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LEADERSHIP TRANSITIONS

# What Sets Successful CEOs Apart

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The chief executive role is a tough one to fill. From 2000 to 2013, about a quarter of the CEO departures in the *Fortune* 500 were involuntary, according to the Conference Board. The fallout from these dismissals can be staggering: Forced turnover at the top costs shareholders an estimated $112 billion in lost market value annually, a 2014 PwC study of the world's 2,500 largest companies showed.

Those figures are discouraging for directors who have the hard task of anointing CEOs—and daunting to any leader aspiring to the C-suite. Clearly, many otherwise capable leaders and boards are getting something wrong. The question is, what?

In the more than two decades we've spent advising boards, investors, and chief executives themselves on CEO transitions, we have seen a fundamental disconnect between what boards think makes for an ideal CEO and what actually leads to high performance. That disconnect starts with an unrealistic yet pervasive stereotype, which is shaped in large part by the official bios of *Fortune* 500 leaders. It holds that a successful CEO is a charismatic six-foot-tall white man with a degree from a top university, who is a strategic visionary with a seemingly direct-to-the-top career path and the ability to make perfect decisions under pressure.

Yet we've been struck by how few of the successful leaders we've encountered fit this profile. That realization led us to embark on a 10-year study, the CEO Genome Project. Its goal is to identify the specific attributes that differentiate high-performing CEOs (whom we define as executives meeting or exceeding expectations in the role, according to interviews with board members and majority investors deeply familiar with the CEOs' performance). Partnering with economists at the University of Chicago and Copenhagen Business School and with analysts at SAS Inc., we tapped into a database created by our leadership advisory firm, ghSmart, containing more than 17,000 assessments of C-suite executives, including 2,000 CEOs. The database has in-depth information on each leader's career history, business results, and behavioral patterns. We sifted through that information, looking for what distinguished candidates who got hired as CEOs from those who didn't, and those who excelled in the role from those who underperformed.

## About the Research

This article is based on research conducted over 10 years as part of ghSmart's CEO Genome Project. ghSmart has assembled a database of assessments of 17,000 C-suite executives—including more than 2,000 CEOs—which covers all major industry sectors and a full range of company sizes. Each executive assessment includes detailed career and educational histories; performance appraisals; and information on patterns of behavior, decisions, and business results. This data was gathered through structured interviews with every executive and was supplemented in some cases by interviews with the business associates of the executive.

To identify attributes predictive of becoming a CEO and to compare CEOs' attributes with those of other C-suite executives, we closely examined a sample of 930 CEO candidates, who represented companies of all sizes and 19 out of 20 NAICS industry sectors. U.S. companies accounted for 86% of the firms in the sample. We also gathered information on the performance of 212 of the executives based on company financial results and the opinions of board members and investors.

Our findings challenged many widely held assumptions. For example, our analysis revealed that while boards often gravitate toward charismatic extroverts, introverts are slightly more likely to surpass the expectations of their boards and investors. We were also surprised to learn that virtually all CEO candidates had made material mistakes in the past, and 45% of them had had at least one major career blowup that ended a job or was extremely costly to the business. Yet more than 78% of that subgroup of candidates ultimately won the top job. In addition, we found that educational pedigree (or lack thereof) in no way correlated to performance: Only 7% of the high-performing CEOs we studied had an undergraduate Ivy League education, and 8% of them didn't graduate from college at all.

And when we compared the qualities that boards respond well to in candidate interviews with those that help leaders perform better, the overlap was vanishingly small. For example, high confidence more than doubles a candidate's chances of being chosen as CEO but provides no advantage in

Our team of 14 researchers—made up of psychologists; economists led by Professor Steven N. Kaplan at the University of Chicago and Professor Morten Sørensen of Copenhagen Business School; statisticians; financial markets experts; and data scientists at SAS and NYU—analyzed interview transcripts for a broad set of attributes, including education, tenure, and industry experience. This information was used to differentiate (a) candidates who got hired for CEO roles from those who didn't and (b) CEOs who met or exceeded expectations from those who underperformed. (We also explored career paths leading to the CEO role, patterns in hiring and firing, mistakes made, and other questions.)

In parallel, we conducted more than 70 additional interviews with CEOs and board members to test our hypotheses and further understand what it takes to become a successful CEO and how boards really select CEOs.

performance on the job. In other words, what makes candidates look good to boards has little connection to what makes them succeed in the role.

But our most important discovery was that successful chief executives tend to demonstrate four specific behaviors that prove critical to their performance. We also found that when boards focus on those behaviors in their selection and development processes, they significantly increase their chances of hiring the right CEO. And our research and experience suggest that when leaders who aspire to the CEO's office—87% of executives, according to a 2014 survey from Korn Ferry—deliberately develop those behaviors, they dramatically raise the odds that they'll become high-performing chief executives.

## The Four Behaviors

It's rare for successful leaders to excel at all four behaviors. However, when we dug through our data, looking at the ratings our consultants had given candidates when evaluating them on fit for a CEO job and performance on 30 management competencies (for example, holding people accountable and the ability to motivate a team), we found an interesting connection.

Roughly half the strong candidates (who had earned an A overall on a scale of A, B, or C) had distinguished themselves in more than one of the four essential behaviors, while only 5% of the weak candidates (who earned a B or C) had.

The behaviors we're about to describe sound deceptively simple. But the key is to practice them with maniacal consistency, which our work reveals is a great challenge for many leaders.

**1. Deciding with speed and conviction.**
Legends about CEOs who always seem to know exactly how to steer their companies to wild success seem to abound in business. But we discovered that high-performing CEOs do not necessarily stand out for making great decisions all the time; rather, they stand out for being more decisive. They make decisions earlier, faster, and with greater conviction. They do so consistently—even amid ambiguity, with incomplete information, and in unfamiliar domains. In our data, people who were described as "decisive" were 12 times more likely to be high-performing CEOs.

> Good CEOs realize that a wrong decision may be better than no decision at all.

Interestingly, the highest-IQ executives we coach, those who relish intellectual complexity, sometimes struggle the most with decisiveness. While the quality of their decisions is often good, because of their pursuit of the perfect answer, they can take too long to make choices or set clear priorities—and their teams pay a high price. These smart but slow decision makers become bottlenecks, and their teams either grow frustrated (which can lead to the attrition of valuable talent) or become overcautious themselves, stalling the entire enterprise. So it's no surprise that when we looked more closely at the executives who were rated poor on decisiveness, we found that only 6% received low marks because they made decisions too quickly. The vast majority—94%—scored low because they decided too little, too late.

High-performing CEOs understand that a wrong decision is often better than no decision at all. As former Greyhound CEO Stephen Gorman, who led the bus operator through a turnaround, told us, “A bad decision was better than a lack of direction. Most decisions can be undone, but you have to learn to move with the right amount of speed.”

Decisive CEOs recognize that they can’t wait for perfect information. “Once I have 65% certainty around the answer, I have to make a call,” says Jerry Bowe, CEO of the private-label manufacturer Vi-Jon. But they do work actively to solicit multiple points of view and often poll a relatively small, carefully cultivated “kitchen cabinet” of trusted advisers who can be counted on for unvarnished opinions and sound judgment.

Bowe motivates himself to act on decisions by framing things this way: “I ask myself two questions: First, what’s the impact if I get it wrong? And second, how much will it hold other things up if I don’t move on this?” That approach, he says, also inspires his team members to trust their own judgment on operational decisions—which is critical to freeing the CEO up to home in on fewer but more important decisions.

To that end, successful CEOs also know when not to decide. Stephen Kaufman, former CEO of Arrow Electronics, suggests that it is all too easy to get caught up in a volley of decision making. He advises pausing briefly to consider whether a decision should actually be made lower down in the organization and if delaying it a week or a month would allow important information to emerge without causing irreparable harm.

But once a path is chosen, high-performing CEOs press ahead without wavering. Art Collins, former chairman and CEO of Medtronic, told us: “Employees and other key constituencies will quickly lose faith in leaders who waffle or backtrack once a decision is made.” And if decisions don’t turn out well? Our analysis suggests that while every CEO makes mistakes, most of them are not lethal. We found that among CEOs who were fired over issues related to decision making, only one-third lost their jobs because they’d made bad calls; the rest were ousted for being indecisive.

### 2. Engaging for impact.

Once CEOs set a clear course for the business, they must get buy-in among their employees and other stakeholders. We found that strong performers balance keen insight into their stakeholders’ priorities with an unrelenting focus on delivering business results. They start by developing an astute understanding of their stakeholders’ needs and motivations, and then get people on board by driving for performance and aligning them around the goal of value creation. In our data, CEOs who deftly engaged stakeholders with this results orientation were 75% more successful in the role.

CEOs who excel at bringing others along plan and execute disciplined communications and influencing strategies. “With any big decision, I create a stakeholder map of the key people who need to be on board,” explains Madeline Bell, CEO of Children’s Hospital of Philadelphia. “I identify the detractors and their concerns, and then I think about how I can take the energy that they might put into resistance and channel it into something positive. I make it clear to people that they’re important to the process and they’ll be part of a win. But at the end of the day, you have to be clear that you’re making the call and you expect them on board.”

When interacting with stakeholders, CEOs like Bell are acutely aware of how their moods and body language can affect the impact of their communications. Though much has been written about "emotional contagion," new CEOs are often surprised by the unintended damage that can be caused by a stray word or gesture. "Every comment and facial expression you make will be read and magnified 10 times by the organization," says Kaufman. "If you grimace during someone's presentation because of your bad back, the person making the presentation thinks they've been fired." Composure is a job requirement, and more than three-quarters of the strong CEO candidates in our sample demonstrated calm under pressure.

CEOs who engage stakeholders do not invest their energy in being liked or protecting their teams from painful decisions. In fact, both those behaviors are commonly seen in lower-performing CEOs. Instead, the skilled CEOs gain the support of their colleagues by instilling confidence that they will lead the team to success, even if that means making uncomfortable or unpopular moves. These CEOs do not shy away from conflict in the pursuit of business goals; in fact, in our analysis two-thirds of the CEOs who excelled at engagement were rated as strong in conflict management. The ability to handle clashing viewpoints also seems to help candidates advance to the CEO's office. When we analyzed leaders who'd made it there significantly faster than average, one of the qualities that stood out was their willingness to engage in conflict.

When tackling contentious issues, leaders who are good at engagement give everyone a voice but not a vote. They listen and solicit views but do not default to consensus-driven decision making. "Consensus is good, but it's too slow, and sometimes you end up with the lowest common denominator," says Christophe Weber, CEO of Takeda Pharmaceutical. Weber makes a habit of having unstructured meetings with 20 to 30 of the company's high potentials before making key decisions. The goal of those meetings is to challenge him and present him with new perspectives, but he is careful not to create the illusion of democracy.

None of this means that CEOs should behave as autocrats or lone wolves. Typically we see "take no prisoners" CEOs last only as long as the company has no choice but to submit to shock therapy. These CEOs often get ousted as soon as the business emerges from crisis mode—they lose the support of their teams or of board members who've grown tired of the collateral damage. It's no coincidence that the careers of turnaround CEOs are frequently a series of lucrative two- to three-year stints; they put out the fires and then move on to the next assignment.

### 3. Adapting proactively.

For evidence of how important it is for businesses and leaders to adjust to a rapidly changing environment, we need look no further than the aftermath of Brexit and the recent U.S. presidential election. Our analysis shows that CEOs who excel at adapting are 6.7 times more likely to succeed. CEOs themselves told us over and over that this skill was critical. When asked what differentiates effective CEOs, Dominic Barton, global managing partner of McKinsey & Company, immediately offered: "It's dealing with situations that are not in the playbook. As a CEO you are constantly faced with situations where a playbook simply cannot exist. You'd better be ready to adapt."

Most CEOs know they have to divide their attention among short-, medium-, and long-term perspectives, but the adaptable CEOs spent significantly more of their time—as much as 50%—thinking about the long term. Other executives, by contrast, devoted an average of 30% of their time to long-term thinking. We believe a long-term focus helps because it makes CEOs more likely to pick up on early signals. Highly adaptable CEOs regularly plug into broad information flows: They scan wide networks and diverse sources of data, finding relevance in information that may at first seem unrelated to their businesses. As a result, they sense change earlier and make strategic moves to take advantage of it.

Adaptable CEOs also recognize that setbacks are an integral part of changing course and treat their mistakes as opportunities to learn and grow. In our sample, CEOs who considered setbacks to be failures had 50% less chance of thriving. Successful CEOs, on the other hand, would offer unabashedly matter-of-fact accounts of where and why they had come up short and give specific examples of how they tweaked their approach to do better next time. Similarly, aspiring CEOs who demonstrated this kind of attitude (what Stanford's Carol Dweck calls a "growth mindset") were more likely to make it to the top of the pyramid: Nearly 90% of the strong CEO candidates we reviewed scored high on dealing with setbacks.

### 4. Delivering reliably.

Mundane as it may sound, the ability to reliably produce results was possibly the most powerful of the four essential CEO behaviors. In our sample, CEO candidates who scored high on reliability were twice as likely to be picked for the role and 15 times more likely to succeed in it. Boards and investors love a steady hand, and employees trust predictable leaders.

Leaders ignore the importance of reliability at their peril. Simon—a high-potential executive we were asked to coach—was known as a miracle worker at his company. In a culture where exceeding plan by 2% was seen as a win, he had just delivered 150% of his revenue target. While he'd had some misses in the past, he was now successfully running the company's largest business unit—its crown jewel. When Simon threw his hat into the ring for a promotion to CEO, the directors were impressed with his recent exceptional performance, but they didn't fully understand how he'd achieved it, and as a result they doubted it was replicable. So the board opted instead for a "safer" candidate who was known for delivering steady, predictable results year after year.

Our data supports the paramount importance of reliability. A stunning 94% of the strong CEO candidates we analyzed scored high on consistently following through on their commitments.

A key practice here is setting realistic expectations up front. In their first weeks on the job reliable CEOs resist the temptation to jump into execution mode. They dig into budgets and plans, and engage with board members, employees, and customers to understand expectations. At the same time, they rapidly assess the business to develop their own point of view on what's realistic and work to align expectations with that.

In 2012, when Scott Clawson took the helm of Culligan, the water treatment company, he inherited a struggling business that everyone believed had an EBITDA of $60 million. After completing his own due diligence, he had to break the news to investors that the real run rate was closer to $45 million. Though he got pushback about the lower target at first, he went on to revamp the firm's business system and talent and delivered above expectations—to the delight of his board and investors.

CEOs who ranked high on reliability employed several other tactics as well. Three-quarters of them were rated strong on organization and planning skills. They established business management systems that included a cadence of meetings, dashboards of metrics, clear accountability, and multiple channels for monitoring performance and making rapid course corrections. Most important, they surrounded themselves with strong teams.

Unfortunately, this was not true of all CEOs: The single most common mistake among first-time CEOs—committed by a surprisingly high 60% of them—was not getting the right team in place quickly enough. For CEOs choosing talent, the stakes are high and the misses obvious. The successful ones move decisively to upgrade talent. They set a high bar and focus on performance relevant to the role rather than personal comfort or loyalty—two criteria that often lead to bad calls.

## CONCLUSION

To be clear, there's no perfect mix of the four behaviors that works for every CEO position. The industry and the company context determine which behaviors and skills are most important in any particular situation. A CEO in a rapidly evolving industry—for example, technology—will surely need to excel in adapting proactively, but that behavior may matter less in stable sectors.

You might wonder, what about integrity and other "table stakes" qualities? Those are critical in screening out clearly unsuitable candidates, but they will not help you separate the best from the rest. Consider that 100% of low-performing CEOs in our sample scored high on integrity, and 97% scored high on work ethic.

In the end, our research shows, leadership success is not a function of unalterable traits or unattainable pedigree. Nor is there anything exotic about the key ingredients: decisiveness, the ability to engage stakeholders, adaptability, and reliability. While there is certainly no "one size fits all" approach, focusing on these essential behaviors will improve both a board's likelihood of choosing the right CEO—and an individual leader's chances of succeeding in the role.

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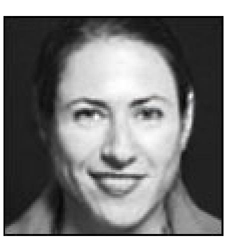

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