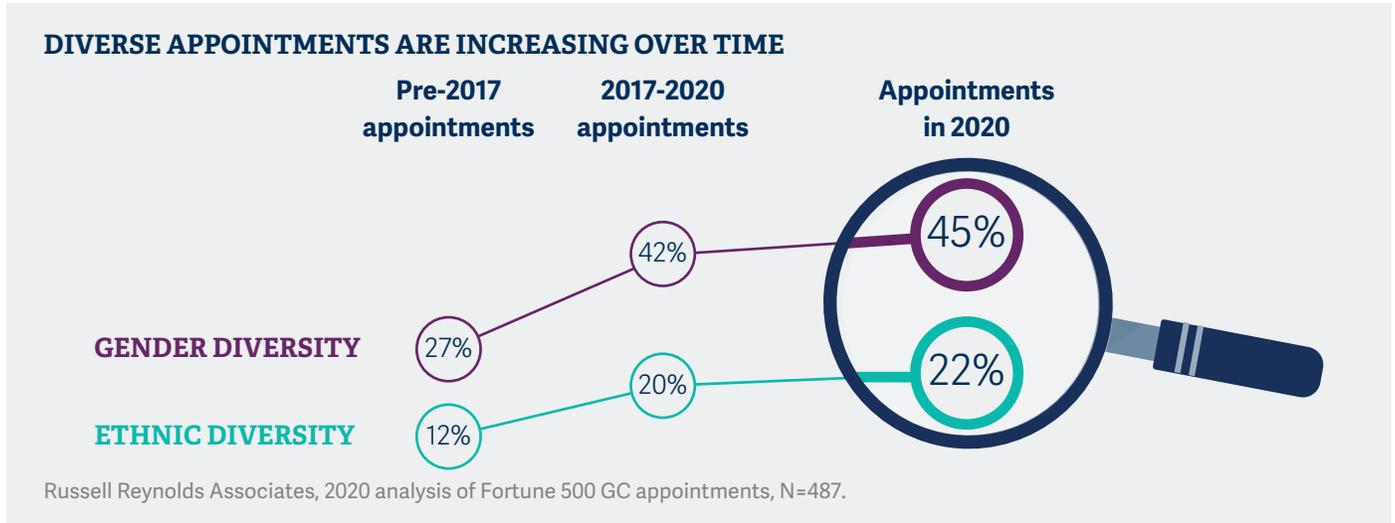




Fortune 500 General Counsel Succession: Leveling the Playing Field to Create Equity

Attracting and retaining diverse talent has become a top priority for many organizations and it is reflected in Fortune 500 general counsel appointments.

This group of top GCs has steadily become more diverse over the eight years that Russell Reynolds Associates has tracked the data, a trend which gained fresh momentum from the heightened focus on racial justice in 2020.



This is positive momentum that has built over time and will likely continue to move forward.

Given the raised consciousness and urgency around racial and social justice, our DE&I conversations with clients are more frequent and substantive, with more clients proactively coming to us for advice. We see a particular interest in those looking to advance opportunities and representation for Black executives on leadership teams and boards. We expect the urgency around these initiatives to continue.

There is good reason for this, as DE&I has a real payoff.

Based on a survey of nearly 850 global executives, RRA research shows that executives at organizations with advanced DE&I strategies are about 30 percent more likely than others to feel highly loyal, innovative and set up for top performance.¹

But DE&I needs to be done right to produce benefits.

Our research also shows that executives at organizations with reactive, compliance-driven D&I strategies report more negative workplace sentiment than those at organizations with no clear D&I strategy.

To ensure sustainable success, it is important to invest in more robust and equitable GC succession planning.

When CEOs, CHROs and GCs take a thoughtful and proactive approach to GC succession, they can expand both internal and external candidate pools and increase the likelihood of a stronger and more diverse leadership team.

In this report, we take a data-driven view of Fortune 500 companies' efforts to diversify their GC hires, focusing particularly on the career paths of women and ethnically diverse GCs. This analysis offers new insights for CEOs, CHROs and GCs who want to develop a sustainable pipeline of diverse legal talent. We look at:

01

Persistent pain points in the GC succession process (despite an increasing number of diverse GC hires)

02

Key steps that CEOs, CHROs and GCs can take to make internal talent development processes more robust and equitable

03

New strategies for approaching external executive searches to help diversify candidate slates and improve hiring decisions

1. Diversity and Inclusion: What Separates the Best from the Rest, Russell Reynolds Associates, October 2019.

Broken general counsel succession process

While more leaders are appointing women and ethnically diverse GCs, many still fail to adequately prepare the next generation of legal talent to assume the top role. This lack of internal development is particularly apparent when it comes to under-represented candidates.

About half of all GCs at Fortune 500 companies come from outside the organization, a ratio that has held relatively steady over time. Yet diverse hires are more likely to come from outside the organization than inside, meaning that internal GC succession processes may not be inclusive enough to yield a diverse slate of talent.

LEADERS TEND TO LOOK EXTERNALLY FOR DIVERSE TALENT

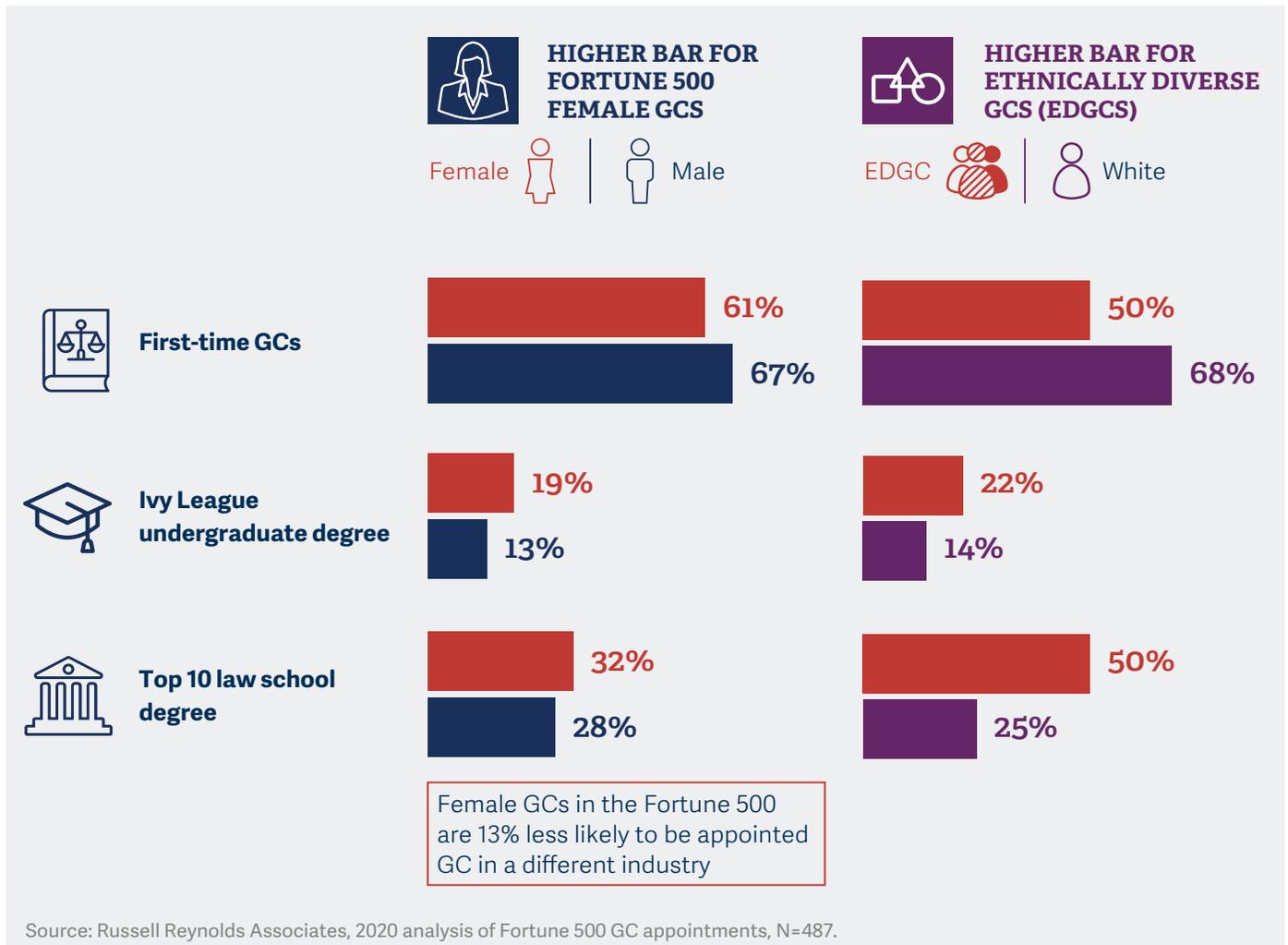
Our research shows that diverse GC hires are more likely than others to come from outside the organization. This suggests that sitting GCs are not adequately grooming high-potential female and ethnically diverse talent to be viable successors.



Russell Reynolds Associates, 2020 analysis of Fortune 500 GC appointments, N=487.

To compound these factors, companies hiring externally tend toward a “check-the-box” approach that prioritizes candidates with such credentials as previous experience at similar-sized companies within the industry rather than doing the harder work of assessing candidates’ track records and leadership capabilities. This effect seems to intensify when it comes to diverse GC appointments. Our research shows that female and ethnically diverse GCs are on average better educated and more experienced than their white male counterparts. Ironically, they may also be paid less: Association of Corporate Counsel pay data for more than 3800 GCs shows an average 39 percent pay gap between women and men.²

The implication: Organizations are less likely to take chances when it comes to hiring diverse candidates compared to their white, male counterparts. Instead, they tend to hold them to a higher bar, looking for pedigree factors to increase comfort levels.



These trends point to some bias in the succession process; much of it likely unconscious. They raise a related question about the organizations that women and ethnically diverse GCs come from: What aspect of their corporate cultures causes these high-potential candidates to seek advancement opportunities externally?

As the GC role expands, successors need an even greater variety of experiences and plenty of board exposure. This creates even more pressure to get internal development efforts right, and to build inclusive cultures that can retain high potential talent over the long run.

How CEOs, CHROs and GCs can create a more equitable GC succession process

Gaining access to a more diverse network of GC candidates starts with a thoughtful and proactive GC succession process. By looking at strategies for developing internal talent, as well as the criteria used to assess external talent, CEOs, GCs and CHROs can maximize the opportunity to identify the candidates who bring the best combination of past experience, leadership capability and future potential while also ensuring a diverse slate. Organizations that are thoughtful about executive succession are also likely to see a payoff in the form of better business results: Nine out of 10 teams with successful leadership transitions meet their 3-year performance goals, while up to half of those who struggle with such transitions underperform.³

A ROBUST SUCCESSION PLANNING PROCESS INVOLVES BOTH INTERNAL AND EXTERNAL COMPONENTS:

1

BOLSTER INTERNAL EXECUTIVE DEVELOPMENT BY STARTING EARLY

As legal talent becomes more senior, both commercial and governance responsibilities become essential developmental experiences on the path to a true GC role. Board relationships that are built through early governance responsibilities are particularly important. However, without intentional effort, many promising internal GC candidates lack the board exposure that is necessary to gain directors' confidence.

By planning ahead, organizations can ensure internal candidates have the board exposure they need. Rotations are one effective development tool (see case study); involving internal candidates in special projects that provide stretch opportunities, along with coaching and mentoring, is also important.

CASE STUDY: INTERNAL LEGAL EXECUTIVE DEVELOPMENT AS PART OF GC SUCCESSION

The GC of a large global IT company planned to retire within two years, and none of his six direct reports yet had the right combination of corporate/SEC experience and business-unit leadership experience to step into the role. To prepare for the upcoming transition, the GC and CEO partnered with Russell Reynolds Associates to assess the current readiness of internal candidates and create development programs and rotational opportunities that would best prepare each high-potential internal candidate for the role.

Russell Reynolds Associates assessed the six direct reports through a comprehensive 360-degree review (six to 10 reference interviews per candidate), Hogan competencies assessment, and a 2-hour interview with an industrial/organizational psychologist and legal industry subject matter expert. This process revealed that three of the six had potential to ascend to the GC role provided they take certain developmental steps. (Note: The executive development plans would include all six to keep each one engaged.)

To address these needs and close experience gaps, the client created a rotational program to have the three most promising candidates swap roles. Leaders provided developmental plans and stretch assignments to the other three candidates within their existing roles.

Over the course of this development program, which is still in progress, it has become clear that at least two of the three high-potential candidates are ready to assume the GC role when the incumbent GC retires. Thanks to a proactive approach to internal executive development, this global company will have two experienced and well-rounded GC candidates to choose from when the time comes.

3. Bharucha, Kruti, CEB, [Blog: The Cost of Poor Leadership Transitions — People Matters](#), Jan. 28, 2014.

Research shows that diverse talent is less likely to receive the sponsorship they need to advance in their careers and are often overlooked in the normal course of business for stretch opportunities to close their experience gaps. As a recent McKinsey report shows, this is particularly true for Black women, who are the least likely of any group surveyed to say they feel supported by their managers and tend to have fewer interactions with senior leaders.⁴ Creating a standard process that takes development needs into account for all candidates helps organizations mitigate systemic biases. It can also minimize the tradeoff between institutional knowledge and the right set of experiences that occurs when organizations make a hiring decision under pressure and internal candidates are not prepared. Yet it is not enough to simply set up such processes; it is also essential to invite diverse talent into them – particularly if the current leadership team does not reflect the demographic diversity the organization is seeking.

2

MANAGE AN EQUITABLE EXTERNAL SEARCH PROCESS

When companies look externally for talent, they often rely too heavily on pedigree factors or recommendations from close sources that make a candidate feel like a safe choice but do not necessarily correlate to success in the role. To scope in as much relevant talent as possible, we recommend assessing talent on accomplishments and track records rather than checking certain boxes. Leaders can create a more diverse and qualified pool of talent by:

- Reconsidering criteria where possible, including industry experience, scope and scale of prior roles, previous GC experience or a degree from a particular university, and instead focusing on success factors in the role
- Sourcing broadly in the market, and specifically sourcing diverse talent by tapping into affinity groups and networks of diverse leaders
- Assembling a diverse set of decision-makers for the search – provide representation to demonstrate the organization's commitment to diversity and inclusion
- Using competency-based interviews to gain a deeper understanding of candidates' track record, leadership capability, demonstrated success

CASE STUDY: EXECUTIVE ASSESSMENT AS PART OF C-SUITE LEADER SELECTION

A global financial services company was looking for a new C-suite executive who could galvanize and transform a corporate team. Over the course of an external search, two candidates rose to the top. One came with clear credentials: he had held a similar role previously, had deep industry experience and had been mentored by the well-liked outgoing executive at a previous firm. The other candidate also had an impressive resume and had succeeded in the same role in several other industries – but had not worked in financial services before and was not previously known to key decision-makers. On paper, the first candidate seemed like an obvious, and safe, choice, but the CEO wanted to know more.

To go a level deeper, Russell Reynolds Associates assessed both candidates using its Leadership Span model, which measures executives' ability to set strategy, execute for results, lead teams, and influence peers. Through this process, it became clear that while the first candidate was a solid choice, he was unlikely to unlock meaningful change through his leadership style, as it was too similar to the incumbent's. The second candidate, conversely, showed an exceptional ability to lead transformations, and did so by engaging those around her rather than taking a command-and-control approach.

With this additional layer of insight, the CEO chose the second candidate in full confidence that she had the most essential qualities to succeed in the role. Had the client prioritized industry experience and familiarity, they would have ended up with a suboptimal decision.

4. Women in the Workplace, McKinsey & Company, September 2020.

This case study is a prime illustration of how a robust search process is also a more equitable search process. By pushing past shortcuts like gut feel and recommendations from a closed network, this client ended up with two viable candidates and was able to choose the best one. A solid process not only scopes in additional talent, it also leads to stronger hiring decisions.

3

COMMIT TO BUILDING A MORE INCLUSIVE ORGANIZATIONAL CULTURE THAT SUPPORTS BOTH DEVELOPMENT AND HIRING EFFORTS

Creating a better succession process is an important step toward equity in the GC role. For sustainable progress, however, it is also essential to consider what happens outside of the succession process. A key question for leaders: What needs to happen for younger generations of diverse talent to stay long enough to be considered for GC role?

To build a powerful retention strategy, leaders will want to be intentional about sponsoring diverse talent in their organizations. This may include proactively inviting them into development processes, with clear communications about an individual's potential to grow and progress in an organization. These efforts are increasingly important as the workforce becomes more distributed, and standard opportunities to interact and build relationships across levels in an office are not available. While this can be uncomfortable, it is an essential element of being an inclusive leader, and the first step to making real change in the organization.⁵

Proactive GC succession planning creates more equity

When companies take a narrow or formulaic approach to GC succession and don't dig deeper, they risk choosing a candidate for the wrong reasons – or worse, hurting their brand as an employer by disenfranchising diverse talent.

Conversely, companies that take a thoughtful and proactive approach to the GC succession process increase the odds of successfully hiring and retaining a diverse GC by opening their search to a larger group of qualified internal and external candidates. Robust assessment, development and search processes maximize the talent pool and mitigate inherent biases, making it more likely a company will choose someone who brings what is needed to the role rather than relying on shortcuts.

Ultimately, companies that strengthen their succession planning processes will not only make executive selection less risky, they are also likely to see stronger leadership teams and cultures that fully leverage the talent of their people.

METHODOLOGY

- This analysis is based on Fortune 500 General Counsel route to the top data as of Sep 30, 2020, and includes 487 GCs
- The cohort covers all sectors, including Consumer (21.6%), Financial Services (18.3%), Healthcare (8.4%), Industrial and Natural Resources (39.8%) and Technology (11.9%)
- The cohort is 32.9% female and 15.4% ethnically diverse
- Note: Determination of whether a particular GC qualified as ethnically diverse was based on publicly available information, including, without limitation, trade journals, press releases and new reports that reference the ethnicity of the individual

AUTHORS

CYNTHIA DOW leads Russell Reynolds Associates' Legal, Regulatory & Compliance Officers practice. She is based in Boston.

WILLIAM MCKINNON co-leads Russell Reynolds Associates' Legal, Regulatory & Compliance Officers practice in the Americas. He is based in Washington, DC.

ALPHA MENGISTU is a member of Russell Reynolds Associates' Leadership & Succession and Diversity, Equity and Inclusion practices. She is based in Boston.

HARSONAL SACHAR leads Knowledge for Russell Reynolds Associates' Legal, Regulatory & Compliance Officers and Human Resources Officers practices. She is based in Toronto.

ALIX STUART is a member of Russell Reynolds Associates' Center for Leadership Insight. She is based in Boston.

ADRIANA ZACCONE is a member of Russell Reynolds Associates' Legal, Regulatory & Compliance Officers practice research team. She is based in Boston.

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About Russell Reynolds Associates

Russell Reynolds Associates is a global leadership advisory and search firm. Our 470+ consultants in 46 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 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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