

The Last Mile to the Top: Future CEOs Who Beat the Odds

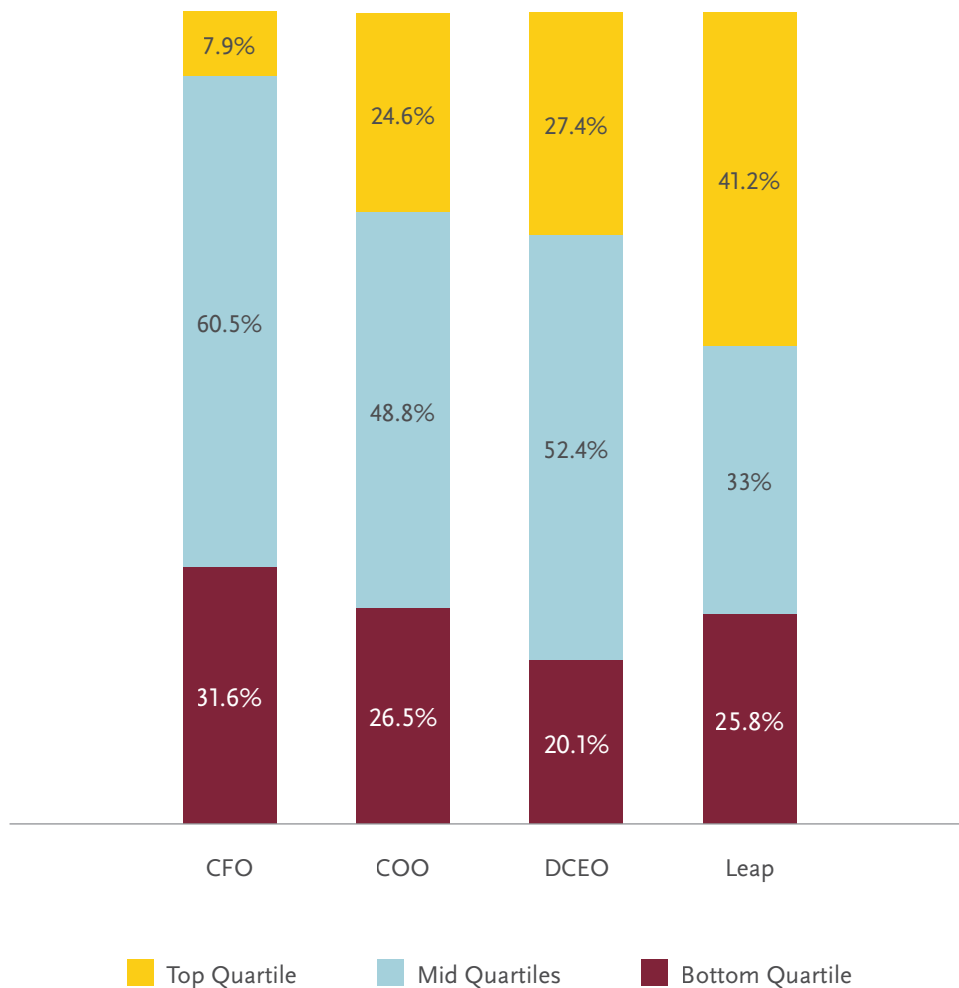
What Research Reveals About the Four Most Common CEO Steppingstones

Nobody is ever fully ready to become CEO. But all too often the focus on “readiness” on Day One distracts from the real objective: maximizing value for the company and all its stakeholders. No doubt CEO transitions are high-stakes moments for any company. Yet, the singular attention to selection obscures the larger point: getting the job is not the finish line of a long race, but simply the beginning of an entirely new one. Like elite athletes who celebrate qualifying for a split second before turning their focus to the race for gold, CEOs who ultimately outperform share a similar go-for-gold mindset. They anticipate the race that matters and seek every opportunity to unlock their potential.

Like medal-winning athletes, most of the groundwork is laid ahead of time. It turns out that not every executive role presents equal odds of success. The “last-mile” experience — and the priorities, mental models and stakeholder exposure that come with it — shape a future CEO’s towering strengths and growth opportunities. Even though CEOs continue to learn throughout their tenure, they recognize in hindsight how increased complexity and greater demands make it exponentially harder to focus on their own development. The last mile before becoming CEO represents the final opportunity to prepare ahead of time for the race that matters most.

By understanding the common challenges, executives can tilt the odds in their favor and unlock their full potential. As part of Spencer Stuart’s CEO Life Cycle research, we studied more than 1,300 CEO transitions to predict the probability of success in the top job based on CEO backgrounds. Next, we analyzed the development advice given to more than 100 senior executives as part of their companies’ CEO succession planning to identify common themes for each steppingstone. Last, we interviewed successful CEOs about key learnings on their path to the top. The study reveals a surprising pattern of results.

REPRESENTATION IN TOP AND BOTTOM PERFORMANCE QUARTILES BY BACKGROUND*



*As measured by market-adjusted total shareholder return.

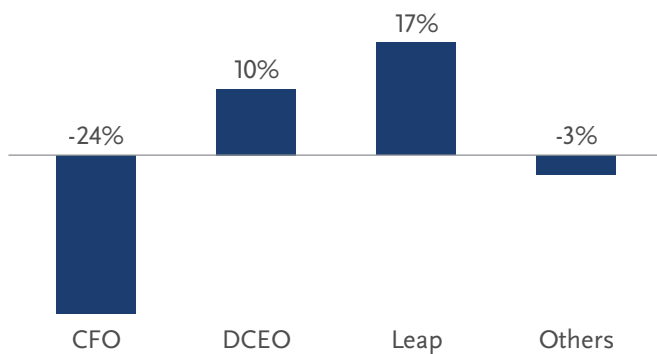
Over the last 20 years, four roles — chief operating officers, divisional CEOs, chief financial officers and “leapfrog” leaders promoted from below the second layer of management — represented the last-mile experience of 85 percent of freshly minted CEOs. Among them, leapfrog CEOs were most likely to outperform their peers. Former CFOs were the least likely to be among the top performers. And divisional CEOs presented the safest bet to avoid underperformance.

These odds are not destiny. We found overperformers and underperformers among CEOs of every background and across industries. What distinguished aspiring CEOs who beat the odds was their self-awareness and devotion to unlocking their full potential — not just to become CEO but also to thrive once in the position.

Understanding the odds of success and how to beat them will reshape the dialogue between boards, CEOs and CEO aspirants. Boards selecting a new CEO can reframe the question of “readiness” on Day One to instead solve for long-term value creation. CEOs contemplating their succession can ensure the board has sufficient options by ensuring the company is developing a diverse leadership pipeline and providing targeted developmental experiences for leaders in key roles. Most importantly, CEO aspirants can shift their horizon from getting the job to excelling in it.

What distinguished aspiring CEOs who beat the odds was their self-awareness and devotion to unlocking their full potential.

PROBABILITY OF LANDING IN THE TOP QUARTILE OF PERFORMANCE*



*Comparing against chief operating officers as the baseline.

How they got there: Divisional CEOs and COOs are the most common steppingstones to the CEO role

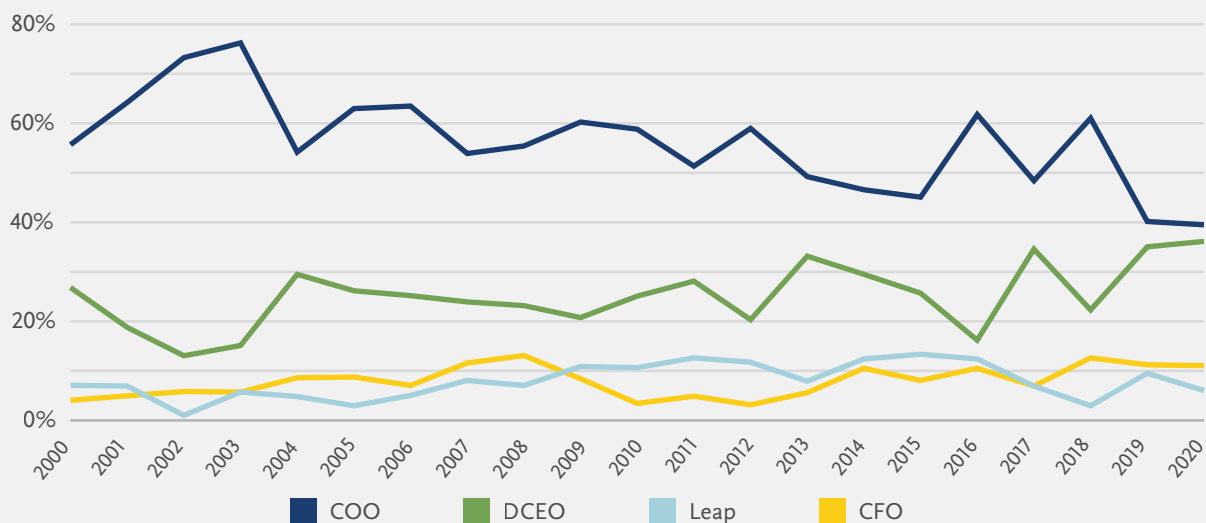
The COO role used to be almost the exclusive steppingstone to CEO, launching a whopping 76 percent of new CEOs into their roles in the early 2000s. The COO role was popularized in the 1990s as companies embraced management trends such as total quality management, kaizen, etc. COOs, who gained experience overseeing complex operations and knowledge of all aspects of an organization, were viewed then as logical CEO successors. Since then, the share of COOs being promoted to CEO has consistently declined to 38 percent in 2020.

Much has changed for businesses and leadership since the early 2000s, and CEO backgrounds have steadily diversified in response. Organizations today are flatter and must ruthlessly prioritize customers amid growing competition. Power in organizations has moved from functions to businesses, and running a full P&L is widely regarded as required experience for CEO candidates. Amid these changes, divisional CEOs became a natural pool of CEO talent. In 2000, just over one-quarter of new CEOs were promoted DCEOs. This share has consistently increased to 36 percent of new CEOs in 2020.

Often the right hand and consigliere of the CEO, CFOs bring a deep understanding of the financial levers for shaping efficient businesses, making them a logical choice of CEO successor for many companies, especially capital-intensive businesses. And, indeed, 9 percent of CEOs appointed in 2020 were former CFOs, double the rate in the early 2000s. While fewer CFOs were named CEO in the years after the global financial crisis, the share of CFO promotes has since recovered. CFOs represented the third most common steppingstone to CEO in 2020.

Leapfrog CEOs have represented a steady but relatively small supply of CEO successors since the early 2000s. By accelerating timelines of high-potential executives, boards hope that fresh thinking and perspectives offset these leaders' relative inexperience. There is an inherent "supply problem" when considering leapfrog CEOs as a source for CEO talent, as it requires a rigorous talent development and screening process to understand the quality of talent and CEO-readiness below the senior leadership team.

S&P 500 NEW CEO BACKGROUNDS BY YEAR*



*Percent of all CEO transitions in a given year, excluding CEOs appointed directly from another CEO role.

Beating the odds: How to unlock potential

The CEO's job is becoming ever more complex and challenging. The last-mile role is the final opportunity to address areas that could handicap performance before the ultimate race begins. To help CEO aspirants beat the odds, we examined the most common areas to unlock performance for each of the four primary steppingstones to CEO.

COO: Winning hearts and minds

The COO's job varies across organizations. Some have a strategic role, leading a major change initiative. Others are responsible for operations and driving quarterly results, freeing the CEO to concentrate on the longer term. In other cases, CEO succession candidates are named as COO as a "finishing" role to gain additional enterprise and stakeholder exposure.

COOs ascending to CEO benefit from overseeing the operational complexity of the business, which can provide them with an enterprise view and insight into strategic priorities. While the COO role comes in many flavors with different mandates and responsibilities, what they have in common is high visibility in the organization and practice operating at scale. As COOs, a bias for action and an eye for efficiency are important assets for driving outcomes. When a COO becomes CEO, their broad knowledge of the company and executional mindset allow them to orchestrate operational activities, but they may underappreciate the need to engage their team, the organization and other stakeholders. Their focus on performance in the current quarter and strategy execution can come at the expense of longer-term strategic planning.

COOs who outperform as CEOs use their last-mile experience to build broad followership in their organizations. As CEOs, they recognize diverse stakeholder perspectives and tap into traits like empathy and humility to communicate in a way that wins hearts and minds. They nurture personal bonds to accomplish specific tasks and hone their communication to anchor execution to strategy and purpose to connect on an emotional level. They also develop a stronger strategic and commercial orientation beyond what the role requires.

Unleashing your potential: Three opportunities for COOs

EXTEND FOLLOWERSHIP ACROSS ORGANIZATION

- » Be more visibly present among the broader workforce to convey interest in challenges and extend appreciation
- » Invest time in off-task relationships and those outside the inner circle to deepen connection with others
- » Reveal personal vulnerabilities and help others get to know the person in the role

LEAD WITH VISION

- » Think long term and tie execution to the strategy and future direction of the business
- » Articulate and repeatedly communicate vision, strategic priorities and milestones to drive alignment and improve engagement
- » Enlist the top leadership team to reinforce the organization's purpose, culture and values

EXPAND STRATEGIC VOICE

- » Increase exposure to corporate functions (e.g., finance) to shape the strategic agenda
- » Deepen understanding of cultural nuances by spending time in different geographies and/or markets
- » Lean on other experienced leaders to find your strategic voice as sufficiently distinct from the CEO's

Divisional CEO: Embracing an enterprise point of view

Divisional CEOs, presidents and other heads of businesses have a broad leadership role, overseeing the P&L for a region, product, sales channel or service line. They have proven their ability to lead complex organizations. They serve on the executive team, report directly to the CEO and have significant influence over the revenue growth of the organization.

It's a powerful role: divisional CEOs are accustomed to using their authority to direct activities in their organization and compete with other leaders to win resources for their business. The singular focus on the success of their business works; successful divisional CEOs drive revenue growth in their unit and command the resources they need for future growth. But this same approach can limit the effectiveness of a CEO. One divisional CEO we worked with, for example, effectively drove the results of his business at speed by providing direction and holding his team accountable. But he had difficulty gaining support and shaping plans together with peers, who sensed his impatience, lack of flexibility and resistance to being influenced by their views. Another divisional CEO remarked how his emphasis on speed led him to shut down dissenting voices on his team pre-emptively. Successful CEOs keep their inclination to lead from the front in check. They cultivate high-performing teams by creating a culture of psychological safety that encourages strong debate and co-creation. Teams align on a shared vision and collaborate and coordinate to execute.

Divisional CEOs can prepare for success once they are CEO by developing a broader view of the business, its resource allocation and the agenda of the executive team. What may be right for their division may not always be right for the organization. They can begin

shifting their leadership style to create a more inclusive and collaborative environment through active listening and by making room for others to contribute and challenge ideas. They also can improve their ability to influence others by increasing their awareness of how their words and actions are perceived by others.

Successful CEOs cultivate high-performing teams by creating a culture of psychological safety that encourages strong debate and co-creation.

Unleashing your potential: Three opportunities for divisional CEOs

BUILD ENTERPRISE LEADERSHIP	LEADING FROM THE FRONT AND THE BACK	ENCOURAGE OPEN DIALOGUE
<ul style="list-style-type: none"> » Volunteer for company-wide projects to gain understanding of interdependencies and build trust » Deepen understanding of the value and challenges of corporate functions » Create space and time for strategic reflection at the enterprise level and demonstrate commitment to the enterprise (vs. divisional) agenda 	<ul style="list-style-type: none"> » Increase self-awareness and recognize how actions and words impact others » Moderate reactions to bad news and pay attention to situations that trigger emotional reactions » Explore multiple motivational styles as a bridge to people who may not share a similar achievement orientation 	<ul style="list-style-type: none"> » Carve out time to involve others earlier in analysis and formulation of strategic ideas » Remain in active-listener mode for longer to learn about alternative perspectives and make room for others to contribute and challenge ideas collaboratively » Celebrate the wins of other groups even when at odds with your divisional agenda

CFO: Communicating beyond the numbers

CFOs work directly with the board and are steeped in the company’s strategy and financials, making them natural contenders for CEO succession. They are also common “emergency” succession candidates. CFOs understand investors’ perspectives and often are skilled at communicating with shareholders. Depending on the company, CFOs play a significant role in M&A and the strategic decisions about what to acquire and divest and how to shape the business for the future.

CFOs tend toward financial conservatism — a virtue when your job is to make sure the numbers add up and the company stays out of hot water with investors and regulators. But, given the dynamism of markets today, CEOs must play to win — not to avoid losing. CFOs can over-rely on numbers and analysis in their communication and decision-making. Their intense focus on metrics can also blur the line between an FTE (full-time equivalent) and the

talent hiding behind it. Comfort with numbers, reliance on logic and sound analysis are important strengths, but successful CEOs must understand the broader landscape when making decisions and hit different notes with different audiences, especially when faced with uncertainty.

CFOs who are successful as CEOs find ways to cultivate a growth orientation and risk tolerance.

One outperforming CEO who came up through the CFO role described the risk of wearing the CFO hat as CEO: “It’s very easy to spend time in the CFO lane as a new CEO, as opposed

to naming a really competent successor to run the shop and do what you used to do. You have to put your energy disproportionately in other places.” CFOs who are successful as CEOs find ways to cultivate a growth orientation and risk tolerance. They have built range by developing a broader perspective on the organization, often through operating experience earlier in their career. They make sure they are involved in the key business decisions and operational issues, occasionally serving as de-facto COOs for the CEO. They learn to balance analysis with a more holistic view when making decisions and work on communicating the vision and bigger picture rather than providing detailed analysis. They factor potential emotional reactions into their delivery.

Unleashing your potential: Three opportunities for CFOs

GAIN OPERATING EXPERIENCE AND COMMERCIAL EXPOSURE

- » Broaden beyond the finance function and familiarize yourself with commercial drivers (e.g., innovation, P&L responsibility)
- » Take on additional leadership responsibilities to generate followership across the organization
- » Delegate to a strong team of finance leaders to further elevate to the enterprise level and be closer to the business challenges

BALANCE THE RATIONAL WITH THE EMOTIONAL

- » Emphasize the bigger picture before providing detailed analysis or supporting facts to generate ideas and articulate goals
- » Showcase appropriate risk tolerance by moderating financial conservatism with exploration of new concepts that may have inconclusive data or lack past reference points
- » Dial up the “why” behind decisions and tailor messaging to include the right mix of facts and stories to engage your audience

BUILD TALENT

- » Take a more structured, systematic approach to talent management and coaching
- » Devote more time to helping team members address gaps and leverage strengths
- » Lead teams with IQ and EQ to motivate and unleash extra discretionary effort

Leapfrog CEO: Developing for the long term

High-performing leaders below the C-suite may assume they don't have a shot at becoming CEO because of their limited exposure to the executive team and the board. In some years of our data set, however, boards appointed more leapfrog candidates as CEO than from some other steppingstone roles. Leapfrog candidates are likely to show up on the radar of boards that embrace robust succession planning processes that start earlier, extend deeper in the organization and rely on potential more than experience. The takeaway: leaders in key roles just below the executive team have a shot at becoming successful CEOs.

Leapfrog candidates tend to be leaders inside a large business unit, such as vice president of consumer in the Americas. Unlike COOs, divisional CEOs and CFOs, leapfrog candidates are not on the executive team reporting to the CEO. So, while they have broad responsibility for the performance of their business, they have less visibility into what's outside of their unit. Further down in the organization, these leaders also are likely to have less exposure to the board, investors and other important stakeholders. Yet, these leaders can be highly successful CEOs. One leapfrog CEO we worked with was identified as a potential successor through an assessment of the broader leadership team. Ultimately selected as CEO because of his authentic leadership, cultural fit, technical acumen, vision, critical thinking and self-awareness, he led the company to double the stock price over his tenure and increased market cap by nearly 50 percent.

For these leaders, having a long-term orientation can be the ultimate superpower. While they may not yet see themselves in contention for the CEO role, they can think in terms of developing for success in the next role and beyond. Leapfrog executives have the biggest jump to make to CEO in terms of the scale and complexity of the job. To "stretch" further faster, leapfrog candidates must solicit regular feedback on their leadership from trusted colleagues and deepen their understanding of the functional and business interdependencies by raising their hands for visible enterprise-wide efforts, such as ESG or DE&I initiatives, new process rollouts and other strategic priorities. Such exposure across the enterprise helps leapfrogs increase their influence and impact. Some of their development depends on the leadership's commitment to making certain development opportunities happen, including providing up-and-coming leaders exposure to external stakeholders (such as analysts, investors, board members).

Unleashing your potential: Three opportunities for leapfrog candidates

HONE STAKEHOLDER MANAGEMENT SKILLS	BUILD A NETWORK AND SUPPORTER BASE	SCALE UP TO MANAGE COMPLEXITY
» Seek opportunities to interact with the board during formal board sessions or activities around meetings	» Invest proactively in senior leader relationships across the enterprise for advice, counsel and mentorship	» Scale your leadership beyond role-modeling and invest in developing a team of leaders to delegate initiatives to
» Lean into more complex and political interactions to hone interpersonal skills	» Demonstrate expertise by speaking up and actively contributing during leadership meetings	» Solicit feedback from trusted colleagues when leading new and complex engagements to "stretch" further faster
» Seek exposure to external stakeholders (e.g., analysts, investors, industry networks) to better understand different perspectives, and develop influencing skills	» Consider the reverberations of your actions and expressions as you establish and project your leadership brand	» Deepen your understanding of the functional and business interdependencies across the enterprise

Creating the conditions for success

Each CEO transition is a complex and distinctive process, and a CEO's success is dependent on a variety of factors. These include how well executives have prepared themselves — including their willingness to seek feedback and take on roles that provide new challenges — and how aligned their capabilities and style are with the requirements of the role. Many of these conditions take years to influence, a significant commitment to driving impact. Other factors also influence the success of a CEO, including the strength and dynamics of the team they build around them and the support they receive from the board, the outgoing CEO and the CHRO.

Talent-centric organizations will be best positioned to build a strong and diverse pipeline of potential CEO successors and help prepare future leaders for the demands of top executive roles. Being intentional about development also will help organizations increase the diversity of leadership pipelines. For example, while women are vastly underrepresented across roles, the share of women is even lower among COOs and divisional CEOs (4 percent) compared with leapfrog CEOs and promoted CFOs (10 percent). While we do not see gender-specific performance differences, we see that women do not yet have equal access and representation on the predominant paths to the CEO role.

Boards should be thinking in terms of the ecosystem of supporting talent — the top team, the board and external advisers — to succeed.

Organizations also can consider broadening their views on the best roles for developing future CEOs. Not every potential CEO successor must lead the most complex or largest division to be ready to lead as CEO. Looking deeper in the organization expands

the choices and often reveals previously unrecognized top talent as skip-level options. High-growth divisions that require leaders to read signals in an unpredictable and rapidly changing environment and act quickly can serve as another test of one's leadership scale and ability. Shifting expectations about effective tests of leadership — from managing complexity to driving impact, for example — can open up more options for testing top talent and, by extension, increase access for talented leaders from underrepresented groups, who may otherwise not be considered.

Finally, the most effective talent organizations recognize that the best CEOs are complemented by a diverse high-performing team who support their success and address gaps in their skills or knowledge. Robust succession planning — that starts early, casts a wide net and focuses on the transition of the team and the development of both the new CEO and the team around them — produces strong internal options for CEO succession. It also accelerates the development of a broad set of leaders, many of whom will be critical to the new CEO's success. Increasingly, boards should be thinking in terms of the ecosystem of supporting talent — the top team, the board and external advisers — to succeed.



The job of the CEO is becoming ever more complex and demanding. Those who outperform in this challenging position will cultivate self-awareness and a learning orientation. They will recognize value of their last-mile experience to hone their strengths and unlock their true potential. Avoiding complacency, they will shift their time horizon from getting the job to excelling in it. Who would not want to get a head start in the race for gold?



Methodology

As part of the CEO Life Cycle project¹, we analyzed the performance of all S&P 500 CEOs since the turn of the century (n=1,330) and how they rose through the corporate ranks into the CEO role (excluding founders). We also conducted a meta-analysis of developmental advice given to 100+ CEO candidates to identify trends in opportunities by role. Finally, we interviewed board directors and CEOs of these companies about their experience and observations about the CEO's transition. Our goal is not to exclude talented leaders from being considered for the CEO role. Quite the contrary, with our work, we aim to shed light on intricacies and complexities of readying top talent for the CEO role and provide aspiring CEOs with an upfront view on how to acquire the necessary capabilities and experience sets to succeed in the role.

¹ Citrin, J.M., Hildebrand, C.A. & Stark, R.J. (2019). The CEO Life Cycle: A Study of Performance over Time. *Harvard Business Review*. Retrieved from <https://www.spencerstuart.com/research-and-insight/harvard-business-review-the-ceo-life-cycle-a-study-of-performance>



SpencerStuart

Authors

Claudius A. Hildebrand (New York)

Robert J. Stark (San Francisco)

Seonaid Charlesworth (Calgary)

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