



Can They Make

the Leap?

What It Takes to Get
to — and Succeed in
— the Most Senior
Functional Roles

What combination of leadership and technical capabilities, experience and aptitudes defines the highest-performing C-suite leaders? It's a question that CEOs wrestle with as they build their teams and think about the succession of top-team roles, and one that aspiring leaders consider when thinking about their careers.

One thing is certain: the demands on the top functional leaders continue to grow. With businesses operating in an environment of sustained uncertainty, intense competition, an increased regulatory overlay, and heightened expectations from employees, investors and other stakeholders, CEOs rely on top-team leaders to navigate unprecedented market complexity, risk and the rapid pace of change. Increasingly, achieving the strategic objectives of the business requires that functional and business leaders collaborate in new ways to plan and execute key initiatives and remove barriers to change. Senior functional leaders today also are more likely to engage with the board of directors, having to anticipate directors' concerns and perspectives on strategic issues.

These leaders can have a profound impact on the business. Those who excel are able to articulate a sound strategy and put in place the team, structure and processes necessary to actualize plans and achieve key objectives. Less effective leaders might get just part of the equation right, for example, helping to define the right strategy but failing to bring it to life for the organization, or they may be skilled at execution but unable to define a new strategy.

Selecting the right functional leaders today and ensuring that the organization is developing the next generation is all the more challenging for one important reason: The nature and scope of top functional roles — whether in finance, marketing, human resources, information technology, legal or supply chain — are markedly different than the roles reporting to these leaders.

The critical consideration when assessing next-generation functional leaders, then, is, “Can they make the leap?”

Making an impact: What we know about high-performing C-suite leaders

The ability to assess whether executives can make the leap to senior leadership roles is critical to the health of the business: Making the right leadership choices matters, especially at the most senior levels. Consider a couple of real-life examples:

Based on experience alone, the executive selected as the new chief human resources officer (CHRO) of a \$50 billion technology company may not have seemed to be an obvious choice. She had not been a CHRO before, even at a smaller company, so therefore had not had much previous exposure to the board or the full breadth of HR issues. Nevertheless, she understood the culture, knew the business and was well-respected in the organization. In her assessment, she displayed exceptional ability in conceptual thinking and in reading complex organizational and people dynamics; she understood individuals' underlying agendas and could see the political dynamics at play in a situation. She leveraged these skills to help build alignment around key issues and kept everyone working effectively together. Colleagues would go to her for advice because she had something valuable to say. Having quickly earned respect and credibility with the board, CEO and management team, she had a big early impact on the business, especially on CEO succession planning — a place where CHROs can make a big difference in the organization or be sidelined when they lack influence with the board and CEO.

Conversely, having the right expertise on paper is no guarantee that an executive will have an impact on the business. A new chief information officer (CIO) hired to lead the digital transformation for a large industrial business had previous experience as a CIO and exceptional strategic thinking skills. He had the experience, knowledge and capabilities to do the job. And while he could inspire colleagues with his vision for the business, he lacked the ability to effectively influence and collaborate with other executives. Colleagues felt that he talked down to them and signaled that he was smarter than everyone else. The execution of the strategy failed under him because he couldn't build support for transformation initiatives. For the transformation to be successful, the company needed someone able to translate the vision for different roles and business units and have the patience to bring people along.

Why are some executives able to have such a positive impact on an organization, while others cannot? The specific business context, how well the individual fits the requirements of the role and the organizational culture, and the clarity of the objectives for the role all contribute to an individual's success. But we have found that the C-level leaders who are most able to make a difference in their organizations have well-developed leadership capabilities and the ability to adapt and grow with the job and the business.

Our research has identified the critical leadership capabilities that have the greatest influence on executive performance. For top functional leaders, three capabilities tend to be most important:

- > **Collaborating and influencing** — identifying and building relationships with stakeholders and facilitating dialogue to forge consensus and collectively achieve objectives
- > **Leading people** — managing, empowering and leading people, delegating roles and projects
- > **Building capability** — gaining an understanding of individuals' capabilities and systematically developing people

In a matrixed business, for example, the ability to collaborate and influence the CEO and other management team leaders is a difference maker. It is far more difficult to influence and collaborate with executives outside of one's own functional domain who don't share the same language or perspective on the business. Executives who excel in this area have a strong understanding of the drivers of the business and find ways to engage and build partnerships with their colleagues. These executives also are most likely to end up in the CEO's inner cabinet; they become a counselor to the CEO and have a disproportionate impact on the senior team, the strategy and the broader organization.

Senior functional leaders who lack the ability to collaborate and influence risk becoming pigeonholed — the human resources leader who is stuck as the “people” person, the CIO as the “technology” person, the GC as the naysayer or the CFO who is regarded as the “accountant.” Indeed, interviews with companies revealed that a primary reason for the failure of a new executive in the first 12 to 18 months is the inability to influence and collaborate across functions and business units.

Similarly, a strong capability in building teams is a cornerstone for success in top functional leadership roles. Among senior leaders who were highly successful in their first 18 months, the ability to build and empower highly capable teams was a primary reason.

These executives place the right people in the right roles, making tough decisions when necessary. They pay attention to culture, individual roles and responsibilities, and identify the skill gaps

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and opportunities for improvement. They are able to create a team of highly talented people who work together and are more than the sum of their parts. This is important because many first-time functional leaders do not have previous experience managing large, multi-layered teams.

Succession planning: The capability gap

Despite the importance of these executive capabilities, hundreds of assessments of chief functional leaders and their direct reports reveal a wide capability gap between them. Direct reports of the top functional executives score significantly lower on the six core capabilities critical to success than the functional lead-

ers themselves, the equivalent to three to four years of development. Promoting someone into a senior functional leadership role before they are ready creates a sort of “value gap,” where the person is not able to have the full impact within their functional purview — or

more broadly. This can happen because they are less skilled at influencing, lack knowledge about the drivers of the business or other functional areas, haven't been exposed to enough of the business, or fail to build and empower a strong team. Without the domain expertise and experience in the role, they may lack the confidence to engage in debate about the critical issues facing the business, limiting their ability to be a true adviser to the CEO and management team.

How can organizations get functional leaders the development time they need, short of placing them in the role? It's a fundamental challenge for companies, and one that can be difficult to solve. In many functions, the roles under the top leader are often highly specialized, making it more difficult to move within the function to gain experience. Many functional roles do not involve managing large teams of people or require much collaboration, so executives are not assessed on these capabilities as they move up in the organization.

Still, job rotation, P&L experience, exposure to other functional areas and business units do help prepare leaders for larger and more complex roles. When looking at business unit executives, who tend to have early P&L responsibility and broader exposure to the functions even at a regional level, we see a smaller capability gap between the top leader and his or her direct reports than the gap between functional leaders and their direct reports. These experiences develop leadership capabilities, building knowledge of the business and how different functions affect the business. The organizations that are most adept at developing succession-ready functional leaders identify high potentials early, so they have the most options for moving people around. When direct P&L experience is difficult to provide, it can be helpful to rotate high potential executives in functional roles within a business unit.

Closing the gap: What does it take?

Demonstrated capabilities represent just part of the story when it comes to assessing executives for top functional roles. Knowledge and capabilities are not enough to predict how a senior leader might do in the most senior-level roles, which are more complex and ambiguous. As executives move higher in the organization, past knowledge and relationships become less effective tools for accomplishing business objectives and navigating the challenges they will encounter. The context changes, and executives must make sense of a much wider set of issues with less concrete information, and then conceptualize a clear plan, inspiring, engaging and motivating a large organization to act. Furthermore, no succession candidate is 100 percent ready for a senior functional leadership role, regardless of his or her preparation. There will be gaps in experience and knowledge.

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For these reasons, it is important to understand an individual's ability to stretch beyond his or her current capabilities to continue to grow and change with the job and the company. We call this Executive Intelligence.

Executive Intelligence assessments measure five key dimensions: business intelligence, contextual intelligence, interpersonal intelligence, learning intelligence and conceptual intelligence. Executives with strong business intelligence are able to apply analytical judgment in complex and ambiguous situations. An executive with a high degree of contextual intelligence is able to consider issues from an organizational or social perspective, while someone with highly developed interpersonal intelligence has the ability to read and respond to others' emotional states so they can have constructive interactions. Conceptual intelligence enables leaders to produce big-picture insights from complex and disparate information. Finally, a high degree of learning intelligence allows individuals to change how they think and act in light of new information.

Executives with high Executive Intelligence scores have far more room to grow. Over time, they will bypass others who don't score as well. High ExI scores also correlate with faster executive promotions. An analysis of more than 700 CEOs, managing directors, COOs and CFOs globally found that executives with high ExI scores were promoted 22 percent faster than executives with low ExI scores. In other words, these executives were promoted one year earlier on average than those with lower scores.

Furthermore, new functional leaders with high ExI scores also are likely to be more effective advisers to the CEO and management team early in their tenure, before they have had the time to develop the knowledge base and domain expertise for their roles. These executives approach issues with clear structured thinking and are able to communicate succinctly and effectively, making them a strong partner in the debate and discussion of critical business issues.

Conclusion

Selecting the right leaders for senior functional roles is challenging because the nature and scope of these positions are markedly different than the roles reporting to them. By recognizing the capability gap, organizations can take concrete measures to build the skills of functional leaders to better prepare them for the most senior roles. But no new leader will be completely ready for all the demands of a top management position, so it is important to understand their potential to grow with the position and provide support for new leaders in the form of a strong team or an external coach.

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