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CEO staying power

Boards using Korn Ferry assessments pick CEOs who impact companies 15 months longer than average.

For directors on boards, few moments could be more satisfying than finding the right CEO—a leader who can shift the organization into high gear, set the strategic vision, and make a long-term impact.

But experienced directors know this desired outcome doesn't occur as often as it might. In fact, revolving-door CEOs have become a costly, disruptive bane for organizations. New research has revealed that 40% to 50% of CEO turnovers stem from poor corporate performance, and that rates of forced CEO departures spike during the first two years on the job (Jenter and Lewellen, 2014).

So how can a boards and CEO be certain they are handing the reins to a successor with staying power?

Our firm analyzed the tenure of 188 CEOs who, earlier in their careers, had taken Korn Ferry's battery of assessments and leadership simulations for senior executives or CEO succession candidates.[1]

Candidates who scored the highest on the CEO assessment averaged one year and three months longer as CEOs than those who didn't. (Their average tenure: 5.6 years. See Figure 1.) In fact, 99 CEOs in this study are still in their jobs.

Of interest, when looking solely at those CEOs who are no longer in the role, we see that the average tenures are shorter both for those who scored highest (5.0 years, n = 41) and for those who scored lower (3.8 years, n = 51) on the CEO assessment. This suggests that the tenure distribution for the CEOs still in their roles is positively skewed, meaning that some CEOs have tenures that far exceed the average. That a few CEOs with extremely long tenures bring up the average is also seen in the S&P 500 (Equilar, 2016).

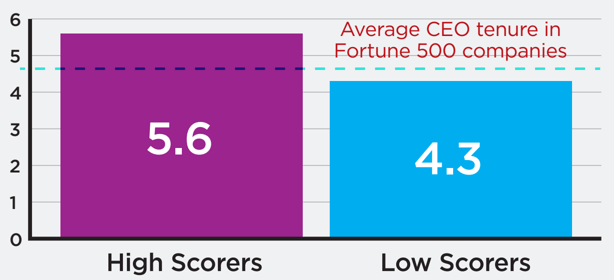
For boards that are seeking transformational leaders to drive strategic change, tenure matters. Executives assessed and recommended by Korn Ferry who became CEOs had tenures 30% longer than those who received low scores.

[1] The 188 CEOs in this sample either became CEOs of the companies that hired Korn Ferry to perform the assessment or were later appointed CEO at other companies that had no involvement or awareness of the assessments. All went through either Korn Ferry's CEO or Senior Executive Assessment of Readiness.

Figure 1

CEO tenure in years.

CEOs who performed the best on the assessment (n = 80) had average tenures that were one year and three months longer than individuals whose performance on the assessment was less impressive (n = 108).



Source: *Fortune* 2015.

Two seemingly opposing trends currently disrupt CEO succession planning. First, CEO tenure is on the rise again, after a steady decline lasting through the 2000s (The Conference Board, 2015). Second, CEO turnover is also on the rise (Challenger, Gray, & Christmas, 2017). It seems the CEO-tenure bell curve is flattening. Whereas before, more CEOs would have tenures close to the average, we now see more extremes for both shorter and longer tenures.

Organizations must identify new CEOs who not only hit the ground running, but who also have the endurance to implement their plans. Boards of directors know tenure can be critical to the success of CEOs and organizations because companies have become global and far-flung, increasingly complex, and often require major transformation to achieve the results desired.

No company wants a CEO to flame out in the first few years. That disrupts and tarnishes the company—and it's expensive. Some estimates peg the damage at $12 million for a small-cap company and $52 million for a large-cap one (Stoddard and Wyckoff, 2008). Other research has documented how CEOs who are forced out by their boards actually get bigger severance payouts than those who leave voluntarily (Yermack, 2006).

To determine who is prepared to handle the intricacies and intensity of being CEO or another executive role, Korn Ferry assessments simulate a condensed year on the job. Participants face realistic business challenges designed to test the specific behaviors crucial to success. They familiarize themselves with industry and company data, complete written exercises and financial tasks, and conduct several strategy and stakeholder meetings that pressure-test their leadership in key situations.

Multiple consultants interact with and score each candidate, and scores are compiled algorithmically. The scoring has been validated worldwide; all participants receive the same rating for the same level of performance (Goff, 2014).

Figure 2

Talent and CEO tenure.

Simulation assessment scores show which competencies most relate to CEO tenure (n = 188).

Our analysis of the 188 assessment scores also revealed what gives CEOs their durability. (See Figures 2 and 3.) Four behaviors showed a statistically significant correlation to a CEO's tenure: focusing on customer centricity; solving complex, intractable issues; having a clear vision for the organization; and driving alignment and execution.[2]

[2] Findings for the four competencies were all statistically significant. For manages complexity, strategic vision, and aligns execution, $p < .05$, whereas for customer focus, $p < .06$.

Only 4% of our sample group who demonstrated high levels of these competencies left a CEO position within 24 months, compared to 17% of those who scored lower.

Choosing the next CEO is a high-stakes proposition, and the distinctions among accomplished executives can be hard to discern. But when it comes to tenure, rigorous simulation assessments can predict which leaders have real staying power.

Figure 3

What drives longer CEO tenure?

Four competencies that can be measured by Korn Ferry's CEO Readiness assessments are closely associated with a candidate's durability as chief executive.

Understanding the business	
Customer focus	Uses insights into customers and markets to build a customer-centric organization that aligns strategies, brand, and resources to meet customer needs. Promotes enduring customer relationships, and provides products or solutions that drive value for customers.
Making complex decisions	
Manages complexity	Addresses complex issues with incisive integration and analysis of information. Considers risks, implications, and contradictory information to solve intractable problems and make sound decisions in a timely fashion.
Creating the new and the different	
Strategic vision	Has a clear vision of emerging trends and of how value will be created in the future. Develops enterprise-wide strategies that are distinctive in the market to provide compelling value propositions for key stakeholders, drive growth, and build sustainable competitive advantage.
Managing execution	
Aligns execution	Plans and aligns organizational structure, systems, processes, metrics, capabilities, and resources with business objectives. Prioritizes, stages initiatives, and manages risk appropriately to ensure objectives are achieved.

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