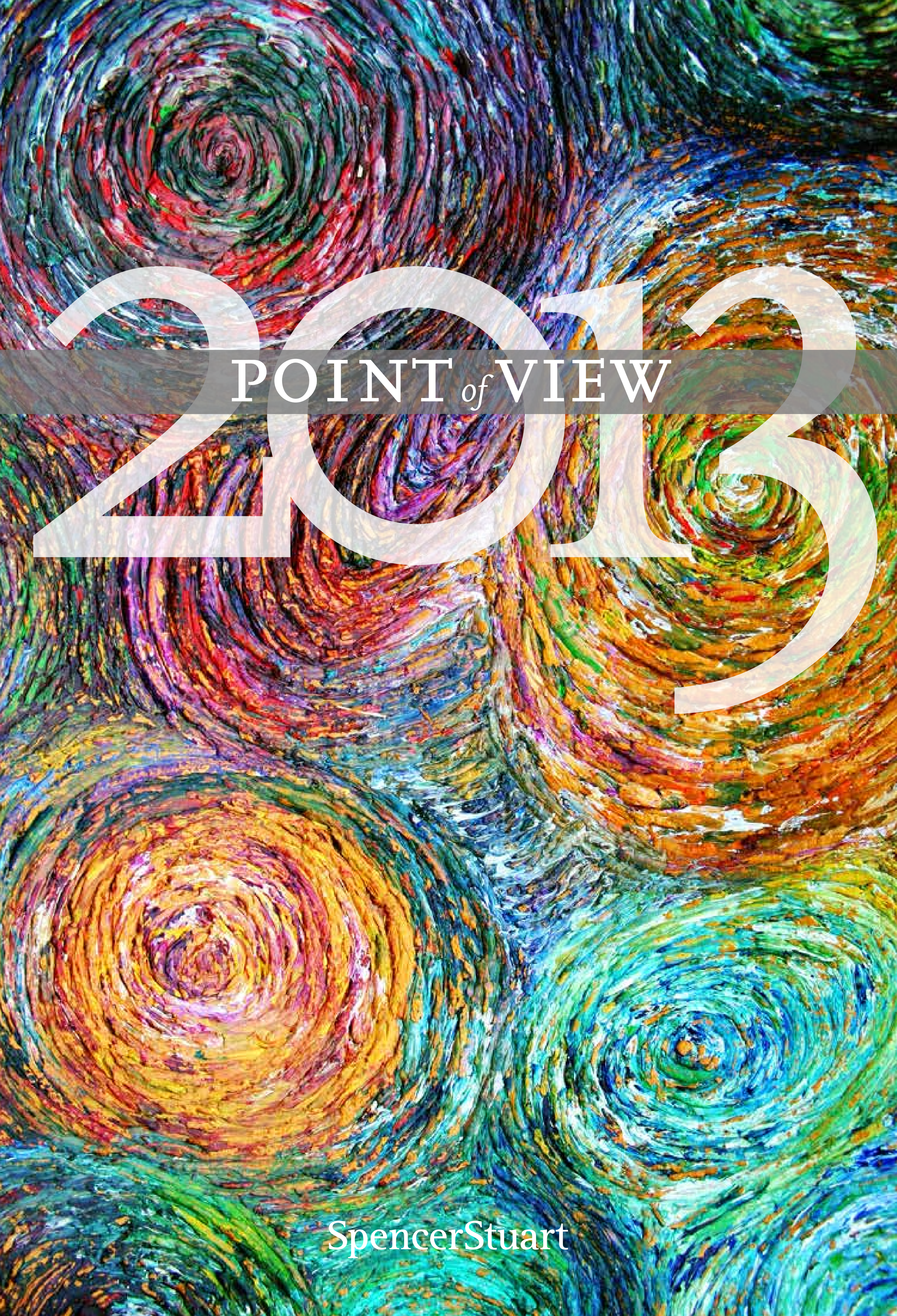

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POINT of VIEW

SpencerStuart

About Spencer Stuart

Spencer Stuart is one of the world's leading executive search consulting firms. Privately held since 1956, Spencer Stuart applies its extensive knowledge of industries, functions and talent to advise select clients — ranging from major multinationals to emerging companies to nonprofit organizations — and address their leadership requirements. Through 54 offices in 29 countries and a broad range of practice groups, Spencer Stuart consultants focus on senior-level executive search, board director appointments, succession planning and in-depth senior executive management assessments. For more information on Spencer Stuart, please visit www.spencerstuart.com.

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"The state of the world that we live in is volatile, uncertain, complex and ambiguous, and this has become the new normal."

Few, if any, businesses are immune to the challenges presented by this new normal, as observed by the nonexecutive chairman of one of India's largest consumer products companies. The reach and size of many businesses and the prevailing volatility of global economies and financial markets make it more difficult for executive teams and boards to predict the future. Markets are increasingly interconnected and the speed at which information flows, both within and about organizations, has increased dramatically. Internally, organizations are more dispersed, and work increasingly is being done across geographic and organizational boundaries.

Businesses and individuals are striving to adjust to these changes in a variety of ways. In this issue of *Point of View*, we set out to explore a few of these ideas and approaches:

> Forward-looking boards are reviewing their membership and considering whether they need to add directors with nontraditional backgrounds who may be able to provide fresh perspectives on the strategic issues facing the business.

> Some CEOs are experimenting with management approaches that share decision-making and responsibility for the success of the business more broadly as a way to extend their reach amid increasing complexity.

> Multinational organizations are testing talent management initiatives intended to do a better job of grooming senior leaders from across the globe and tapping into the rich knowledge of leaders in local markets.

On behalf of all of us at Spencer Stuart, I hope you enjoy this issue of *Point of View* and welcome your comments.

Kevin M. Connelly
Chief Executive Officer
Spencer Stuart

IN THE BOARDROOM

Recruiting the first-time director

In the quest for new skills and more diverse membership, boards are increasingly open to taking on first-time directors. This article explores the implications of this trend, from the qualities expected of first time-directors to how they are identified, evaluated and onboarded.

Board chairmen and heads of nominating and governance committees, particularly those leading strong and competent boards, are starting to think more broadly about what makes a good board member and are increasingly open to appointing first-time directors. They may do so for a variety of reasons, for example, to correct a gender imbalance or create a generational shift; to bring in an expert on digital, social media or consumer behavior; or to hire someone with experience in a specific geography.

In Europe, the vast majority of first-time directors are women, due to the plethora of legislation and targets adopted at the national level to increase the presence of women in the boardroom. The intellectual case for boardroom diversity is compelling. Companies and their shareholders stand to benefit from having broader perspectives aired during boardroom debate, including better representation of customers and the workforce. Diverse perspectives, so the argument goes, reduce the likelihood of "groupthink" and ultimately leads to better decision-making. For the time being at least, diversity in Europe is predominantly a question of gender, although there is a growing recognition that having international and cultural diversity is equally important.

In Asia, gender diversity is also the most likely reason for the appointment of first-time directors; if the current under-representation of women on boards is to be addressed systematically, the number of first-time directors will continue to rise.

In the U.S., the picture is different. Although around one-third of new directors are joining their first board, diversity is not the main driver. The recruitment of these new directors is as much about bringing specific skills and knowledge to the board as it is about responding to calls for diversity. The high number of new directors is partly explained by the fact that the traditional candidate pool of active CEOs is shrinking — the 2012 *Spencer Stuart Board Index* reports that 46 percent of CEOs in the S&P 500 serve on an outside board, compared with 52 percent in 2007. In the U.K., a declining number of CEOs and CFOs in the top 150 companies sit on outside boards (40 percent and 23 percent, respectively).

Exploring new candidate pools

Despite the quest for more diversity and the pressure to bring in new skills, few boards are willing to compromise on recruiting the right person with the right qualities who will fit with the culture and dynamic of the board. The global trend towards smaller boards, together with increased responsibilities for board members, means that boards cannot afford to carry underperforming directors. The risks involved in appointing first-time directors are relatively high and mistakes are easily made.

The board needs to conduct its due diligence thoroughly, finding out in interviews what potential candidates have achieved and taking references from people who have worked with them day-to-day and can vouch for them. "Quiet referencing is the most effective," says Euleen Goh, nonexecutive director of Aviva, Singapore Airlines and the boards of other major companies. "It is also critical for the lead candidate to have individual discussions with each director to gauge the candidate's personality and assess their fit with the board."

"The board needs to conduct its due diligence thoroughly."

In the U.S., first-time directors tend to be senior executives who have already had some exposure to the board, such as CFOs or executive committee members who have run large divisions of multinational companies. First-time directors will usually be familiar with the industry the company operates in, although people with strong finance experience may find it easier to join a board in a sector that is new to them.

In Europe, as a result of targets and quotas for women, executive search firms are broadening their search for board candidates. This means looking inside listed companies for top-quality executives who are hidden from view but may be running a large-scale operation or have invaluable experience to offer. However, since there is a dearth of women in senior executive positions in many countries, boards are expanding their searches to include women from other walks of life, such as the civil service, academia, the professions and the nonprofit sector.

Yap Chee Keong, lead independent director of The Straits Trading Company Limited and nonexecutive director of several other Singapore listed companies, believes that "competence and ability to contribute are more important than board experience in itself. The board should bring in 'fresh blood' as long as they can contribute. For example, if the board feels that it should have a member who is an expert in social media, then such a person may be in his or her thirties. Such a person is unlikely to have substantial board experience."

"It is difficult to make a contribution if you have no commercial experience at all."

Board candidates from outside the business world are often at a disadvantage because they may not have managed a P&L or developed a sufficient level of financial expertise that will enable them to contribute to board decision-making over complex financial matters. Board candidates from outside the commercial world must be prepared to get up to speed on financial matters before they can be considered credible candidates, since this is one selection criterion on which few boards will compromise.

Aside from establishing the financial acuity and commercial acumen of a prospective director, how can boards determine whether a candidate with little or no boardroom experience has what it takes to make a truly effective contribution?

■ Identifying the right qualities

By focusing on the intrinsic qualities of first-time director candidates, Spencer Stuart has developed a set of objective measures to help chairmen and nominating committees determine whether candidates without board experience have the capacity to be high-performing nonexecutive directors. Establishing these qualities is particularly important when considering people from outside the business world, for whom the learning curve involved in joining a board is extremely steep.

Spencer Stuart's Board Intrinsics™ assessment approach focuses on intrinsic, underlying talents and competencies, assessing potential nonexecutive directors against five key attributes: Intellectual Approach, Independent-Mindedness, Integrity, Interpersonal Skills and Inclination to Engage (Motivation). Those candidates who score well in all five areas are most likely to be capable of contributing as "all-round" directors, in addition to the specific knowledge, skill or set of experiences that makes them of interest to boards.

Why are these qualities so important? Certain elements of the board director's role, such as understanding and applying corporate governance best practices, can be acquired through training and directed reading. Other aspects, such as developing a deep understanding of the company's strategy, require judgment and intellectual agility, which are critical components of business leadership. These are less easy to learn. Board directors need to be comfortable dealing with complexity, able to bring analysis and logical reasoning to bear on a new, ambiguous or fast-changing situation in order to reach a sound decision. Prospective directors who can work with complexity in an unfamiliar environment are the ones most likely to learn and adapt to the challenges faced in the boardroom.

Intellectual agility is vital for nonexecutives, especially those who are new to the sector and have not had the luxury of decades of gradual learning to build up their knowledge of the company's situation. "Directors need to have the capacity to assess quickly and identify key strategic issues," says Odile Desforges, previously executive vice president of quality and engineering for Renault and independent board member of Safran and Sequana. "To establish whether a candidate has this ability, interviews should be organized and structured as if for an executive role."

To make an insightful contribution, nonexecutives need to gain a rapid understanding of the business. This requires them to absorb, analyze and process a great deal of complex information to identify the questions that really matter. For a nonexecutive, this is not a one-time process. Being outside of the mainstream of the company, the nonexecutive has to work with partial information, and must apply analytical skills and logical reasoning to get to the heart of an issue in a short time. The nonexecutive is also required to think strategically about the business, looking five or 10 years ahead.

It is nearly impossible for someone to learn the skills involved in thinking strategically and handling complexity in a new or changing environment if they have not learned them early in their career. However, it is relatively easy for someone who has these higher-order cognitive skills to acquire facts and knowledge.

"The one thing I had to understand was the difference between being an executive and being on the board."

One of the most common difficulties for first-time directors, especially senior executives, is adjusting to a more detached, supervisory role, focusing on the strategic rather than the operational agenda, and understanding the difference between governance and management. "I'm quite strategic, but it was imperative to understand the difference between being an executive and being on the board," says Daniela Barone Soares, chief executive of Impetus Trust and nonexecutive director of Halma. There are new conventions and protocols to learn, and some first-time directors take longer than others to make the mental switch between executive and nonexecutive ways of thinking and behaving. Ulrike Steinhorst, head of strategy, planning and finance at EADS Technical Office and independent board director of Valeo, recommends taking a cautious approach to contributing in the early stages. "You should avoid being too assertive when you do not yet know enough about the company and its challenges."

There is a tendency for new directors to spend too much time "in the weeds," focusing on details that should be left to management or taking up management time with inappropriate requests. Chairmen need to be sensitive to the challenges in making this transition and provide advice to the new director on the nuances involved. One recently appointed director consciously sets aside her executive perspective when acting as an outside board director. "As a nonexecutive, I try to frame questions carefully to show that I'm not yet sure about something but want to give management the opportunity to explain and convince me."

Lilia Jolibois, senior vice president of marketing and sales for Lafarge Aggregates, Asphalt and Paving and independent board member of Theolia, sums up the ideal qualities of a first-time director succinctly: "An openness and desire to learn; diplomacy and making the effort to integrate into an existing team; courage and tenacity to ask the tough questions and get answers, pursuing what is best for shareholders and the company."

Getting up to speed

Chairmen and boards have a responsibility to ensure that first-time directors are given proper support in learning their role so that they can get up to speed as quickly as possible. Whereas historically some boards may have tolerated new directors taking a back seat and observing proceedings for a year or so before making an active contribution, few directors have that luxury today. High-quality onboarding is therefore critically important.

Director induction programs are usually run by corporate secretaries, sometimes with input from HR. It helps if the new board member has had some prior general training in the role of a director, so that the induction can focus on the company, its products, services and key players, the wider business context, and the culture of the board and how it operates.

Unfortunately, the quality of board induction programs is variable, and some companies do not even provide them. It is not enough for the CFO and general counsel simply to run through the core finance and governance issues; the new director should ideally spend some time at company headquarters with senior executives from each of the main functions (investor relations, HR, audit, IT, etc.) as well as with fellow directors. Even if board meetings take place at different company locations on a rotational basis, new board directors should be encouraged to make site visits to see as much of the company's operations on the ground as they reasonably can.

"The best chairmen take a personal interest in ensuring that first-time directors feel comfortable from the outset."

One of the beneficial outcomes of board assessments has been a recognition by boards that they need to develop well-structured induction programs. The best examples typically take several days and involve presentations by the heads of all the company's functions and divisions, such that new board members feel fully immersed in the business and know where to go for additional information.

The best chairmen take a personal interest in ensuring that first-time directors feel comfortable from the outset and are given every opportunity to speak at meetings. Making a concerted effort to help a new director overcome any gaps in knowledge or lack of experience is critical. "Having another new nonexecutive director on the board at the same time was helpful, enabling us to compare notes and counsel each other," says Susan Taylor Martin, president of Reuters Media for Thomson Reuters and a nonexecutive director of Whitbread Group.

Mentoring and training

Sometimes a chairman will pair up a first-timer with a more experienced director who can provide help early on with meeting preparation, explain aspects of board papers, debrief and act as a sounding board between meetings. "Individual mentoring is best when one can have confidential discussions with an experienced board member and raise specific questions," says Martine Griffon-Fouco, member of the management board of Assystem and independent board member of Groupe Gorgé.

"I expect a mentee to take it seriously and prepare questions."

This form of mentoring is becoming more common and is particularly valuable for first-time directors who lack the perspective that comes with belonging to the C-suite. First-time directors often need guidance on how to behave around the boardroom table. Phoebe Wood, board director of Coca-Cola Enterprises, Invesco and Leggett & Platt says that a mentor is not the same as being a tutor; if the first-time director has not had training they should seek it out as a priority. "As a mentor I will take the time before and after a board meeting to help with preparation and have a debrief; it's probably no more than an hour's conversation each time. I expect a mentee to take it seriously and prepare questions before our conversations. Key to all of this is to have a board that sees the value of bringing someone onto the board who may need a little mentoring in the beginning."

A common complaint by new directors is being confounded by the use of arcane, technical, sector-specific language. One FTSE 100 board recognizes the problem and includes a dictionary of acronyms in its reading material. "It can take time to absorb everything one needs to know about a business," says one director, "but the more you understand, the easier it becomes and the quicker you can get through the board papers for each meeting."

In addition to the initial induction program, many boards offer "top-up" training or attendance at seminars run by law or accountancy firms. Corporate secretaries are generally good at including in board packs information on changes to legislation, accounting rules and governance codes.

Committee work is an integral part of joining a board, and first-time directors tend not to be treated differently from other directors in this respect. However, having some breathing space before becoming immersed in a committee is helpful. Some boards let new direc-

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10 Questions Prospective Directors Should Ask Themselves

Before accepting an invitation to join a board, potential first-time directors should carefully consider whether the opportunity represents a good fit with their experience, capabilities, interests and availability. Here are some questions prospective directors should consider.

1 WHAT DO I HAVE TO OFFER?

Before actively seeking to join a board, think hard about what aspects of your background, knowledge and skills are likely to prove valuable. Rework your resume to make it more relevant to the work of a board. Think about contributions you have made to strategy development and projects that have crossed functional and divisional boundaries.

2 HOW WILL I FIND THE RIGHT BOARD?

Be patient; it can take time. Don't be surprised if you go to many interviews before you find a board that is both willing to hire you and a good fit. This is perfectly normal. Due diligence is vital. Don't overlook it because you are so excited about joining a board.

3 HOW MUCH DUE DILIGENCE SHOULD I DO?

Select a directorship with great care and be rigorous in your due diligence. As an executive, you may only have time to be on one outside board, so the choice of company is incredibly important. Once you take on a directorship you should stick with it; assume that you will be on the board for six years. If you join the wrong board, it will remain on your resume forever, but judging the opportunity is difficult when you are not joining in an executive capacity. You won't have the same level of access to data, so trust and sharing the company's values are vital.

Meet as many people as possible, satisfy yourself that the board is well-chaired and that meetings are run effectively. Ask to read the minutes of the last year's board meetings. Talk to experts outside the company to get a perspective on the company's image and its competitors. Above all, make sure that the cultural fit is a good one and that your voice will be heard.

4 DO I HAVE THE TIME?

To do the job well and with the appropriate thoroughness is a significant commitment. Understanding the levers of the business can take some time. It is important that your employer is on board and that you are confident that you can manage your own time commitments in such a way that you can attend board meetings without diminishing your executive capacity. Ask for board meeting dates for the next three years.

5 CAN I CONTRIBUTE?

Be clear about why the board is interested in you and how your presence complements the existing team of directors. If you have no apparent role you will lose confidence. Work out where you can deliver unique and differentiated value and try to demonstrate that quickly. However, the first year will involve a steep learning curve as you gain a thorough understanding of the business model. Bear in mind that there is always more to a business than meets the eye. A good chairman and CEO will give you time to learn the ropes, but you must be absolutely committed to this.

6 WILL I LEARN?

How much you stand to learn will have a great deal to do with the level of intellectual curiosity and open-mindedness that you take into the role. Your choice of board should be determined not only by how much you have to offer, but also how much you can learn. Having a mentor on the board, at least for the first year, is highly recommended. He or she can help prepare you for what happens at board meetings and debrief with you in the week or two following.

7 WILL IT BE FUN?

This will depend to a large degree on having a clear sense of purpose about your role, the cohesion and unity of the board, and the chairman's leadership style. Directors who choose their boards wisely, experience a cultural fit and strive to make a positive contribution are the ones who derive the greatest enjoyment from their roles.

8 WHAT IS THE TIME COMMITMENT?

One of the pitfalls of becoming a director is underestimating the amount of time it takes to understand the business and get up to speed. It is not just a question of preparing thoroughly for meetings (reading the board papers is essential), but making time early on for the induction program and associated site visits and meetings with management. Think carefully about re-prioritizing your executive responsibilities in order to leave enough time for your role as an outside director.

9 DOES MY EMPLOYER FULLY SUPPORT MY OUTSIDE DIRECTORSHIP?

You may find it difficult at first to convince your employer that it is a good idea to join an outside board, since there may be no precedent. If you think you are ready and have genuine enthusiasm for the task, work on selling the benefits. Your company will derive the greatest benefit if this is seen not just as a way to progress your own development, but as an opportunity to apply what you learn as an outside director to your executive role. Once you have secured a directorship, make a point of sitting down with your CEO once a year to describe what you have learned and how you are incorporating this into your work for the benefit of the company.

10 SHOULD I EXPECT A BOARD INDUCTION?

Prior to joining your first board, it is a good idea to participate in one of the many new director training programs run by board advisory companies, and to talk to other directors who have recently joined a board for the first time. Having accepted a directorship, you should expect to go through an induction process, which will involve learning more about the business and its products, meeting the senior management team and going on selective site visits. The induction is usually overseen by the company secretary; don't be afraid to ask for the process to be tailored to your needs if you feel you want to explore certain areas of the business in greater depth.

tors attend different committees before deciding which ones they want to join; others appoint new directors to a committee straight away. Active or former finance executives, for example, usually join the audit committee immediately.

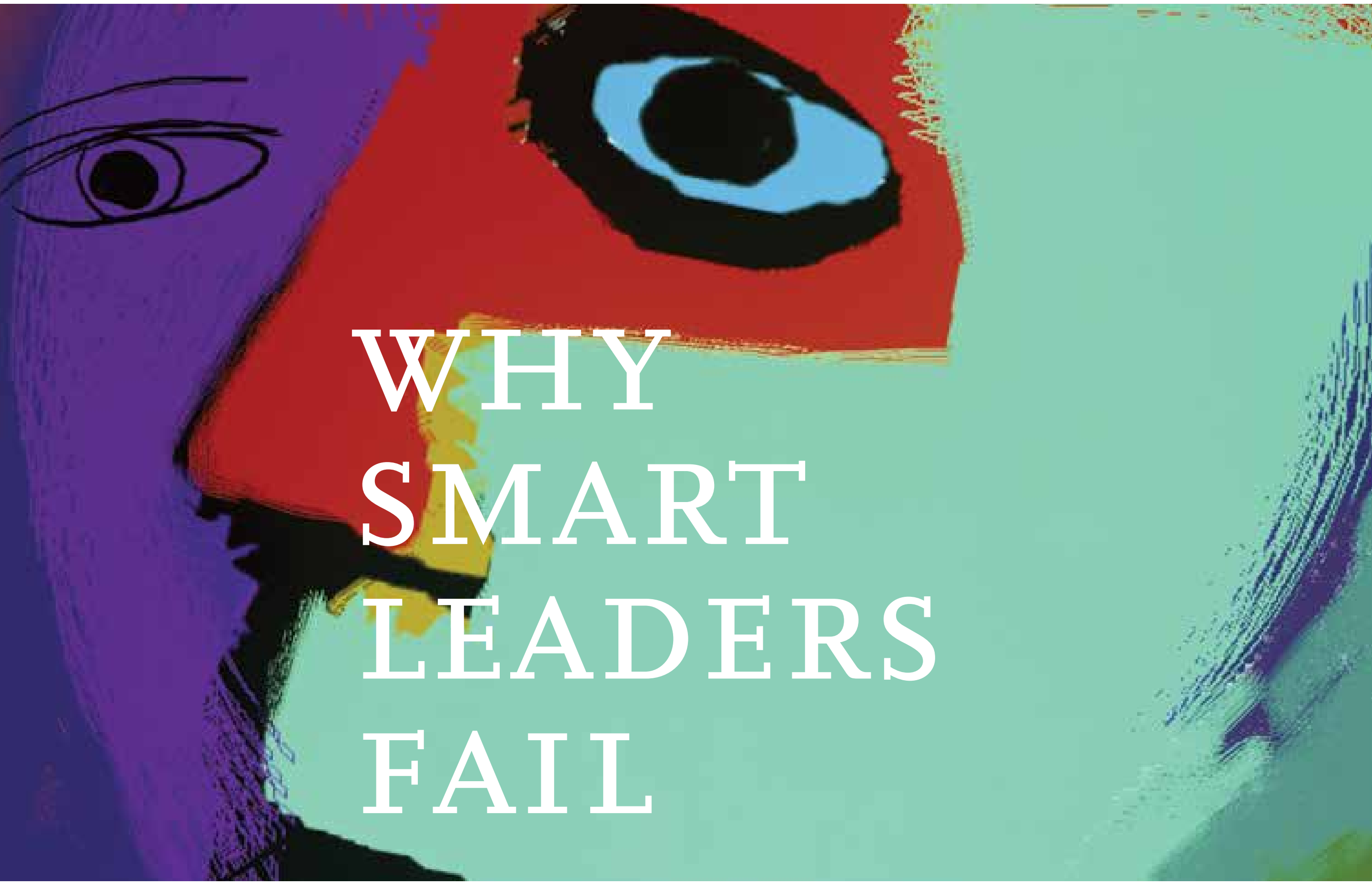
How board evaluation can help

The status of board evaluation varies a great deal in different parts of the world, but where it exists, an evaluation can provide a useful forum for airing concerns and be a catalyst for improvements that will benefit the first-time director. It may bring out into the open issues that adversely affect board effectiveness, such as the board culture, how directors work together as a team, and problems with communication. It may help to identify training and development needs and lead to improved onboarding for the next generation of directors.

The board evaluation process provides the recently appointed director with an opportunity to address issues that are affecting his or her ability to contribute fully. By the same token, companies without a regular formal board evaluation do not have a systematic way of ensuring that directors succeed or flagging those who may be failing. One director commented that the board evaluation “made me think in a lot of detail about my specific role, what value I could bring and how effectively we as a board were interacting with the executive team.”

About the authors

Tessa Bamford, London, is a member of the firm’s Board Services Practice. Julie Hembrock Daum, New York, co-leads the North American Board & CEO Practice. Malini Vaidya, Singapore, leads the global Consumer Packaged Goods & Durables Practice and the Consumer Practice for Asia Pacific. Hélène Vareille, Paris, is a member of the Board Services Practice.



WHY SMART LEADERS FAIL

A stand-out executive returning to China after many years abroad misreads the degree to which his past market experience is outdated.

Confident that her performance in past roles will translate into quick success in a new job, a new leader sets off to get a fast start and make her mark on the business, in the process breaking unwritten rules in a culture that values cooperation and deliberation.

A "change agent" is hired with much fanfare, but quickly hits resistance when trying to execute the plans, even though they are supported by the board.

Why did these smart leaders fail?

Examples abound of successful, promising leaders falling short when they are placed in a new role, take on expanded responsibilities, face new expectations or find themselves in a different culture. Why do these proven, otherwise smart and talented executives fail in these situations?

Some professional wounds are self-inflicted; others, the result of a mutual breakdown between the organization and the individual — poor role definition or a cultural mismatch, for example. Drawing on our own observations and conversations with senior business executives and human resources leaders, we explore the five most common reasons smart leaders fail and consider ways individuals and their companies can avoid the most damaging mistakes.

Misaligned expectations

The peril of misaligned expectations is especially acute in transitions to a new job or company. This can happen when a role is poorly defined or the skill-set required to be successful in the position is not fully understood — setting up the executive without these critical skills to fail. A multinational company may be setting up a new country executive to fail, for example, if success in the role is not defined in advance — whether that is simply executing the strategies and plans established in headquarters or having the entrepreneurial freedom to build the business in that market.

Another landmine for executives transitioning to a new company: not recognizing or agreeing on the pace of transition. In some organizations, the traditional "90-day" transition is obsolete; new leaders must find a way to make important decisions and have an impact within 30 days or risk being seen as ineffective. In others, new leaders are encouraged to spend several months getting to know the organization, building relationships and learning the business; making decisions too early in these situations can backfire.

Expectations can fall out of alignment when the needs of the business change, but the leader does not recognize or respond to these changes. Companies can be slow to replace an executive when the business suddenly calls for a leader with different skills — for example, in a merger or acquisition when the scope and scale of a job can expand dramatically. As one senior HR leader explained, "When an executive's competencies are misaligned, this can be a source of failure for otherwise strong executives. Some leaders are great for growth environments; some are great for restructuring." And in modern matrix organizational structures, executives might have to meet the varying expectations and accommodate the different work styles of multiple bosses.

Many of these situations can be avoided by investing sufficient time upfront identifying the skills that are critical for success in a role and using the recruiting period to carefully evaluate mutual expectations about the responsibilities, pace and culture.

Failing to adapt

Another pitfall for many smart leaders is assuming that excellence in their field is enough to propel them to ever-loftier career heights. Technical excellence and specialized business knowledge are important drivers of professional success, but increasingly these are not enough to win and succeed in larger, more complex roles. Even the smartest functional or business leaders will hit a ceiling if they do not cultivate broad leadership skills and knowledge of the drivers of the business.

HR leaders frequently tell us that weakness in these areas continues to be a barrier for many otherwise promising professionals, who are unable to evolve into strong managers because they are too narrowly focused. To prepare for more complex roles, individuals must expand their knowledge of the business and the industry, build relationships across functions and develop strong leadership skills.

"If you don't evolve and create a different kind of operating rhythm and new ways of interacting with the organization, and perfect the way you communicate, you won't be successful."

Executives taking on new responsibilities or moving into a new job within an organization often fail to recognize that the skills that they relied on to be effective in a different or narrower role may be counterproductive in the new context. "I can think of very specific instances where what caused someone to be successful in one role caused the individual to struggle in another, for example, moving from managing a small team of high-level professionals to overseeing a large organization with multiple layers," said one HR executive. "If you don't evolve and create a different kind of operating rhythm and new ways of interacting with the organization, and perfect the way you communicate, you won't be successful."

A particular challenge for senior leaders who are moving into the CEO role for the first time is learning to operate in an environment with a great deal of ambiguity and many unknowns. The issues a CEO faces are more complex; their decisions have broader impact and often have to be made with less information and with less time to deliberate. "The biggest issue in moving from country head or divisional head — however large the businesses may be — to group CEO is dealing with ambiguity and, in fact, reveling in ambiguity," an experienced CEO told us. That may mean allowing the creative people to play with an idea for a little bit longer, allowing some innovation to evolve or dealing with the concept of "frenemy," where another company may be an ally in one meeting and an enemy in the next meeting. "It's like driving a really fast car and being prepared to go an extra 50 yards before you put your foot on the brake. All of these things reflect the level of complexity and ambiguity that you don't have in virtually any other role."

For many, evolving to a new or different role may mean abandoning a way of working that has been successful in the past or challenging themselves to suppress their instincts. "Overachievers can struggle to go from leader to learner or from leader to listener," another senior HR leader explained. "I tell new executives that when you come to our organization, you need to do the hardest thing you've ever had to do, and that is shut up and listen."

More broadly, as the traditional command-and-control model with its strict hierarchies and top-down communication gives way to more horizontal and flexible organizational structures, executives at all levels are being called on to manage differently. Leaders today are expected to be humble, self-aware and transparent and be able to create environments where employees feel they are heard and their contributions make a difference and are valued. Individuals who cannot make the transition are likely to struggle.

Underestimating the power of relationships

The network of relationships leaders build over the course of a career can be a tremendous asset in driving professional success, and increasingly an executive's success is directly related to the way he or she interacts with superiors, peers and direct reports. When individuals work well with others and have positive professional relationships, other people will tell them what's going on, warn them about potential challenges or landmines, and tolerate their mistakes. These leaders are more likely to hear about opportunities, receive valuable references and gain advice at key moments in their careers.

Bad professional behavior, on the other hand, also has consequences. Individuals who make themselves look good at the expense of others, are rude or unappreciative of the contributions of others, or don't carry their weight in group efforts risk alienating people who can help or hurt them professionally. Similarly, managers won't be effective if they are unwilling to delegate, share information or listen to others' opinions.

And these behaviors can have lasting consequences for one's career. People will remember you — no matter how long ago you worked with them. Some worlds are especially tight and well-connected. In private equity, for example, people talk, and an individual's reputation spreads quickly and widely. Those memories can have a lasting effect in the form of a disparaging word to a hiring manager or a less-than-glowing recommendation.

So important are relationships that some organizations require new executives to spend their first 90 days meeting people, listening and building relationships. At one U.S.-based retail brokerage firm, the 90-day assimilation plan for senior executives is heavily focused on relationship building. "We spend a lot of time saying, 'Who do you need to meet? Why do you need to meet that person? What do you want to cover?'" the firm's senior HR leader explained. "I'll sit down with a new EVP and say, 'Here are all the people we've put on your calendar for the next month. Let's spend a few minutes going through why and what you want to get from them.'"

Lack of self-awareness

Individuals whose egos keep them from listening to the concerns of others or who lack self-awareness about their own strengths and weaknesses also are likely to stumble at some point along the career path. Executives who appear uninterested in the opinions of others or threatened by questions or constructive feedback can be perceived as stubborn, uncooperative or insecure. And reacting negatively to the ideas and opinions of colleagues can isolate executives from others in the organization and discourage others from raising issues or providing helpful feedback in the future.

High-achievers can be particularly prone to some of these behaviors, HR leaders say, because taking time to listen to others' ideas may feel like an additional roadblock to completing a project or initiative. "C-suite executives have a high degree of confidence, so they always have to try to listen because it's always going to be a chore," said one.

At its most extreme, this behavior can take the form of dismissing direct feedback about what it takes to be effective in the organization. One executive we spoke with recalled the failure of a leader new to the organization, despite the company's efforts to help him assimilate: "From my perspective, it was clearly a lack of self-awareness. There was a complete discounting of feedback and coaching about how to be successful in our organization — the things you have to pay attention to, the people who can help you with this process."

Insensitivity to different work styles and communication styles and the inability to listen can be particularly damaging to individuals who are tapped to work in a different culture. As one executive summed up, "Arrogance does not allow you to learn from other's experience."

Executives who cultivate self-awareness are conscious of the different work styles and communication styles of others. They listen to other people's ideas and concerns without feeling threatened or shutting down discussion. They also review how their own work or communication styles are perceived and make adjustments if necessary. They are able to look back on their prior experience, accurately assess their performance and apply their takeaways to evolve as a leader. They attend to their mental health and general well-being, understanding that taking time to rebalance is essential for being able to make good judgments and being an effective leader.

What else can go wrong?

The five reasons we have outlined account for most of the failures to succeed in new or expanded roles or in different cultures, but there are others.

Hiding mistakes or problems: First-time CEOs can fall into this trap, believing that they shouldn't make any mistakes or be seen by the board as having made a mistake. In their desire to present the best possible picture to the board, these CEOs can lose the opportunity to draw on directors' experience in addressing problems that arise. Of course, this isn't a problem unique to CEOs; other leaders may gloss over important issues with their bosses or colleagues.

Overestimating the importance of a specific relationship: Relationships are important to success, but some executives can make the mistake of overestimating the value of a specific relationship — to the detriment of others. The newly hired direct reports of a new CEO, for example, can overestimate the value of their bond with the CEO in terms of their ability to be successful and not spend enough time with the existing culture of the company to make sure expectations are aligned.

Overlooking organizational politics: Executives who are skilled in this area understand and effectively navigate the political dynamics of the organization, without operating in an overtly political way. Those who are not may find themselves being blindsided by criticism or opposition to initiatives they are leading. To be successful, executives should strive to build broad coalitions and quickly determine who the culture carriers in an organization are and where they can go to get information about how things really work.

Mishandling a difficult boss: Difficult bosses come in different forms. Some refuse to delegate. Others provide unclear direction about priorities or plans. Some undercut their direct reports in other ways, for example, circumventing the chain of command. These situations can be particularly challenging for executives in family companies, where the boss may be the owner of the company. Concerned primarily about the success of the business, many of these bosses appreciate being challenged when their actions are disruptive to the organization — if it's done in the right way. Staying calm, focusing on the repercussions to the business, and approaching the difficult boss in a neutral place — outside the office, for example — and at the right time can help these conversations go more smoothly and, ultimately, be more effective.

Hanging on to the past: Smart leaders are hired for their experience and knowledge gained in previous roles — either at another company or in another part of the business. A quick way to alienate others in your new organization, however, is to continually remind people of the fact by talking about previous roles and how things were done at your old company or team.

Hanging on too long: Finally, when smart leaders find themselves in a situation that they cannot improve — a cultural mismatch that can't be overcome or expectations that are strikingly out of sync, for example — it is often better to make a change quickly, within the first year, rather than to continue to hold out hope that the situation will get better.

Cultural mismatch

Poor cultural fit, even more than an individual's skills or capabilities, cause smart leaders to fail when they move to a new organization. As one CEO put it, "the single element that people just completely and utterly misjudge or underweight is a cultural mismatch." In fact, when the cultural fit is off, the executive is likely to be rejected, even if he or she has all the right skills and experience. Once this happens, the executive's ability to be effective is hobbled; he or she is excluded from key meetings; subordinates circumvent the new leader to go to the old one; and critical comments circulate — "He just doesn't get it." Meanwhile, the new executive finds himself or herself unwittingly breaking the organization's unwritten rules. Conversely, if the cultural fit is sound, the individual is likely to get the support he or she needs to make up for any deficiencies in capabilities.

"The single element that people just completely and utterly misjudge or underweight is a cultural mismatch."

Knowing how important cultural fit is to an executive's success — and how costly a mismatch is to the organization from a financial perspective and an opportunity cost point of view — how does this happen?

A cultural mismatch may be the result of lax due diligence during the recruitment process, by both parties, or the organization may have simply underestimated the cultural barriers to assimilating a new person. One scenario that's ripe for a culture clash is the arrival of a "change agent." An organization may invest a new leader with an agenda for change, but set him or her up to fail if there is not broad support for that change.

Sometimes a smart leader simply fails to adapt, whether to a different intensity and pace, new pressures and expectations, or behaviors and work styles, often assuming that his or her own skills trump everything else. "Someone might say, 'I'm just operating the way I've always operated,'" explained one executive, "but if you come from a company where there is a very different set of cultural norms and you don't understand that the cultural norms here are different, which could be because of a lack of self-awareness or an inability to operate any other way, that is a big driver of failure."

Organizations can minimize the chances of a bad fit first by evaluating an individual's past experience with an eye to whether they have adapted successfully to different cultural environments and by being very direct with new hires about what it takes to be successful in the organization and, importantly, what doesn't work. "These may be things that they will figure out over time, but why leave it to chance?" said one HR leader.

Deliberate onboarding also is important. Some organizations match new executives with a leader who has a similar personality and profile, who can help them be aware of and navigate potential cultural landmines. Others make use of feedback from detailed executive assessments, which can highlight areas where the individual's personal style could clash with the organization, and encourage new executives and their bosses to agree on expectations about the pace and the purpose of the transition period.

About the authors

William Alexander, London, is the global leader of the Technology, Communications & Media Practice. Pablo Bernad, Barcelona, is a member of the firm's global Industrial and Technology, Communications & Media practices. Ignacio Marseillan, Buenos Aires, is a member of the Industrial, Financial Services and Consumer practices and is also active with the firm's Board Services Practice in Latin America. Karen D. Quint, San Francisco, is a member of the Financial Officer Practice. Victoria Xiang, Shanghai, leads the Life Sciences Practice in the Asia Pacific region and also is a member of the firm's Industrial Practice.

Know your talent

How boards should be thinking about executive capability

In a world in which the pace of change frequently calls for stronger, more visionary leaders than in the past and markets are volatile, complex or unpredictable, the ability of boards to make astute judgments about internal leaders is critical.

Even as boards find themselves with increasing responsibility for succession planning, they often lack the insights with which to thoroughly assess their company's rising executives, make the discerning judgments needed to understand whether a candidate will be ready when the time comes or know when to seek an outside leader.

One reason is that directors' exposure to likely CEO candidates tends to be fairly informal, coming through such vehicles as board presentations and social gatherings. In addition, much of their insights and information has likely been gleaned from HR or from company executives such as the CEO. Such information may be a good indication of executive performance to date, but may not necessarily be the best predictor of future achievement.

Given that the ultimate accountability for CEO succession lands squarely in the board's court, what should directors be doing to ensure they are informed about internal talent? How can a board be confident that any candidate, internal or external, embodies the skills and characteristics that will be needed in 18 months — or even three to four years — to move the company forward?

We see succession planning as a sort of race — a long-term one if all goes well — that requires extensive preparation and attention to detail.

Get ready

The right succession process will be different for every business. Many organizations have a dedicated and rigorous succession-planning program, for example, while others take a less formal approach. No matter the process, we see an increasing need for proactive and iterative succession management: the assessment and targeted development of internal leaders. The growing complexity of business today means that CEOs are required to tackle more novel and ambiguous situations than ever, situations in which they cannot necessarily rely on their previous knowledge or experience. More flexible, decisive leaders are required — leaders who can facilitate the creation of agile and innovative organizations, operate effectively with incomplete information and respond ahead of the competition.

Even the most innovative and committed of boards will usually admit they have room for improvement in the succession process. Some of their exposure to CEO candidates may be more limited than they desire, or they may not have the insights or the information they need to make the most informed decisions. Further, their assessment and development of promising executives may be sporadic or incomplete. To understand where they are today, a good litmus test for board members may be to ask themselves, "If we lost our CEO today, would we be confident the CEO heir apparent was ready to step into the role?"

How confident are you?

With more information about and exposure to potential CEO candidates, directors can more confidently choose a successor.

1 **Informal Knowledge**
executives known through presentations, social gatherings

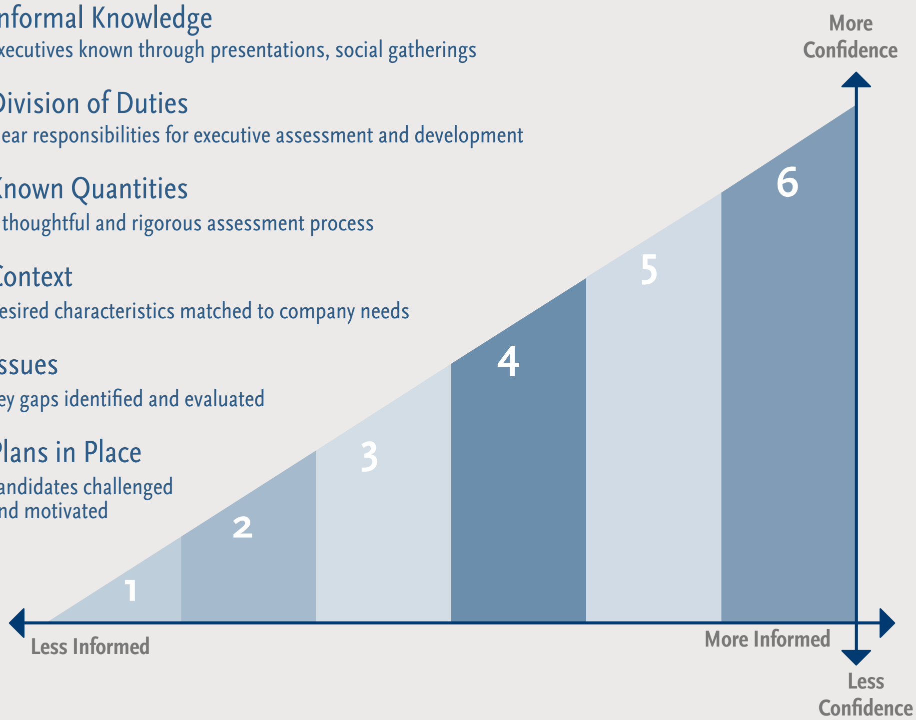
2 **Division of Duties**
clear responsibilities for executive assessment and development

3 **Known Quantities**
a thoughtful and rigorous assessment process

4 **Context**
desired characteristics matched to company needs

5 **Issues**
key gaps identified and evaluated

6 **Plans in Place**
candidates challenged and motivated



Choose your driver

To ensure that the answer is "yes," boards should begin by assigning clear roles and responsibilities to each of the parties involved — including the board itself, the CEO and HR. The board, increasingly at the forefront of CEO succession planning, has ultimate accountability for the assessment and development of prospective internal future-CEO talent. CEOs can best serve the process by providing a first-hand perspective on potential candidates and keeping an open communication channel with the board and HR. As one director told us, "The CEO might recommend someone, but the board owns the process and has to make the decision."

HR, in turn, increasingly plays an active and strategic role in the identification and career progression of promising executive talent, informing the board about high-potential individuals and their development needs and potentially participating in any assessment panels. Their other ongoing role is that of keeping the talent pipeline well stocked for the future.

Specialist independent third parties such as Spencer Stuart can also act as partners to the board and HR, conducting objective assessments and providing advice on — and structure around — the assessment and development process. The use of such third-party advisers can bring a valuable outside-in perspective and insight into how internal talent compares against high-performing executives in the marketplace. Third parties can also bring fresh thinking about emerging roles and responsibilities, or about best-in-class competencies that go beyond the traditional criteria many organizations still use.

Start your assessment engine

While they serve as good introductions to senior team members, traditional, more casual methods for getting to know potential CEO candidates do not offer the depth of insight needed for directors to feel completely confident in a given candidate's ability to take the reins when tapped. It is important to establish a thoughtful and rigorous assessment process, one that goes deeper than the chance insights gained at social events or presentations, which provide little insight into such critical skills as strategic leadership or decisiveness.

Performance reviews and 360-degree feedback create a solid foundation for understanding an individual's on-the-job strengths and areas of devlopment opportunity. Ways in which candidates may be even more fully evaluated include external benchmarking, psychometric evaluations and management assessments.

Whatever the choice, any thorough evaluation should include a rigorous review of an individual's skills, experience and performance in current and past roles. Yet it is not enough to look at past accomplishments. Boards should also strive to gain an understanding of candidates' decision-making ability and judgment under differing circumstances and in the face of any organizational challenges — skills that speak to an individual's Executive Intelligence and ability to succeed in more complex and demanding contexts in the future. At Spencer Stuart, we have developed a proprietary methodology for measuring Executive Intelligence (ExI™), and work regularly with clients to provide increased reassurance and reduced risk in the internal development process.

In addition to providing deeper insight, one director we spoke with noted that a solid and professional as-

"The CEO might recommend someone, but the board owns the process and has to make the decision."

sessment process also can help the executive team better understand themselves and the ways in which they interact, and give the board a better perspective on all of the company's senior executives, not just those on the CEO track.

Importantly, such evaluations should not be one-off events, but part of an iterative cycle that reviews potential candidates every six months to two years, ensuring that the company always has fresh persepectives on succession candidates and regularly injects new talent into the mix.

Get on the right track

Whichever assessment methods a company chooses, the strongest candidate will always depend on the context. As one director noted, "Executives typically have a bias toward either optimization or growth. The board would need to match up the executive's operating style with the strategic needs of the business."

Boards can look at corporate goals, markets, products and other factors to identify the skills and characteristics the future leader will require — and focus on those factors in the assessment and development process. Desired functional and industry skills and experience should, if possible, be clear, measurable and unambiguous.

Other skills and characteristics may be harder to measure, but are equally if not more important. Many organizations focus on such universally desirable characteristics as executive presence, or gravitas; ethics and integrity; decisiveness; strategic ability; and sound judgment. All are essential. However, these traditional factors may not be the key differentiators in today's increasingly complex and volatile marketplace. Today's business environment calls for leaders who are also visionary and inspirational, exhibit a global mindset, work well with ambiguity, are able to help organizations go beyond their comfort zone, understand how to navigate new paths and can manage the increasingly complicated labyrinth of stakeholder relationships.

Mind the gaps

An ideal assessment process should not only uncover relevant and specific insights about an individual's strengths, but identify development focus areas, or gaps, as well. Gaps may include a lack of specific knowledge or experience, traditional "hard skills," such as experience with regulators or financiers or knowledge about a given market, or a deficiency in certain "soft skills" — behavioral skills such as decisiveness or the ability to motivate others. As executives we spoke with shared, some gaps may be deal breakers: Would the board consider a candidate who does not have impeccable integrity or ethics?

Hard-skill gaps may be remedied fairly easily by an operational or functional rotation or executive course of study. In contrast, gaps in soft skills can often require more time to develop. Boards need to know they can close the most important of these development gaps before they decide whether to invest in a promising internal candidate or go with an outsider who has done it before. Note that an objective outside assessment can be extremely helpful in such cases. Assessment and leadership experts may have tools that specifically address a candidate's ability to accelerate his or her own development, analyzing the candidate's thought processes, business aptitude, degree of motivation, resolve and willingness to learn. Such targeted assessment can be the key to giving the board confidence as to whether certain gaps can be filled.

Of course, filling development gaps requires effort, particularly when they involve soft skills. Companies should establish targeted, made-to-measure development plans for each candidate, including such components as one-on-one mentoring, shadowing and carefully monitored stretch assignments, which may take place either inside or outside of the organization.

One board member commented to us that leadership assessment and development intervention by an individual mentor can "transcend the leadership gap," challenging candidates and motivating them to learn. Objective third parties may perform a similar role, co-creating development plans and performing regular check-ins to measure and stay in touch with progress. Whether internally or externally led, these regular check-ins are essential, providing milestones for each candidate and a way to measure and stay in touch with their progress, ideally every six months.

Companies should establish targeted, made-to-measure development plans for each candidate, including such components as one-on-one mentoring, shadowing and carefully monitored stretch assignments, which may take place either inside or outside of the organization.

Head for your destination

In today's challenging global markets, the assessment and development of internal leaders should be high on every board's agenda. However, many companies still rely on informal succession processes that may not provide the best assurance of future executive success. In contrast, an ongoing, comprehensive and well-managed assessment and development process will allow a business to identify and gain powerful insights into its high-potential candidates and focus attention on the ones it wants to promote — closing knowledge gaps and facilitating the kind of development that accelerates executive capability and provides experiences to fit both the executive's goals and its own. The results will help boards gain the confidence they need to feel that they are well-informed about their internal talent and have the right candidates to move the company forward when the time comes.

About the authors

Nicola M. Brazil, Melbourne, leads the firm's Executive Assessment Services efforts in Asia Pacific. Andrzej Maciejewski, Warsaw, heads the Warsaw office and is responsible for the Private Equity Practice in Central and Eastern Europe. Dr. Willi Schoppen, Frankfurt, is a member of the Board Services and Financial Officer practices. Jonathan R. Visbal, Silicon Valley, is a member of the Board Services and Technology, Communications & Media practices.

The multinational talent organization

One company's approach to building a global team

What does it take to transform a business that operates globally to one that genuinely behaves as a seamless global organization — one that optimizes talent by putting the right people in the right positions, regardless of geography; that surfaces the best ideas from every corner of the organization and then shares and applies those ideas broadly; and that has evolved to a culture that transcends regional and local boundaries and cultural legacies from the country of origin?

How do companies that get global talent management right maintain the richness of the differences each local culture brings — while getting the best of each?

Few companies can claim to have successfully built such an organization, but many are pursuing organizational and talent strategies designed to provide global teams with the right mix of support and autonomy and to develop and surface strong management candidates from across the company. One company that has made the global flow of talent and ideas a priority is Starwood Hotels & Resorts. CEO Frits van Paasschen spoke with Spencer Stuart about the approach Starwood has taken to building a global talent organization.

How you do you think about talent and building a more global culture and leadership team?

In many respects, talent and culture go hand in hand. I felt, for example, that in order to have a global company, I had to have a senior leadership team that wasn't dominated by any one nationality. So, somewhat by design but also through some luck, I've been able to set up our leadership team so that more than half of our leaders are non-U.S. in origin. Now, there are plenty of us, including myself, who spend significant time in the U.S., but fundamentally there's still a difference between people who are

Frits van Paasschen
President & Chief Executive Officer, Starwood Hotels & Resorts Worldwide

CEO of Starwood since 2007, van Paasschen previously was president and CEO of Molson Coors Brewing Company's largest division, Coors Brewing Company, prior to its merger with Miller Brewing Company. Before joining Coors, he held senior executive roles with Nike and Disney Consumer Products and was a management consultant at McKinsey & Company and the Boston Consulting Group.

Starwood Hotels & Resorts Worldwide has 1,134 properties in nearly 100 countries and 154,000 employees at its owned and managed properties.

one nationality versus having a team of people who represent different parts of the world. Having operated for three or four decades in many parts of the world, we have a great pipeline of people with a lot of experience from the different areas.

It's a function of human nature that where you stand depends on where you sit, and if you have a global role, what frustrates you is why things have to be different in different places. If you sit in markets that have distinct characteristics, you have to live with the fact that there appears to be a global cookie-cutter way of doing things that doesn't quite work here. In the end, most of the decisions that are built around those tradeoffs aren't straightforward analytical decisions, they're judgment calls. In order to have the best judgment calls, you need to set up a culture where the center listens to the field. That doesn't mean the field gets everything they want, but that they have the opportunity to be very clear about what they feel they need.

What have you done at Starwood to create a more global, inclusive culture and executive team?

One of the things we did was move our headquarters to China for a month last year. Even prior to that, I made it very clear to the organization that I was going to spend time in the field — not to oversee and direct the operations, but to draw attention to the most significant needs of operations in different parts of the world and how we would have to think about adapting and changing our approach in order to be successful.

We also have evolved our process for identifying and evaluating leadership talent. An issue for global companies when reviewing talent is that people at the center tend to rise faster and tend to have an easier time being seen as vice president, senior vice president and so forth. At Starwood, I've advocated for a bias toward making sure that the field has at least the same level of status as some of the global roles, recognizing that while the scope of some of those field roles may be somewhat narrower in terms of the absolute size of the business, they have a wide breadth of responsibilities as the face of the company in markets like India or the Middle East or South America, and we make sure that that's been reflected in the leveling of those roles.

What kind of a review process do you do at the very highest leadership levels with global talent? What are some of the steps you're taking to stay on top of this cadre of people?

It plays out at a few different levels. We have a global review of roughly the top 300 or so people in the company, and we go through those positions and people globally. When you've got that many people, some of them don't get a lot of air coverage, but there's certainly discipline around making sure that we aggregate and look at those roles.

At the same time, each of the functions has a global community, if you will, that looks at talent in their specific area and makes some moves based on the development programs that some of the folks have in a specific function.

Finally, we have a separate review of the operating side of the business because of the sheer number of people, so that we have a good idea of what the hotel general manager and hotel executive committee pipeline is, and we make sure that we're funneling experienced people into markets where that experience is especially important.

Going back to the headquarters move, the move to China received a lot of attention and external visibility. Talk a little bit about the impact on your team.

The move did receive a lot of attention and press coverage, particularly in China, where it was interesting that a Western-based global company moved its headquarters there to go where the growth is, but that wasn't what I expected nor was it the intent of going. I really wanted to send the signal both ways within the company.

Saying that we're global and want to have a global perspective is one thing, moving the headquarters and forcing people in world headquarters to have to adjust their own personal calendars for conference calls for the other side of the world and knowing that the senior leadership of the company has seen the importance of a market outside of the home market is really important. It's not just a symbolic act, although it's certainly that, but one that forces new behaviors and thinking.

Toward the end of our time there, we set up a conference call for the morning of July 5th, which was the evening of July 4th in North America. I had forgotten about that, and I can only imagine that there were people in headquarters rolling their eyes. In retrospect, that may have been the best thing to happen, because how many times have we scheduled a call going into Chinese New Year's or Ramadan or on Friday when people are off in the Middle East. Those are the things that really communicate.

The other important result was that it signaled that we wanted to listen to the field. In a global company, the lingua franca ultimately is going to be English, and the prevailing culture for a company that started its life in the U.S. is going to be Anglophone and more American. It takes some encouragement for people from different cultures and for whom English is not the mother tongue to feel comfortable stating a contrary point of view. By going to China and telling the team there that I had brought the senior team there to listen to them, I was working to embolden them to be clearer about what they need to get us to the next level in the market.

And did the move have that effect?

Absolutely, it has, and one measure of that from my perspective is now when I have multiple people from China on the phone, they're comfortable disagreeing with each other in front of me in spite of whatever hierarchy might be there. They know that I'm on the phone to hear the dialogue and the debate and to try to get the best answer. That wouldn't have happened before the trip. It was not just the move by itself that did that, because I had spent a significant amount of time traveling before moving the headquarters. It just put it in bold font for folks in the company.

Going back to talent, when people in the field don't feel like a puppet for headquarters, you're going to get better people to operate. I want our folks in different markets around the world to feel like they run our business there, and the global platform that we have provides infrastructure, resources and a source of direction but is not a straitjacket.

One of the practical challenges companies face when building a global talent organization is people's willingness to move for family reasons. Have you found any ways to effectively overcome those challenges to moving talent around?

We are blessed by the fact that we are in a business that people have chosen to be in because they think it would be really interesting to work in Turkey or in China or in Indonesia, and so we have a lot of folks who are very excited about the idea of being part of a burgeoning operation in a market where we may not have had as significant a presence in the past. Nevertheless, international moves can be challenging for many people.

One of the things that we're starting to do now is have mini relocations. The idea is essentially to have two people from two different markets switch jobs for 90 days. The exchanges tend to be within functions, and so they're largely driven at the initiative of functional leads, for example, two sales people swapping positions. That makes the whole life, logistics, expat piece less of a barrier, and yet even a shorter exchange can make a big difference in people's perspectives.

What have you done to influence perceptions at more senior levels of the organization?

Another thing that we did that I thought was important was, for the first time in the history of the company, we took our Leadership 100 meeting outside of the U.S. to Beijing. Each of the regional leaders had the opportunity to speak briefly during our leadership conference call, again to emphasize to the whole company the commitment we were making to this market. It was surprising to me how many people in very senior roles in the company had never been to China before.

I remember sitting at dinner with a senior executive in our European organization and he was surprised to hear the rate of growth in China and what we were doing there. While it may seem less important to have a regional leader go to China rather than someone from world headquarters, the whole idea of being global is that we have to think globally from wherever we sit. Bringing the European team to China was important, and one of the things that came out of it, by the way, was a recognition that we could do a better job selling to Chinese outbound travelers as they came to Europe.

This is a work in progress for Starwood as it is for everyone. What do you predict the future will be in terms of the makeup of your leadership team, the flow of people, etc.? How do you see this sort of evolving into a more advanced state in the foreseeable future?

One of my goals is that this becomes such an embedded part of how we work and think that it isn't something that we have to try to implement. We're not there yet, and it may be the case that we never actually reach that point, but my goal would be that this becomes such an automatic way of how we think about our business that the first thing we think of when we roll out something new is how do we get it into nine languages immediately and how do we measure and monitor performance around what we're doing.

Under the rubric of "globalization isn't Americanization," there are things that we're doing in other parts of the world that are better, more cutting-edge, different in ways that could be very useful that we need to make sure that we learn. It's not just a question of transplanting global talent out into the field to teach the field, it's making sure that the learning runs both ways. In China, for example, learning about how so many travelers there book at the last minute and book via mobile device made us realize how important it was to move our web-based activity to mobile. What we're learning in China about smaller, more disparate accounts has been very helpful for us in other markets around the world.

Part of establishing these behaviors for the long term is building broad support for our approach, which we have done at the senior levels, especially. We have a senior leadership team that appreciates and is thoroughly committed to this idea of a global mindset. I travel a lot, as I mentioned, and the invitation is always open to my senior leaders to join me on those trips. Enough of them have done that enough times over the years that I would say that it's embedded in the mindset of senior leadership. The ongoing challenge, in some respects, is to make sure that mindset becomes pervasive at all levels of the organization.

This interview was conducted by Jerry Noonan, Boston, who leads the firm's global Consumer Practice and is a member of the North American Board & CEO Practice.

The CEO Today

Sharing leadership at the top

Not very long ago, CEOs enjoyed an elevated status in their organizations. Formality and structure governed interactions between the CEO and the broader management team, who tended to focus on saying the right things and avoiding mistakes when interacting with the CEO. An image emerged of the CEO as brilliant oracle, who was expected to have all the answers. The success of the business, then, was defined and constrained by the knowledge and leadership capabilities of the CEO.

Whether or not this image was ever really or widely true, it is clear that the organizations CEOs oversee today are more complex and unwieldy. Businesses are operating in an environment of sustained uncertainty and intense competition, and face higher expectations from employees, shareholders and other stakeholders. All of this has many wondering whether new models or approaches to CEO leadership are in order. Consider the following:

> Global business requires companies to operate amid unprecedented cultural and market complexity. How can one person possibly know, understand and deal with all the nuances of this environment?
>
> The risk embedded in the global business is broad and varied, potentially encompassing political, economic, financial, currency, regulatory and reputational risk and manifesting in different ways in different parts of the world. Is it possible or desirable for a single person to be the sole carrier and manager of that risk?
>
> The speed at which information flows, both within and about organizations, has increased exponentially. Markets are more interconnected than ever, and some stakeholders are more vocal about companies' activities. As reputational threats and external stakeholder relationships demand more of the CEO's time and attention, are there activities on which the CEO should be spending less time?

The sheer size and reach of many businesses and the prevailing volatility of global economies and financial markets make it more difficult to predict the future — and certainly more difficult for a single person to have all the answers. "The world we live in is volatile, uncertain, complex and ambiguous, and this is the new normal. Added to that the transformational impact of technology, and you cannot really predict what you need to do in the future on the basis of what has happened in the past," argues Harish Manwani, nonexecutive chairman of HUL (Hindustan Unilever Limited). "The new context in which we operate is fundamentally defining the role of leadership and how businesses will be managed in the future."

Recognizing the limits of traditional management structures and styles to respond to these challenges, some CEOs are embracing leadership models that spread responsibility and accountability for the business to a broader group of executives. What we have seen emerge is a movement toward "shared leadership" management models, which we define as organizations that place the CEO at the center of a circle rather than atop a pyramid.

Drawing on observations from our client work and a series of conversations with CEOs, managing directors and board chairmen from a diverse group of companies, we explore in this article how CEO leadership is being redefined in response to the challenges of running a business in the current environment and consider how shared leadership is being employed.

New leadership model for the "new normal"?

Strict hierarchies and top-down communication have given way to flatter, more dispersed and flexible organizations. Reporting lines and organizational structures have less influence on how work gets done than in the past; increasingly, work is being done across physical and organizational boundaries, as teams of people come together for specific projects and tasks, and then disassemble. Changes in the availability and flow of information mean that CEOs no longer have complete control of knowledge about the business, pulling away some of the armor of invincibility that surrounded them in the past.

In the current environment, some CEOs see enormous value in shared leadership models of management. Approaches vary, from establishing a formal structure, such as co-CEOs or an "office of the CEO," to embracing a shared leadership mindset and management culture. In these situations, traditional titles and organizational models remain, but executives have more authority and responsibility than in the past. Shared leadership approaches are most effective when the senior team is closely aligned around the company's vision and values — and individuals' responsibility and authority are well-defined.

"My job is to be 12 to 18 months ahead of my team at all times, and I couldn't do that if I didn't have the team underneath me that could run the business today."

Shared leadership has been a powerful tool at Catalent Pharma Solutions for managing a complex organization and achieving aggressive growth and operational targets, said CEO John Chiminski. Sharing decision-making and accountability with the company's top 150 executives also frees Chiminski's time to think about the business in a much more strategic way, he said. "My job is to be 12 to 18 months ahead of my team at all times, and I couldn't do that if I didn't have the team underneath me that could run the business today."

Vinita Bali, managing director of Indian food producer Britannia Industries Limited, likens the CEO in a shared leadership model to an orchestra conductor. As business units and functions get larger with more variables to manage, the expertise required to run them increases and the CEO cannot be a master of all. "Each member of the orchestra has a unique role to play, but they make music only if they are playing in harmony — or are in alignment, to use a business term," said Bali. The CEO's role, then, is to determine how many players are needed, what role each has and how to align them behind the goals of the organization.

David T. Seaton, chairman and CEO of Fluor Corporation, forged his leadership skills through execution of complex engineering and construction projects — set on exacting standards and specifications, tight deadlines and commitments. Seaton is well-versed in the complexities of the business and industry Fluor serves and relies on a strong team to manage its business segments — allowing him to focus on vision, strategy and synergy.

"I'm a homegrown Fluor executive," said Seaton. "Leading Fluor's oil and gas group, the company's largest, as well as others, gave me plenty of perspective on our company and clients." In recognizing the value of his Fluor experience, Seaton said, "I was fortunate. My career path led me to this role."

While Seaton favors traditional leadership styles, he has adapted to his new role and admits that he has changed his style to accommodate a variety of C-suite roles he has held. "I quickly realized that I needed to change my leadership style — and that was to rely on others do their jobs and to share in the leadership of our company — where appropriate."

And, in fact, we see shared leadership as it is more commonly adopted today less as an organizational structure and more as a mindset and approach to management; many CEOs are evolving their leadership styles to break down the walls that traditionally separated the chief executive from others in the company. These CEOs are comfortable not being the smartest person in the room on every topic. They have the confidence to admit not knowing the answer, to ask questions and, even when they think they know the right answer, to get the input from the team to get to an even better answer.

Many CEOs are adopting a more collaborative work style and increasingly leading through influence, Bali contends. "The way you conduct yourself, the curiosity you exhibit and other personal behavior traits become very important to a CEO and a leader. Authenticity is important. People have to see you as someone that they are willing to follow — as someone who is capable of conducting the orchestra."

"The way you conduct yourself, the curiosity you exhibit and other personal traits become very important to a CEO and a leader. Authenticity is important."

Employees and other key stakeholders are looking for authenticity in their leaders, agrees Manwani. "This is not about charismatic or exceptional leadership. It is firstly about authentic leadership: the ability of people in the organization to believe that leaders are accessible, that they mean what they say, and their actions are consistent with this. They are not different people when they stand on the podium, and that they are responsible to the larger good of the society in which the business operates."

Raising the bar for the executive team

A strong leadership team is both a requirement and a result of shared leadership, proponents argue. In markets where competition for experienced leaders is intense, the most talented executives want to work for companies where they have the opportunity to build leadership capabilities. A shared leadership approach that gives the senior team broad responsibility for running the business is a valuable tool for retention.

"I need a leadership team underneath me who are the best at what they do, whether it be a function or business unit," Chiminski says. "My job was to find the best people for those positions, because it's too complicated a company for the CEO to do it. If I don't have the best people, I have to jump in and try to be the best for that role and I'm not qualified for it. When you have the best people in those roles, they then hire the best teams underneath them."

> *"This is not about charismatic or exceptional leadership. It's firstly about authentic leadership."*

Not every executive is cut out for a shared leadership environment. Not only do the functional and business unit leaders need to have deep expertise in their areas, they need strong general leadership skills and must be comfortable with the freedom and responsibility that comes with shared leadership. An environment that provides the freedom to succeed and accountability for performance can have a tremendous impact on a company, but the price of failure is high, both for the company and for the individual. It requires a group of people who are going to be leaders, who will take ownership for doing what they need to do.

Companies that embrace shared-leadership models will have to make sure they have executives with the appropriate skills, which may require careful thinking about the profiles of the senior leadership team and the ways the company recruits and develops individuals for critical roles. At Britannia, for example, the route to general manager positions includes assignments in two or three different functional areas, so that potential candidates gain an appreciation of how work is done in different areas. Development plans emphasize leadership behavior rather than pure functional expertise, and new executives are evaluated on their ability to lead. "The emphasis is on behavior: How do you exhibit leadership? How do you deal with your direct reports? How collaboratively do you work? Do you provide leadership in the area you are responsible for?" said Bali.

What only the CEO can do

Even when decision-making and accountability are distributed, the CEO still has a unique role in the organization and has responsibilities that cannot be delegated. CEOs need to have exceptional business judgment to help their teams frame problems accurately, see issues from the relevant perspectives, and ultimately decide on a course of action.

And, as Seaton and others point out, companies still need a respected leader. "Knowing when to say yes and no, and being consistent in how it's said, is an important trait — of the many — that successful CEOs must have."

The organization's values and vision

In large, dispersed, global organizations, a set of commonly shared values has to be the glue that binds the company culture and operations. Communicating and modeling those values fall squarely into the CEO's domain, and that includes being clear about what is non-negotiable and ensuring the broader management team embraces the company's vision and values.

"It is essential that your top leadership and management teams buy into the culture of the organization that you are trying to create because these organizations are now getting too large and therefore growing beyond the capacity for any one person to be able to drive it," said Prashant Ruia, chief executive of the Essar Group. "What we try to do up-front is build total clarity around our expectations. By practice, we exhibit the nuances of the culture we nurture and the values we subscribe to. Once our leaders absorb and align their behaviors to these, we mandate them to perpetuate it in their operating areas and locations."

Strategy

Another key responsibility of the CEO is looking ahead to the opportunities and threats facing the business and leading the charge on strategy. "In short," said Seaton, "Vision and strategy cannot be delegated. That's where the CEO has to lead — to make the hard chioces and to take a stand and the accountability that comes with it."

The role of the CEO is to be clear about the company's longer-term goals and manage the business' reputation and character. It is key to build trust with the communities in which the business operates, Manwani said. "To my mind, leadership has to be purpose-driven and values-led: the ability to provide a sense of destination in uncertain times — have a point of view about the future — and, secondly, to drive a sense of purpose which protects the core values and builds the reputation of the organization."

Building and engaging the team

Assembling a strong management team is always the responsibility of the CEO, but in a shared leadership model in which the CEO is looking to delegate responsibilities to a collective management team, the stakes are even higher for getting the right people in the right roles. The CEO has to have a very visible role in people development and succession planning.

"Vision and strategy cannot be delegated. That's where the CEO has to lead."

At Catalent, Chiminski aligns the team with a clear vision for the company and detailed objectives for the business that cascade down throughout the organization. "I have to have the right 150 people running the company and engage them in a way that they have ownership for the results. They have to have a clear understanding of the vision for the company, what their role is and what the expectations are, so my team and I spend an incredible amount of time making sure that we set goals and objectives for the company," he said. "When you don't have a strategy, when you don't have objectives and when you don't have an aligned team, the CEO has to get involved in everything."

The face of the company to external stakeholders

The CEO has to be the No. 1 customer advocate and the face of the company to investors and other key stakeholders, particularly in situations where the company's values and image are at stake. In times of crisis especially, employees and external audiences will look to the CEO to speak for the company and be accountable for its actions.

"The company's image, reputation, its values and what it stands for — those cannot be delegated.

"The company's image, reputation, its values and what it stands for — those cannot be delegated. It is spiritual to the enterprise," Ruia said. "The CEO may trust and delegate these to his management teams but at the end of the day, he is responsible. That's just the way it is."

Conclusion

Formal or informal shared leadership approaches may not be appropriate for every company. Factors such as the business model, company culture and the personality of the CEO all figure into whether shared leadership is a good fit for a particular company. In an increasingly complex, competitive and uncertain world, however, CEOs who adopt a leadership approach that imbues the top team with a real sense of ownership of the business have a powerful tool at their disposal. A leadership team that is fully engaged and empowered to run the business can have a dramatic effect on the performance of the company — if they are deeply ingrained in the vision and values of the business.

About the authors
Anjali Bansal, Mumbai, leads the firm's Indian business and co-leads the firm's Asia Pacific Board & CEO Practice. David S. Daniel, New York, is a member of the Board Services and Private Equity practices. He served as elected CEO of Spencer Stuart from 2001 to 2012. John T. Mitchell, Atlanta, leads the global Private Equity Practice and is a member of the North American Board & CEO and Life Sciences practices. Patrick B. Walsh, Minneapolis/St. Paul, is a member of the North American Board & CEO and Industrial practices.

LEADING VOICES

Perspectives on Innovation

As organizations seek to grow, they must remain competitive and, above all, they must innovate. The pace of change and competitive landscape are such that not to innovate will almost inevitably result in stagnation and decline. Consumers worldwide expect a constant flow of new products and services, new healthcare solutions and new experiences delivered through different channels. Organizations are becoming more willing to embrace disruptive technologies, to pay closer attention to customer behavior and to deal with a shortening innovation cycle.

To achieve consistent success, leaders responsible for innovation have to nurture creative, disruptive thinking while setting measurable goals and overseeing rigorous, disciplined processes. They need to be able to deal with failure and create an environment in which people from disparate backgrounds can work together to achieve something remarkable.

We talked to several experts to find out what they have learned about achieving innovation success asking: What structures and processes have their organizations adopted? What are the barriers to great innovation and where are the cultural challenges? What is the best way to encourage and reward innovation?

Clear view of the need

Stewart Black

Former COO of Pizza Express and
Dawn Farm Brands, and VP R&D, Yum! Brands

Leading companies make innovation a standard, but winning, part of their business approach. In always acting like innovation leaders, they are able to simply exhaust their competition. These competitors spend and waste valuable time and resources first trying to understand the specifics of any given innovation, then working out what it means for them and how they might take action. In the meantime, the innovation leader has already enjoyed the benefits and is working up the next initiative. It's exhausting to chase and hugely positive for an organization's culture to lead.

Setting out a clear brand positioning is essential before the innovation process can begin; innovation must never contradict this positioning.

Innovation should provide a steady stream of proven news and events, including but not limited to new products. It requires a process and approach that can be used across all parts of the business.

Embedded approach

There is no one formula for success, but it is best practice for innovation to be integrated into the overall business, not independent from it; embedding innovation throughout the organization gives an edge over the competition. It needs to be part of the planning and value chain process, with roles and responsibilities clearly defined right across the business, in marketing, sales and operations.

Each organization has to define and measure success in an appropriate way. The danger is that innovation is seen as useless and costly, so without clear measures, innovation may become a casualty when times get tough. It needs to be viewed as part of your total business gain. It is also difficult to reward people if the business measures aren't there. Innovation needs to be as important within the organization as financial planning or sales. It also needs transparent, and openly shared, budgets.

Setting out a clear brand positioning is essential before the innovation process can begin; innovation must never contradict this positioning. Those in charge of innovation must deal with three colliding commercial bubbles: the consumer (can we sell it?), the business need (can we make money from it?), and operations (can we do it consistently, every day and across cultures?).

Robust process

It is ironic that great innovation and creative thinking depend on robust process: a single process, embedded into a stage-gate approach, consistently applied with common language, methods and measures. Simply put, specific and clearly distinct stages that work to define the business need, explore ideas, develop those ideas and then test, validate and review. Each stage must be strong enough to support the one before and the one after. Typically, many failures occur when people start innovating halfway through the process.

To innovate successfully, you must really know the customer deeply. Usually, people running companies are not customers of the business themselves, so you have to go and be the customer and immerse yourself in their world. The stage most companies miss is defining the need, and you can only define the need when you really understand the customer. Alongside that you must always look at the competitive threat, business opportunities, trends and industry changes.

The second part of the process is the "explore" stage, with a team of people working up different ideas which fit with the defined need. It doesn't matter if you can't see how to execute them or what they look like; at this point it's about getting the ideas out. It may be wild and free, but there is plenty of technique in explore. Companies tend not to like newness, they like familiarity, so it's best to get people away from that part of the process if they can't filter for newness only — if you're not an "explore" kind of person, it's a miserable place to be!

Then comes the development part — followed by testing and validation. You need to keep asking, "Does it still fit with the need and the idea that supported the need?" If you dilute that point you will end up with something you don't want.

Companies can be at risk of not launching the product or idea they tested. They can be shy about pausing, redoing or stopping something at this point — instead, they sometimes rush ahead and launch what they think they should have done in the testing.

The last part of the process is review. You want to squeeze out every bit of learning you can. Companies are always moving on due to business pressures, but great ones stand back and ask what they've learned, good and bad, removing the bad from the innovation cycle next time around.

Communication

Communication is critical throughout and it helps to have common language. At Yum! we taught every project team to be able to provide a clear one-line business answer to the question, "What are you working on?" Organizations go through states of flux and innovation needs to adapt accordingly. You need to be able to talk about functional deliverables but always as part of the overall business plan.

I've always looked to adopt the RACI model (responsibility, accountability, consultation and information) in helping manage innovation and ensure effective communication across teams and businesses. I learned the hard way that it is important to know who you have to keep informed and never to surprise the boss or the organization! Innovation in isolation has limited success. Innovation as a fully integrated approach in any business maximizes wins and successes.

Having rebels at every level

John MacFarlane
Chief Executive Officer, Sonos

I would look at innovation as an outcome of a whole variety of actions that involve teams at every level. It is the result of your culture, your approach and what you reward. I don't think you can go to somebody and say "be innovative." The enemy of creative thinking is groupthink inertia, so you have to get innovation into the DNA of the culture, into the teams you're hiring and how you approach problems.

You need to have change agents and to give them some room, but it is a delicate balance because teamwork is important. You do need a mix of rebels in your teams at every level, including the board.

Candid culture

Transparency is key. Without transparency it's harder to innovate. I also think it helps to have a deeply candid culture in which people are willing to say when you are failing at something or missing your goals, and they talk about it in such a way that you are not being attacked. If you don't have that, you are in trouble. You might still produce an innovative item or two, but it will by exception.

I don't think there is any one thing that will improve your approach to innovation, but one necessary item is that you do need to keep hiring people who don't always fit the mold. The trick is you have to be constructive and sometimes these people won't be. You have to get behind their leadership and really support them, but be able to identify when the change is healthy and when it is not.

At the board level, it's really easy to just get sucked into the current numbers, the audit committee results, the next quarterly results. So it's important that you have people who can pull your focus up to the right level and look at the field. If we are creative at the board level, at the brand and product design levels, even in our approach to IT and facilities, we will have innovation.

> This is not an environment in which you can exist for very long if you are not being innovative — in how you make your products, how you market and sell them, how you support them. So for us, not innovating would be fatal.

Good times, bad times

The challenge is, what do you do when you are not innovative? For example, you might have a long string of good growth and everybody is sprinting flat out; then it's really hard to make room for innovation. You may have hard times and it's really hard to get the pressure off of everybody so that they are still thinking and being creative. Those are actually the times when you have to be the most creative, and when you have to be the most mindful about what pressure you are putting on the team.

If you don't innovate, you die either a fast or a slow death, depending on where you are not innovating. The music distribution industry went through a period of terrible lack of innovation and the whole market significantly contracted in a pretty short amount of time. Today, the music business is undergoing huge disruption, so are consumer electronics and retail. This is not an environment in which you can exist for very long if you are not being innovative — in how you make your products, how you market and sell them, how you support them. So for us, not innovating would be fatal.

Rewarding innovation

When it comes to rewarding people, the most important thing when someone has an innovative idea is to champion it — that means really giving the person or people full credit for it and helping them enact the idea. You can of course reward a patent or something like that, but I think the most important thing is to publicly acknowledge the ideas (and people) that are really innovative and impactful. Who led the charge? There is always someone who led the charge, or a set of people, and giving them credit is free and usually far more meaningful than anything else.

I am not a huge believer in allocating people's time to innovation specifically, say, 10 percent of their time to "innovation" but rather ensure they have time to think, or setting budget room for innovation in relation to overall expenditure. My focus is far more on the culture and the team mix than specific goals of time spent on "innovation."

Being creative creates and requires conflict: Someone is going to have a different idea from the group. Making a safe creative conflict environment is the responsibility of team leaders at every level. That's a hard task and why you've got to get the culture right so that the people who are naturally creative feel rewarded, and those developing the skills are encouraged.

I am a believer in performance reviews that are done well, but if you have not planned and spoken about it in the front of the year cycle, it's not going to be terribly successful. You need to sit down with the team and talk about what needs to happen over the next time period — whether it be three, six or twelve months. You set out what you think is good performance, identify areas where you need some innovation or things that the team are really passionate about. You would certainly want to reward that behavior at the end if it had a successful impact. Where a review goes horribly badly is if it is all done at the end and all you are doing is looking back at what the person did. You are better off rewarding the behaviors all the way through, otherwise you are not going to have the right culture.

Barriers to innovation

The biggest challenges are the status quo and the demands of the immediate near term. Innovation takes a little bit of room and time. You mustn't have a culture where people are penalized for trying something and not being successful. You have to have a culture where you agree in the beginning that you'll take a risk but you may fail. How that failure is handled is important. I tell people that if you are not making mistakes you are probably not pushing yourself hard enough and you are not trying new ideas. It all comes back to talking about them at the beginning. If you both agree there is a high risk of something not working out, no one is surprised if it doesn't and you learn from it. When it does, it's a very positive event.

Drawing ideas from growth markets

Kai Oistamo
Executive Vice President, Corporate Development, Nokia

Innovation is deeply rooted in the culture and values of the company; it is part of how we evaluate people. Innovation occurs in multiple places: product innovation takes place in R&D, clearly, but innovation can be just as much about the business model. An example would be The Mix Radio — it brought the product creation side of things together with business development people and with the help of technology innovation to create a new business model.

We are embracing whatever forward-looking innovation we see, whether it's in-house or out-of-house. This leads into an important point. In our industry, and in many other industries today, companies should not be looking only at in-house innovation. They should be exploring innovation in the overall ecosystem they are in. It really doesn't matter whether you are an innovator or whether innovation comes via a partnering company or a startup. You don't have to do everything yourself. The most important thing is that consumers get the right experience through your properties —— in our case, through their device.

Speed is of the essence

External pressures are so evident in our industry, of course. This is a hyper-competitive market; somebody will be there ahead of you if you're not careful. We are in a race to create new innovations that add value. Things are commoditizing very fast in our sector. The cycle time, in terms of how long a competitive advantage can last, is probably shorter than in any other industry. That really drives innovation, and you have to keep your offering fresh day in and day out.

You have to be quick and nimble in identifying what is happening out in the world and then go after it aggressively. Speed is of the essence. You can't afford to be sluggish about embracing innovation or slow to make decisions. Internal resistance and the attitude of "not invented here" can be a real barrier to progress.

You have to be quick and nimble in identifying what is happening out in the world and then go after it aggressively. Speed is of the essence.

An organization needs people with the courage to drive things that they believe are innovative. There is a whole host of inventions that do not turn into innovations; you may be the first to have an idea, but if you don't bring it into the commercial phase, it's really not an innovation.

If we were to look back over the past 10 years at Nokia and be self-critical, we have been really good at inventing things but we have not been as good at bringing them to the market at the right time and in the right way. The way to do this is to ensure that there is a multifunctional dialogue in the organization; it is essential to foster connections across different functions. This is what innovation is really about. A technology innovation only becomes real when it's combined with usability, the right business model and marketing. It goes back to the culture issue of really embracing innovation.

Convergence and globalization

This is a converged industry, which used to be made up of Internet players and mobile players, hardware manufacturers and software manufacturers — now we are all in the same industry and innovation is coming from all over the place. Everybody needs to be on their toes and agile enough to see where the world is going to go. It's very difficult in this industry to forecast beyond three years into the future. That would not be the case if we were talking about the steel industry or the car industry. As a result of globalization, the center of gravity or innovation in the mobile industry has changed. As a whole, most of the software innovation in this industry happens in Silicon Valley, whereas much of the hardware innovation has migrated to the West Coast of China. I can't overemphasize the importance of emerging markets in this industry today. They provide a huge opportunity, but the innovation needed to meet the demands of consumers in emerging markets can be completely different than that found in a high-end smartphone in the West, where there is a different sensitivity about what is considered innovative. Remembering your consumers is extremely important.

Expanding knowledge through collaboration

Robert Urban, Ph.D.
Head, Johnson & Johnson Innovation Center (IC), and former Executive Director, David H. Koch Institute for Integrative Cancer Research at MIT.

It's important to remind ourselves what innovation is and what it's not. At MIT, we did tremendous amounts of fundamental-type research every day. We chased down mysteries that we thought were important, creating a remarkable amount of content. On occasion, elements of those discoveries could represent the raw material for innovation. Then we might begin to develop something based on that which addressed a truly important unmet commercial need. This deep digging exercise, coupled with an ability to identify, value and advance those small details, is important for creating innovative and usable products or services.

Creating a diverse ecosystem

People doing the fundamental research are not always interested in figuring out if what they've discovered is commercially relevant. Research is what drives them and what they're good at; it's the incentive system they operate in. Not everyone involved has to be part of the full solution.

In the right kind of ecosystem, there is a rapid exchange of information by other members of the community with different frames of reference who can interpret the creation and take the discovery in a new and valuable direction.

This diversity is the key to an innovative culture. You need to have people who are from a range of backgrounds that overlap, where one person can see things another person might have missed.

Varying levels of innovation

The more innovative the product is at the start — for example, an idea that comes from a previously unexplored vantage point — the more chance it has of being disruptive rather than just incremental in its impact on the market.

Every day, products in development lose aspects of their innovation: Almost invariably you wind up learning things about them that make them less exciting than you thought they would be. As they reveal themselves, you realize there are detrimental issues to deal with, such as toxicity. Of any two product ideas that get to market, the one that started at a much higher level of innovation has the opportunity to remain a competitive advantage for a longer period of time, even though it may have carried a higher risk. The market always demands more innovative products.

Scientific rigor

There is a real opportunity to harness innovation coming out of scientific research, facilitated by real-time data exchange that accelerates the innovation cycle time. There is at least a possibility that some of the products we develop can turn out to be even more exciting downstream than they were when we started, because we know more now about how they work, about how they perform in patients, etc. Historically, when things move into the development side (e.g., testing in humans) to some degree the science turns off.

Given that the world that we're heading toward is going to be far more demanding of us in order to support healthcare product reimbursement, the only way we can be as good as we need to be is to make sure we are as scientifically rigorous as possible all along the continuum. We must add value from start to finish and make certain that our products are really working, rather than simply validating and testing the initial discovery or technology.

Understanding the science well enough to be able to imagine what it can and can't do is an important component in efficient innovation. Having intuition based on an analytical appreciation for how something does or doesn't work is fine, but there are fundamental laws of biology, chemistry and physics which can't be overcome simply because you wish it so. All innovation has to be rooted in good fundamental science.

Of any two product ideas that get to market, the one that started at a much higher level of innovation has the opportunity to remain a competitive advantage for a longer period of time, even though it may have carried a higher risk.

Collaboration

In any situation or business, it is hard to be an expert in a lot of things, especially when science moves so quickly and becomes so specific. This reinforces the need to be collaborative, both internally with colleagues and externally with partners or even potential competitors.

When you have a wide-ranging portfolio of technically based products, it is hard to stay on top of all the things that are changing so rapidly and to know how your product compares to the world's cutting-edge science and the portfolio products that you are developing. It's very difficult to stay on top of the late-stage assets in your program or to have a clear sense of where the replacement solution will come from.

Relying entirely on your internal organization to do that is really limiting, and having ways to efficiently interact with the various key opinion leaders is critically important. The real trick is doing it in a way that ensures capital efficiency and return on capital. Overlapping entities means overlapping objectives and cultures; a masterful effort is required to manage this innovation so that all involved feel that their disparate objectives are being met.

The next generation of researchers will be more and more comfortable with virtual collaboration, particularly as technology improves to facilitate this. I suspect there will be more crowdsourcing-type solutions in the future, for example, in solving specific problems or helping to fund innovation.

Those who are good at dealing in fact and detail are not always good at seeing the whole picture and dreaming of the possibilities. This is where "group innovation" is beneficial. There has to be a dynamic perspective to innovation as you work towards what the market will be, not what it is today.

For example, how will personalized medicine change the way we think about product, pricing and reimbursement? Does a new product have a way of mapping to the future market dynamic? These two key elements always have to be connected somehow.

FOCUSING ON PERFORMANCE

DR. TOM WANG

General Manager, Global R&D Strategic Cooperation, Corporate R&D Center, Haier Group

Haier's success has come from innovation. It focused on quality innovation in the 1980s, service innovation in the 1990s, and integrated supply chain/market innovation in the late 1990s to early 2000s.

Because of the Internet, customers have much better information about product offerings. They demand products with diverse features to meet their individual needs. In the late 2000s to early 2010s, Haier turned its focus to customer solutions and brand innovation. Today, we adopt open innovation to leverage global resources (such as universities, research institutes, suppliers and professional associates), combining them with Haier's innovation resources to achieve our global innovation goal of better products for customers.

Organizing for innovation

To achieve our innovation goal, we have transitioned our organizational structure, decision process and performance measurement to a new system. Traditionally, the decision-making process in most of the company was top-down driven. Today, we would like all employees to interface with customers and understand their needs so that they can bring them value.

Performance measurement has been focused on the value that employees generate for customers. The manager's role is to provide employees with the resources to deliver value to customers. No matter whether you are in R&D, sales/marketing or manufacturing, you need to work together to achieve this goal. We have successfully transitioned our 80,000 employees into more than 2,000 business cells, and these business cells are what drive innovation.

The major challenge is to have a system to attract innovative people and retain them, as well as one that encourages consumers/customers to participate in the innovations.

Putting the customer first

The appliance industry is one of the toughest competitive industries. Innovation is critical for the success of the business. No appliance company can survive without constantly bringing value or innovation to customers, and we normally budget 3 percent to 5 percent of annual sales for innovation.

Although pressure to innovate comes from the competition, it primarily comes from customers' needs. Customers in different regions (Americas, Europe, Asia Pacific) may have different needs from product offerings (features, pricing, appearance, etc.), which is why we leverage an open innovation platform to work with innovation resources worldwide, so that we can better address the needs in each region.

The major challenge is to have a system to attract innovative people and retain them, as well as one that encourages consumers/customers to participate in the innovations. These are both critical elements for successful innovation.

About the authors

Thomas Carey, Boston, is a member of the Life Sciences and Board Services practices. Drew Keith, Milan, is a member of the firm's Technology, Communications & Media Practice. Ignacio (Iñaki) Suárez de Puga, Madrid, is a member of the Consumer Practice and leads the Hospitality & Leisure Practice in Europe. Thomas H. Yu, Shanghai, is a member of the firm's global Industrial Practice.

THE EXECUTIVE GUIDE

Survival of the Most Adaptable

Becoming a change-ready culture

In nature, organisms can take generations to evolve into more advanced versions of themselves. In business, companies do not have the luxury of time when it comes to adapting to changing conditions. Now is a time of immense change. Consider that the Internet as we now know it is only some 20 years old and, today, it can be accessed from the palm of a hand. Advancing technology has rapidly reshaped how companies all over the world operate and communicate with consumers. New competitors are arising from unexpected places. In the span of a few short years, a global recession took root, requiring cost-cutting and revised plans for growth.

To survive, some companies have had to dramatically remake themselves, from breaking into entirely new sectors to trading brick-and-mortar stores for an online presence. It is becoming clear that the sheer pace, pervasiveness and variety of change demand that a company's leadership cultivate a culture able to adapt and advance. Day-to-day changes can be subtle but, in sum, can make a significant impact depending on how the organization's leadership addresses (or does not address) them. Some organizations flounder in the midst of change, while others flourish due, in large part, to agile or what some might even characterize as Darwinian cultures — those that are able to quickly evaluate and shed weaknesses and build strength in new areas. From foresight about the potential silver linings of problems to a commitment to ongoing dialogue, change-ready leaders and the flexible cultures they build share certain traits that allow them to progress while others stand still.

Hallmarks of change-ready cultures and their leaders

Although each company's culture is unique, we have found that leaders of companies that have demonstrated an affinity for adapting tend to share certain characteristics: ability to recognize the opportunity in a challenge; a focus on the right priorities; commitment to clear, candid communication; accountability; and promotion of creativity and entrepreneurship.

Seeing what others can't

There are numerous cautionary tales about companies that were once market leaders but have faltered or outright failed due to an inability to recognize the need to change and act upon it. Yet, changing conditions can also present an opportunity for growth if a company's leadership recognizes and seizes it. Rather than reacting to external pressure, companies that are most successful are driven internally to get ahead of a change before it happens.

One company that was able to identify a way to succeed amid hardship was Milliken & Company. Industry observers and the company's past and present executives told *The Wall Street Journal* the story of change and innovation behind the company's ability to refocus and succeed at a time when many of its traditional textile industry competitors had shuttered their doors. The company diversified beyond its original niche and its senior leadership invested heavily in scientific research. According to Milliken's CEO, a large number of its management team have advanced degrees, with more than one-third holding Ph.D.s. To foster a culture that promotes and supports innovation, leaders let employees use a percentage of their time to pursue their own projects, with successful innovators given a greater amount of free time, and also brought in external experts to spark inspiration. Thanks to the proactive approach by its leaders, the company did not just weather the economic downturn, it thrived.

Deutsche Telekom, once simply a landline provider with a conservative business philosophy, recognized that the world of communications was changing for consumers. By investing in developing technology, focusing on consumers'

Are you really ready for change?

Leaders of companies at a crossroads often say they need a "change agent," someone who will radically alter the organization's course for the better. However, when actually presented with a change agent, many will opt for the tried-and-true choice, not the revolutionary.

Before pursuing an executive to spearhead a change, the first step an organization's leaders should take is to determine if the organization truly is ready for change. Here are a few questions leaders can ask themselves before embarking on large-scale change efforts:

1. What is the level of our organizational readiness? Do we have the capabilities to change? It only makes sense to install a stronger motor if a car is in good shape. As business cycles and decision times shrink, many organizations have shifted toward matrix organizations, which can be more flexible to change than functional structures.

2. Are we doing the right thing? Are we making this change in order to follow the competition or are we acting as industry innovators? Companies that do not consider whether a change suits their strengths risk overburdening the organization, which can undermine efforts for improvement.

3. Does this leader have a track record of saying "no"? Saying "yes" is easy. But in order to successfully drive change, organizations need leaders who are not afraid of making unpopular decisions.

changing behaviors and bringing in fresh, new leadership (the company's CEO is one of the youngest chief executives in Europe), Deutsche Telekom reinvented itself as an integrated telecommunications leader with a full suite of solutions for today's digital age.

Keeping an eye on the prize

Leaders who are able to identify and zero in on strategic goals and guiding principles are often well-poised to promote change. When executives maintain a steady focus on central priorities, it serves as a compass and helps to ensure the organization will not get sidetracked by an unexpected event or evolving market conditions. As a result, energy is channeled, resources are deployed and time is spent on the issues most integral to the organization's strategy.

Jim Stengel, former global marketing officer of Procter & Gamble, studied 50,000 companies over 10 years and outlined the results in his book *Grow*. He found that the 50 best-performing companies are those driven by their ideals. Companies that answer the question of "what is our company's purpose?" and have leaders who clearly articulate those ideals and drive the message throughout the organization tend to enjoy sustained growth.

At Target Corporation, the answer to "why are we here?" is simple: the customer. "The guest is at the center of every conversation, from what happens if you're standing in line to check out to the starting point for every strategic conversation we're having in marketing or merchandising or IT," said Jeff Jones, CMO of Target. Target's guest-centric culture enables it to both react to and anticipate the evolving demands of its customers — undoubtedly some of the most important changes the retailer faces. To better embrace these developments, one of Jones' main goals is modernizing the function by employing new data and social media tools, aligning teams and, ultimately, enhancing creativity and accountability.

Understanding what does not need to or should not change can be equally as important as acknowledging areas for improvement when creating a successful and adaptable culture. At times, change is thought of in tandem with a tough challenge or crisis, yet not all change is spurred by the need to fix something. Some companies are not broken at all, but can reach even greater heights with a few adjustments.

"So many times, I think CMOs or many senior executives are brought into a situation that's in trouble and that's not the situation I entered," said Jones. "The culture of the company is by far one of the greatest strengths that make Target Target. When I joined, my challenge was: How do I build on the success?"

Leadership that grasps the nuances of change and takes the time to assess the situation before acting protects and preserves what works well.

However, companies in trouble often require fast and dramatic change. When Daniel Connors took the helm of Physiotherapy Associates, the company was in dire financial straits. The company was 51 days away from breaching its debt covenants, which would have triggered a Chapter 11 filing. Connors immediately took a dramatic approach. He called for the curtailing of all unnecessary and avoidable expenses until the end of the quarter, including clinic consumables and supplies. Any exceptions would need to be approved by him. On a conference call, Connors was asked what exactly those expenses included at the clinic level. He responded, "Everything." The staff member asked, "What about toilet paper?" He answered, somewhat jokingly, "I said everything!" That toilet paper story became a pervasive inside joke throughout the organization — a member of management even promised to get Connors a bronzed roll once the company was sold successfully. Supported by humor, his message that in both times of crisis and prosperity, the entire organization shares a collective responsibility for its expenditures and overall financial health was a powerful one.

Conversation, not commands

Although vital to any company culture, businesses that are adaptable typically excel at communication. It's nearly impossible to adapt to change if there is not universal understanding about what that change is and what the organization is going to do about it. Leaders need to deliver a single, clear and consistent message about their goals and how the entire team can accomplish them. When changes are more dramatic than gradual, said David West, CEO of Del Monte, there also must be an explanation as to why the vision or strategy is changing.

However, these messages do not have to originate solely from the top. Leaders of change-ready cultures act as ambassadors, tapping every level of the organization for good ideas.

Matt Shattock, president and CEO of Beam, is an advocate of soliciting feedback from the full range of stakeholders and doing so in a relaxed setting when possible to help inspire honest, candid feedback. "The 100-day plans everybody talks about was a critical exercise for me," he said. "I got around to as many of the locations in the company and to as many colleagues as possible and I asked them all the same questions: How are we doing? What are the things we are going to keep doing? Are there things you'd like to see us do differently to improve our performance? We also took the pulse of the organization to ask: Are we going too fast, are we going too slow? Is the change of the right nature? Is it serving the right results? The ability to stop, check in, listen and move forward is part of the process." This kind of open dialogue helps reinforce the culture of communication while garnering support for needed changes. Unscripted Q&A sessions and regularly scheduled get-togethers with small groups within the organization can also help foster a sense of transparency.

Accountability

A change-ready culture is flexible, but not without structure. Adaptability will only benefit organizations in the short term unless it's combined with accountability. Organizations that are most successful at evolving treat change as a starting point, followed by the establishment and ongoing measurement of clear objectives. As the

Leading a change-ready culture

Strong leadership can help fight organizational inertia, one of the biggest barriers to successful change. Thus, leaders must set the example from the top when establishing and maintaining a change-ready culture. Here are some best practices shared by architects of adaptable cultures:

- **Find a guru.** Identify one or more mentors who have been entrenched in the organization and understand the culture. A new leader brought in to spur change does not have long to develop the intimacy he/she needs with the business and its stakeholders' needs and aspirations. These inside advisers can help newcomers shorten their learning curve and avoid the missteps that come from trying to exact change with too little information.

- **Form an alliance.** Align with colleagues to build trust while also obtaining important insights into the internal dynamics and perceptions that may hinder progress. Leaders who partner with senior functional executives, including the top human resources executive, and other key business leaders are in a better position to secure the acceptance and support needed to execute changes. In addition, leaders should check in with their colleagues and mentors on a regular basis to evaluate their performance.

Avoid a common catch-22 of leadership. If a leader acts too quickly, he or she is perceived as not listening, but if he or she responds too slowly, the leader can be deemed indecisive. Strike the delicate balance between the two extremes to earn the trust of the organization. A way to bypass this pitfall? Over-communication. Often, leaders design a solution in their office and then announce it to the wider organization. Instead, leaders should take the organization with them throughout the process of change by over-communicating each step of the way.

Win early. Accomplishments at the beginning of a transition, such as a successful holiday retail campaign under new leadership or improved savings from the introduction of a cutting-edge technology, can demonstrate the value of change and set the stage for future adjustments.

Encourage diversity of thought. Promote collaboration among a variety of parties. Cross-pollinate teams across functions (e.g., finance and marketing) and backgrounds, such as pairing younger staff with more senior executives so as not to miss out on the full range of perspectives.

Steer clear of the wrong people. Having the wrong people in key positions poses a great risk. Change cannot happen when leaders do not possess the skills necessary to adapt. Assess and replace habitual resisters with more open-minded individuals.

Generate buzz. Get the organization excited about change. Target orchestrated a talk show-style Q&A session with Jones when he first joined the company and shared the video with his team as a unique way to introduce himself and set a tone of openness. Developed with a colleague in a previous role, he also sent a memo outlining his five working principles in inspiring language made all the more striking because it sounds more like a mantra than a typical business communiqué: “Listen, provoke, love, simplify and believe.”

drivers of change, company leadership (and their change management skills) should be evaluated thoroughly. For instance, what does the P&L show in the quarters following the change implementation? Do surveys about employee satisfaction reflect greater happiness with the culture?

Creativity and entrepreneurship

Encouraging creativity and personal ownership among all levels of employees advances the goals of the entire organization. By injecting a sense of entrepreneurship into Beam's culture, Shattock believed the company could become an industry pioneer. The company's launch as a standalone public company in 2011 was also a catalyst that galvanized the organization, inspiring a shareholder mindset that helped to unify and energize across ranks.

One of the key ways to instill a sense of entrepreneurship is empowering people to make choices and take actions that help run the business. Adopting best practices suggested by stakeholders, such as tweaking flavor for a food and beverage company or streamlining a retail website, and adopting them company-wide tangibly reflects a commitment to a collective ownership mentality.

Organizations that provide opportunities for their people to learn and expand beyond their comfort zones can also spur creativity and foster a mindset that transcends silos. "When I started my career specializing in finance, someone took a risk on me to give me strategy experience, and later I went from being a CFO to heading sales," said West. "I thought of myself as a business person first and a finance person second, and that mindset has served me well in my different roles. Take risks on people early in their careers, when it's less costly and risky, and move them around to different functions."

In addition, fun at work, though at times dismissed as frivolous, can greatly contribute to a company's success. The surprise takeaway for Stengel from his research was that employees of the study's best-performing 50 companies found work enjoyable, including organizations such as IBM, Zappos and Lindt.

An ongoing pursuit

In the past, companies could follow the same strategy for 30 years. Those days are gone. The pace of change has accelerated — the market once sparked companies to change approximately every seven years, but now that time has been cut in half, or even less in some industries. A major lesson from those who have created a change-ready culture is that there is no end point. One change may be addressed, but others are always emerging. Great cultures do not stay great on their own. They must be maintained through the consistent efforts of the whole organization and its leadership. Even the best companies can become extinct if their cultures are not nurtured.

About the authors

Frank Birkel, Frankfurt, co-leads the firm's regional operations in Europe, the Middle East and Africa and is a member of the firm's global Consumer, Private Equity and Technology, Communications & Media practices. Claudia Lacy Kelly, Stamford, is the North American leader of the Human Resources Practice. Greg Welch, Chicago, is a member of the Board Services, Consumer and Marketing Officer practices.

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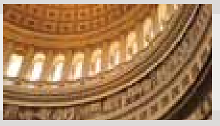

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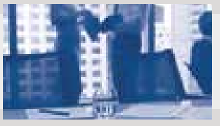

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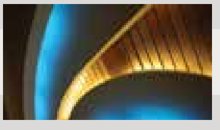

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