

# AGENDA

## Companies Face Crisis Over Talent in Executive Suites

Article published on May 27, 2008

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Companies are having trouble in the search to find future leaders, according to a recent survey. Two of the biggest reasons are that they're slow to add women and minorities as senior executives and chairmen, and their succession plans for senior-level positions are stalled.

"The executive suites of global organizations are in trouble," says Tom Fuller, whose company, Epsen Fuller/IMD International Search Group, conducted the survey.

The global study was conducted in March with the heads of human resources at nearly 400 companies. The firms ranged in size from mid-capitalization to Fortune 50.

Not surprisingly, the vast majority of respondents said the talent shortage has worsened and will only become more severe.

In just three years, the first of 80 million baby boomers will hit retirement age. Yet there are only 40 million people in Generation Y to replace them.

"They all recognize that including candidates of all genders and races can ease the talent crunch. But very few do more than pay lip service to diversity at the senior ranks," Fuller explains.

For example, the study found that only 20% of C-suite executives are female.

In fact, half of the companies didn't have any female chairpersons, CEOs or officers on their executive operating teams.

Diversity represents a solution to the shrinking ranks of leaders because women, ethnic minorities and other nationalities still make up a largely untapped talent pool.

Of course, those groups have been underdeveloped as well.

Cynthia Cohen, a director at Bebe Stores, Steiner Leisure and Equity One, points out that executives have traditionally needed about 20 years of corporate seasoning to move into the C-suite. Yet diversity hiring only picked up steam in the 1990s.

"So if the pool was smaller at the beginning, it only gets worse as people have climbed up

the pyramid,” says Cohen, who is a marketing expert on younger-generation consumers.

Advocates for diversity point out its business case. Fuller says broader corporate leadership more accurately reflects today’s customers. Some studies say that translates into dollars.

For instance, in 2007, Fortune 500 companies with the highest number of women on their corporate boards had significantly higher return on equity, return on sales and return on invested capital than Fortune 500 companies with the fewest women directors, according to Catalyst, a membership and research organization for women in business.

Fuller recommends that companies have corporate diversity officers. In addition, he says boards ought to be held accountable for their board diversity, and they should hold CEOs and senior managers accountable for increasing diversity at the top level.

Meanwhile, Fuller says corporate succession planning is not working. While 63% of respondents said their organizations are engaged in proactive succession planning, only 44% said it has prepared them for departures by top managers. And the vast majority said their companies have not identified successors for the top three spots — CEO, CFO and COO.

Indeed, companies in the survey hire a third of their CEOs and COOs and half of their CFOs from outside.

That’s not acceptable, says Fuller. He urges boards to hold their management teams accountable for successors. He points to former General Electric chief Jack Welch, who left his company with a choice of three competent replacements to succeed him.

Despite the challenges, corporate America can fill its leadership shortfall by using several approaches, say experts.

Patrick Prout of the Prout Group, an executive search firm, says one solution to the revolving-door executive operating team is for companies to make better efforts to keep executives who get passed over for top spots. At that point, the crestfallen exec should be approached to find out what drives him or her. What will it take, either in perks, benefits, recognition or new responsibilities, to keep that individual in the corporation?

Yet unlike Fuller, Prout warns that boards shouldn’t force changes on their managers.

“Boards should be hands-off in terms of the development of talent acquisition,” Prout says. “That’s a management issue and management will have to resolve it.”

One way to develop an experienced executive bench is by creating advisory boards.

Insurance giant Northwestern Mutual appointed young people who had started tech companies to its technology advisory board, says Susan Stautberg, whose company,

PartnerCom, finds candidates and manages such boards for companies. The lesson is that companies can use that model internally as well.

“The [young advisory board members] were best at marketing to that generation,” she says, “they knew which communication tools the people in their generation need, they knew who the key influencers are in food, clothes and electronics, and they knew how to reach and motivate younger consumers.”