

CEO RECRUITMENT

How can you maximise success and minimise risk?

A key task for boards of directors is finding the right CEO, someone who can lead the business towards company goals and create value for the owners. Short CEO tenures are extremely costly and demanding. Unfortunately, CEO tenures have become increasingly shorter, except during the pandemic.

The 2018 CEO Success Study published by Strategy&, PwC's strategy consultancy business, showed that CEO turnover in the world's 2500 largest companies rose to a record 17.5 % in 2018 – three percentage points higher than in 2017 and above what has been the norm for the last decade. CEO turnover increased in 2018 in all regions except China. According to various studies, including one done by The Conference Board, the number of announced CEO successions has subsequently fallen during the pandemic. For instance, in 2020's second quarter, the decline among Russell 3000 companies was 11.3 %. There is a tendency to hold out in times of crisis and there is probably a pent-up need for CEO changes as we move out of the pandemic. The reasons for the increased need are planned terminations due to retirement and the simple fact that businesses require different leaders during different growth cycles.

Directives from the owners, the Board's strategic work and the CEO's ability to manage the business are critical success factors. As CEO selection has such crucial consequences, the recruitment process should be given the utmost consideration and attention. Boards and everyone involved in the recruitment work therefore should start asking themselves: Are we doing it right? and: How can we improve our process?

How should we recruit to maximise success opportunities and minimise risk?

Each CEO recruitment involves both opportunity and risk and needs to be viewed in its specific context. There are several interacting elements and each business and situation has its own challenges. It is therefore recommended to draw up a company-specific plan and to prepare well for all stages of the process.

KEY DECISION INFLUENCERS

- In the book "Framgångsrikt styrelsearbete" Dansell & Sen (2021) define the following key sources of CEO recruitment:
- How the owners desire the company to develop
- The Board's work on the current situation and overall SWOT analyses
- The strategic plan
- The future challenges/tasks that the Board of Directors has prioritised that a future CEO needs to successfully lead the company through
- Survey of the company's and, in particular, management's capability in relation to the goals to be achieved
- Special assignments designated to the CEO by the owners
- Definition of the company's leadership needs



THE BOARD'S ROLE

- Boards sometimes underestimate their significance in this context. In the same way that a skilled board depends on a competent CEO, a well-composed and efficient board of directors is one of the best strategic assets that a CEO may have.
- A board of directors with the right collective expertise to handle the strategic and operational challenges to which the business is exposed is crucial to success.
- CEO recruitment places high demands on the board of directors. Is there an established succession planning process linked to the business' strategic planning? Is there a crisis plan in the event of having to suddenly let a CEO go or if the CEO should fall ill or die? Despite knowing how important this work is, strategic succession and crisis planning continue to be development areas for many boards.

THE STATUS QUO

- The current situation analysis should be linked to owner directives and the Board's strategy work.
- What challenges does the company face?
- The reason for recruiting needs to be clear. Are you looking for your first external CEO, has the previous CEO completed their assignment satisfactorily or has the CEO underperformed on their assignment and therefore needs replacing?
- Do you have time or is recruitment urgent? Naturally, it is easiest and preferable to plan and act with foresight. Changing out a CEO in an emergency situation entails choosing from candidates that are available at the time; CEO succession is about strategically working towards the leadership alternatives desired for the future.

THE RECRUITMENT PROCESS

Let us then take a closer look at how the actual recruitment process can increase the odds of successful recruitment.

The assignment itself and what it requires

- The mission statement for the next CEO needs to be up-to-date and linked to the strategic objectives of the business. The Board needs to ensure that the responsibility reflects both current and future needs. The Board of Directors must ensure that the expectations posed on the CEO are realistic and that the right conditions are present to make the assignment feasible.
- Meeting with a selection of relevant stakeholders to get their view on the assignment provides nuance and an opportunity to discover whether there are differing perceptions that need to be discussed.
- It is common to underestimate the importance of a thoroughly prepared job specification. They may focus on old profiles, skills that are needed right now, or skills that are limited by not thinking outside familiar frames.

Finding the right candidates

- Finding candidates is rarely difficult, but it is a delicate task to find candidates of real interest.
- When such competence and time is available, it is recommended that you (yourself or with the help of an external partner) draw up a specific search strategy for the assignment. The strategy should include all relevant search areas in which interesting candidates may be found. Perhaps there are internal candidates with whom the Board is not overly familiar? Could you find candidates with the desired profiles in other industries or countries than you originally intended?

Presenting the assignment

- The assignment must be able to attract the candidates that the company needs. Clear, transparent and forward-looking information inspires confidence.
- Hardly anyone would be willing to board a sinking ship, but there are many who would be prepared to take on a challenging change assignment.
- When making their decision, candidates may place great emphasis on how they are treated in the process. Representatives of the recruiting company and any consultants must be dedicated and available and make sure that candidates get what they need in the process.

Assessments

- It is advisable to avoid making hasty decisions based on your gut feeling or because a candidate is someone you know or comes with a particular recommendation. Tips and advice are good, but what should your assessment be based on? Choosing a CEO is a project associated with risk. It can either be a great success or a costly failure. By putting it through a professional process, the chances of finding the right candidate increase. Clients usually review the applicant's CV, look for experience from similar assignments and take references. Though a good start, more can be done to predict success and minimise risk.
- A candidate's CV and past achievements are naturally of interest, but they are not an indicator of how the candidate will succeed in the new assignment.
- It is human to choose the known over the unknown, experience over potential. For each assignment, experience should be weighed against potential.
- Industry experience is often highly valued, but is it a requirement? Or perhaps you need someone from a related or other industry who has done things similar to what your business is facing?
- Values and cultural matching should also be assessed. Competence and experience are important, but they are not enough for the person to be a good fit.
- Then we come to personality, cognitive ability and leadership – areas that are difficult to assess, partly because we do not really know what variables to focus on and partly because it is difficult to make the actual assessment. Candidates may more or less say the right things, but what performance and style hide behind the words?
- With 25 years' experience of performing qualified personal assessments, I recommend that you thoroughly assess the final candidate. The assessment should not only include meetings and interviews with stake-holders, but also a battery of tests, extensive reference taking, background checks and a forward-looking scenario exercise linked to the assignment description. Quite often you hear that it is not suitable to test CEO level key people, but I beg to differ. Of course, you should use a relevant top management test battery, but the right CEO candidates understand that it is in the company's interest to make a thorough assessment. It simply depends on the qualification level of the assessment and how you communicate with the individual about the situation and the assignment. And it goes without saying that your assessment will be more reliable if you can compare candidate test results with a group at the same position level. For example, how does the candidate's analysis and problem-solving capacity, drive and leadership compare with the norm group?
- The aforementioned scenario exercise or any other exercise related to what the company is facing often becomes the deciding factor when approaching selection of the final candidate.
- In professional CEO recruitment, everyone involved in the process understands the importance of a good match – both for the client and the new CEO.

THE DECISION

- We are sometimes asked if there is a risk that an assessment reveals something that forces you to end the process with a candidate you have come a long way with and have a strong interest in. The answer is yes. Though unusual, it is preferable to discover such things before the decision is made rather after the person has been employed.
- It is advisable to avoid making a decision if there are any outstanding question marks.
- On the other hand, if you have decided on a CEO candidate, you should do everything you can to make that person feel hand-picked and welcome.
- A well-prepared CEO agreement creates clarity and enables you to avoid future interpretation conflicts.

CEO INSTRUCTION AND ONBOARDING

- Choosing a CEO is hopefully a good start to both the development of the company in question and to successful cooperation between the owner, the Board and the CEO.
- A well-prepared CEO instruction provides invaluable support along the way. It provides a natural basis for reconciliations between the Board Chairman and the CEO.
- Overall for many businesses, it is a valuable investment for the Chairman and CEO to spend a lot of time together during the onboarding process in the interest of building consensus. The rewards of doing this are reaped down the line. Many unsuitable recruitments could probably have been prevented by spending more time on the onboarding process of the incoming CEO. However, this does not mean to imply micromanagement or strict monitoring of the candidate.

IN CLOSING:

No two CEO assignments are alike, and nothing concerning the future of companies and leaders is 100% certain. However, when a company conducts a thorough recruitment process, the likelihood that a newly recruited CEO will be able to achieve the desired development work increases. It also is more likely that the owners and Board of Directors have provided the CEO with the right conditions to succeed.

The Board Services Practice at AIMS International specialises in collaborating with boards of directors to enable them to succeed in their assignments. In addition to Executive Search assignments, we assist with surveys, evaluations and coaching assignments in order for the boards of directors to address their areas for improvement.



Titti Hammarling

Executive VP EMEA and Head of Global Board Services Practice,
AIMS International
Managing Partner, AIMS International Sweden