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Proof Point

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.

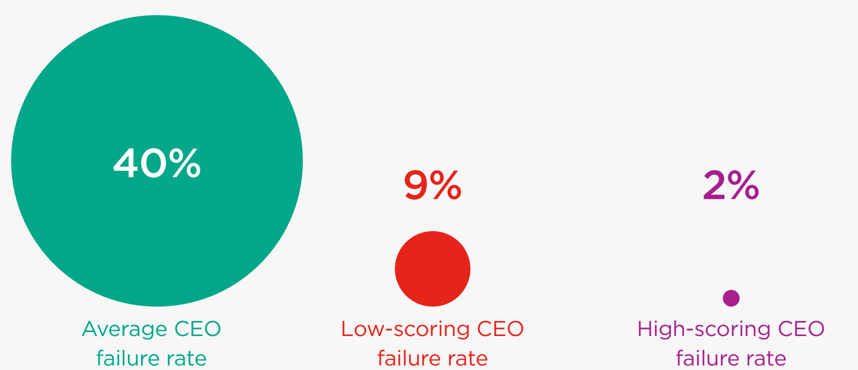
As US companies struggle with a period of prolonged slow growth, they need to ensure their top leaders possess the right stuff not only to stay in a notably tough role but also to provide the distinctive navigation that their organizations require in uncertain economic times.

With two out of every five CEOs (40%) failing in the first 18 months (Ciampa 2005), it is imperative for boards of directors to weigh even more 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 Readiness Assessments in helping boards discern these key factors among elite candidates for CEO.

Figure 1

CEO failure rate.

40% of CEOs fail within the first 18 months (Ciampa 2005). CEOs who were evaluated through Korn Ferry's Readiness Assessment showed significantly lower failure rates: 9% among the low-scoring CEOs and less than 2% among the high-scoring CEOs.



Fewer than 2% of CEOs who scored highest in Korn Ferry's Readiness Assessment left their role within 18 months. These high scorers also stayed in the CEO role on average two years and five 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 Readiness Assessment, fewer than 2% left the CEO role within 18 months. Even low scorers showed much lower failure rates than average: just 9%, suggesting that intense feedback and coaching of CEO candidates can help remedy early failure (Figure 1). CEOs who scored the highest across the 17 competencies assessed stayed on average two years and five months longer than CEOs who scored lower (Blazek 2015).

A recent study by the Korn Ferry Institute tracked 162 executives who had completed Korn Ferry's CEO Readiness Assessment and gone on to become CEOs.[1] We found that four competencies in particular drove longer tenures: strategic vision, engages and inspires, builds effective teams, 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 in 2007 or earlier, n = 54)
- Recession (those who completed the assessment in 2008 and 2009, n = 44)
- Post-Recession (those who completed the assessment in 2010 or later, n = 64)

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

For the Pre-Recession group, the competencies of financial acumen and customer focus were the strongest predictors of tenure as CEO. In times of seeming stability, top leaders' priorities include ensuring the overall financial health of an organization and building a customer-centric organization.

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1 The CEOs completed Korn Ferry's CEO Readiness Assessment or Senior Executive Readiness Assessment between 1987 and 2015 for selection or development purposes, and later ascended to the CEO role.

For the Recession group, the competencies of engages and inspires and aligns execution were the strongest predictors of tenure as CEO. During times of turmoil and change, the CEOs who stay the longest successfully create cultures that foster performance excellence and personal engagement. These CEOs succeed by prioritizing, tightly managing execution, and managing risk appropriately.

For the Post-Recession group, the competencies of navigates networks and instills trust were the strongest predictors of tenure as CEO. In the uncertain times after massive change, CEOs need to create favorable business environments that advance organizational goals, and they need to follow through on commitments.

A day in the life of a newly minted CEO.

Korn Ferry's CEO Readiness Assessment includes a simulation designed to mirror the typical challenges a new top executive faces—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.

Conclusion

Given the current megatrends that shape the economy worldwide (including globalization, climate change, individualism, digitization, demographic changes, and converging technologies), 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 just 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 make up CEO tenure.

Manages complexity	Addresses complex issues with incisive integration and analysis of information. Considers risks, implications, and contradictory information to solve problems.
Engages and inspires	Creates a culture that fosters performance excellence, personal engagement, meaningful contributions, and commitment to the organization's vision, values, and goals.
Aligns execution	Plans and aligns organizational structure, systems, processes, metrics, capabilities, and resources with business objectives. Prioritizes, stages initiatives, and manages risk.
Instills trust	Gains the confidence and trust of others through transparency, integrity, and authenticity. Sets high standards for addressing ethical issues, and walks the talk.
Builds effective teams	Builds a high performing executive team with the right balance of skills and perspectives. Creates an environment that fosters teamwork and collaboration.
Courage	Steps up to address difficult challenges, confront tough organizational issues, take reasonable risk, and make unpopular decisions when necessary.
Financial acumen	Ensures the overall financial health of the enterprise by maintaining focus on financial metrics to improve financial performance and the firm's position in capital markets.
Customer focus	Uses insights into customers and markets to build a customer-centric organization that aligns strategies, brand, and resources to meet customer needs.
Navigates networks	Builds and leverages positive relationships with internal and external stakeholders to forge connections that can foster organizational strategies and advance goals.

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The Korn Ferry Institute, our research and analytics arm, was established to share intelligence and expert points of view on talent and leadership. Through studies, books, and a quarterly magazine, *Briefings*, we aim to increase understanding of how strategic talent decisions contribute to competitive advantage, growth, and success.

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