

Leading indicators

Ensuring the right mix of a CEO's competencies can result in longer tenures and play a key role in how organizations are led.

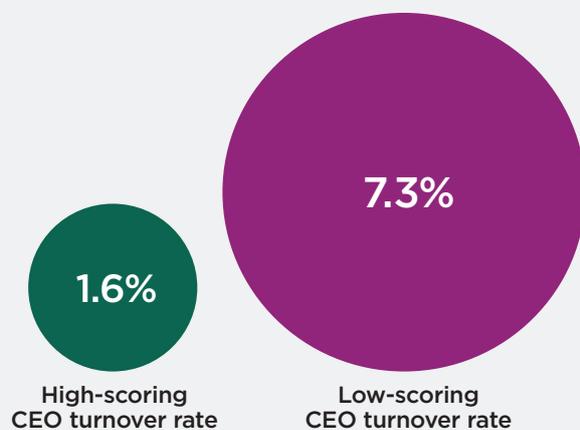
As US companies struggle with a period of prolonged slow growth, they need to ensure their top leaders possess the right stuff, not only to stay in a notably tough role but also to provide the distinctive navigation that their organizations require in uncertain economic times.

With CEO turnover for any reason remaining around 15% over the past decade (Strategy&, 2017), it is imperative for boards of directors to weigh precisely what type of CEOs they desire and who best fits their organizations' needs. Research by the Korn Ferry Institute (KFI) underscores the value of the firm's CEO Assessments in helping boards discern these key factors among elite candidates for CEO.

Figure 1

Lower CEO turnover rates.

At 24 months, low-scoring CEOs were 4.6x more likely to turn over than were high-scoring CEOs.



Just 1.6% of the CEOs who scored highest on Korn Ferry's CEO Assessment turned over within 24 months. These high scorers also stayed in the CEO role on average one year and four months longer than did low scorers. In an uncertain global economy, the competencies of "engages and inspires" and "aligns execution" were found to predict tenure.

Among the highest scorers on Korn Ferry's CEO Assessment, 1.6% left the CEO role within 24 months (Figure 1). Even low scorers showed low turnover rates—just 7.3%, suggesting that intense feedback and coaching of CEO candidates can help remedy early failure. CEOs who scored the highest across the 17 competencies assessed stayed on average one year and four months longer than CEOs who scored lower (Blazek, 2017).

A recent KFI study tracked 229 executives who had completed Korn Ferry's CEO Assessment and gone on to become CEOs.¹ We found that four competencies in particular drove longer tenures: manages complexity, strategic vision, customer focus, and aligns execution.

Through thick and thin.

To establish whether the big, recent changes in the global economy affected the competencies deemed important for CEOs, KFI researchers divided the assessed candidates in the study into three groups:

- Pre-Recession (those who completed the assessment from 2000 to 2007, n = 53)
- Recession (those who completed the assessment in 2008 and 2009, n = 52)
- Post-Recession (those who completed the assessment from 2010 to 2016, n = 78)

Different competencies were found to predict CEO tenure in the three groups.

For the Pre-Recession group, the competencies of communicates effectively and courage were the strongest predictors of tenure as CEO. In times of seeming stability, top leaders' priorities include taking risks and championing new paths forward for organizational growth, while projecting an image of a credible and engaging leader through clear communication.

A day in the life of a newly minted CEO.

Korn Ferry's CEO Assessment includes a simulation designed to mirror the typical challenges that a new top executive may face—sluggish top-line growth, investor concerns over missed expectations, executive team alignment, low employee engagement, and many others— all compressed into a single day. The assessments give a picture of the candidate's personality, competencies, cognitive ability, behavior under stress, and motivations. In aggregate, all of these elements are critical to understanding how the candidate would perform in the CEO role.

For the Recession group, the competencies of manages complexity and aligns execution were the strongest predictors of tenure as CEO. During times of turmoil and change, the CEOs who stay the longest successfully address complex issues and make sound decisions in a timely fashion. These CEOs succeed by prioritizing, tightly managing execution, and handling risk appropriately.

In the uncertain, but often optimistic, times after massive change, CEOs need to gain confidence and trust through transparency, integrity, and authenticity. The competencies of instills trust and manages complexity were the strongest predictors of tenure for Post-Recession CEOs.

¹ The CEOs completed Korn Ferry's CEO Assessment or Senior Executive Readiness Assessment between 1987 and 2016 for selection or development purposes, and later ascended to the CEO role.

Conclusion

Given the current trends that shape the economy worldwide (including, among others, globalization, urbanization, digitization, increasing individualism, the convergence of people and technology, environmental concern, and demographic and social changes), it seems more important than ever to learn which competencies strengthen CEOs' leadership of their companies' financial success, and which weaken it.

The cost of replacing a failing CEO after only 18 to 24 months ranges from \$6 million to \$18 million (Korn

Ferry Hay Group, 2010). That monetary loss can be blamed partly on the way CEOs are assessed and selected. Many boards of directors and other senior executives may assess and select CEOs by using low-validity tools, such as unstructured interviews and reference checks (Hermelin and Robertson, 2001).

But as the war for talent rages (Dobbs et al., 2012), and with truly effective leaders in sparse supply, the use of high-quality, formal assessments to select and develop CEOs is on the rise (Church and Rotolo, 2013).

Figure 2

Key elements that encompass CEO tenure.

Understanding the business.

Understanding the business

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| 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 |
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Making complex decisions

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| 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. |
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Creating the new and the different

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| 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. |
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Influencing people

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| Communicates effectively | Communicates in ways that provide clarity of message, handles tough questions well, and projects a credible and engaging image to a diverse set of internal and high-stakes external audiences, with maximum impact |
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Being authentic

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| Courage | Steps up to address difficult challenges, confront tough organizational issues, take reasonable risks, and make unpopular decisions when necessary. Champions the right path forward even when facing significant resistance. |
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| Instills trust | Gains the confidence and trust of others through transparency, fairness, integrity, and authenticity. Sets high standards for addressing ethical issues, walks the talk, and follows through on commitments. |
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References

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