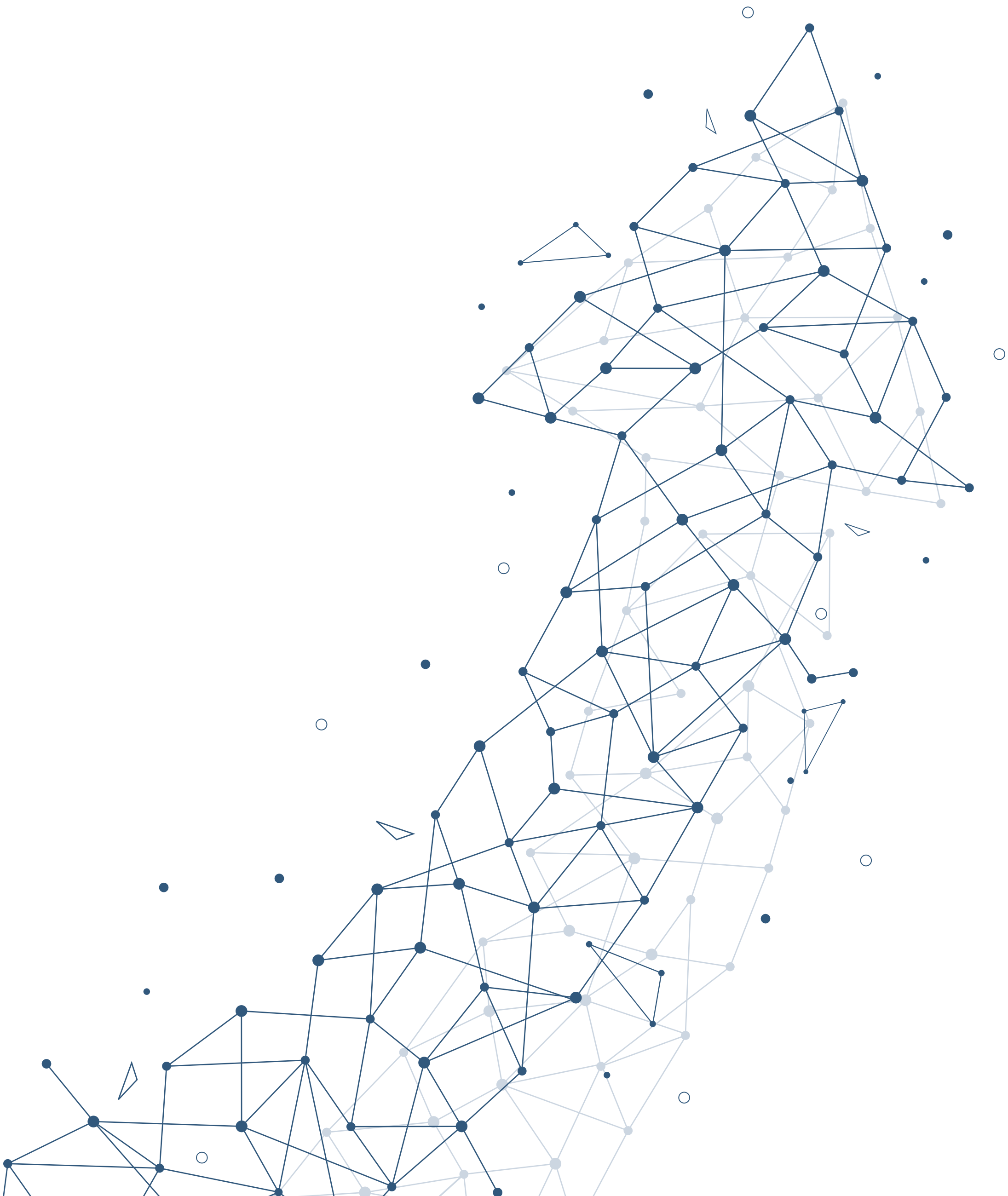
How to Grow a CEO:

Lessons from CEO Academy Companies



Russell Reynolds ASSOCIATES

General Electric builds a lot of things—including leaders.

Since GE's 1892 founding in Schenectady, New York, almost every single GE CEO has spent all, or virtually all, of his career at the company. As the conglomerate has grown across continents and industries, it has repeatedly been able to develop leaders with diverse skills and experiences, enabling them to lead one of the largest, most complex corporations in the world. That's even more notable considering that with each CEO transition, the enterprise looked completely different from the way it did when that future executive started his career.

Just as impressive, however, is GE's ability to create leaders for other organizations. Among the companies listed on the S&P 1500 today, 31 are led by GE alumni, making the company the biggest contributor to that group's CEOs. This isn't the result of good luck or happenstance, but a commitment to a set of activities designed to continuously identify and develop tomorrow's leaders—activities shared by a select group of other high-performing organizations around the world and which are adoptable by other companies who want to improve their own internal pipeline of potential CEO succession candidates.

We call these organizations CEO Academies—and their reach and impact in the marketplace are substantial.

Working with BoardEx in summer 2018, Russell Reynolds Associates undertook an analysis of 2,180 CEOs around the world to see where they worked during their careers. This analysis—which looked at the CEOs of every company listed on the S&P 1500, FTSE 250, DAX 30, EURONEXT 100, Hang Seng 50 and Nikkei 250—resulted in the identification of 42 CEO Academy companies spread out across the globe:

CEO Academy Companies—Americas (S&P Listed Companies)	CEOs Produced (Average 1.25)	Headquarters	Revenue ($B USD)
General Electric Co.	31	United States	122
International Business Machines Corp.	24	United States	79
Procter & Gamble Co.	22	United States	65
Honeywell International Inc.	16	United States	40
HP Co.	15	United States	52
General Motors Co.	14	United States	145
United Technologies Corp.	13	United States	59
Johnson & Johnson	12	United States	76
Danaher Corp.	12	United States	18
PepsiCo	11	United States	63
Texas Instruments Inc.	10	United States	14
Goldman Sachs & Co.	9	United States	32
Dow Chemical Co.	9	United States	48
Schlumberger Ltd.	9	United States	30

CEO Academy Companies—Asia (Hang Seng and Nikkei Listed Companies)	CEOs Produced (Average 1.03)	Headquarters	Revenue ($B USD)
China Mobile Ltd.	2	China	101
HSBC Holdings	2	United Kingdom	51
Yahoo Japan Corp.	2	Japan	7
Kikkoman Corp.	2	Japan	3
Nippon Telegraph and Telephone Corp.	2	Japan	102
Mitsubishi Corp.	2	Japan	86
Mizuho Financial Group	2	Japan	13
Mitsui Fudosan Co.	2	Japan	16
Subaru Corp.	2	Japan	29

Asia's list, though shorter, includes all the companies that produced multiple CEOs.

CEO Academy Companies—Europe (FTSE, DAX and EURONEXT Listed Companies)	CEOs Produced (Average 1.10)	Headquarters	Revenue ($B USD)
BAE Systems	5	United Kingdom	23
Dixons Retail	5	United Kingdom	-
Saint-Gobain SA	4	France	47
Marks & Spencer Group	4	United Kingdom	13
Orange	4	France	50
Procter & Gamble Co.	4	United States	65
Tesco PLC	4	United Kingdom	72
Bayer AG	3	Germany	40
Compagnie Générale des Eaux	3	France	-
Engie SA	3	France	77
ING Groep NV	3	Netherlands	20
Kingfisher PLC	3	United Kingdom	14
Shell	3	Netherlands	305
Siemens AG	3	Germany	96
Société Générale SA	3	France	27
Suez SA	3	France	-
Telent PLC	3	United Kingdom	2
Unilever PLC	3	Netherlands	62

Europe's list, longer than the others, includes all the companies tied for producing three CEOs.

METHODOLOGY:

These lists exclude government roles and military service. They also exclude professional service firms like McKinsey and Ernst & Young, although those organizations rank high due in part to the selective nature of their hiring and the types of engagements their employees work on, both of which are factors most corporations cannot emulate.

The ability to produce CEOs does not shield a company from storms, of course. Many of the companies on the list have faced challenges in recent years, from broad market disruptions to targeted activist investor campaigns. Yet the fact they have weathered the storms as well as they have is a testament to the leadership capabilities they have developed within their organization.

When it comes to developing future CEOs, how hard is it to do what these Academy companies do? And what roadblocks do these organizations face along the way?

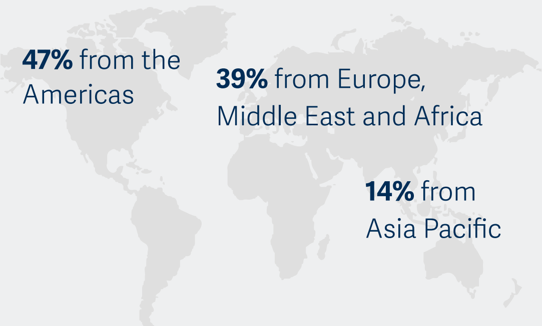
Where do CEOs come from?

Any discussion of CEO succession planning must start with a simple fact: Most large companies do a good job of developing internal CEO candidates.

A recent examination of 646 of the largest companies in the world undertaken by Russell Reynolds showed that 81 percent of current CEOs were promoted into the role from within the organization. That number appears to be slowly declining, dropping to 77 percent when narrowing the focus to CEOs appointed over the last three years. Despite this slight drop, it is clear that internal candidates remain the preferred choice of boards by a wide margin.

METHODOLOGY:

This was a global pool of companies.



Industrial and natural resources	**40%**
Financial services	**20%**
Consumer	**18%**
Technology, media and telecommunications	**13%**
Healthcare	**8%**
Professional services	**1%**

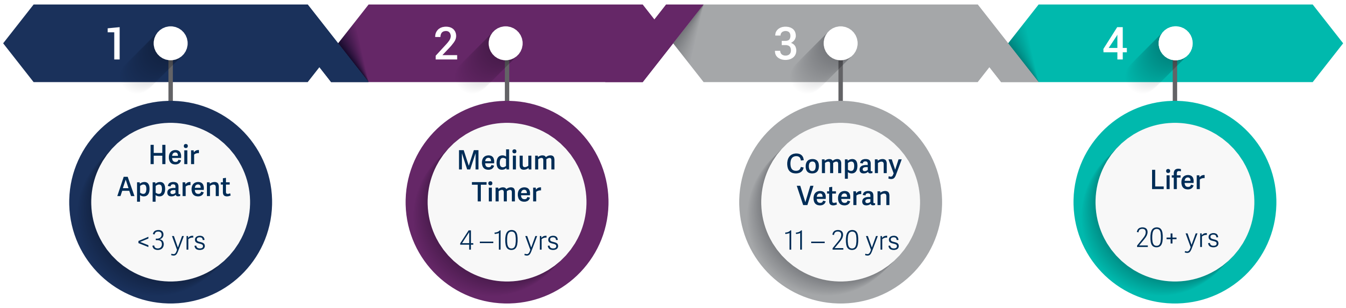
They averaged $33.4 billion in revenue

This performance makes sense. Study after study demonstrates that internally appointed CEOs stay longer and perform better. While there is often a clear need to "go external," companies are right to make investments that will produce a promising cadre of internal options.

What do we know about their experience before ascending to the CEO role?

Among insiders, a clear preference for experience

Internally appointed CEOs can be placed into one of four categories based on their prior experience:



Executives with three or fewer years of experience at the company, likely brought into the organization specifically to fulfill an anticipated future CEO succession need.

Executives who were hired into the company at mid to senior levels and who have been with the organization from four to 10 years before being appointed CEO.

Executives with between 11 and 20 years of experience, who have dedicated a substantial portion of their career to the business before earning the CEO title.

Executives who have spent at least 20 years at the company—many of whom have never worked anywhere else—and who have continued a long upward march to the top job.

Observers frequently assume that Heir Apparent candidates are a common thing—a white knight brought in by the board to help save the day, perhaps hired away from a major competitor or blue-chip company. Yet in today's corner office, they are exceptionally rare. Just over one in 10 internal CEO appointments follow this route. Medium Timers—executives with four to 10 years at the company—represent just over a quarter, or 28 percent. Lifers, who have dedicated most of their career to the enterprise, likewise represent just over a quarter of internal CEO appointments—yet their numbers are dropping. The clear winner in the race to the top is the Company Veteran. An analysis of current CEOs shows that nearly a third of them had between 11 and 20 years' experience at the company, with an average tenure of 15 years, before assuming the top spot.

Outside In

Although most CEOs are promoted from within, nearly one in five still come to the job from outside the enterprise. What are boards looking for when they hire these outsiders? Experience and a proven track record. Among external CEO appointments, over half are hired into the role directly from another CEO position—a percentage that's been on the rise in recent years.

Whether they come from inside or outside the organization, boards are also increasingly turning to older candidates. The average age of CEOs at the time of appointment was 51 years for appointments prior to 2015. For appointments since 2015, that jumped to 54 years for internal candidates and to 55 years for external candidates—a significant change in a short period of time and one that adds to the perception that boards are increasingly looking for experienced, proven leaders to take the helm of the business.

A change will do you good

Part of the challenge that faces any HR organization attempting to grow and develop a pipeline of internal CEO succession candidates is retaining those up-and-coming leaders. Strong performers have a multitude of options when it comes to deciding where to work, and many are antsy for faster career growth than their current organizations can provide. All too often, that results in high-potential workers leaving in search of greener pastures.

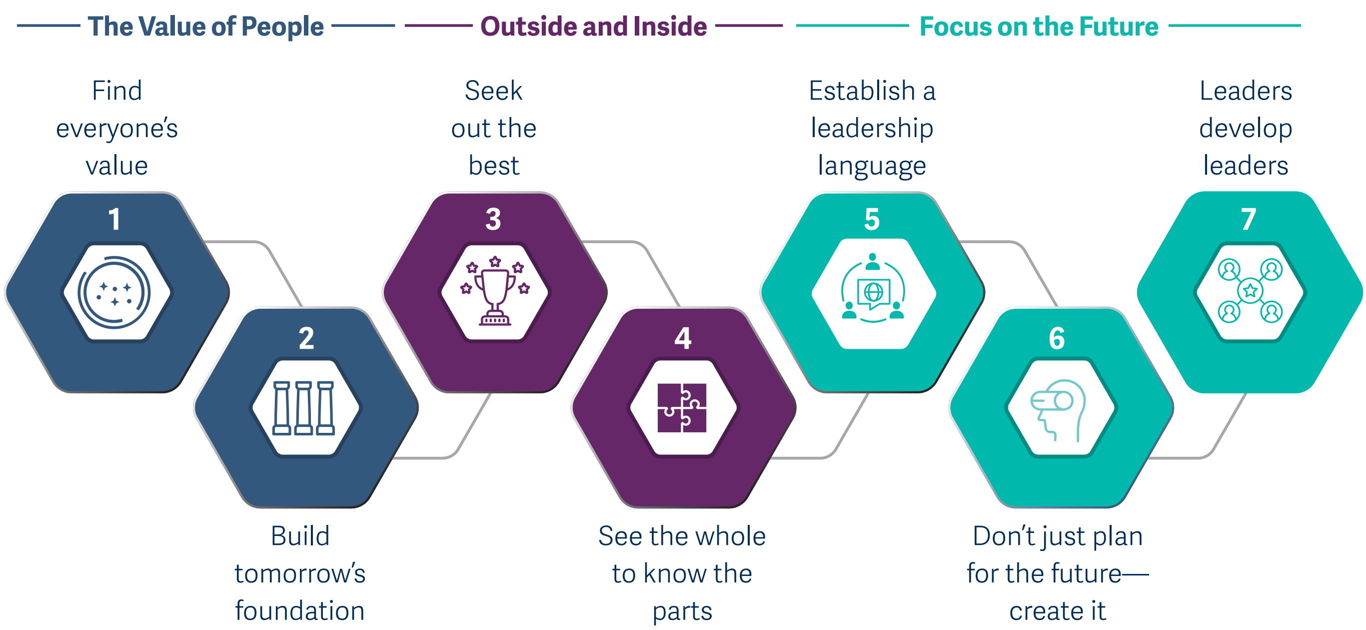
Given the nature of our work, we talk with thousands of senior executives annually about their motivations for changing jobs. Earlier this year, we analyzed the data we collect from those conversations to identify the primary motivation behind 7,780 senior executive external moves that took place between 2009 and 2018. Rather than moving for better money or benefits, most executives moved for better career growth or for an organizational change that diversifies their work experience (moving from a private to a public company, for example).

The data relating to lateral external moves is particularly interesting. Forty-seven percent of executives who take a lateral position elsewhere are driven by a desire that could often be addressed by their first employer. They are looking for greater challenge in their day-to-day work, the opportunity to build and launch new products and offerings, to lead change or take responsibility for profit and loss (P&L) outcomes. These are largely desires that could be met without switching companies – yet these employees are choosing to move elsewhere.

What's a company to do? Plenty.

As our data shows, organizations often lose promising leaders prematurely when they fail to offer the right development opportunities. What do companies like GE, IBM and P&G do differently, and how can other organizations learn from them?

To find out, Russell Reynolds conducted background research on CEO Academy company operations and practices and reviewed public statements from their CEOs, CHROs and other senior leaders on the tactics consistently applied by this group. Seven major lessons emerged from this work:



1 – Find Everyone's Value

CEO Academy companies embrace diversity and inclusion (D&I) to develop tomorrow's leaders and avoid simply cloning today's executives.

Many companies make the mistake of expecting the next generation of leaders to look exactly like the current one. This reinforces stereotypes that impede diverse employees who have not historically been represented among corporate leadership ranks, and it creates a generation of leaders who may have the ability to navigate today's problems but are wholly unprepared for tomorrow's.

General Motors has produced 14 of the current S&P 1500 CEOs. "The diversity of thought that we bring to the table is one of the things that strengthens GM," said General Motors CEO Mary Barra in an interview with the *Detroit Free Press*. As an engineer, she admitted, she tends to gravitate toward people who work the way she does—but she actively tries to curb that impulse. "That's what we try to drive into the company: Don't always pick people like you. You're going to get better results if you have people who have different experiences than you."[1]

2 – Make Development Democratic

CEO Academy companies push their entire workforce to grow and develop, not just high potentials or other identified groups.

Not all employees have the potential to be CEO. It may be tempting to focus all your development time and dollars on the small subset of the workforce that is considered high potential in an attempt to make the best even better, but it would be a mistake.

Since 1979, companies have reduced the amount of training provided to employees from an average of two and a half weeks per year to just 11 hours per year.[2] CEO Academy companies buck this trend, understanding that an organization cannot successfully grow and develop high-potential employees—and reap the benefits they provide to the company—without developing a broader culture of growth and development. IBM, for example, provides an average of 60 hours of training a year to employees. This investment has resulted in an increase in the percentage of their workforce with advanced digital skills from 30 percent to 80 percent over the past five years.[3]

"If you get a little better all the time," GE's then–Chief Learning Officer Susan Peters said in a 2016 interview, "you will have higher expectations of yourself and higher expectations of the people around you, and together we all rise."[4]

3 – Seek Out the Best

Successful companies bring in outside perspective. CEO Academy companies do the same, looking for best practices in leadership development from outside their own organization.

Some of the most successful companies in the world credit their willingness to bring in outside views, be it involving customers in the product development process or adopting innovations from other industries. Similarly, CEO Academy companies are constantly looking for best practices in leadership development from outside their own company.

Dow Chemical gives employees a chance to develop leadership skills while volunteering with nonprofit and non-governmental organizations that address major societal problems.[5] Most CEO Academy companies have partnerships with major business schools around the world, giving them access to emerging research, new top talent, and best practices, as well as connecting them to a network of corporations and CHROs who are also seeking to grow and develop talent at all levels of the organization.

4 – See the Whole to Know the Parts

CEO Academy companies give their up-and-coming employees a range of experiences, not just deepen the functional expertise.

Far too often, promising leaders spend the majority of their career moving upward within a single business unit or function only to struggle once they get promoted to a senior role in which they are overseeing multiple, diverse parts of the business.

CEO Academy companies are rigorous about giving their potential future leaders opportunities to work across multiple geographies and business segments, helping them understand the whole of the business and giving them a diversity of experiences that they can rely on for the rest of their time in the organization.

Dow—which produced nine of the current S&P 1500 CEOs—is one company that embraces this model. "We've got programs that give some of these 20-somethings and 30-somethings seriously large responsibilities early in their careers and really test their ability to be future leaders of this sort of nimble enterprise," said CEO Andrew Liveris in an interview with McKinsey. "That's just like it was done with me. … We put young people in the office of the CEO. They write my speeches. They go around the world with me. They are part of the agenda. And it's not just around my office—our entire executive wing has groups like that. We have bridged generations by actually having young people in the room, making them part of the conversation."[6]

5 – Establish a Leadership Language

CEO Academy companies create a common understanding of what it means to be a successful leader in their specific organization.

CEO Academy companies help their employees understand what it means to be a successful leader—not just broadly, but in their organization specifically. They talk about leadership as a part of culture, as a foundational element of their ethics and behaviors and as an enabler of their strategy and operations. They are public about it too. Here are some examples from mission statements, websites and other public sources:

- **Honeywell:** "Inspire Greatness: Empower, develop and set high expectations of direct reports, peers and others. Bring others with you, achieve things you never thought possible and celebrate your wins."[7]
- **Texas Instruments:** "Know what's right. Do what's right."[8]
- **Goldman Sachs:** "We stress teamwork in everything we do. While individual creativity is always encouraged, we have found that team effort often produces the best results. We have no room for those who put their personal interests ahead of the interests of the firm and its clients."[9]
- **Schlumberger:** "Our people thrive on the challenge to excel in any environment, and their dedication to safety and customer service worldwide is our greatest strength."[10]
- **Johnson & Johnson:** "We are responsible to our employees, the men and women who work with us throughout the world. … There must be equal opportunity for employment, development and advancement for those qualified. We must provide competent management, and their actions must be just and ethical."[11]
- **PepsiCo:** "Show respect in the workplace, act with integrity in the marketplace, ensure ethics in our business activities and perform work responsibly for our shareholders."[12]

6 – Don't Just Plan for the Future—Create It

CEO Academy companies use succession planning to identify up-and-coming future leaders.

When Goldman Sachs announced in March 2018 that David Solomon would assume the presidency of the company,[13] then announced his ascension to the CEO role seven months later,[14] it was the culmination of an extensive, years-long succession planning process that ultimately resulted in the selection of the 19-year Goldman veteran over numerous other executives.

CEO Academy companies recognize that while they won't always know when someone is going to leave, they can always have capable up-and-coming leaders ready to step in when a vacancy occurs. The succession planning process not only helps ensure continuity when a leader departs, but it can serve as a tool that creates alignment around values and strategy and which creates development roadmaps for employees as they rise in the ranks.

7 – Leaders Develop Leaders

CEO Academy company leaders consider people development a key priority and spend their own time on it—not just in a classroom, but day-to-day.

It's easy for companies to point to tuition reimbursement programs or formal classroom-based training programs as proof of their commitment to growing and developing tomorrow's leaders. But the real test of a company's commitment is the extent to which today's leaders spend time day-to-day developing employees to be tomorrow's leaders.

As former Procter & Gamble CEO Bob McDonald said, "I see my role as the chief talent officer for the company. Leadership is the one factor that will ensure our success long after I am gone." When non-P&G executives challenged him about the amount of time he spent developing leaders, he responded that "it's the most valuable resource this company has. This is exactly the difference between our company and others."[15]

Developing employees isn't done by just the CEO, of course. CEO Academy companies leverage tools such as train-the-trainer programs to enable everyone, including frontline managers, to coach and develop other employees—be it on the job, over lunch or during dedicated time away from the office.

A Leadership Journey

Although the phrase "war for talent" was coined in 1997, more than twenty years later companies are still fighting the battle from individual contributors all the way up to senior executives. CEO Academy companies have figured out a method for growing and developing internal CEO succession candidates, a model that benefits the company, the leader and, arguably, shareholders too. The three-part model of The Value of People, Outside and Inside, and Focus on the Future creates a roadmap other companies can follow too—possibly transforming themselves into tomorrow's model CEO Academy in the process.

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