



**ARMSTRONG  
CRAVEN**

*people • intelligence*



# THE BUTTERFLY EFFECT

## CEO MOVEMENT & THE CHAIN REACTION

MAY 2015



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## 01 EXECUTIVE SUMMARY

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CEO tenure is decreasing and whilst this may be reflective of the changing needs of business, a lack of succession practices means a reactive cycle of events is triggered when a CEO moves.

CEO succession is poor, with 61% of CEOs planning to leave in the next five years, and doing so with no successor in mind<sup>1</sup>. More broadly, leadership risk and succession throughout organisations is poor and it is clear that there remains a significant challenge in hiring the next generation of global, strategic leaders.

We analysed twenty, recent high profile CEO moves. The results show that the majority of replacement CEOs came from the external market, most of these from direct competitors.

We examined the number of moves that were triggered as a direct result of the outgoing CEO. We estimate the recruitment cost for these moves alone, is in excess of £25m. A cost borne in many cases, by the direct competitors of the company from which the CEO has departed.

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THE BUTTERFLY EFFECT: THE PHENOMENON WHEREBY A MINUTE LOCALISED CHANGE IN A COMPLEX SYSTEM CAN HAVE LARGE EFFECTS ELSEWHERE.

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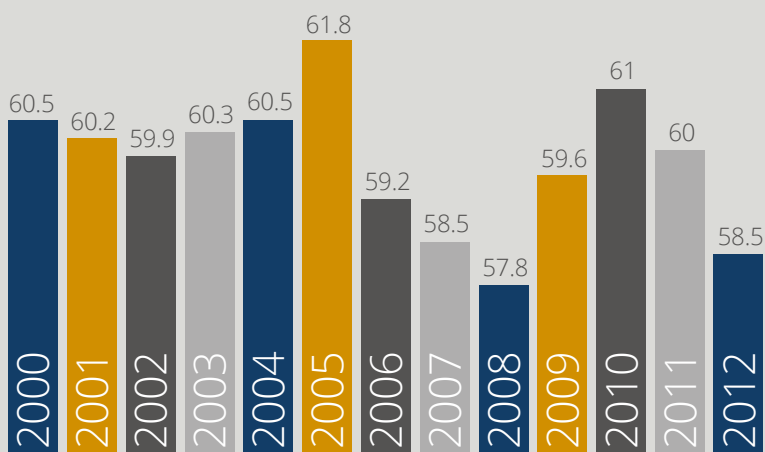
The resulting wave of hires triggered by an outgoing CEO we call the butterfly effect; the theory that a single occurrence, no matter how small, can change the course of the universe forever.

In this paper we demonstrate the butterfly effect caused by recent, high profile CEO departures. We estimate the subsequent cost to industry and then demonstrate how a reactive cycle of recruitment is triggered. We demonstrate how to break this cycle, and change the culture, through the proactive use of people intelligence.

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**Figure 1a** | *Departing CEO Age*

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<sup>1</sup> 16th Annual Global CEO Survey - Dealing with Disruption, PwC (2013)



# 02

## CEO TENURE

A change at the top, whether it be the CEO or executive leadership, is a significant event. But, it is an event that is far from rare.

When Tim Cook became CEO of Apple in 2011, there was no expectation that he would hold the position for the next 15 years, as his predecessor, Steve Jobs, did. Now, just four years later, published reports suggest that his successor(s) have already been identified in Jeff Williams (or Phil Schiller or Scott Forstall). The days when a CEO anticipates holding the position for twenty years or more are long gone.

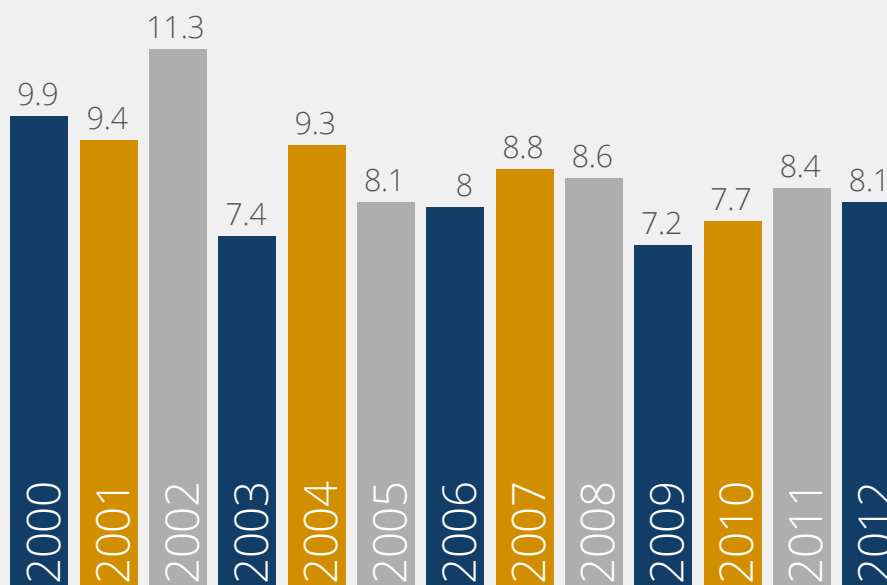
There is overwhelming evidence to show that overall CEO tenure is decreasing. According to The Conference Board<sup>2</sup>, the average tenure of a departing S&P 500 company CEO has decreased in recent years, from roughly ten years in 2000

to a little over 8.1 years in 2012 (see figures 1a and 1b).

The same report shows that CEOs with less than five years tenure are more likely to be dismissed for a company's poor performance. In reality, in today's ever changing global world, this more rapid attrition makes sense. The skills required to lead a business in an increasingly competitive global world change; hence there is an argument that the right leadership at the top will have to adapt or change to maintain competitive advantage.

Research by the Corporate Executive Board<sup>3</sup> surveyed chief human resources officers about how their boards are dealing with CEO succession. HR leaders report that 32% of boards admit that the individual they have at the top level is no longer the right person for the job.

Figure 1b | Departing CEO tenure 2000 – 2012



Source: CEO Succession Practices: 2015 Edition, The Conference Board (2015)

## CEO CHANGES HAVE AN EFFECT ON PERFORMANCE. UNPLANNED CHANGES HAVE A PROFOUND EFFECT ON PERFORMANCE.

With this in mind, a shorter CEO tenure can only be a good thing.

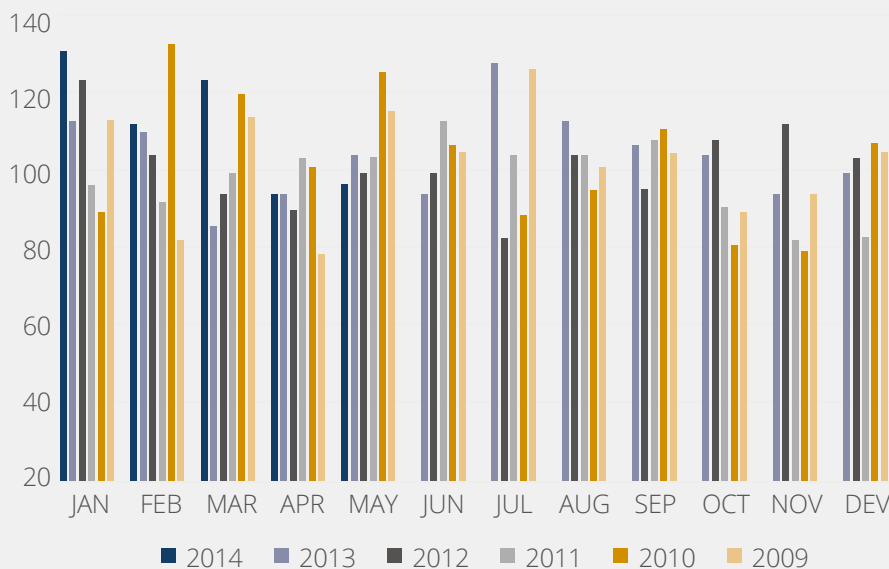
In addition, the Corporate Executive Board (CEB) found that 40% of boards say that CEO succession is one of the most important issues they address, and that discussions of CEO performance and succession take up an average of an hour and half of each board meeting. Our own research<sup>4</sup> shows that an increasing number of companies identify people as a principle risk or uncertainty.

However, none of the FTSE 100 has a Risk Committee chaired by someone with human capital experience. So whilst boards may be spending more time on succession, in many cases they don't have the requisite experience to mitigate against the risk effectively (only 7% of the FTSE 100 have HR represented on their Board and 81% give HR a seat on the Executive Committee<sup>5</sup>).

Decreasing CEO tenure may be a good thing for business; but only when accompanied by effective succession. Leadership risk management overall, remains poor across the world's biggest companies. An FTI Consulting study<sup>6</sup> evaluated 263 CEO transitions across companies based in 35 countries. Among companies with market capitalisations in excess of \$10 billion, nearly a third (31%) announced a CEO transition between July 1, 2007 and June 30, 2010. Among these transitions, 43% were unplanned. Figure 2 illustrates CEO departures by month, by year. As can be seen there were more departures in the first quarter of 2014 than any previous years.

CEO changes have an effect on performance. Unplanned changes have a profound effect on performance, engagement and, as we demonstrate in this paper; competitors.

Figure 2 | CEO departures by month, year



Source: CEO Report - 10 Percent More CEOs Out Over 2013, Challenges at Work (2014)<sup>7</sup>



# 03

## THE IMPACT OF A CEO DEPARTURE ON PERFORMANCE

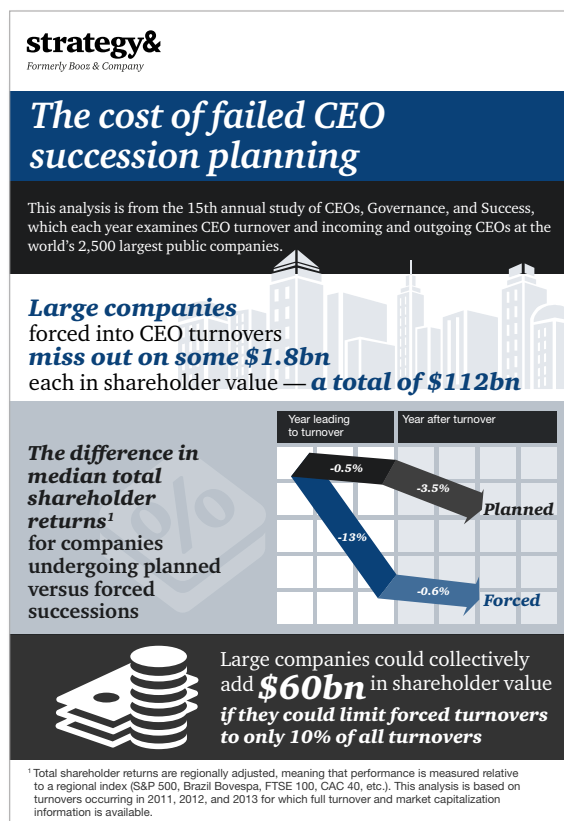
Change at the top is destabilising for any company. CEO change leads to shifts in the top team, changing corporate priorities, and an inward focus at most companies. The resulting impact is related to a real financial effect: among companies undergoing a CEO change for any reason, it has been found that median total shareholder return drops to -3.5% (relative to the index on which the company is listed) in the year after the CEO change took place<sup>8</sup>.

Furthermore, data from FTI Consulting<sup>9</sup> suggests that the reputation of a CEO is a critical factor in investor decisions to trade shares. In fact, on average, nearly a third

of investment decisions are based on the perception of the CEO.

When companies are forced into a change, the drop in median shareholder returns is even more dramatic: a fall to -13% return in the year leading up to the CEO change, and just -0.6 percent in the year after. According to the same PwC Strategy& CEO Study<sup>10</sup>, they estimate that these returns mean that each company that has had a forced change of CEO has relinquished \$1.8 billion more in shareholder value than those where the CEO change was planned. From that study figure 3 below goes some way to illustrate this cost.

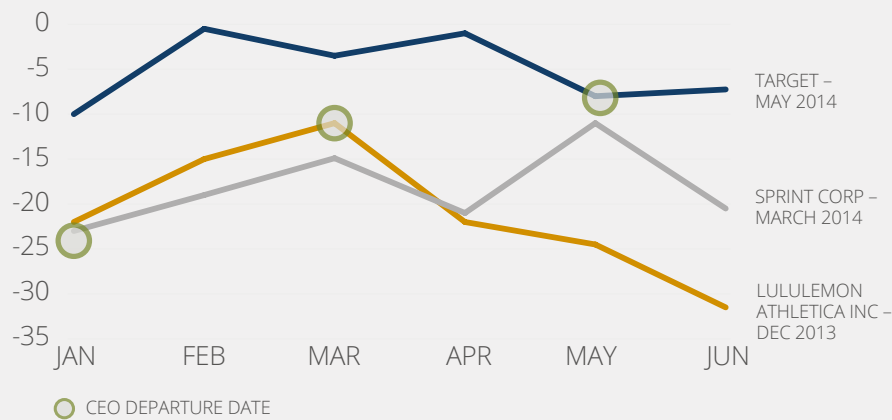
Figure 3 | The cost of failed CEO succession planning



Source: The cost of failed CEO succession planning, Strategy& (2014)<sup>11</sup>



Figure 4 | Total return after CEO departures were announced – three examples



Source: Armstrong Craven (2015)

There exists a clear link between an (unplanned) CEO departure and EBITA. Anecdotaly, in July 2014, Philips, the diversified electronics maker, announced that Deborah DiSanzo, CEO, Healthcare, was leaving the business, following results below expectation. As a result, the Group CEO, Frans van Houten, temporarily led the healthcare business whilst a replacement was sought. The impact on his time and resource was high, and typical of what can happen. Either an interim is sought (at high cost) or incumbents are stretched away from their roles as a new structure is built.

When Reuters reported that the Chief Innovation Officer of Sprint, Fared Adib, was being headhunted to join Japan's SoftBank in late 2013, the leak played a role in forcing his resignation from Sprint in Q1 2014. As figure 4 illustrates, Sprint's total return fell from that point and throughout 2014.

In another example, after a breach of customer financial details, the CEO of Target was forced to leave. Figure 4 shows the total return immediately after the event and beyond.

In another American retail business Lululemon Athletica, Founder and CEO Chip Wilson was forced to step down (December, 2013) after the company was served with lawsuits

accusing them of hiding defects and thus defrauding shareholders. Lululemon shares recovered slightly during the first quarter after the new CEO was appointed but damage to the company is evidenced in figure 4.

A CEO's ability, preferences, and decisions affect a company; from the acquisitions a group makes, its financial policy, strategic direction and the corporate culture. These characteristics and the resulting decisions differ across individuals; CEO changes alter the course of a company and its performance. CEO change (whether planned or unplanned) presents significant risk well beyond the point of transition.

Many studies have demonstrated the impact a change at the top has on financial results, performance and shareholder value. Further reports have been completed on the subsequent changes a new CEO makes to their executive team. Few studies however have looked beyond the company from which the CEO is exiting and looked at the broader, wider impact on the industry.

This paper examines twenty recent high profile CEO departures and the impact their move has had on their competitors – a concept we call 'the butterfly effect'; the theory that a single occurrence, no matter how small, can change the course of the universe forever.



# 04

## ANALYSIS OF TWENTY HIGH PROFILE DEPARTURES

### 4.1 THE STATE OF PLAY

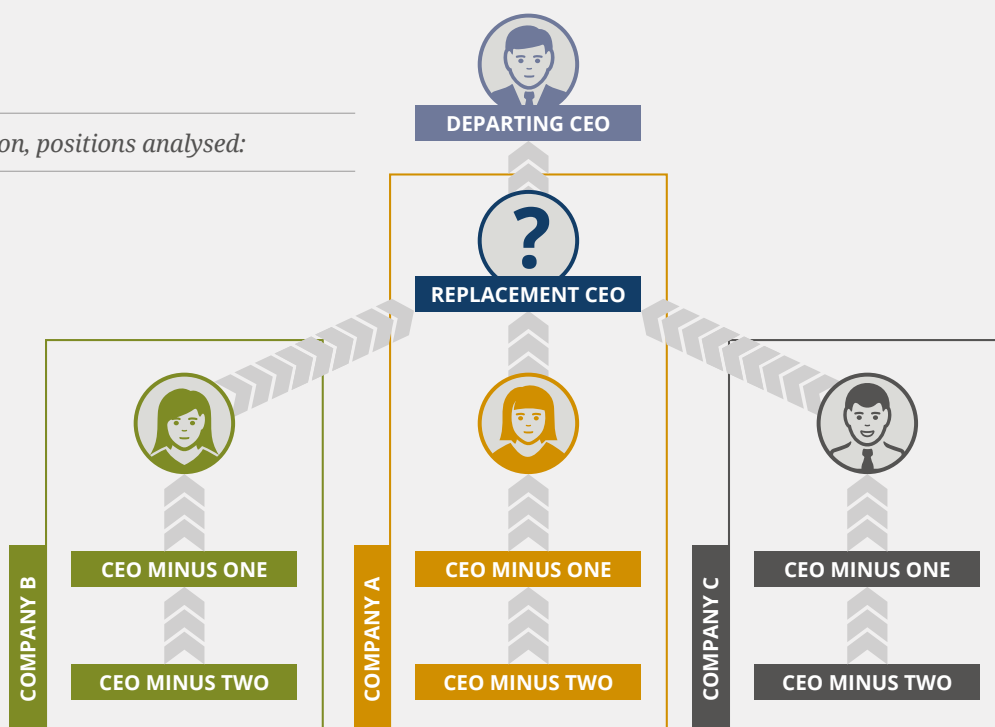
Armstrong Craven analysed twenty recent, high profile CEO changes across a variety of companies and examined the impact that the departure had in terms of executive moves prompted by the first departure. The results, and costs, to industry were profound.

The twenty changes analysed were:

COMPANY	OUTGOING CEO	COMPANY	OUTGOING CEO
Aggreko	Rupert Soames	Infosys	S. Shibulal
Anglo American	Cynthia Carroll	Kingfisher	Ian Cheshire
AstraZeneca	David Brennan	Microsoft	Steve Ballmer
Aviva	Andrew Moss	Mulberry	Bruno Guillon
Burberry	Angela Ahrendts	Oracle	Lawrence Ellison
Citigroup	Vikram Pandit	Royal Dutch Shell	Peter Voser
Countrywide	Grenville Turner	Tesco	Philip Clarke
De La Rue	Tim Cobbold	UPS	Scott Davis
General Motors	Daniel Akerson	Virgin Atlantic	Steve Ridgway
Hertz	Mark Frissora	Walmart	Michael Duke

We examined the chain of successors / replacements to four levels in each case as illustrated in Figure 5 below:

Figure 5 | CEO succession, positions analysed:



This paper does not address the subsequent changes to the executive team made by the replacement CEO. Other papers show when there is a new CEO there is a higher than average involuntary attrition rate in the executive team<sup>12</sup>. When the new CEO is external the involuntary attrition rises to 26%, almost four times the rate when the CEO did not change.

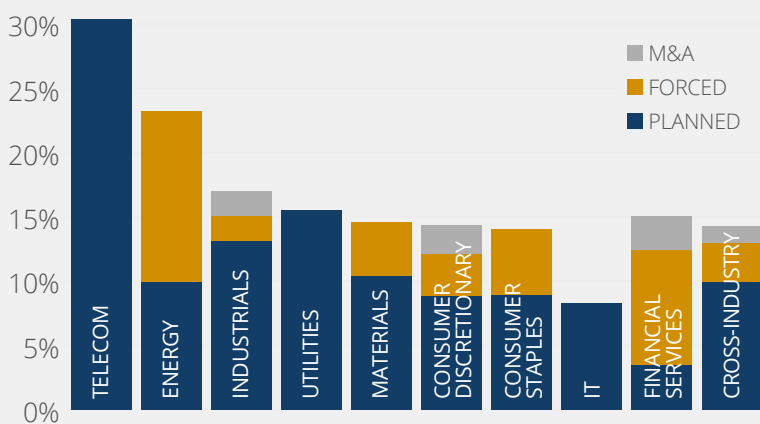
This paper highlights the changes brought about by the replacement of the CEO alone.

## 4.2 SUCCESSION

Studies of 14 years of data about CEO successions in the world's 2,500 largest public companies show that there has been a rise in 'planned' CEO succession (as opposed to unexpected events) in Western Europe, as illustrated in figure 6.

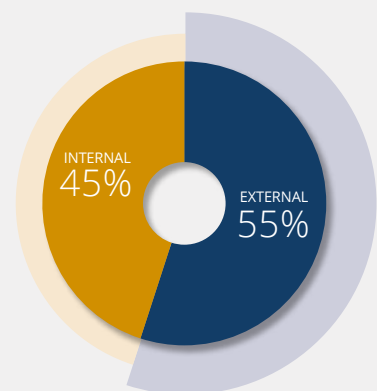
Given this rise, we anticipated that a high number of the moves we analysed would have triggered a succession planning process where the new CEO was internal. In fact, the reverse was true and the majority of replacement hires were external (figure 7).

**Figure 6** | The rise in planned CEO succession in Western Europe



Source: Study of CEOs, Governance, and Success, PwC Strategy& (2014)<sup>3</sup>

**Figure 7** | External hires vs internal succession replacement CEO's across the twenty high profile CEO changes analysed



Source: Armstrong Craven (2015)



Further exploration is needed to understand why the succession plans are not working. It may be that boards are deliberately bringing in external leadership talent to help them instigate change. Perhaps there is an automatic assumption that if competitors are doing well that it is down to the people – so the draw to the outside is strong.

We believe that a planned CEO departure lends itself to an internal succession plan; contrarily, when the departure is unplanned (CEO led, or a reaction to performance) a chain of events is started when the company reacts to the unplanned event and casts a different eye over their succession plan.

In the cold light of day, and without the support network of the incumbent, internal successors are less likely to succeed.

We have long advocated the need for companies to assess their leadership risk at multiple levels and against business critical roles. Much has been documented around CEO succession so we examined what happened to the roles that the successors vacated in order to become

CEO. This reflects where confidence in the succession pool lies.

In this instance, the majority (60%) of the replacement hires were internal. This demonstrates that companies are more willing to ‘try’ the internal successor in leadership roles that are not at the top. This, despite the fact that the latest Korn Ferry report into succession finds that 50% of respondents did not have a strong pipeline of ready now leaders<sup>14</sup>.

Next we examined the following replacement in the chain, CEO minus 1 where we found that 60% of replacements were internal.

At the next level down (CEO minus 2 replacements) however, only 40% of the replacements were known to have come from an internal pool.

This corroborates what we hear on a daily basis with companies: the leadership pool three to five years out looks strong. Where the gap remains is the next generation of senior, global leaders. Businesses have strong operational managers, what they are lacking is leaders of the future with a global mind-set.

Figure 8 | Source of the replacement CEO minus one

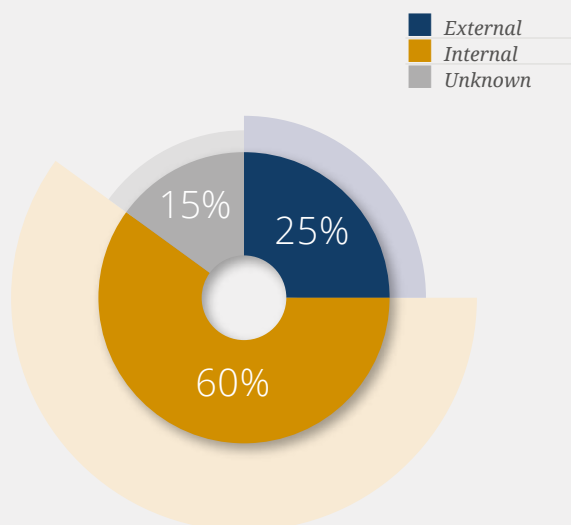
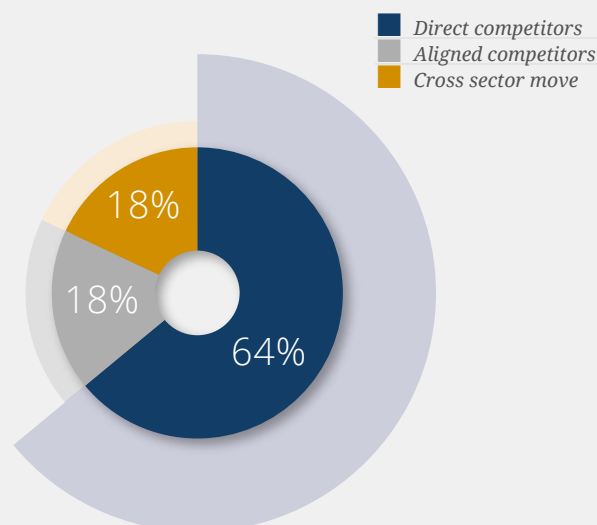


Figure 9 | Where do new CEOs come from?



Source: Armstrong Craven (2015)

### 4.3 INDUSTRY

Many of the challenges faced by organisations are shared by other sectors; similar processes, similar complexities. There are of course issues specifically applicable to some vertical markets, but business is business and people are people and no sector is an island. Cross sector talent provides an injection of the kinds of new ideas and fresh approaches; input that contributes essential differentiators in a fiercely competitive marketplace<sup>15</sup>.

It would appear however that when replacing a CEO from an external source, in the majority of cases (64%) companies hire from within the same industry, from their direct competitors, and 18% from closely aligned industries, as illustrated in figure 9. The value to be added in imported competitor knowledge is clearly a strong pull.

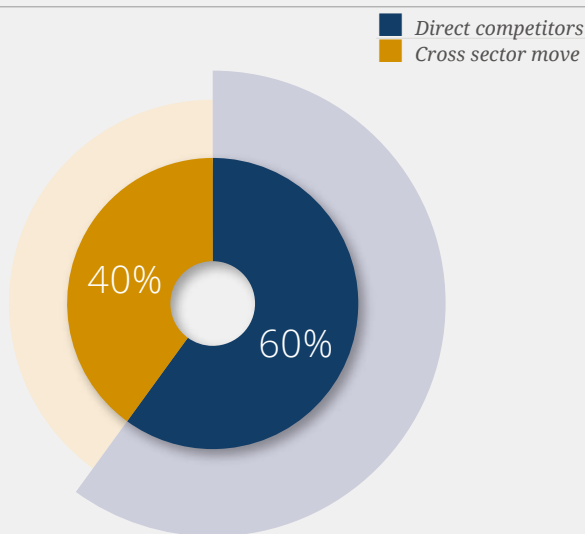
As illustrated in figure 10 companies are more likely to think cross sector at the executive team level. In the resulting chain of hires that occurred after CEO departures, analysis shows that 40% (as opposed to the 18% in the higher level) have come from

different industries. At this level there is less focus on the personal network that can be brought from within industry.

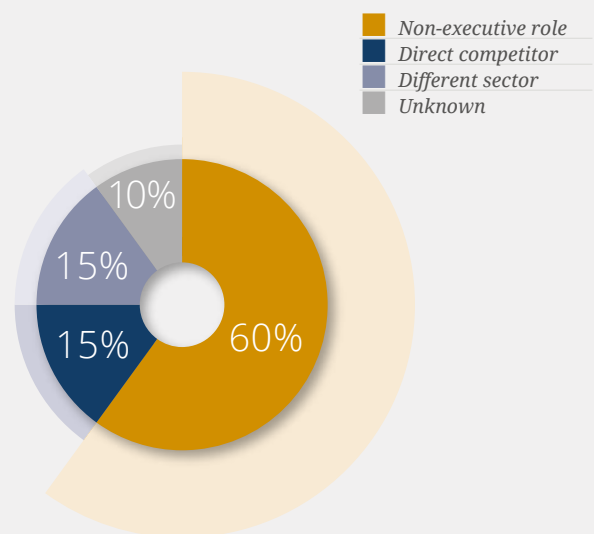
Of the departing CEO's, 60% went to non-executive roles and 30% to CEO roles in other companies. Of those who remained in full time CEO roles, 50% were in the same sector as illustrated in figure 11.

This data implies that companies are still reticent to make significant change at the top, despite a changing commercial environment. So whilst we have a declining CEO tenure, which may be a good thing as new skills are required, there remains a lack of out-of-sector skills being brought in at CEO level. If we need diversity at the top to drive change and react to the increasingly competitive environment, then diversity should address the backgrounds, leadership capabilities and industry experience that is really needed to drive success from the CEO.

**Figure 10 | Where do replacement CEO hires minus one come from?**



**Figure 11 | Departing CEOs – where do they go?**



Source: Armstrong Craven (2015)



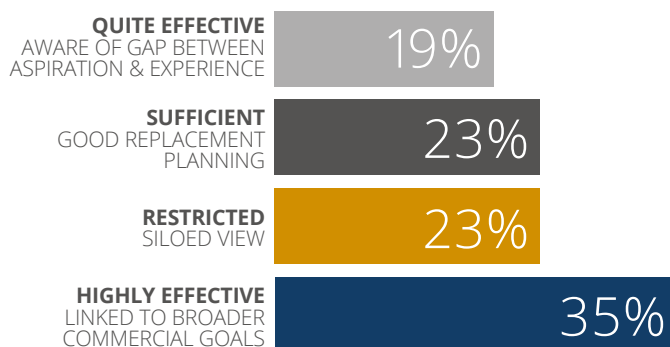
### 4.4 BENCH STRENGTH

Of the twenty departures analysed, only 15% of those examined filled all three subsequent moves internally. Walmart, General Motors & Citigroup were the only three in a position to do so. Clearly this is a reflection of the state of bench strength in today’s big companies.

Our experience tells us that most companies have high performers in several succession boxes and removing the duplicates reduces bench coverage to 25% at the senior level. Additionally, we know that firms are implementing a very basic succession planning strategy, which many believe is insufficient in building the bench strength they need for the future, as shown in figure 12. In fact our research found that 0% of the companies surveyed applied the future view to their succession strategy.

According to the DDI, only 15% of HR professionals feel they have strong enough bench strength to meet their future business needs<sup>17</sup>. In fact, 25% of HR professionals felt their bench strength was ‘weak’ or ‘very weak’.

Figure 12 | How effective is your succession strategy at building bench strength?



Source: The HRD’s Role in Managing Leadership Risk, Armstrong Craven (2015)<sup>16</sup>

OF THE TWENTY DEPARTURES ANALYSED, ONLY 15% OF THOSE EXAMINED FILLED ALL THREE SUBSEQUENT ROLES INTERNALLY.

# 05

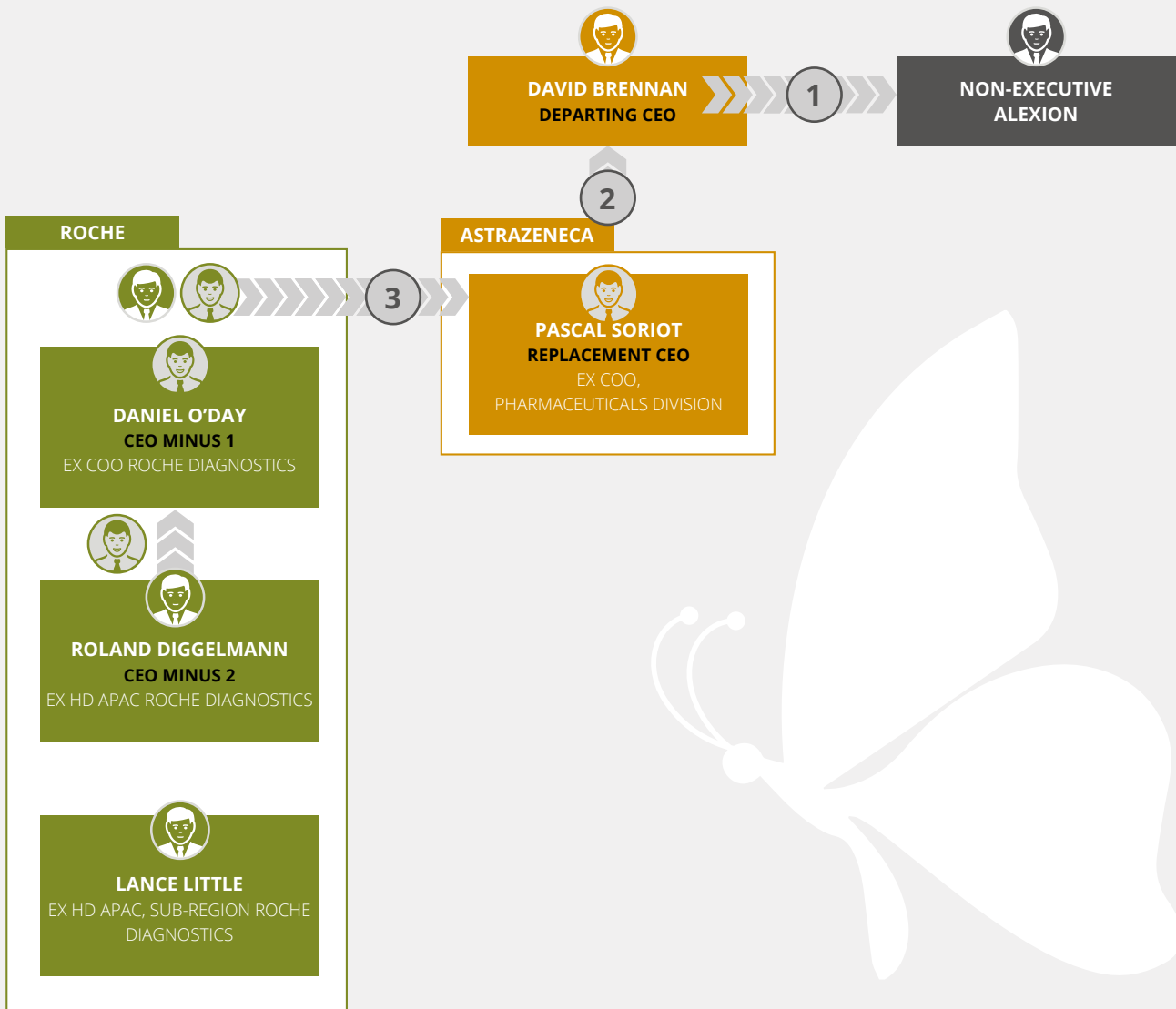
## THE BUTTERFLY EFFECT

To illustrate the butterfly effect and its impact on competitors and the wider industry, we describe below three of the scenarios in detail:

### 5.1 THE IMPACT ON A DIRECT COMPETITOR – ASTRAZENECA

David Brennan of AstraZeneca moved on to a non-executive role. This one move led to a direct competitor, Roche, having to make four internal changes. The most senior moves are shown in Figure 13.

Figure 13 | The butterfly effect when David Brennan left AstraZeneca

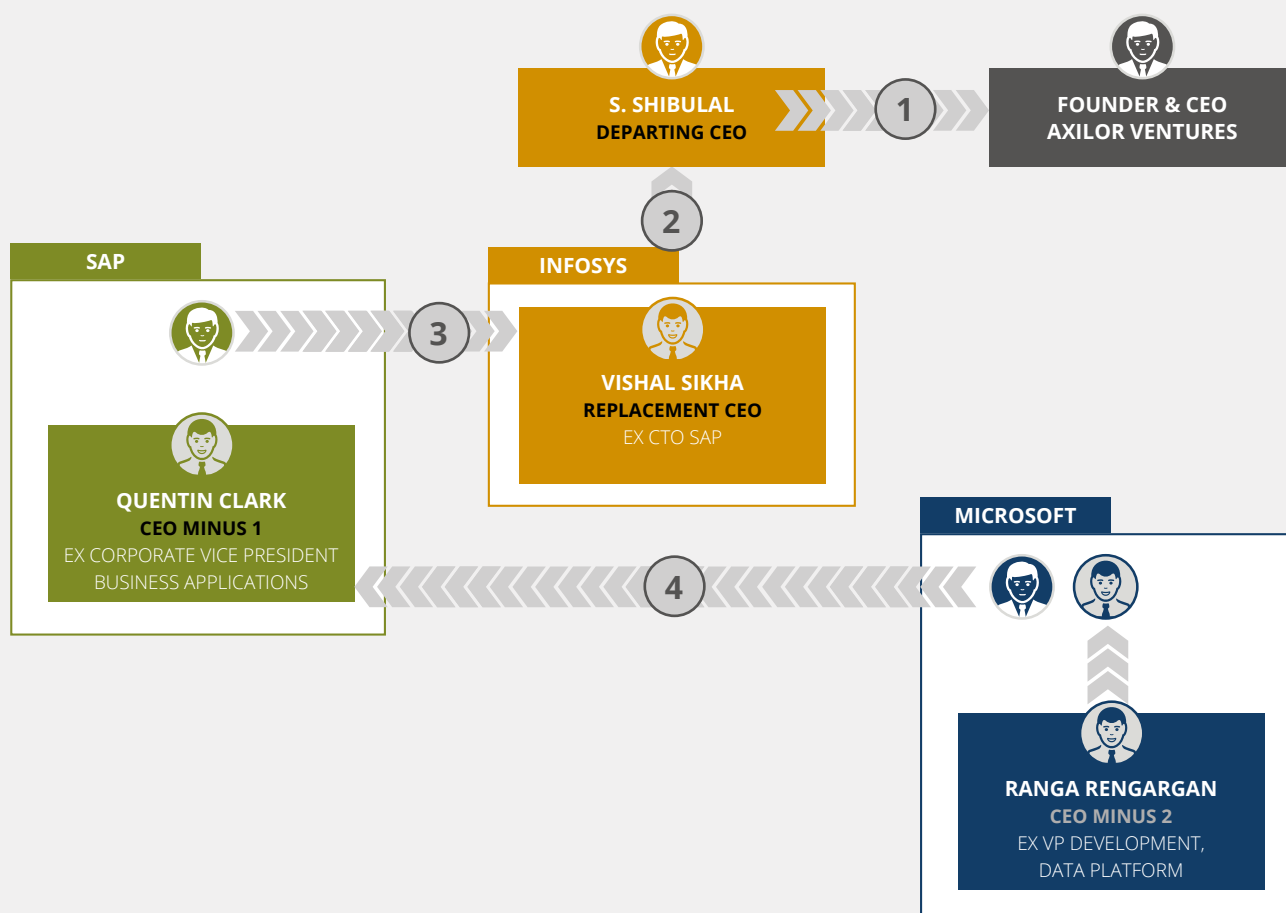




## 5.2 THE IMPACT ON TWO DIRECT COMPETITORS – INFOSYS

S. Shibulal of Infosys moved to a non-executive role. This move led to two competitors making changes – one made an external hire and one made two internal moves.

Figure 14 | The butterfly effect when S Shibulal left Infosys.

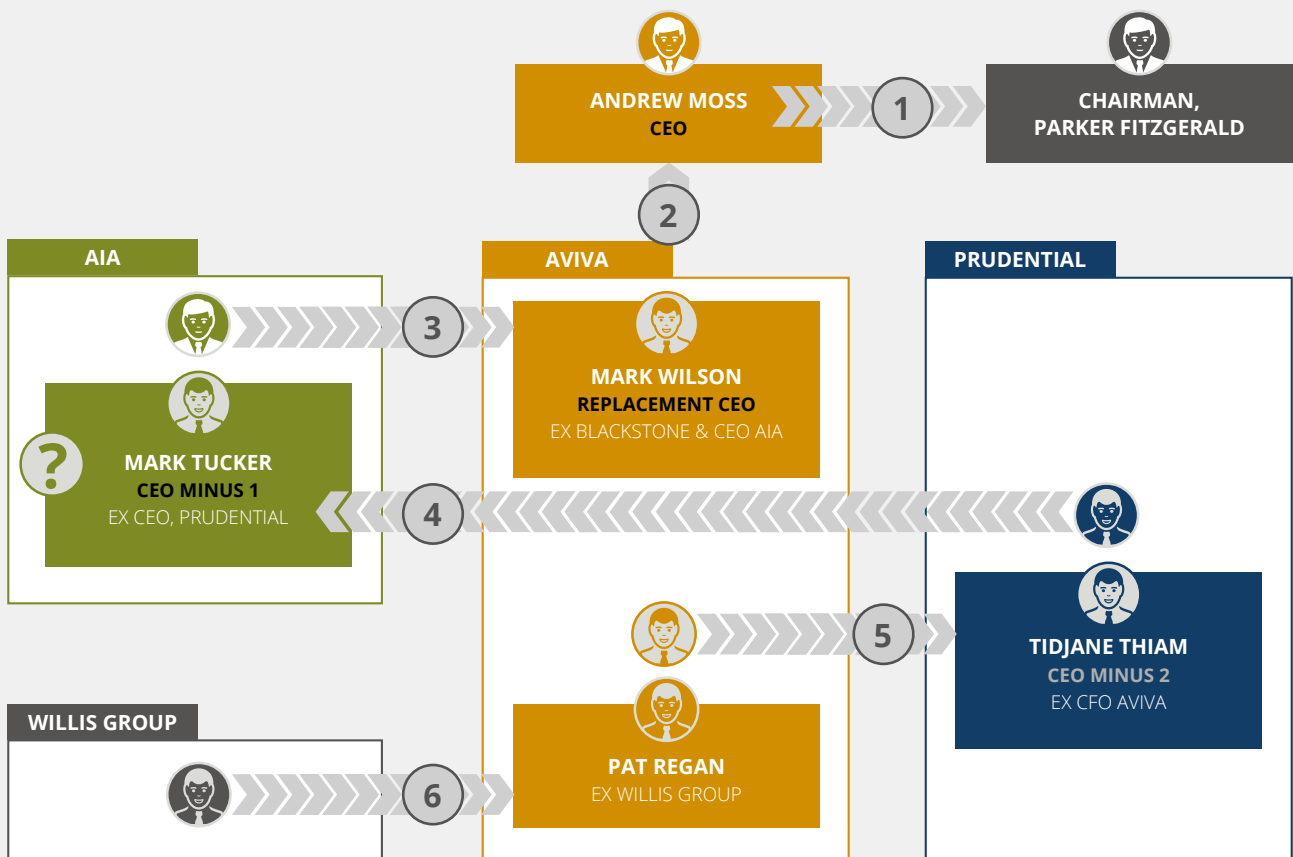




### 5.3 THE IMPACT ON MULTIPLE COMPETITORS IN AN INDUSTRY - AVIVA

Andrew Moss of Aviva moved to a non-executive role. This one move led to four competitors making changes. Just two years after the last of these hires, two of them are now leaving to go to different competitors. So the butterfly effect can be seen to continue over the course of time.

Figure 15 | The butterfly effect when Andrew Moss left Aviva





FROM JUST THESE THREE SCENARIOS WE CAN CLEARLY SEE THAT THE BUTTERFLY EFFECT EXISTS.

From just these three scenarios we can clearly see that the butterfly effect exists. The impact of just one leadership change has a far reaching impact on an industry. As detailed below, if we look further than the four leadership roles alone we can see that the broader industry impact becomes greater:



**APRIL:** David Brennan, CEO, retires under pressure from investors

**MAY:** October: Simon Lowth, incumbent CFO, appointed interim CEO. To resume old role in October

**MAY – OCTOBER:** Julie Brown, VP Group Finance, appointed interim CFO, would step back down and depart in October

**AUGUST – OCTOBER:** Roche's COO of Pharma, Pasac Soriot, announced as Brennan's successor (to start in October)



**SEPTEMBER:** Liz Doherty, CFO, announces upcoming departure

**OCTOBER:** Adrian Hennah announced as Doherty's successor



**SEPTEMBER:** Adrian Hennah announces departure from CFO role

**NOVEMBER:** Julie Brown appointed as Hennah's successor following October departure from Astra Zeneca



**AUGUST:** Pascal Soriot, COO of Pharma, announces departure from Roche AG

**SEPTEMBER:** Daniel O'Day, former COO of Diagnostics, named COO of Pharma

**OCTOBER:** Roland Diggelmann, former head of APAC Diagnostics, announced as O'Day's successor



If we take into account the measured impact a change of CEO has on performance and EBITA then the industry impact is in reality far and wide.

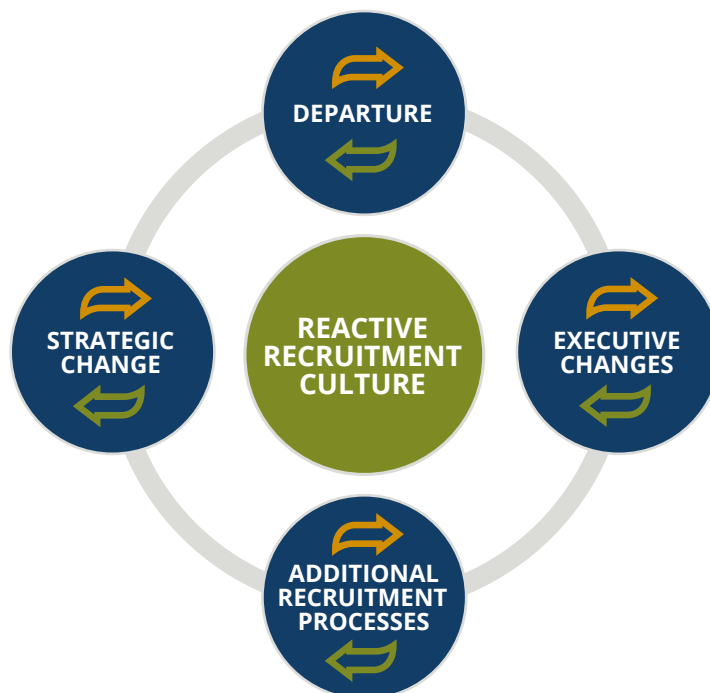
What is clear is that the butterfly effect is triggered as a reaction to an event, and only 15% of the companies we looked at were able to proactively deal with the event with internal promotions.

The one event starts a chain reaction of events that leads to a reactive recruitment culture. Waiting for people to leave, then being bombarded with the immense processes and the high cost of recruiting, has become a staple form of recruitment for many organisations. Although the norm, reacting in this way is not the most efficient way of identifying the best talent, or enhancing staff retention and performance. UK talent acquisition costs have risen despite the rise of in-house teams.

## 5.4 THE REACTIVE RECRUITMENT CULTURE

As figure 16 below illustrates the reactive recruitment cycle is not just linked to the departure of one person. Whilst a new CEO will lead to changes in the executive team (which leads to subsequent changes in their teams and so on), the effect is then fuelled by changes in strategic direction by new members of the leadership team, which fuels more recruitment challenges.

*Figure 16 | The reactive recruitment culture*





### 5.5 THE COST TO INDUSTRY

When an organisation is reacting to a CEO departure the succession planning process is brought to the fore. In many circumstances, one of that organisation’s search partners will be engaged to help them identify leadership talent so that the company can gain a view of what good looks like at that moment in time.

Even when an internal pool of successors exists, a lack of benchmarking this talent in a rigorous way as part of the succession process, means that a search firm is engaged to provide a view of the external market at that time. Providing a critical point of need service (part of the reactive recruitment culture), search fees at this level are typically in excess of 30% base salary + 50% of package.

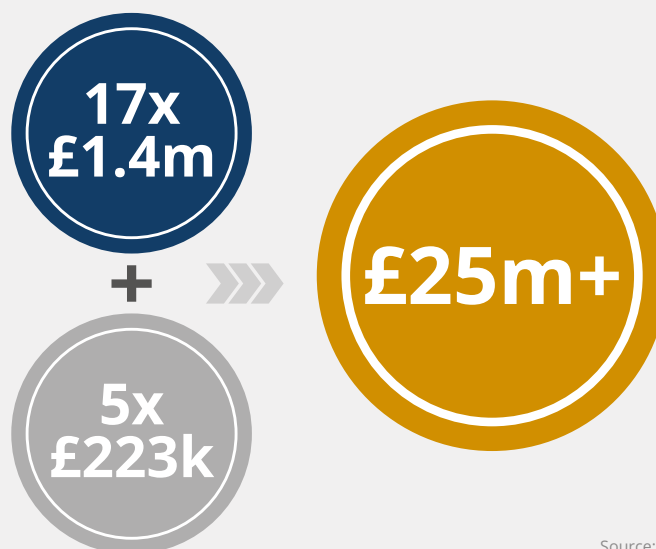
The average base salary of a FTSE100 chief executive is £4.3m, the total package £11m. Since package can be made up of multiple elements, we have, for the purpose of this

paper, estimated the cost based on the base salary alone. The typical search fee to identify a replacement CEO is £1.4m.

The average base salary of FTSE100 executive member is £679,000. Using the same calculation as above the search fee therefore is £223,000.

As a direct result of the CEO departures we analysed there were seventeen external moves at chief executive level and five at executive level. Therefore, using the figures above, spend on search fees, or recruitment cost to industry, is upwards of £25m; all a reaction to an event that triggers the butterfly effect. This figure only takes into account recruitment costs, and does not include other extensive costs such as the price of higher attrition, negative impact on shareholder investment and return, or impact on productivity during the transition. This in turn is emphasised by the reactive recruitment culture.

Figure 17 | The cost to industry in search fees of twenty CEO departures and their immediate replacements, 2014



Source: Armstrong Craven (2015)

People are a risk. There remains a broken link between understanding the human capital asset of a company and the performance of that company.

Our last paper, 'Risk Committees and Leadership Risk Management'<sup>18</sup> questioned the understanding of the implication of people risk at board level in the majority of companies and questioned the impact this has on understanding how well the risk mitigation strategies are implemented and monitored.

To corroborate this, this paper demonstrates that from just twenty moves at the top, the butterfly effect creates an ongoing impact on the industry, from a cost and time perspective. Businesses are still reacting to an 'event', and not mitigating against the risk of that event happening.

Interestingly this paper only analyses the butterfly effect of a CEO replacement. According to PwC, CEOs are particularly anxious about the shortage of key skills<sup>19</sup>. These are perennial fears, but current events have brought them to the fore. The competition for talent has become fiercer than ever before, with the ageing of the global population and the changing nature of work. Further pressure on the war for

talent will only worsen the butterfly effect – the same chain reaction occurs after most attrition from a business as we continue to operate in a reactive recruitment culture. As the economic growth and outlook improves it is predicted that the war for talent will worsen. Indeed the Hay Group have published a report (in association with the Centre for Economics and Business Research) which predicts a talent exodus from the UK<sup>20</sup>.

Key findings from the Hay Group report suggest that employee attrition will rise sharply in 2015, they predict this will result in 765,000 more departures than in 2012. The number of workers taking flight in the UK is expected to rise sharply in 2015 as confidence revives, reaching 4.3 million. This trend is set to continue. Attrition rates over the next five years are predicted to rise from 14.6% to 18%, and the number of departures in 2018 will stand at almost 4.7 million, representing over one million more departures compared to 2014.

As a result, we predict that UK talent shortages will be amongst the highest levels in Europe. The impact on industry can be managed in two ways – retention of talent, and attraction of new talent. All of which fuels the reactive recruitment culture further.

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**BUSINESSES ARE STILL REACTING TO AN EVENT AND NOT MITIGATING AGAINST THE RISK OF THAT EVENT HAPPENING.**

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# 07

## CHANGING THE CULTURE

From crisis management to proactive resilience. Confronted with a changing landscape, companies should recognise that traditional techniques aren't enough; a proactive approach is critical to manage the risks (such as the butterfly effect) outside the company's control. From CEO succession to strategic decisions – people must now be at the centre of decision making.

It is time to move to a proactive and collective approach to breaking the reactive recruitment culture.

At a high level our recommendations include:

- Ensuring that CEO succession has one clear 'owner' to ensure maximum effectiveness and proactively assess internal and external pools. Make that owner visible, accountable and give them a seat at the table.
- Manage talent risk proactively and collectively. Build internal and external pipelines of talent against the future needs of the business in terms of numbers, geographies and skills.
- Supplement the long term strategic goals with people intelligence and insight to make better informed decisions based on people and talent.

The key to best practice will be to break the reactive approach to people and talent. What the reactive culture demonstrates is that one change at the top sparks a chain reaction of events throughout the organisation and its competitors. Therefore best practice will address each of the weak points in that culture.

### 7.1 THE CEO AND EXECUTIVE TEAM

Succession planning that includes an external view saves time, money, provides a benchmark, and manages risk for the future and is fundamental to future business success. Leadership risk management is not however about who will succeed in each senior role, it goes a step further. It is about foresight; understanding where the business is going and the impact this has on the skills the leadership team needs as a whole.

Businesses actively managing their leadership risk are prepared for whatever the future will throw at them and are more able to thrive in unexpected circumstances. By engaging with leaders who will be running the business in the future, a holistic view of leadership becomes a reality.

Be clear about the leadership skills required to deliver competitive advantage now, and in the future. Communicate these across the business and build external succession pools to supplement the internal development programmes. Creating only an internal succession pool is no longer best practice leadership risk management.

The CEO and CHRO should be given full responsibility for Board and C-suite leadership risk management. Both require insightful intelligence and meaningful interaction with the external market. In doing so, they will build an understanding not only of competencies and skills, but also of social interaction, emotional intelligence and motivation of external talent; giving them the real people insight not available through a traditional recruitment methodology. Make sure you know what good looks like externally.

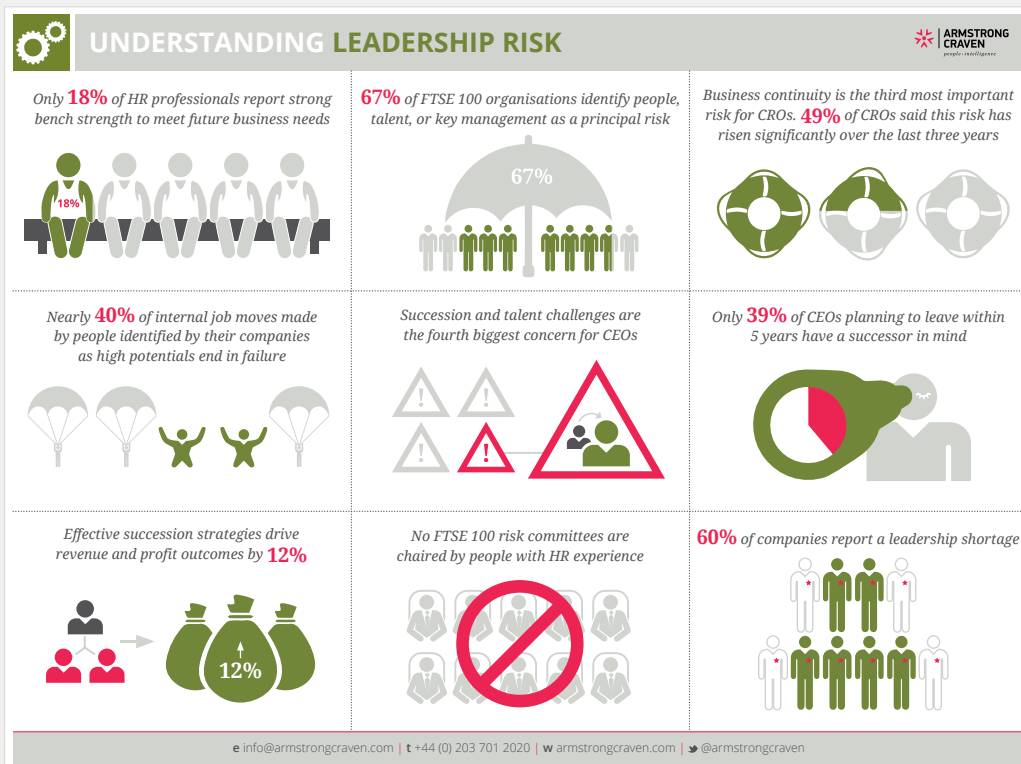
Think external. As our relationship with work changes, accept that there will be a revolving door to the leadership team. There has consistently been a higher level of external hires to the executive boards of FTSE100 (rather than internal promotion) for years.

As businesses seek to transform and identify new markets, the prevalence of outsider C-suite hires will become greater and thus the external view should become part of risk mitigation. Interaction with external performers brings a new perspective to the table, allows boards to see their teams as a whole and opens up the opportunity to manage leadership team risk, and not only replacement of roles.

By interacting with external leaders, CEO's will often identify individuals who don't 'fit' the specification but who can help transform the organisation. These individuals would not be near the CEO or CHRO through traditional methods. They are passive, and even if they did interact with a search firm, since they don't meet a spec they wouldn't even make it to a shortlist. These individuals are the hidden talent who, as part of a leadership team, can help the company manage their leadership risk and ultimately, build and deliver competitive advantage.

This approach reduces the reliance on a search partner at point of need and moves from a reactive approach to proactive management.

Figure 18 | Leadership risk illustrated



Source: Risk Committees and Leadership Risk Management, Armstrong Craven (2015)



## 7.2 THE EXTERNAL TALENT POOL

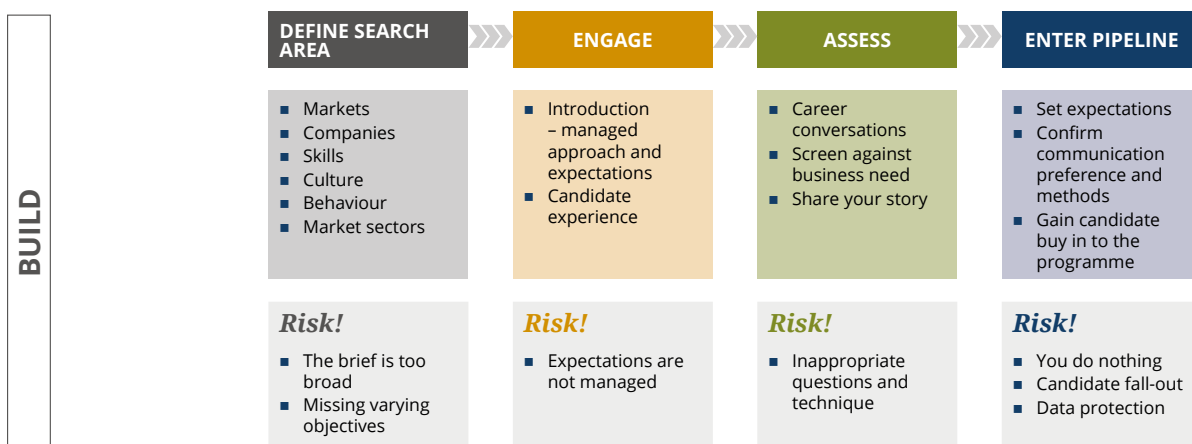
Build pipelines of talent for the future. Pipelining is about foresight; understanding the people implications of your broader business plans and building resilience to thrive in unexpected circumstances of the butterfly effect.

Don't focus on name identification and market mapping, build real relationships with people in the external market,

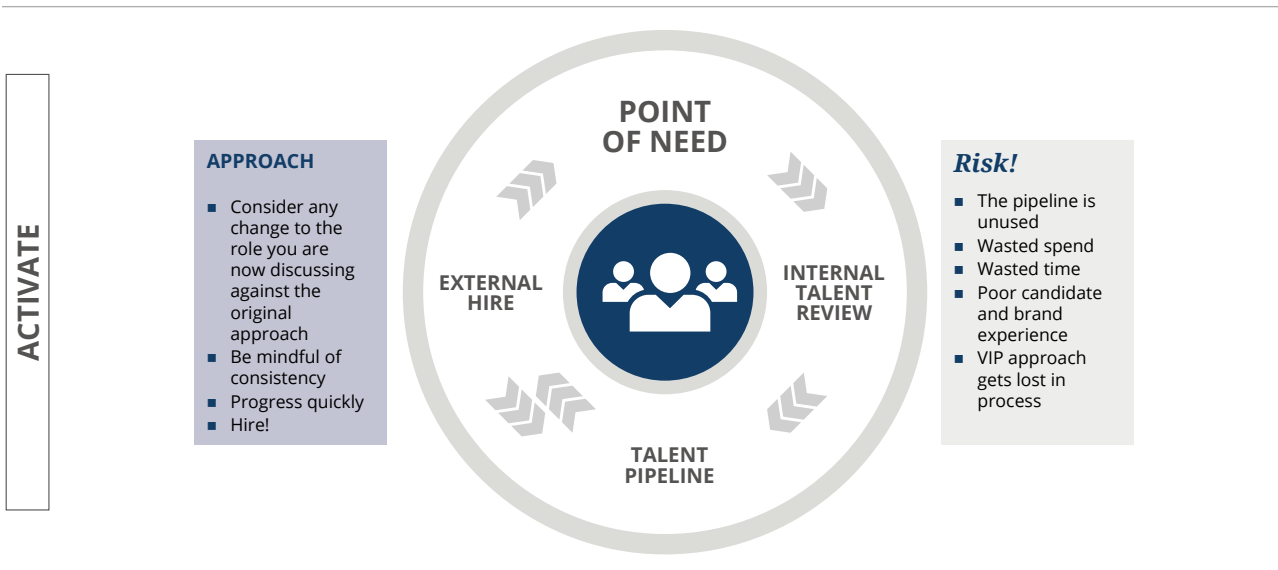
understand their aspirations and motivations and how the business is perceived. By managing and shaping perceptions, it is possible to build resilience to the butterfly effect.

Talent pipelining is about moving from a recruitment fee to a talent investment. It is defined as "A population of proactively-generated, assessed and engaged individuals that meet your current and future hiring requirements according to business strategy." Figure 19 illustrates a pipeline in action.

Figure 19 | Create a lifecycle of talent (not a reaction to an event)







### 7.3 ORGANISATIONAL DEVELOPMENT AND DESIGN

Whether it be growth through a new market, product or territory, or a need to increase diversity, businesses should have due diligence and intelligence at their fingertips to make informed decisions.

The use of wider strategic consultancies to support strategic growth or change is well known, the use of insight into a market from a people perspective is less well known. By approaching strategic decisions from a people perspective and gathering intelligence from the marketplace to support that decision, companies can make informed decisions.

This level of understanding helps to set a business apart from its competitors and gives insight that can be used to support the business through the impact of the butterfly effect.

Supporting quantitative data with qualitative data brings data to light and gives real-time critical people intelligence. This insight, from a people and talent perspective, can add real value to the decision making process. Our experience shows that this sort of approach to support organisational design can include:

- **Location of functions:** Understanding the market from a people perspective helped one global investment bank determine the best location for its procurement function. The relocation saved the business hundreds of thousands of pounds and ensured an informed decision.
- **Best practice structure:** The ability to learn from competitors' strengths and weaknesses can sharpen the ability to gain competitive advantage. For example, the role that digital plays in an organisation (who owns the strategy, who communicates it and how it is rolled out across a business, what worked and what didn't work) all are key learning points.
- **New markets** By identifying whether or not a new geography has the necessary skills before the decision to enter the market, a business can identify not only the best organisational structure to support the new geography, but also gain an insight into the likely costs.

So when a change at the top alters strategic direction, organisations can support any proposed changes with real data as an integral part of the decision making process.



## 08 SUMMARY

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There is much evidence to support the impact that a change of CEO has on the financial performance of a business. Some evidence is emerging of the impact that a change has on employee engagement and how this links to the performance of the business. To our knowledge, this is the only paper that has started to analyse the residual chain of events that happen in the wider industry.

We know that CEO tenure is decreasing. We also know that 65% of CEO's are planning to leave in the next five years and 61% have no likely successor in mind. Succession practice generally is poor, and recognised as such amongst the HR population. Combining all of these elements we can therefore only assume that there will continue to be a significant number of unplanned CEO transitions.

Further work needs to be done to explore the internal chain of events that is sparked by a change at the top. The impact this has, financially through search fees, and through lost time is becoming clearer as a result of this paper, but is still broadly unknown.

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The impact of a CEO change:

- Triggering of the butterfly effect
- Negative effect on shareholder investment
- Negative effect on shareholder return
- Increased executive attrition
- Changing employee engagement
- Significant cost to industry and to direct competitors

What is clear is that the risks associated with talent are only going to get more severe as the economy grows. What is clear is that businesses still operate in a reactive recruitment culture, at huge cost to industry. Only by breaking the reactive culture of recruitment will businesses be able to reduce this impact.

So what should be being asked at the boardroom table?

*“How do we build resilience to an unexpected event? How do we make informed strategic decisions using people intelligence to help drive the strategy? How do we build talent for the future?”*



09

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# 10

## ABOUT ARMSTRONG CRAVEN

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To unlock real business potential, the answer lies with your people. Intelligent people improve performance by creating an intelligent business. Your data, forecasts and projections are based on the past, but your future business relies on your future people. Do you know where they are?

At Armstrong Craven we use people intelligence to give you a future business view. Your business success isn't about yesterday, it's about what you do today to secure the people you'll need tomorrow. So Armstrong Craven digs deeper, travels further, looks longer, thinks harder – about what people want.

We provide insight, search, pipelining and leadership risk intelligence services to business leaders all over the world. We help organisations to better understand the markets they operate within and the markets they hope to enter. And we provide the people they need to make it work. Today, tomorrow and beyond.

We see what others don't look for, we listen to what others can't hear, we talk about things others don't think to say. We illuminate. It's a different perspective. It's Armstrong Craven's People Intelligence.

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