



Getting the right CEO

2018 CEO Outlook

KPMG Board Leadership Centre



KPMG's annual CEO Outlook survey reflects the views of CEOs who lead some of the world's most complex businesses. But how do you ensure you have the right CEO? Finding the right individual is critical as so much rides on a positive outcome. Here we present ten pointers for boards to consider.

1. Have a plan in place. American baseball legend Yogi Berra warned, "If you don't know where you're going, you might not get there." Is the organisation's succession plan as proactive, disciplined and structured as it should be? Notwithstanding that without a leaving date, succession planning is just contingency planning, having an individual (e.g., the board chair) drive a proactive plan well ahead of time, can be an effective way of targeting and securing the best pool of candidates, and ultimately the best hire.

Succession should also not be a crisis driven event so consider both short-term disaster scenarios and long-term outcomes.

2. Engaging the CEO on their own succession. How supportive is the CEO of the process around their own succession? Many companies don't have a coherent system in place to incentivise the CEO to work constructively to support their own succession – which can be difficult!

One approach might be to have an open and honest process agreed with the incumbent CEO early within their tenure to appoint a recruitment firm to deploy a discreet talent mapping and shortlisting exercise for their succession.

3. The next generation. When evaluating the performance of your current CEO, do you assess how well they are building the next generation of company leaders?

Innovative approaches might include the development of strong mentoring programmes for internal talent (ideally giving cross-functional perspectives on development and progression) and/or the creation of shadow boards - perhaps supervised by the Senior Independent Director (SID) – to discuss, debate and comment on the same issues as the main board. This might also help with the development of the SID into a prospective board chair.

4. Look forwards, not backwards. Is the board (and/or nomination committee) thinking about succession planning as a 'fresh opportunity' and ensuring that the CEO is not just 'recruiting in their own image'?

The incumbent CEO's characteristics should have been right at the time of their appointment but may no longer be appropriate when the successor is due to take over. For example, the business may be looking for transformational change which may see external candidates better placed to lead the organisation going forward.

5. Corporate culture. Board members can play a key role in helping organisational transformation - including at a cultural level. Is succession planning embedded within the organisation's corporate culture? Significant cultural change may be expedited by the appointment of a CEO from outside the organisation – someone who isn't part of the fabric of the existing culture.

In any event, creating the desired corporate culture entails many steps, including performance incentives for executives to build the system; a development capability that repeatedly reaches large numbers of managers; coaching and mentoring by both directors and executives; and an openness to both inside and outside candidates. Above all, it requires active partnering between the directors and the CEO to pre-emptively ensure that the pipeline is full and its occupants are developing in an upward direction.

6. Keeping candidates engaged. Is appropriate consideration given to ensuring prospective CEO candidates from within the business are kept engaged? Consider offering incentives to potential future CEOs to retain their presence in the business as CEOs-in-waiting, while still supporting the present incumbent.

A proactive nomination committee should also be prepared for the risks associated with internal candidates not progressing in the recruitment process.

7. Direct contact. Does the board (and/or nomination committee) have direct contact with both candidates and referees? The nomination committee should not only 'personally' check on references, but should use their own networks and contacts to garner additional information around the prospective candidates. A few trusted sources can yield far more useful data than a large number of less-certain sources. By contrast, in the absence of trusted relationships, references can sometimes reveal limited, and even false, information.

8. Evaluation. Is the prospective CEO bought into the board's strategic vision and the company's purpose and values? Does the individual have the full ambit of skills, authority and experience necessary to deliver that strategy?

When evaluating the prospective CEO's skills and experience, is sufficient regard given to their integrity and ethics, team building abilities, operational excellence, value generation for shareholders and other stakeholders and personal gravitas - and their ability to work with the board? Being clear about the overall objectives is key.

Does the board (and/or nominations committee) review candid comparative data on prospective internal CEO candidates from those who have worked with *all* of them? Strive for so-called "450-degree assessments" by extending the scope of 360-degree feedback to include more contextual feedback from additional contributors who have worked with the individuals concerned.

9. Conflicts of interest and unintended bias. Are search firms reviewed carefully to prevent any conflicts of interest? Be aware of the potential that head-hunters and executive search consultants may – even inadvertently – show positive bias towards candidates with whom they have historical connections and may have placed or identified. And of course, the opposite also applies – potentially treating candidates that they haven't had a hand in finding with scepticism.

10. Confidentiality. Is the search and identification process confidential and handled with discretion? Recruitment processes can be jeopardised by insufficient regard for confidentiality. Communicating orally and avoiding media contact can help preserve confidentiality. One way to prevent a damaging revelation is to ask outside references for guidance on a candidate for a place on the board - not specifically for the CEO position. This might lead to a veiled but useful appraisal of CEO-related competencies.



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