

Do You Already Know Your Next CEO?

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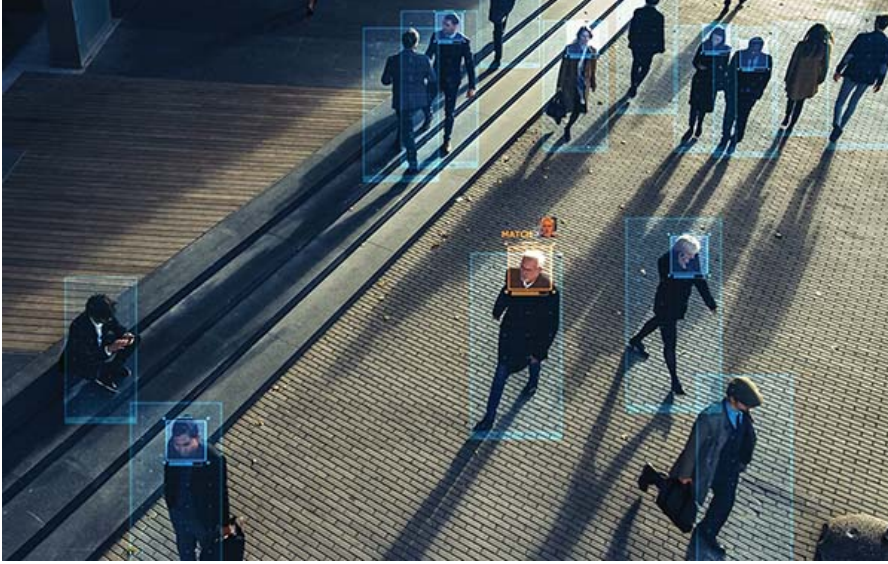
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An internal candidate may be your best choice, but make sure you evaluate the individual carefully.

Faced with a CEO succession, many corporate directors hope an internal change agent will emerge as a viable candidate for the role. What specifically are boards looking for in these internal candidates? Our experience with CEO succession over the last several years tells us that four priorities increasingly rise to the top:

- **The ability to develop strategy and oversee strategy execution at scale.** It is one thing to create and execute a strategy for a business line or a business unit, but another altogether to do so for an entire enterprise. Boards want CEOs who can unite a company behind a strategy and then bring it to life in the market.
- **The ability to make difficult decisions.** Decisions to act — or not act — have serious consequences, and boards want CEOs who can thoughtfully but efficiently make decisions, especially difficult ones, like selling business units, laying off employees and other hard but necessary acts.
- **Evidence of followership.** It is becoming increasingly rare for workers to follow someone just because of their title or role. Today's leaders need to be able to create followers through their personality, behavior and actions. Failure to do so will increase employee turnover to dangerous levels.
- **The ability to attract, select and develop top talent.** Separate from developing followers, leaders must also have the ability to put the right people in the right job at the right time. Choosing senior leaders is harder than it seems. There is a critical need to balance skills and personalities in a way that makes a strong, cohesive team.

Data shows that approximately eight out of 10 CEOs come from within, but the high failure rate of executives in the corner office tells us that many internal candidates who look good on paper ultimately lack the skills and expertise necessary to thrive as a CEO.



How could this be? The

reality is that, in many organizations, leadership development practices fail to adequately develop executives for the complexity of senior roles. Also, the assessment processes used to select them for those senior roles — and ultimately for the CEO position — fail to fully assess them. Too many poor leaders rise to the top, and too many boards don't realize it until it is too late.

Nevertheless, strong internal candidates do exist in your company. There will always be visionaries within an organization, people who are excited for — and motivated by — change for the better. They are the ones who have a vision of how things could be improved, as well as the willpower and drive to make it happen. They keep an ear to the wind and stay ahead of changing best practices and ideological change.

These are your internal changemakers, your outside-thinking insiders. They may already be in positions of power, or they might be rising stars within your ranks. Given the chance, they can enact organizational change. And with their existing relationships and established reputations, they often do a better job of getting stakeholders onside than an external hire could.

Outside-thinking insiders are also more likely to be rapidly effective, as they won't need to get up to speed with the nuances of company culture, the business model and areas where change can take hold. As members of the C-suite, they will also have a better understanding of where the organization can afford to experiment with change — they know where revenue is generated in the organization, meaning they know what to protect throughout the process to finance true, long-term transformation.

But how do you decide which of your internal leaders might be the one who can step up into the CEO role?

Define Your Needs

Great CEO succession starts with a success profile — a documented view of what your organization needs in its next CEO. While it's difficult to predict the critical requirements for your next CEO five or six years in advance, a success profile will help you think about future needs systematically and align the board early in the process.

The board is solely responsible for appointing the CEO, so members need to discuss the success profile in detail. Unless the board defines and aligns to a robust success profile, you'll be flying blind as you develop and choose your next CEO.

This starts with the organizational strategy. What are your organization's long-term ambitions? What's the trajectory of the wider market and society? And how will changes force your strategy to evolve in the next few years?

With the board aligned around this long-term strategic view, you can debate the actions your next CEO will need to take to deliver on the strategy. Clearly defining these expected deliverables will let you think about the critical experiences the candidates will need to have if they're to be successful. Only then will you be able to define the skills — functional, leadership and personal — your next CEO will need.

Together, the strategy, actions, experiences and skills form your success profile. But it shouldn't be a static document — imagining the future is imprecise, and development and assessment evolve continuously. So it's critical to revisit and refresh your success profile regularly.

Assess the Potential of Internal Candidates

Once you've defined what you want from your next CEO, you should assess your current leaders to understand who has the potential to meet those needs and what skills they'll need to develop.

When assessing against your success profile, you should include interviews with multiple experts, psychometric tests and 360-degree feedback to measure six criteria:

- Intellect, problem-solving and systems thinking
- Ability to work well with ambiguity and conflict

- Ability to learn continuously
- Drive to excel at an extremely high level
- Emotional intelligence and ability to influence others
- Leadership style versatility

The goal is to produce a list of potential internal candidates to work with and tailored development plans for each to steer them in the right direction.

To be most effective, it's best to run this assessment early. By doing it four or five years before changing CEOs, you'll leave enough time for real candidate development. It also leaves enough time to recruit, integrate and develop talent if you find you need to bring in new leaders, such as if you don't currently have anyone with CEO potential or you lack a diverse pool of candidates.

Gauge Candidate Readiness

When it comes time for a change, the board has sole responsibility for choosing the next CEO. It's a decision that will define the legacy of your organization, with the potential to drive growth for years to come or stifle every aspect of the business.

Making the right choice requires understanding more than a candidate's potential — you need to understand their readiness.

You'll want to prove whether candidates have the skills and experiences needed to tackle the company's priorities and deliver the strategy. You'll want to confirm they have the traits most associated with successful CEOs. And you'll want to probe their cognitive and decision-making abilities.

While traditional assessment methods, such as psychometric tests, can predict capability in many of these areas, direct observation will show you whether your candidates are really ready. We encourage our clients to make contextual immersion part of the assessment process, putting a CEO candidate in realistic scenarios that actors play out.

By asking the candidate to step into the role of CEO in a realistic scenario, you see how they would perform in the real world. This is particularly useful in uncovering how your candidate:

- Develops a strategy.
- Oversees strategy delivery.
- Nurtures culture.

- Leads through values and purpose.
- Responds to challenging people.
- Motivates and builds followership.
- Attracts and retains top senior talent.

A Continuous Process

There's no doubt that choosing a new CEO is the biggest decision a board will make. To ensure such a change runs as smoothly as possible, CEO succession planning should be a continuous process that ensures your board is developing a group of high-potential leaders.

By starting with an unclouded vision of the skills and characteristics your next CEO will need, your board will be able to find candidates early and nurture them to maximize their success. And by keeping that vision in mind as you practically assess those candidates, when the time for change comes, you'll find the right CEO to drive value for all stakeholders.

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