Russell Reynolds Associates

CEO Succession: Exploding Five Myths

The State of CEO Succession Planning

Leadership is the life blood of all organizations. There is no more important pathway to successful leadership development than succession planning. Although the stakes are immeasurably high, succession planning is still an undervalued corporate agenda item.

Which begs the question: 'Why?' Top performing organizations understand that succession planning is a key pillar of corporate performance that transcends short term emergency planning scenarios. According to the National Association of Corporate Directors, 57% of public company directors report the need for improvement with CEO succession planning. However, many CEOs and boards are skeptical. Moreover, there are widespread myths about proactive, high functioning CEO succession.

Russell Reynolds Associates spoke with board directors, CEOs, and CHROs from over 100 leading companies to better understand the current state of CEO succession planning. While there was huge variability to companies' approach to CEO succession, we identified the five most common myths related to leadership development and succession that have a considerable hold over boardroom discussions and C-suite engagement:

Myth **#1:**	CEO succession plans are an off-the-shelf solution, not multi-year leadership development
Myth **#2:**	The best future CEO looks like the current CEO
Myth **#3:**	CEO succession is not intertwined with leadership development
Myth **#4:**	Once the CEO is identified, the board's role is done
Myth **#5:**	The board is fully aligned on future corporate strategy

By acknowledging and avoiding these pitfalls, boards and leadership teams can overcome historical barriers to successful CEO succession.

57%

of public directors report the need for improvement with CEO succession planning

Source: National Association of Corporate Directors1

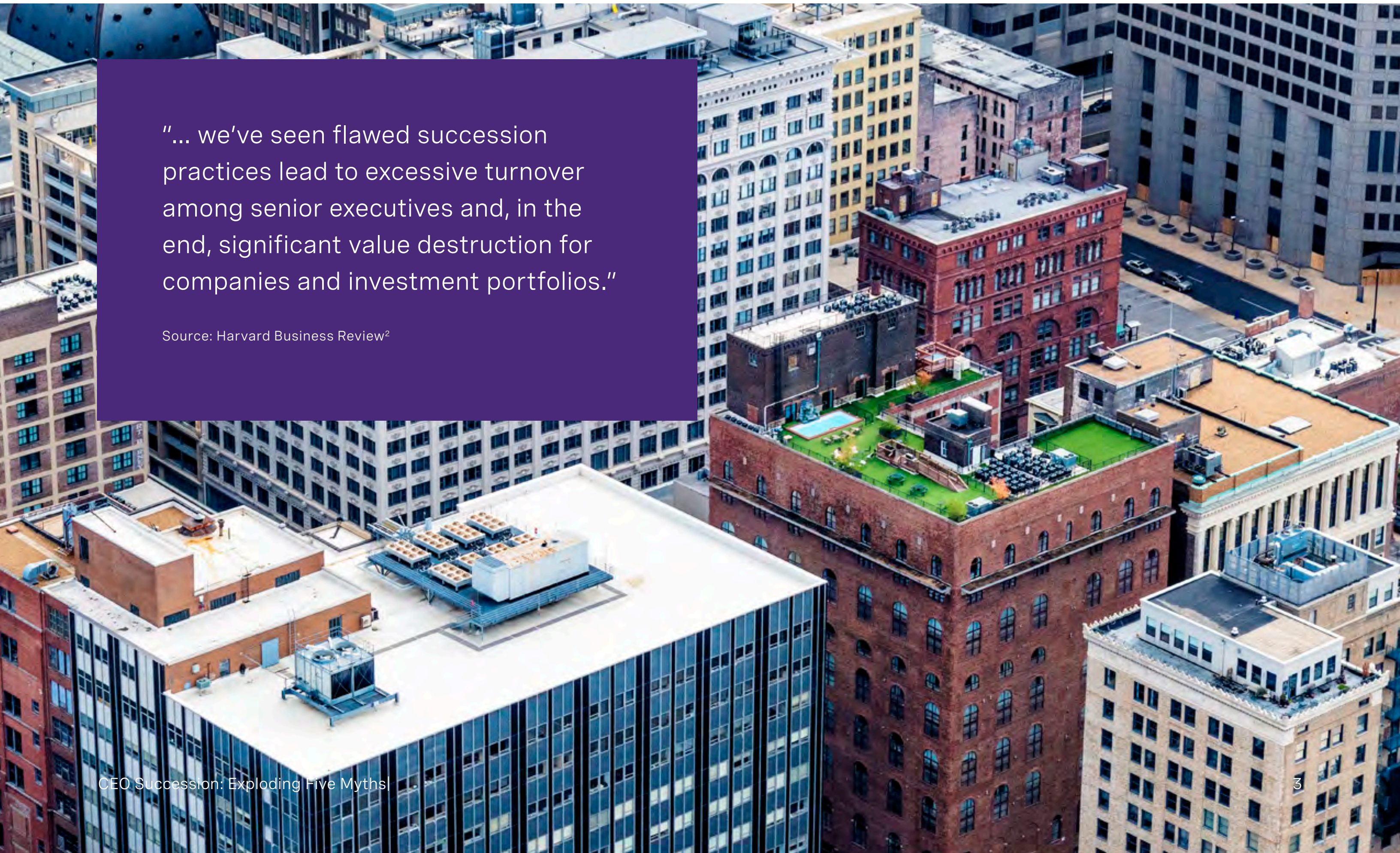
1		
	Myth	CEO succession plans are an off-the-shelf solution, not multi-year leadership development
	Reality:	CEO succession is core to retaining and attracting best-in-class talent

Too often, CEOs believe boards will be distracted by putting an artificial CEO succession process in place. Or worse, they suppose CEO succession is equivalent to setting the departure date for the current CEO.

In reality, a genuine succession process retains and develops the best and brightest talent, creating high functioning C-suite leadership teams.

Equally important, succession planning is the best way to align enterprise value creation with leadership talents. To optimize performance today, great organizations focus on CEO succession, whereas underperforming companies defer the inevitable into the future.

To be effective, CEO succession needs to focus on achieving the forward-thinking enterprise strategy, not the business realities of today, or even yesterday. By developing internal talent through assessment, coaching, and rotational opportunities, stress testing the strategy for the future, corporations can de-risk their CEO transitions. Using the future lens, companies often need to look deeper in the organization, or potentially outside, to begin developing future CEOs.



"... we've seen flawed succession practices lead to excessive turnover among senior executives and, in the end, significant value destruction for companies and investment portfolios."

Source: Harvard Business Review[2]

2	Myth	The best future CEO looks like the current CEO
	Reality:	Attempting to clone the current CEO can hinder the future success of the organization. The next CEO will require different capabilities to achieve the future strategy

The future requires a leader with the skills and capabilities to lead in a dynamic, changing market. A successful CEO may have shepherded the company to today's destination; however, casting that image for the future is looking retrospectively, not prospectively. The successor CEO must address the future, not the past.

Mistakes inherent to this perspective include:

- Placing a premium on past, not future, CEO performance.
- Narrowly defining the CEO profile, thereby limiting diversity.
- Neglecting to evolve beyond a hero culture or legendary leader.

In addition, we found that the success profile for future CEOs often hinges on the current CEO's performance. In other words, if the company is performing well, boards tend to look for the same type of leader, whereas if the company is underperforming the market, boards swing the pendulum far from the current profile.

It is critical for boards to define the ideal profile with future market challenges and opportunities in mind, while also balancing the needs of employees and shareholders. Boards need to boldly embrace the CEOs of tomorrow, creating more opportunities for diversity.

3		
	Myth	CEO succession is not intertwined with leadership development
	Reality:	Leadership development is core to CEO succession; the two are inextricably intertwined

Companies need to place a high priority on leadership development to optimize current performance, as well as prepare for long-term CEO succession. This topic is often considered taboo, as it is falsely correlated with setting unrealistic timetables for the organization or the leadership team.

On the contrary, intense long-term leadership development is, at its core, the best preparation for future leadership roles. In fact, 70% of CEO searches select an internal candidate, so ensuring that the internal leadership team is well-prepared is crucial.

70%

of CEO searches land on an internal candidate*

Source: Russell Reynolds Associates[3]

*The internal candidate was not the first choice in all such cases.

Key questions to consider when thinking about executive leadership development:

- Is there an assessment program to identify high potential executives?
- Is it yielding a return on investment?
- Is the organization reaching multiple levels down into the organization to fast-track diverse executives for senior roles within the next five years?
- Are the most senior leaders getting the necessary cross-functional, cross business unit experience and exposure to the board of directors?

4	Myth	Once the CEO is identified, the board's role is done
	Reality:	A disproportionate number of new CEOs fail during their first 18 months at the helm

Prior research by Russell Reynolds shows that, on average, 13.1% of new CEOs leave in under three years in the S&P 500. Given the cost and investment in CEO appointments, these are expensive misses. When looking at just external CEO appointments, the numbers jump to a 17.2 percent departure rate in three years—a notable rate of failure.

Research completed by Harvard Business Review and Corporate Executive Board point to a disproportionately high failure rate for new leaders; 50% to 70% of executives fail within 18 months of taking on a role, regardless of whether they were an external hire or promoted from within.[5] In addition, two out of five new CEOs fail in their first 18 months on the job.[6]

Both research studies highlight the importance of transition plans and onboarding, regardless of whether the hire is an internal promotion or an external appointment, as well as the importance of leadership development among internal candidates, given their increased success rate.

It is critical that the board designs a transition plan to successfully support CEO onboarding, including providing an in-depth cultural orientation, executive coaching, board orientation, and team building activities.

There are short-term and long-term transition activities that can pay outsized dividends and accelerate CEO impact, including:

- Establishing an effective relationship with the board and executive leadership team.
- Translating the culture of the organization for the onboarding CEO.
- Understanding the strengths and development areas for the new CEO related to their leadership style.
- Setting clear expectations for performance over the first year, two years, and five years.
- Establishing a coach for the CEO.

13.1%

of new CEOs leave in less than three years. When looking at external appointments, this jumped to 17.2%.

Source: Russell Reynolds Associates[4]

49%

of companies that improved their performance during the pandemic increased their time spent with executive coaches vs. 26% of organizations that did not improve their performance over the same time frame.[7]

5	Myth	The board and leadership team are fully aligned on future corporate strategy
	Reality:	Boards and executive leadership teams are often not aligned on strategy, nor do they have access to the capital and human resources required to achieve enterprise success and mitigate risk

The global economy was not prepared for the pandemic. That said, its impact was not unique. For decades, Black Swan events have created economic and geopolitical turmoil within major industry sectors, in turn disrupting company growth, innovation, and transformation.

Given these unpredictable periods in the corporate lifecycle of all companies, boards and leadership teams need to be aligned on the corporate strategy to support next generation leadership development and long-term CEO succession. This translates into creating high functioning teams, a competitive advantage that support sustainability, inclusivity, and innovation.

Conclusion

The most critical shortcomings in CEO succession approaches hinge on five key myths that need to be deconstructed for companies to move forward with effective succession management.

Russell Reynolds compiled a checklist around these key myths that organizations can use to help deconstruct them:

Myth #1: CEO succession plans are an off-the-shelf solution not multi-year leadership development.

Reality: CEO succession is core to retaining and attracting best-in-class talent.

- Where is the organization in the succession planning life cycle?
- What is the state of the company's emergency plans?
- Is the organization actively viewing CEO succession as a business capability? How is the organization defining this?
- Who are the key stakeholders in this business capability? How do they work together? How are they accountable to each other?

Myth #2: The best future CEO looks like the current CEO

Reality: Attempting to clone the current CEO can hinder the future success of the organization. The next CEO will require different capabilities to achieve the future strategy.

- Is the organization pushing back on stakeholders who are looking to install a successor similar to the current CEO?
- Is the company overvaluing prior CEO experience?
- Is the depth and complexity of the evolution of the CEO's role being considered when defining the future CEO's profile?
- Is the company taking tangible, active steps toward building a more inclusive C-suite?

Myth #3: CEO succession is not intertwined with leadership development.

Reality: Leadership development is core to CEO succession; the two are inextricably intertwined.

- Is the organization reaching multiple levels down to identify those who might be fast-tracked for senior roles within the next five years?
- Is the company using its leadership bench to feed both emergency and longer-term succession plans?
- Is the organization focusing on the role current leaders can play in helping forge future strategies?
- Are the most senior leaders getting the necessary cross-functional, cross-business unit experience?

Myth #4: Once the new CEO is in the seat, the hard part is done

Reality: A disproportionate number of new CEOs fail during their first 18 months at the helm.

- Is the organization providing focused attention to ensure successful onboarding and transition of the new CEO?
- Is the CEO transition owned by the board? Who are the other key stakeholders?
- What scenarios would trigger 'interventions' at the board level, and what would those interventions look like?
- What tangible benchmarks is the company looking for at the end of the first 90 days, year, two years?

Myth #5: The board and leadership team are fully aligned on future corporate strategy.

Reality: Boards and executive leadership teams are often not aligned on strategy, nor do they have access to the capital and human resources required to achieve enterprise success and mitigate risk.

- To what extent has the company's strategy altered across the last two years?
- What are the key strategic priorities for the organization to achieve?
- Is the organization taking stock of contributions and viewpoints from rising senior leaders?
- What is the nature of transformation required for the company to achieve its strategic priorities?
- Is the company actively training its next-generation leaders to deal with multiple simultaneous 'stacked' crises?

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About Russell Reynolds Associates

Russell Reynolds Associates is a global leadership advisory and search firm. Our 470+ consultants in 47 offices work with public, private and nonprofit organizations across all industries and regions. We help our clients build teams of transformational leaders who can meet today's challenges and anticipate the digital, economic and political trends that are reshaping the global business environment. From helping boards with their structure, culture and effectiveness to identifying, assessing and defining the best leadership for organizations, our teams bring their decades of expertise to help clients address their most complex leadership issues. We exist to improve the way the world is led.

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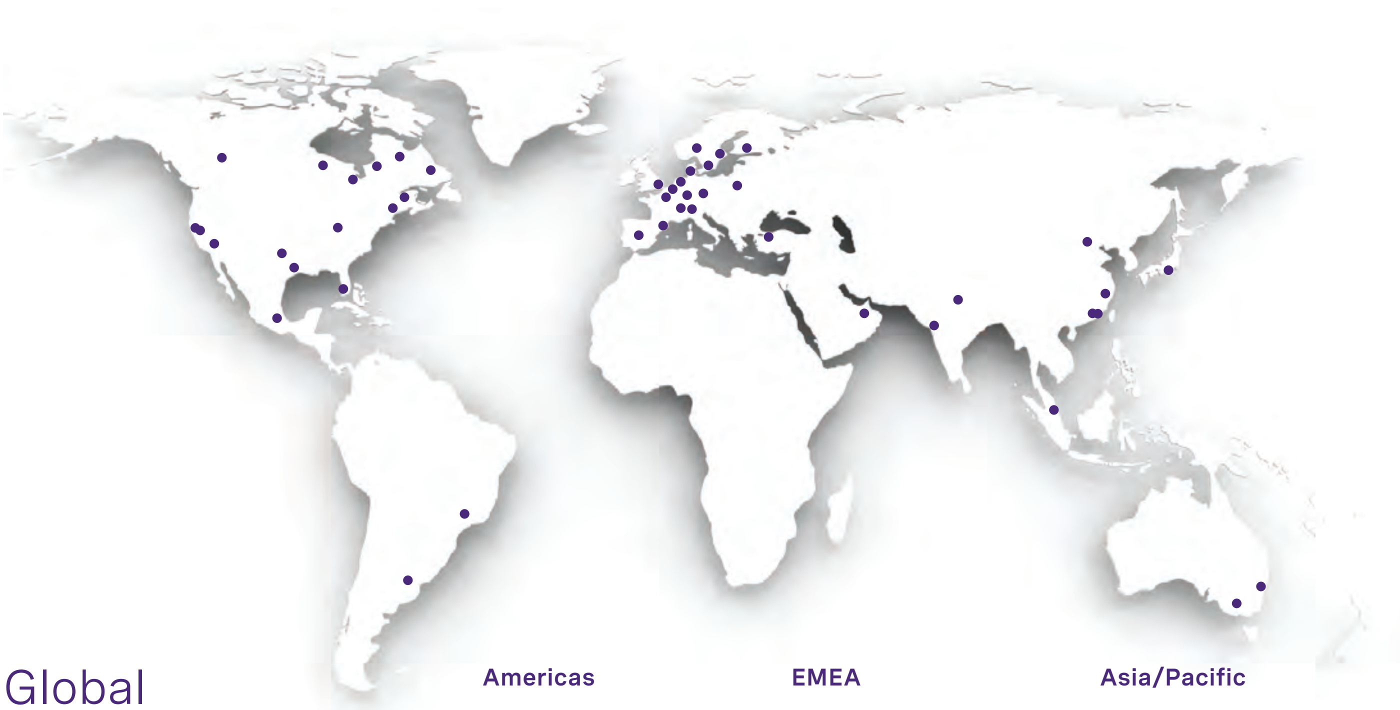

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