

Developing effective leaders

Effective leadership is critical to the success of any business. The pandemic brought new leadership skills and capacities to the fore, including the need to be flexible, adaptable, and resilient. On January 20, 2022, LDN members were joined by Dean Stamoulis and Rusty O’Kelley from Russell Reynolds Associates to discuss the how these trends are reshaping succession practices.

This *Summary of Themes* provides a brief overview of the meeting. *For a full list of meeting participants, please see page 4.*

The characteristics of a successful executive are changing

LDN members identified several attributes that they have observed in successful CEOs and senior leaders. Mr. Stamoulis noted that CEOs today are navigating a complex landscape: they are tasked with meeting a remarkably diverse range of objectives, all with less authority than the CEOs of the past. One lead director described an effective CEO as *“someone who is viewed as a role model and carries themselves with a certain gravitas, a moral authority for the organization.”*

Members and guests shared other attributes that they look for in a senior leader today: resilience, adaptability, agility, and the ability to communicate effectively. Several directors emphasized humility and empathy. One said, *“One characteristic that’s really important is humility—the ability to recognize when you make mistakes and acknowledge that you don’t have all the answers.”* Mr. Stamoulis added that many boards are now looking for CEOs with a demonstrated ability to lead innovation. Lead directors also noted their increased focus on identifying leaders with a track record of building high-performing teams, with an emphasis on executives who are more interested in collective achievements than personal ones.

Succession starts with an effective assessment

The first step boards take in the management development and succession process is assessing the capabilities of their internal teams. Mr. Stamoulis said, *“The usual assessment has the main components: an examination of the performance track record; an interview that further reviews their track record and accomplishments; a 360 review, whether it’s a survey or conversations with those who know that individual; and psychometrics of various forms.”* Lead directors highlighted the need for directors to complete the picture of candidates’ goals and personalities through human interactions outside the boardroom. Mr. Stamoulis said that the trend is to *“start earlier and look deeper.”* Often, an effective assessment process will identify

strategic opportunities to strengthen the CEO bench. One member shared a CEO succession plan that calls for hiring a potential future CEO into a senior executive role a few years before a planned CEO transition if internal candidates are not deemed ready.

Even when boards identify strong internal CEO candidates, it is becoming increasingly common to scan the market for external candidates. More and more, these external scans are being conducted on an ongoing basis. In some cases, members shared, boards are assessing the external market even if they do not think they will appoint a new CEO in the next five years. One member expressed concern that scanning the market might unintentionally signal to the current CEO that there are issues. Mr. O’Kelley addressed this: *“We have seen a shift, particularly over the past two years. Many boards are now saying, ‘It’s our fiduciary obligation as part of this process to look externally.’”* The more that the board can position the assessment process as part of a larger strategy, the less likely it will cause the management team to become defensive. Mr. O’Kelley suggested that making activities like external scans part of a board’s regular cadence makes them less threatening to the existing management team.

Boards are getting more strategic about developing leaders

There are myriad ways to accelerate the personal and professional development of a potential CEO. A robust assessment process will not only identify high potential candidates but also identify gaps in their experience and developmental needs. One lead director said, *“Trying to make sure that you can provide the developmental opportunity or the experiential opportunities for a candidate that works within your company is very important.”* Mr. Stamoulis noted that a long-term development process allows potential CEOs to experience multiple targeted developmental opportunities. In some cases, that means moving people into new roles, while in others it might mean giving a candidate incremental enterprise-wide experience and responsibilities within their current role. For example, Mr. O’Kelley described how it can be helpful to find a large-scale project, like an IT transformation, that a candidate could co-lead with another executive with different skills.

Serving on an outside board can also help prepare a candidate for the CEO role. Mr. O’Kelley said, *“The folks who sit on boards are generally slightly better executives. They understand the position on directors, they understand governance, they understand the role of the board.”* Additionally, board mentors or coaches can help managers become *“board ready.”* A lead director said, *“On our board we have coaches who are board members. They are assigned to internal candidates and get to know these individuals on a deep level. The coaches can then offer their perspective and reflections through their interactions to the larger board.”*

Emergency succession plans should not be overlooked

Succession planning is a long-term exercise, but it is important to also plan for short-term or emergency CEO transitions. In some cases, that plan might involve an independent board member stepping in as CEO. One lead director asked, *“Do you start recruiting directors that*

could step in, either on a permanent or temporary basis, and become the CEO of the company?” Mr. O’Kelley said that boards are increasingly incorporating the ability to step in as emergency CEO among their board-recruitment considerations. A lead director said that having a qualified, short-term successor—whether a board member or member of management—ready to step in is crucial when a CEO is embroiled in controversy: “Having someone who was prepared to step in as an interim CEO gave the board the courage to make the right decision and we dismissed the CEO.”

Successful transitions do not end when a CEO is appointed

A board’s relationship with a new CEO varies dramatically from its relationship with an experienced one. The board—and the lead director or chair in particular—plays a critical role in onboarding a new CEO. One lead director said, *“I’ve had to become the CEO’s confidant and friend in a way that enables him to be more vulnerable and share things with me that he might not necessarily do.”*

In the first 100 days and throughout the entire first year, there are opportunities, both formal and informal, to help a new CEO along. One lead director shared an example of a new CEO having one-on-one meetings with each board member. Part of the challenge, especially for first-time CEOs and those promoted from within, is managing one’s former peers. Ultimately, one of the keys to success is communication. One lead director said, *“Communicate with the individual on a regular, planned basis, and then on a periodic basis have informal discussions, maybe over dinner and a drink.”*

About this document

Summary of Themes reflects the network’s use of a modified version of the Chatham House Rule whereby names of members and their company affiliations are a matter of public record, but comments made before and during meetings are not attributed to individuals or corporations. Guests, however, have given permission for their remarks to be attributed. Comments by guests and network members are shown in italics.

The views expressed in this document represent those of the Lead Director Network. They do not reflect the views nor constitute the advice of network members, their companies, or Tapestry Networks. Please consult your counselors for specific advice.

This material is prepared by Tapestry Networks. It may be reproduced and redistributed in its entirety including all trademarks and legends.

Appendix: Meeting participants

The following Lead Director Network members participated in the meeting:

- Marcela Donadio, Marathon Oil
- Lawton Fitt, Progressive Insurance
- Karen Francis, Vontier
- Ann Hackett, Capital One Financial Corp
- Glenn Hubbard, MetLife
- Molly Joseph, First Solar
- Ed Kangas, Deutsche Bank USA
- Mel Lagomasino, The Coca-Cola Company
- Lou Lavigne, Alector
- Steve Leer, Norfolk Southern
- Stu Levenick, Grainger and Entergy
- Les Lyles, KBR
- Jay Morse, AES
- Bob Murley, Stericycle
- Henry Nasella, PVH
- Chuck Noski, Booking Holdings
- Pam Reeve, American Tower
- Ted Samuels, Bristol-Myers Squibb
- Doug Steenland, AIG
- Abhi Talwalkar, Lam Research