

# CHANGE AT THE TOP

For Bob Muschewske, senior vice-president, executive services, of Personnel Decisions International, a successful CEO transition is achieved by starting early, defining your requirements and applying the right tests to prospective candidates.

**B**oards of directors that successfully navigate a transition in CEO leadership report that a key to success is to begin the process three to five years before the sitting CEO is expected to depart. Unfortunately, not all boards are able to meet that objective. Many firms simply lack the human resource and talent management systems required for effective succession management. Even if their systems are relatively strong, the need to replace a CEO frequently arises far sooner than expected.

Keenly aware that CEO selection is arguably their most important duty, boards often face difficult choices in filling the top job. Though they may favour the idea of choosing a qualified insider, they often learn to their chagrin that they do not have sufficient information about the candidates to make an informed and fact-driven decision. Making this decision with less-than-adequate information can result in a decision with negative consequences for the company and its shareholders. Following is a series of best practices to help boards select a CEO in a timely yet prudent manner.

## Consensus on skills required

The marketplace is awash in new books and articles on the management and leadership theories 'du jour'. Though some contain valuable insights, the board must focus on a disciplined analysis of the competitive environment, opportunities and



constraints facing the company. The analysis must identify the specific challenges the next CEO will face in implementing the company's strategic direction or in charting a new course.

Often the best way to begin is to enlist a third party skilled in both business analysis and behavioural science to conduct structured interviews with directors and senior executives. The objective is to prepare a summary report designed to help the board achieve consensus on the critical challenges facing the next CEO.

Next, the board must define the skill set required to lead the organisation.

It's not about finding someone with classic, 'central casting' leadership skills. A board must find an individual with the specific set of skills required to lead the company as it tackles the strategic challenges facing it at this point in time and in the foreseeable future. Heading a major initiative in cost-reduction and operational excellence, for example, may take very different skills than those required to lead a marketing driven company to develop new and innovative products.

## External search?

Available evidence supports the view that internal candidates are more likely to be successful than ones from outside the company. However, an external search may be required if directors are not able to find the specific skills inside the company needed to lead the firm.

They may also seek outside candidates to satisfy themselves and their shareholders that they have left no stone unturned in finding the best candidate available.

## Match candidates to needs

Board members often get to know prospective internal candidates through board presentations and more informal interaction, but that doesn't mean they have in-depth or pertinent knowledge of the insiders' abilities. Increasingly, board members seek objective, fact-driven methods for assessing and evaluating candidates.

Following are sources of understanding and information many boards have found helpful:

- **Vision and strategy white papers**  
Assign each candidate to prepare a white paper outlining their vision for the company, strategies to achieve that vision, needed resources and expected financial consequences.
- **In-depth candidate interviews**  
Even though board members are typically experienced executives accustomed to making instinctive judgments, they often need a more substantive basis for selecting a CEO. Discussing the candidates' white papers with them directly affords board members the opportunity to test and assess candidates' thinking and their ability to articulate and defend their ideas persuasively under tough questioning. These interviews should be conducted by all board members, not just the selection committee.
- **360° feedback data**  
How a candidate's management and leadership skills are perceived by colleagues – both peers and direct reports – is a vital piece of information directors are often missing. Research evidence indicates that peer evaluations of a candidate are powerful predictors of success in future roles. In addition, colleagues are often in the best position to describe the candidate: Is he or she an empowering leader or a micromanager? Tactically focused or a superb strategic thinker? A developer of people or a user of them? Superb 360° feedback tools are available to gather these perceptions, or they can be obtained through interviews conducted by a skilled third party.
- **Behavioural assessment of candidates**  
Directors are increasingly asking for objective assessment of candidates by a third party to serve as an additional

data point. These assessments can confirm impressions or raise important questions concerning an individual's readiness and suitability to meet the requirements established by the board.

Significant advancements have been made in assessment technology beyond traditional in-depth interviews and tests of cognitive ability and personality. Each of these is valuable but also limited in significant ways. Recognising this, leading-edge assessment firms have added rigorously designed, realistic business simulations based on the valid assumption that performance in them is a valid predictor of future success.

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Trained assessors are able to observe and analyse performance in the simulations and make valid and reliable judgments concerning the extent to which candidates possess critical CEO competencies. Among them: visionary thinking, shaping strategy, driving execution, engaging and inspiring – in addition to the unique skill sets identified by the board of directors.

### Fact-driven selection

At this point, directors need to add to the mix information from a candidate's work history, recent performance evaluations and other data relevant to a final selection decision. The overall profile of each candidate should be measured against the board's template of the ideal skill set. Candidates rarely meet all of the specifications, leaving the board to make an informed judgment about the degree of fit, risks involved and ways further development could close the gaps.

### Develop a transition scenario

The length of time between selection and assumption of the CEO title will significantly affect the board's options. Many boards find it useful, for example,

to have the designee first serve for a brief time as COO. Successful transitions also hinge on the role and leadership style of the departing CEO. Although conventional wisdom is that the outgoing CEO should leave immediately or stay as chairman for a relatively short period of time, each board must select a transition option that is correct considering all relevant factors.

### The prudent course

The CEO job is unique in the organisation in terms of its requirements for management and leadership expertise, which is why the stakes are always high in selecting a new CEO.

Today, as performance demands and other pressures increase relentlessly, CEO tenure is decreasing and unplanned departures are on the rise.

For boards of directors, the prudent course of action when they must choose a new CEO sooner than planned is to engage in a thoughtful, deliberate and objective process like that described here – not one driven by emotion or 'gut'. There are no guarantees, but this way, the odds of success should improve significantly. ■

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### Further information

*Personnel Decisions International (PDI) is a global human resources consulting firm with distinctive expertise in building leadership talent that provides real competitive advantage. With over 650 team members in 28 offices around the globe, we partner with the world's leading organisations, enabling them to make consistently effective decisions about leaders.*

*Using field-tested strategies, systems, and tools that are unique in the industry, we help clients identify, develop, and deploy superior leaders.*

Tel: +1 920 997 6995

Website: [www.personneldecisions.com](http://www.personneldecisions.com)