

Seven Steps to Successful CEO Succession



EXECUTIVE SUMMARY

Multi-year CEO succession planning offers significant benefits over a sudden CEO search.

The market for qualified, motivated, and innovative CEOs is rapidly shifting. The external risks of 2020 and 2021 saw CEO departures fall each quarter. Then, in 2022, global CEO turnover hit a five-year high. And the trend of significant [turnover at the top continues](#), creating a supply imbalance for great CEOs.

This is making **isolated CEO searches even more costly and risky**. A lack of effective succession practices [destroys almost \\$1 trillion of value each year among the S&P 1500 alone](#).

The solution? Robust, multi-year CEO succession planning.

It's the most effective way for boards to de-risk CEO transition and position the organization for ongoing success. [Our research](#) shows that multi-year succession planning **enables organizations to identify, develop, and retain top talent, raise team performance, strengthen culture, increase value creation, and achieve their strategy. Yet just 25% of all leaders say they proactively engage in it.**

Components of robust CEO succession planning

Multi-year CEO succession planning begins with defining the vision for the future of the organization. It then invests in the development of internal candidates and often includes external strategic sourcing and mapping. Best-in-class planning integrates strategy, culture, assessment, development, and team effectiveness, all aligned to a clear vision. The steps below can and should overlap in a multi-year succession planning process.

PHASE 1	PHASE 2	PHASE 3	PHASE 4	PHASE 5	PHASE 6	PHASE 7
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Phase 1: Create a forward-looking strategy and success profile



ACTION

Create a forward-looking strategy and success profile



ORGANIZATIONAL BENEFITS

Aligns stakeholders around a succession plan and what that means for the next CEO

- Thoughtful succession planning results in marked financial returns, generating clear value for companies and shareholders.
- Currently, only [25% of leaders say](#) their organizations have proactive succession plans. That's despite the highest performing and most progressive boards starting to think about their next succession as soon as they select the current CEO.
- Developing a robust planning process and succession strategy, including a forward-looking CEO success profile, helps future-proof the organization. It uncovers opportunities for cultural transformation and shows the type of leader who will be able to motivate the organization toward its next phase of growth.
- Driving an inclusive and efficient process means engaging the right stakeholders early and often.

Phase 2: Assess internal leaders using Leadership Span™



ACTION

Assess leaders using Leadership Span™



ORGANIZATIONAL BENEFITS

Predicts success in the CEO role to de-risk succession decisions

- Our [Global Leadership Monitor](#) has uncovered that, while psychometric assessment is best practice when evaluating potential CEOs, only 20% of organizations routinely include it in their succession planning.
- By adding scientific rigor to the assessment process, truer and often less obvious potential successors can emerge, improving leadership diversity and organizational performance.
- [A study](#) found that companies in the top quartile for ethnic diversity in management are 35% more likely to have financial returns above their industry mean, and those in the top quartile for gender diversity are 15% more likely to have returns above the industry mean.
- Our scientific approach to leadership assessment, known as [Leadership Span™](#), predicts executives' success in complex, competitive environments to de-risk succession decisions.



Phase 3: Develop and coach potential successors



ACTION

Develop and coach potential successors



ORGANIZATIONAL BENEFITS

Exposes candidates to the experiences that will help them flourish in the CEO role

- Leaders who don't receive effective coaching and development are [6.5 times more likely](#) to say they would leave their organization.
- Succession planning gives an opportunity to develop and nurture leaders with diverse backgrounds, ensuring they have the skills they'll need to be successful if they step into the CEO role.
- Tailored leadership development offerings provide the unique opportunity to develop multiple potential CEO successors in line with an organization's cultural and strategic goals.
- Expanding potential successors' knowledge and capabilities by rotating and expanding the scope of their roles gives them new perspectives to prepare them for managing all functions and geographies.



Phase 4: Align culture to organizational strategy



ACTION

Align culture to organizational strategy



ORGANIZATIONAL BENEFITS

Build leadership team capabilities to drive the right culture that connects to future strategy

- Poor work place culture accounted for [\\$223 billion in risk and turnover costs](#) over just five years.
- As the forward-looking strategy highlights the desired organizational culture and the organization prepares its successors for a potential step up, the entire leadership team will become more aligned to and more strongly demonstrate the culture. And when the new CEO takes the helm, they'll embody a culture the whole organization can recognize and support during a time of transition.
- Leadership is the most important lever when it comes to changing corporate culture. Yet [only 56%](#) of executives say their executive leadership team is role modeling the right culture and behaviors.
- When MIT Sloan Management Review [studied](#) nearly 700 US companies, they found little to no correlation between stated company values and employee perceptions of the organization, highlighting the pervasive gap.
- We help leadership understand and embrace its company culture, align cultural changes with the company strategy, and take steps towards improving it, including incorporating culture into executive recruitment.



Phase 5: Enhance top team effectiveness using our Productive Tensions Model



ACTION

Enhance top team effectiveness using our Productive Tensions Model



ORGANIZATIONAL BENEFITS

Accelerates the potential of the leadership team in line with the organization's vision and operating environment changes

- Having supported thousands of successions over more than 50 years, we know high-performing organizations understand that top team effectiveness leads to revenue and EBITDA growth. A large part of an incoming CEO's success comes from having a team that is already high functioning.
- Yet approximately [40% of leaders](#) don't believe their executive leadership teams have the right capabilities to lead their organization successfully.
- If there's no harmony at the top, none can exist in the rest of the organization. Along side their core role in setting strategic priorities and mobilizing their people for the next inflection point, C-suites serve as a model for vision, purpose, and culture.
- When [top teams](#) overcome challenges, they make a measurable impact. On average, high-performing teams are 27% better at ensuring the organization's future readiness.
- Our proprietary **Productive Tensions Model** [accelerates C-Suite teams'](#) ability to place collective objectives above individual preferences and motivations to achieve enterprise-level success.



Phase 6: Benchmark the external CEO market and run selection-oriented assessments, including contextual immersion



ACTION

Benchmark the external CEO market and run selection-oriented assessments including contextual immersion



ORGANIZATIONAL BENEFITS

Evaluates candidates' readiness and fit to drive organization-wide success

- [11% of externally recruited CEOs](#) leave within two years, compared to 6.9% of CEOs who have gone through an internal succession process.
- Yet it's best practice to have a full understanding of the external talent landscape as you go through your CEO succession process.
- Conducting confidential strategic sourcing exercises of the global talent pool helps benchmark internal successors against external candidates to ensure you choose the best option for your next CEO.
- Finalist CEO candidates (both internal and external) should undergo a selection-oriented assessment that includes a **contextual immersion**. Contextual immersions are CEO-specific assessments that showcase the leadership behaviors candidates use in situations which are unique to the top role, often involving pressure and ambiguity. This unique experience allows the board to select the candidate who is the best fit for the organization's forward-looking strategy.



Phase 7: Appoint a new CEO and provide support with a tailored transition plan



ACTION

Appoint a new CEO and provide support with a tailored transition plan



ORGANIZATIONAL BENEFITS

Cuts business disruption and accelerates the achievement of peak performance

- Under performance of externally recruited CEOs [decreases total shareholder return](#) by about half a percentage point, costing investors in the S&P 1500 approximately \$182 billion each year. Where companies do promote CEOs from within but fail to properly prepare them to take over, organizations lose an additional 0.3%, or \$109 billion across the S&P 1500.
- [75% of executives](#) consider themselves unprepared for a position because of inadequate onboarding processes.
- Revenue [grows 2.5x](#) when there is an effective onboarding program.
- Building an integrated transition plan, complemented by expert advice, and establishing clear metrics of success will help new CEOs create confidence, decrease time to productivity, and increase their chances of a long-term tenure.
- By tailoring the transition plan and adding experienced external advisors, we can reduce the time to [productivity by up to two months](#).



Authors

Ernie Brittingham leads the firm's global healthcare industry. He is also a member of the board & CEO advisory partners group. Ernie is based in New York.

Sarah Eames leads the Russell Reynolds Associates' Healthcare Services practice and is a member of the board & CEO advisory partners group. She is based in New York.

Justus O'Brien co-leads the Board & CEO Advisory Partners Practice at Russell Reynolds Associates. He is based in Stamford.

About Russell Reynolds Associates

Russell Reynolds Associates is a global leadership advisory firm. Our 600+ 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, sustainability, 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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