleagues clamour for senior approval, they could be missed altogether.

Please pick the top 3 characteristics you have seen in those with future CEO potential



“The key characteristics I look for are calmness under pressure and the ability to focus down onto what’s really important. Potential CEOs also need resilience and the ability to metaphorically take a punch.”

Adam Crozier,
CEO, Royal Mail

Potential CEOs are cerebral not competitive

It’s what’s on the inside that counts: intelligence, courage and influencing skills were rated significantly higher than competitiveness and assertiveness, which hardly featured as important for potential CEOs. This implies a subtlety of approach: strong but not vociferously so. Adam Crozier, CEO of Royal Mail elegantly described the balance “The key characteristics I look for are calmness under pressure and the ability to focus down onto what’s really important. Potential CEOs also need resilience and the ability to metaphorically

take a punch. Leaders need steeliness and an air of certainty. Although leadership is all about teamwork these days, someone has to ultimately take the key decisions.”

Becoming a leader, it seems, is less about fighting one’s way to the top – and more about thoughtfully and persuasively engaging others to produce results.

Expanding on the theme of inner strength, Steve Marshall, Chair of Balfour Beatty said: “Potential CEOs need to have a deep inherent sense of personal confidence. This is not about being introvert or extrovert, it’s about being extremely secure in oneself.”

Future business leaders need emotional depth

When asked what they would look for in a potential CEO, interviewees painted an intriguing picture of tomorrow’s leaders. Their comments revealed the need for succession planners to dig deep into the psyche and behaviour of likely candidates.

For our interviewees, the defining features of potential CEOs include good listening skills, the ability to reduce complexity, analytical skills, common sense, optimism and self-belief. Others referred more specifically to the necessary ability to “fly high and deep dive” as well as the need to have “forensic knowledge” and be “inclusive in strategy and excellent in execution.”

It also emerged that would-be CEOs need to be in touch with their emotional side – to have, in the words of today’s business leaders, “empathy”, “compassion” and “emotional intelligence”.

Previous research, conducted by Korn/Ferry’s Leadership and Talent Consulting Team, revealed that once a manager rises in the ranks, the more important ‘soft’ leadership skills are critical to their success. We found that about one third of senior executives derail or plateau at some point – most often due to an emotional deficit such as the inability to build a team or regulate their own emotions in times of stress. Low tolerance for ambiguity, low ability to deal with high complexity and low composure under pressure are, in fact, consistent characteristics in unsuccessful leaders.

“Potential CEOs need to have a deep inherent sense of personal confidence. This is not about being introvert or extrovert, it’s about being extremely secure in oneself.”

Steve Marshall,
Chair, Balfour Beatty

The challenge for succession planners

In our last contribution to the leadership debate: “What makes a great CEO?“, we identified the ‘X Factors’ or mission critical competencies that are needed to go from ‘good’ to ‘great’. A ‘great’ CEO:

- has the vision of where the company is going, not just of the next year’s financials
- delivers financial performance, appreciating this is always necessary – but alone is not sufficient
- recruits, retains and motivates other talented people
- is smart
- has an eye for detail without losing sight of the bigger picture
- has a realistic view concerning time frames
- has integrity
- is not afraid to stamp their own style on an organisation
- has energy and resilience
- understands that there is no single model

As we have seen so far, our new research findings corroborate and re-emphasise the importance of these factors, and also show them to be indicators of future potential. In particular strategic thinking, an eye for detail and the bigger picture, integrity, resilience and being smart are all identified as necessary components of CEO DNA.

But this report goes further to uncover a range of less immediately apparent traits that set successful candidates apart from the pack.

Helen Alexander, NED of Rolls-Royce and Centrica, mentioned the need to have “a degree of humility – both listening skills and the ability to take ideas from others.” Martin Read, NED of Invensys, Aegis Group and Lloyd’s of London also talked about “listening skills and “knowing what your weaknesses are” as important for future CEOs.

Alan Parker, CEO of Whitbread said: “It’s important to be a people person with humility”, while one HR Director added: “CEOs need the honesty to recognise they don’t know everything – and therefore can accept having smarter or complementary people around them.”

“It’s important to be a people person with humility.”

**Alan Parker,
CEO, Whitbread**

And according to Ian Smith, Former CEO of Reed Elsevier: “There needs to be openness to learning. It’s a paradox as in order to learn you need to make yourself vulnerable – but great leaders walk a tight rope between being open to learn (vulnerable) and striving forward.”

Here, there is a striking parallel with previous research by the Korn/Ferry Institute. In our 2008 White Paper “Using Learning Agility to Identify High Potentials Around the World” De Meuse, Dai, Hallenbeck and Tang underlined the importance of ‘learning agility’ as a predictor of high potential in business executives. Learning agility is, in simple terms, the ability to learn from experience and to quickly adapt to, as well as drive, change.

Successful executives learn faster than those who ‘derail’, not because they are more intelligent, but because they have the necessary skills and strategies, and are therefore ‘learning agile’. By contrast, those that do not learn from their jobs, and simply repeat their previous performance in each new role, will never become the most effective leaders.

So, those responsible for succession planning face a major challenge, not least when it comes to distinguishing between “high professionals” (Hi-Pros) and truly “high potentials” (Hi-Pos).

The fundamental question is: how can listed companies assess learning agility in leadership candidates – or pick up on the complex range of attributes that define tomorrow’s CEOs?

He or she who shouts the loudest?

Those who 'shout the loudest' may not necessarily be the best candidates for CEO jobs. Confidence can be a red herring for succession planners – and women may have to adopt different strategies to be heard. Perfect candidates strike a balance between inner strength and outer confidence.

The challenge for Boards is to adopt processes which ensure they accurately assess potential. Without scientific methods of evaluation, it may be overlooked in some and equally be over-estimated in others. Supreme confidence will always catch attention. It can, however, also be the undoing of the ambitious executive.

Companies fail to prioritise people skills

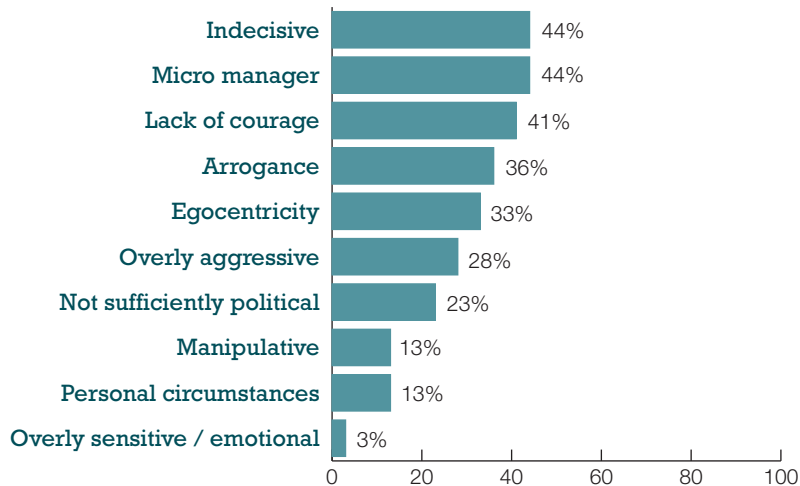
Our research suggests that over-confidence can work against potential CEOs in their climb towards the top. Among the main reasons given for failure to reach CEO potential are arrogance, egocentricity and aggression.

By contrast, the opposite – being overly sensitive/emotional – hardly scored at all as a disadvantage for potential CEOs. Instead, the biggest barriers to success are seen to be indecisiveness, a tendency to micro manage – and a lack of inner courage.

Celia Baxter, HR Director of Bunzl, said: "People fail when they are too task-focused rather than motivational, making sure that they take their people with them."

Being emotionally attuned to employees – having 'people skills' – emerges as an important characteristic for CEOs in-waiting. However, research suggests that, in the earlier stages of careers, these all-important people skills may not be enough to catch the Board's attention.

What are the 3 main reasons why those with CEO potential fail to achieve the position of CEO?



As a result, this breed of apparent high professionals can only go so far. At some point higher up the executive career ladder, raw talent and ambition become less important than the ability to influence and persuade. Unless promotion decisions are taken with a greater emphasis on emotional competence, those with true CEO potential may fail to reach the short list – often at significant cost to companies.

Nick Buckles, CEO of G4S, put it another way: “I don’t think the need to win is a great attribute. People that want to win too much can do so at the expense of others.”

“It is always quite easy to miss out. Potential leaders who hide or are shy can be overlooked.”

Tim Stevenson, OBE
Chair, Travis Perkins and
Morgan Crucible

Not all leaders crave the limelight

In our “What makes a great CEO?” report, vision and integrity emerged as critical characteristics for successful CEOs. The CEOs and Chairs we talked to through the course of this research re-emphasised the importance of these qualities – and, at the same time, acknowledged the pitfalls of over-confidence, ambition and the trappings of success. One Chairman commented: “You have to really want the job and the challenge of the top role rather than the limelight or the knighthood. There’s no room for ego.”

And according to Mel Ewell, CEO of Amey: “CEOs fail when they believe the success of the company is down to them and not their employees.” There is a fine balance to strike. Some respondents recognised that potential CEOs can also be overlooked because they don’t seize the limelight enough. Tim Stevenson, OBE, Chair of Travis Perkins and Morgan Crucible said: “It is always quite easy to miss out. Potential leaders who hide or are shy can be overlooked.”

The perfect candidate must strike a fine, rare and barely perceptible balance between inner strength and outer confidence.

Women are judged more harshly than men

Some of our interviewees implied that women have to work harder than men to be recognised as successful and competent business leaders.

One CEO said: “Women have to fight very, very hard.”

Mark Clare, CEO of Barratt Developments was more explicit. He said: “It’s much more difficult for women to achieve the CEO role. Those I’ve met in the role are no different to men in terms of drivers, but will often have to make family sacrifices. That is something we are going to have to address.”

Research by Korn/Ferry’s Leadership and Talent Consulting Practice has proved that across the full range of leadership competencies, as an average, women are just as effective as men. This research has found that generally women are perceived as stronger at people and change skills and weaker on strategic skills.

Through our research, people skills have repeatedly been demonstrated as important for the future CEO. Therefore, making sure women with family commitments are not disadvantaged in their career development is likely to be key for Chairs looking to achieve the optimum balance of skills on their Boards.

There's more to a potential CEO than past performance – what got a CEO to the top job will not necessarily guarantee success

High-profile achievements in other roles can be misleading, and may not necessarily equate to leadership skills.

One HR Director used a fitting analogy that reflects the difference between high performers and those with high potential, as revealed by previous studies. He said: "When we look at past performance, we have to look beyond results. If we look at football teams, the best coaches, who make teams win, have often been average players. Performance itself is not always a good indicator; good – as well as bad – performance should be scrutinised and precisely analysed."

Jeremy Roffe-Vidal, HR Director for Cap Gemini, emphasised the importance of a balanced approach "as we are judged for what we deliver today, a future CEO will be noticeable for using his or her energy in a balanced manner, looking equally at both the immediate short term and the post-crisis future. He or she will be able to articulate a dream, without over-selling, without losing today's momentum."

One HR Director mentioned the need for "a deeply grounded ethical baseline" and asked the pertinent question: "Who wants to follow somebody who does not have good values?"

In short, to find our future CEOs, we must look beyond 'traditional' indicators – ambition, assertiveness, performance – to a richer definition of leadership potential and better ways to identify it.

"As we are judged for what we deliver today, a future CEO will be noticeable for using his or her energy in a balanced manner, looking equally at both the immediate short term and the post-crisis future. He or she will be able to articulate a dream, without over-selling, without losing today's momentum."

Jeremy Roffe-Vidal,
HR Director, Cap Gemini

Not just DNA: CEOs are made

While the CEOs of the future may have been born with a certain amount of drive and talent, their genes alone will not take them to the top of the corporate ladder. Once identified, potential must be given precisely the right set of conditions and support to flourish.

In both this latest research and our previous report we have looked in detail at what makes a great CEO or creates the potential to be one. But potential, of course, is just one part of the leadership equation: it can easily be wasted, crushed or forgotten.

Potential can lead nowhere without the right experiences and developmental support

Our conversations confirmed that business leaders are more a product of nurture than nature. One CEO summarised: “It’s not a divine right. Potential can easily be thrown away.”

Alan Parker, CEO of Whitbread added that “your experiences shape you”, while John Allan, Chair of DSG International explained: “To achieve and change things is something that’s acquired early. But life changing experiences can help you develop more of a drive. A ‘steady eddy’ can achieve greatness.”

Paul Walsh, CEO of Diageo, agreed with this theory: “You can educate and develop leadership. Some of it may be in the genes, but it has to be developed.”

One HR Director said: “You are born with the raw material, but you can develop skills that are enablers of that raw material.”

It also became clear that it is critical to develop CEO potential in the right way – to test adaptability and learning agility in a variety of roles. Specifically, many interviewees talked of the need to give would-be CEOs the kind of experience that would demonstrate their capabilities, and P&L experience is extremely important.

“You can educate and develop leadership. Some of it may be in the genes, but it has to be developed.”

Paul Walsh,
CEO, Diageo

As Andrew Formica, CEO of Henderson Group described: “The potential to be a CEO can be nurtured if you’re the right calibre and are given the experience, international exposure and ability to lead.”

Several studies add weight to this viewpoint, and make it particularly relevant to the 21st century. Research shows that the increasingly changing nature of business in the new world of work, characterised by globalisation, competition and technological change, has led organisations to realise that the attraction, management and nurturing of talent and the retention of people are critical issues.

Instead of relying on natural strengths, managers need to develop the flexibility, agility and adaptability to function effectively in the modern business world. Even if the leaders hire the right people for the job, in reality, the content of jobs, especially managerial jobs, changes frequently. To be effective, individuals must continuously develop their skills sets to manage and maintain the ‘person-job fit’.

CEOs rise to challenges – and fear failure

Most CEOs that we spoke to seemed to be driven, above all else, by an enthusiasm for challenge and the desire to make a difference.

Nick Buckles, CEO of G4S, said: “People don’t necessarily set out to do the [CEO] job. They just see opportunities to do jobs more successfully. I never set out to be a CEO, but at each stage I could see that I could do a job better.”

Others felt that difficult challenges were vital to shaping the CEOs of the future. Adam Crozier, CEO of Royal Mail, explained: “Future CEOs are attracted to difficult challenges, even early in their careers. I’m very wary of CVs which seem to show an inexorable rise, with no major obstacles or changes along the way...I like to look for people who’ve been through some tough experiences, because no business goes from A-Z in a straight line and you want leaders who have seen things go wrong as well as right. Taking on difficult challenges gives people a chance to show what they can do and to make a real difference.”

“The potential to be a CEO can be nurtured if you’re the right calibre and given the experience, international exposure and ability to lead.”

Andrew Formica,
CEO, Henderson Group

“There is a balance among leaders of those who have real ambition to succeed, and those who have a fear of failure. A number of people have said that they always live in fear that they would be found out. An old boss said to me that you’re acting 50% of the time that you’re at work.”

**Steve Marshall,
Chair, Balfour Beatty**

Steve Marshall, Chair of Balfour Beatty, had an additional comment: “Cultural drivers can vary in different parts of the economy. In professional services, peer group recognition is a powerful driver, having your expertise respected and celebrated in that particular world. In Plc life, it’s often more overtly competitive, with personal success often measured by how you deliver and rise through the ranks.”

Another interesting point he made was: “There is a balance among leaders of those who have real ambition to succeed, and those who have a fear of failure. A number of people have said that they always live in fear that they would be found out. An old boss said to me that you’re acting 50% of the time that you’re at work.”

His former boss is not alone. In their 1978 paper: “Psychotherapy Theory, Research and Practice”, clinical psychologist Pauline Clance and colleague Suzanne Imes coined the term “impostor phenomenon”. They gave this name to the high-performing but inwardly anxious professional women that attended Clance’s group-therapy sessions.

Clance wrote: “These women do not experience an internal sense of success. They consider themselves to be ‘impostors’ – despite excellent academic and professional achievements. Early on, this phenomenon was associated with women, a belief that persists today. But subsequent studies, including another by Clance, have shown that men are affected in equal numbers.

There may also be truth in the statement, by one HR Director that “a good CEO is a ‘paranoid freak’, if we see it as a drive to continuously do better.”

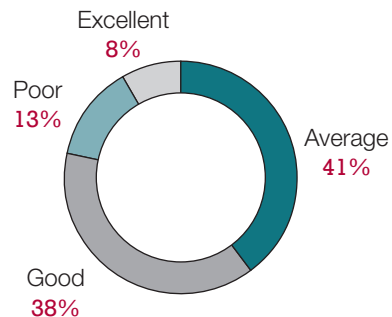
Clearly, CEOs do not begin their careers fully formed. The key to effective succession planning is exposing the right people to challenging opportunities that foster talent, test capabilities and learning agility – and unlock potential.

Poor CEO succession planning is failing corporate futures

CEO succession planning needs to be improved in most organisations. Without a more sustained approach, companies will significantly reduce their chances of meeting growing business challenges.

Only 8% of our survey respondents rate their succession planning as excellent. Professor Joseph L Bower, Baker Foundation Professor of Business Administration, Harvard Business School was “appalled to learn recently that 60% of...large US companies...have no CEO succession plans in place....I’ve never been anywhere that succession planning was well handled.”

Please rate your organisation on how well it is prepared for succession for the top jobs, especially CEOs



The CEOs and Chairs we spoke to were keenly aware of this issue, and agreed that Boards need to take succession planning more seriously. Although they variously describe succession planning as “hugely difficult”, something “large companies in general need to improve” and “very few get right”, one CEO said: “I’m amazed how little interest the Board takes in succession.”

“I’ve never been anywhere that succession planning was well handled.”

**Professor Joseph L Bower,
Baker Foundation Professor of
Business Administration,
Harvard Business School**

One Chair commented “If the CEO isn’t looking at succession, nobody else will look at it.” This raises the question of who should be responsible for CEO succession and what role should the incumbent CEO play in this process? Views from our interviewees differ from sole ownership and full accountability by the Chair, to collective ownership by the Board or Nomination Committee.

The UK Code of Conduct is not explicit on who is responsible for CEO succession planning. Clear direction on accountability would remove potential ambiguity.

Senior executives misjudge their capability

Research has shown senior executives to be inaccurate in their evaluation of themselves. In a recent Business Week survey: “Ten years from now”, Peter Coy found that 90% of 2,000 executives perceived themselves to be in the top 10% of talent. In the CEO succession debate, it is all too easy to be persuaded by the confident rising executives who believe in their own PR, but have a misaligned perspective of their own talents relative to the CEO role. Never has it been more critical to incorporate rigour in the evaluation process leading to a change in the top role.

External or internal? It depends

In our survey, respondents were split as to whether external or internal appointments are more successful.

Most of those interviewed were of the opinion that the most effective choice for the CEO role, every time, will depend on an accurate reading of the specific situation.

Mike Campbell, HR Director of easyJet, said: “It depends on the stage of strategic development.” Tom Brown, HR Director of Rolls-Royce, thought that it “depends on the nature of the challenge the company faces.”

External appointments can help bring about change

If the company’s specific situation demands change, then comments indicate that external candidates will make a greater impact.

External appointments also provide a benchmark against which internal talent can be measured – and can clarify the benefits or risks of promoting from within.

James Cullens, HR Director of Hays, said: “[External appointments] generally bring a new approach and breadth if they are the right candidate.” For Arnold Wagner, former HR Director of Smiths Group, “Fresh thinking and less baggage can offset the potential advantage of continuity.”

Internally appointed candidates, however, have the clear advantage of inside knowledge. Julie de Groot, HR Director of Next Retail, said: “They [internal candidates] understand the business intricately already.” While Sheila Maxwell, HR Director of Lonmin, added that they “already have the trust and respect of management.”

Detailed assessment means more effective appointments

As we have already extensively reported, the analysis of ‘softer skills’ is essential to identifying the best possible CEO candidates.

In particular, it is important to assess learning agility: a candidate’s ability to learn from experience and, as we have seen, a key indicator of high potential. In our 2008 White Paper “Using Learning Agility to Identify High Potentials Around the World”, De Meuse, Dai, Hallenbeck and Tang, referred to CHOICES[®] as one of the most frequently used measures of learning agility. This instrument contains more than 81 survey items and measures mental agility, people agility, change agility and results agility.

According to the report: “Mental agility refers to individuals who are comfortable with complexity, examine problems carefully, and make fresh connections between different things. It boils down to creative and fast problem-solving skills. People agility refers to individuals who know themselves well and can readily deal with a diversity of people and tough situations – as they are so self-aware, as well as aware of what motivates others, they tend to be very effective influencers and team builders. Change agility refers to individuals who like to experiment and can cope effectively with the discomfort of rapid change.

They not only adapt quickly to changing conditions but are also prone to enjoy and drive change. Finally, results agility refers to those individuals who can quickly re-prioritise their agenda in face of a changing environment to effectively achieve results. These individuals tend to deliver results in first-time situations by inspiring teams and having significant impact.”



People Agility

- Politically agile
- Skilled communicator / conflict manager
- Self aware / personal development is important
- Situationally responsive

Change Agility

- Tinkerer. Never satisfied
- Takes the heat of resistance
- Introduces new angles
- Leads change

Mental Agility

- Comfortable with complexity / ambiguity
- Finds solutions for tough problems
- Reads voraciously
- Curious 'to a fault'

Results Agility

- Has drive / personal presence
- Adaptable
- Builds high performing teams
- Beats 'the odds'; resourceful

Notably, this standardised assessment of learning agility can be used in different regions of the world to identify high potential candidates. And interestingly, a comprehensive study found no significant difference in learning agility assessment scores between men and women, young and old – across the world’s four major regions.

Companies have a ‘natural resistance’ to succession planning

With such methodologies in place, why do companies find CEO succession planning so difficult to implement and so easy to neglect? First of all, most companies tend to think about CEO succession as an event as opposed to a continuous organisational process that may affect several layers and take a number of years to put in place. Secondly, they tend to deal with it on a transactional basis, only addressing CEO succession reactively. This is a recipe for a disaster that can dramatically destroy value in a corporation.

One Chairman we interviewed said: “Sometimes you end up with the decision being taken to appoint the best qualified insider, rather than the best qualified candidate for the role (like a divisional head who hasn’t got experience of strategy). You need to have objectivity, to do it cleanly and fairly.”

And another senior CEO even thought that “institutions, the people, have a natural resistance to it.” The challenge is to ‘de-sensitise it’ by taking away the emotional attachment and perceived disloyalty to the current CEO and make it an expected ‘Best Practice’ process. In line with recent SEC changes in the US, should this be the next governance stipulation introduced for UK listed organisations?

What is clear is that it is important to get promising people into roles that stretch them – as early as possible.

Helen Alexander, NED of Rolls-Royce and Centrica, thought that companies have to “take seriously the kind of roles people need [experience in] to get to the top.” Many more interviewees emphasised that future CEOs must be given broad experience, international opportunities, if possible, and exposure to the Board. And above all, they should be made to feel that attaining the role is a real possibility.

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Helen Alexander,
NED, Rolls-Royce and Centrica

“I think the big FMCG companies like Mars, P&G, and Unilever have been the best at succession planning, doing it in a very structured way...The only negative about this...method...is that it can deter more entrepreneurial people.”

**Adam Crozier,
CEO, Royal Mail**

Various CEOs we spoke to thought that big companies like BP and Shell or “broad and complex businesses like Tesco” are better at succession planning: “they identify people early and give them different challenges, refining their view of them as they progress.”

Adam Crozier, CEO of Royal Mail, added: “I think the big FMCG companies like Mars, P&G and Unilever have been the best at succession planning, doing it in a very structured way...The only negative about this...method...is that it can deter more entrepreneurial people.”

According to Steve Marshall, Chair of Balfour Beatty: “Black & Decker wrote the book on a lot of organisational development work. Not only did they move people between operating companies, they moved them across different functions quite aggressively. Grand Met tended to back people with high potential by putting them into senior roles very quickly and seeing if they sank or swam. Many of those that swam are now in the top ranks of British industry.”

Some companies, however, have a more straightforward approach to succession planning. Graham Mackay, CEO of SABMiller said: “Our succession comes from people who have worked their way up the organisation very logically.”

And Diageo’s CEO Paul Walsh said: “I was offered development opportunities and chose to seize them. Options were made clear and feedback was never lacking!”

But in smaller, more specialised businesses with simpler structures, as Barratt Developments’ CEO Mark Clare pointed out: “People are typically only equipped in that specific industry, so it is more difficult to assess whether they are capable of progressing to the CEO position.”

Succession planning must meet urgent business challenges

The fact remains that the role of the CEO has never been easy – and is arguably becoming more difficult. In his article “Solve the succession crisis by growing inside-outside leaders” for the Harvard Business Review, Professor Joseph L. Bower wrote: “CEO turnover is on the rise globally, and studies show that the proportion that can be traced to inadequate performance is steadily trending upward.”

Another pressure, believes Bower, comes from the stock market, with institutions counting for an increasing share of ownership. As holding periods get shorter, these institutional investors are looking for greater short-term returns.

Other factors have recently come into play. Business hierarchies, especially in Europe, are becoming flatter, encouraging more inclusive ways of working. Of course, challenging economic conditions have also brought their own significant pressures. All of which, to some extent, are refining the qualities and skills sets that make a great CEO.

As we have seen, many of these qualities may not be immediately evident or easy to identify, revealed only by detailed assessment. This makes a long-term approach to CEO succession planning one of the most critical responsibilities of any Board.



Conclusion

We have identified that future CEOs are rarely driven by money, status or power but rather by achievement, challenge and recognition; drivers that often need to be discovered and developed.

Most CEOs are born with this 'raw DNA' but it is essential that these drivers are honed by the 'right kind' of experience or else they may remain untapped. These experiences create the necessary opportunity to test learning agility which we have established to be critical to leadership success.

As you look around your organisation, are you confident that the right people have been identified for the top job? Are you engaging them in the essential challenges to allow them to flourish? How are you addressing the deficit in experience that women who start a family will face.....or do you just accept, 'that's life'?

Board members continue to rely heavily on subjective views of future potential with only a small minority of organisations applying sufficient rigour to their CEO succession plans. With the recent confirmation by the SEC in the US stipulating that publicly listed companies can no longer be exempt from CEO succession disclosure, the pressure is now on the UK to reconsider its governance. If this was to be imposed in the UK it would demand a fundamental shift in how UK listed organisations approach CEO succession. As Joseph L Bower stated: "CEO succession is a process not an event."

With succession being so critical to ongoing realisation of shareholder value, can organisations afford to potentially miss their next generation CEO?

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