

# STACKING THE CEO ODDS

Korn Ferry assessments increase the likelihood that new CEOs will achieve better financial outcomes.

Thought Leadership

## Executive summary

Few would argue with the generally accepted wisdom that the most senior and impactful individual in an organization—the CEO—has the largest influence on that organization’s destiny, and ultimately, success. Though important, the selection process surrounding a CEO is often viewed as a process fraught with risk and little guarantee of a positive outcome. A new study by Korn Ferry demonstrates that high-quality, scientific assessments of a CEO’s capabilities can be predictive of how well the organization will perform financially in the years following their appointment. Over their tenure, CEOs performing well in the assessment process generated twice as much growth in market capitalization as those CEOs performing less well on their assessment.

For a more like-for-like comparison (given variations in tenure levels across the population), longitudinal analyses examined how CEO assessments related to annual financial performance in the four years following the CEO’s appointment. CEOs with high overall assessment scores consistently improved organizational performance, measured by revenue growth, EBITDA margin and market capitalization, and outperformed their peer companies.

Compared to low-scoring CEOs, these high-scoring CEOs achieved:

- 20% higher annual revenue growth
- 26% higher EBITDA margin
- 109% more annualized market capitalization growth

Beyond the overall assessment score, eight specific competencies were found to positively impact all three financial outcomes. These competencies reflect the four broad capabilities of Enterprise Leadership (i.e., strategic, results, people and ecosystem leadership), highlighting the benefits of holistically assessing leadership qualities.

## The challenge of CEO selection

CEOs have a profound impact on the performance of their organizations. Their ideas, experiences, and preferences affect an organization’s strategic choices (Chatterjee & Hambrick, 2007; Crossland et al., 2014; Hamori & Koyuncu 2015), and influences their executive leadership teams and, consequently, the entire organization (Dai, et al., 2017; Nyberg, Cragun & Schepker, 2020).

A large proportion of CEO hires are unsuccessful. A third of all CEOs last less than three years in the role (Dai, Orr, Crandell, & Stevenson, 2023). Between one-third and half are perceived as unsuccessful within 18 months (Dewar et al., 2022).

The CEO job is highly contextual, with various external and internal factors—such as industry dynamics, the regulatory environment, economic conditions, the business life cycle, company size, corporate culture, and competing stakeholder expectations—all shaping the operational context. This makes it difficult for new CEOs to directly transfer previous practices to their new roles, whether they are promoted from within or brought in from outside (Bragaw & Misangyi, 2017; Li & Patel, 2017).



Therefore, boards must go beyond track records and superficial indicators of leadership credentials to assess a CEO candidate's qualifications more thoroughly and reliably.

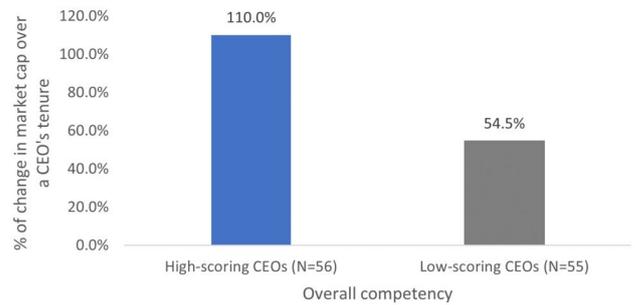
## Impact of overall assessment results on financial performance over a CEO's tenure

Previous research by Korn Ferry has shown that selecting a CEO based on a comprehensive assessment process reduces CEO turnover by half in the first three years (Dai, et al., 2023). This follow-up study further demonstrates the positive impact of that assessment process on financial outcomes.

The study initially examined how assessment results related to an organization's financial performance over a CEO's entire tenure. A sample of 111 participants who had taken Korn Ferry assessments (33 were foundational assessments which include structured interviews and psychometric instruments and 78 were comprehensive assessments which additionally include business simulations) and became CEOs in public companies provided the data. The assessment process evaluates leaders against a set of competencies. Participants receive scores on each competency as well as an aggregated overall competency score. The performance metric used was the percentage of change in market capitalization over a CEO's tenure. The analysis contrasted the financial performance of CEOs with high overall competency scores against that of low-scoring CEOs and their peer companies in same industries. (See the 1st note for the description of the methodology.)

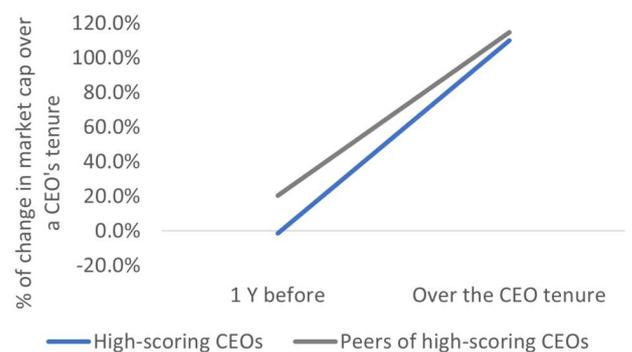
Over a CEO's tenure, high-scoring CEOs increased the market capitalization of their companies by 110.0% while those low-scoring CEOs increased it by 54.5%. This represents a 55.5 percentage point difference or more than double the amount of growth by high-scoring CEOs (see Figure 1). This finding replicates a previous Korn Ferry study that reported a positive relationship between assessment scores and growth in market capitalization over a CEO's tenure (Blazek, et al., 2017).

Figure 1. Difference between high- and low-scoring CEOs in market cap



Within our sample, we noted that those organizations in the process of appointing a CEO were in general—perhaps unsurprisingly given the circumstances causing many CEO exits—being out-performed by their peer group comparators, further emphasizing the importance of a good hire, and the added pressure on an incoming CEO as they take up their new position. The CEOs Korn Ferry assessed as low-scoring were generally unsuccessful in narrowing this performance gap against their peers. In contrast, high-scoring CEOs demonstrated, once in their roles, an ability to revitalize their businesses and compete against their peers. Figure 2 shows that high-scoring CEOs generated faster growth and largely eliminated the performance gap against their peers.

Figure 2. Difference between high-scoring CEOs and their peer companies in market cap

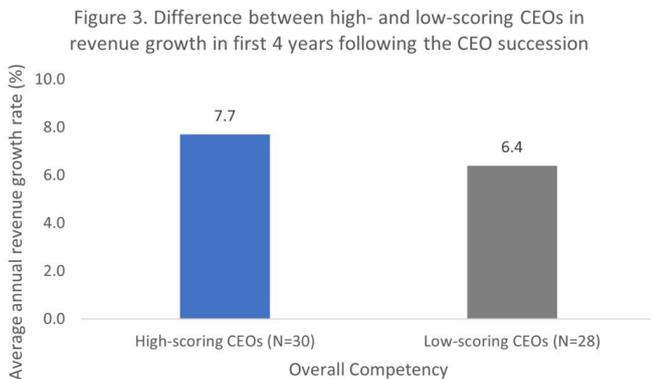


## Impact of overall assessments on an organization’s growth trajectory

CEOs often implement strategic initiatives that might have either immediate or delayed effects on financial outcomes. To capture the dynamic and often complex nature of a CEO’s strategic effect over different stages of their leadership period, we further analyzed the longitudinal impact of assessments on the growth trajectory following the CEO appointments. These analyses required collecting annual financial data over a CEO’s tenure. We used three financial indicators as performance measures: revenue growth, EBITDA margin, and market capitalization. A subsample of 58 CEOs with four years of financial outcomes provided the data (see 2nd note). We compared the financial performance of CEOs with high overall competency scores against that of low-scoring CEOs as well as with their peer companies in the same industries.

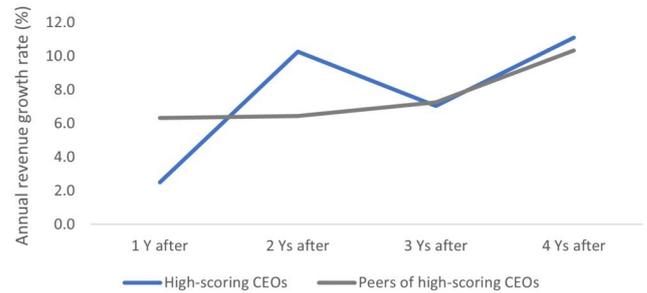
### Revenue growth

In the four years following their appointments, high-scoring CEOs generated 20% higher revenue growth than low-scoring CEOs (Figure 3) with an average of 7.7% annual growth compared to 6.4%.



The analysis also showed that low-scoring CEOs were consistently outperformed by their peers, while high-scoring CEOs enhanced their organizations’ performance against their counterparts (Figure 4). Within two years, those high-scoring CEOs caught up and then surpassed their peers in growing revenue.

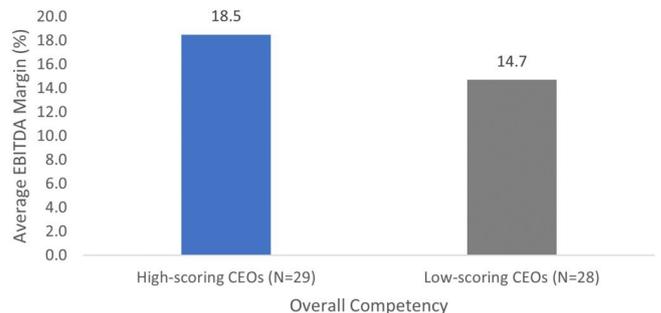
Figure 4. Difference between high-scoring CEOs and their counterparts in revenue growth in first 4 years following the CEO succession



### EBITDA margin

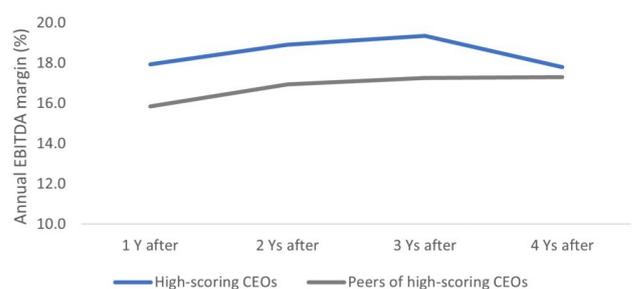
High-scoring CEOs generated higher EBITDA margin than low-scoring CEOs in the four years following their appointment. As illustrated in Figure 5, high-scoring CEOs achieved an average of 18.5% EBITDA margin while low-scoring CEOs had a 14.7% EBITDA margin, a 3.8% difference, or 26% higher EBITDA margins.

Figure 5. Difference between high- and low-scoring CEOs in EBITDA during the first 4 years following the CEO succession



High-scoring CEOs also consistently outperformed their peer companies in the four years after their appointment (see Figure 6). The opposite trend was found for low-scoring CEOs.

Figure 6. Difference between high-scoring CEOs and their counterparts in EBITDA margin in first 4 years following the CEO succession



## Market capitalization

The positive outcomes of CEO assessments are also seen when using market capitalization as the performance indicator. High-scoring CEOs achieved more than 23% annualized market capitalization growth while the same figure for low-scoring CEOs was just over 11%, a difference of 109% (see Figure 7).

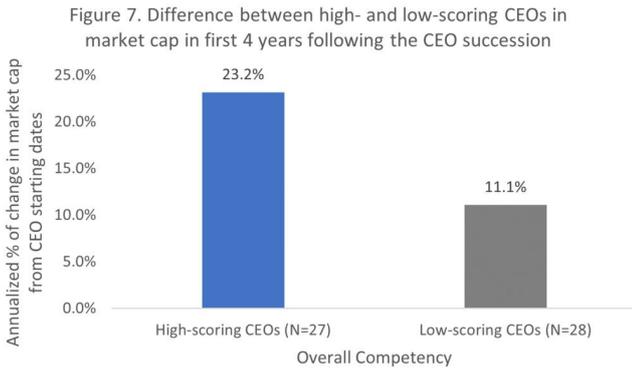


Figure 8 shows that high-scoring CEOs boosted the market capitalization of their companies, outperforming their peers during their first four years in office. In contrast, low-scoring CEOs predominantly trailed their counterparts on this measure.

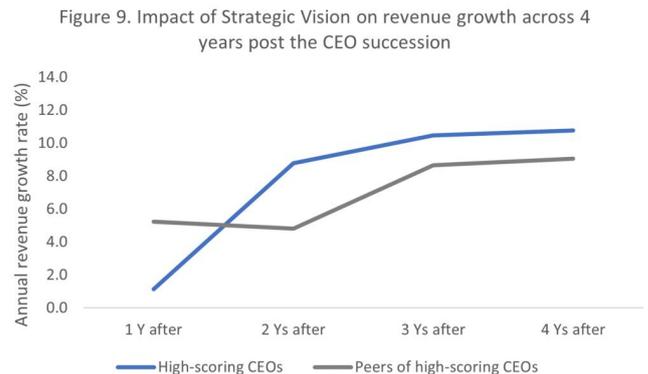


Results from all three financial outcomes—revenue growth, EBITDA margin, and market capitalization—consistently demonstrated the positive impact of the CEO's overall leadership competency assessment on the performance of the organization. The positive impact was sustained, suggesting a scientific assessment process can help companies select high quality CEOs that will deliver superior performance not only during the initial leadership transition, but over subsequent phases of the CEO's tenure.

## Impact of specific competencies on each of the financial outcomes

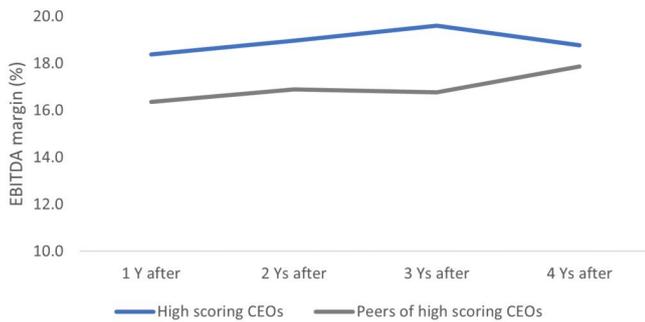
After demonstrating the positive impact of the CEO's overall competency scores, we further examined how different competencies relate to specific financial outcomes (see the 3rd note for methodology).

Competencies that have moderate to strong relationships with revenue growth include Courage, Decision Quality, Drives Results, Optimizes Work Process, and Strategic Vision. For instance, CEOs with high Strategic Vision scores achieved a 30% higher annual growth rate than low-scoring CEOs during the first four years of their tenure. In addition, these high-scoring CEOs improved revenue growth over time and outperformed their peers from the second year in their tenure (see Figure 9). These competencies mostly reflect Strategic and Results Leadership as well as the Courage mindset of Enterprise Leaders (Boulard et al., 2021).



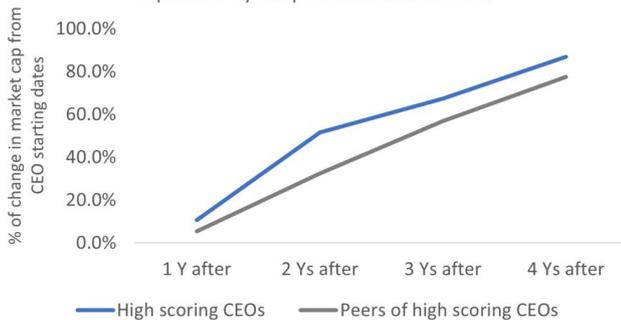
Competencies that have at least a moderate relationship with EBITDA margin include Aligns Execution, Communicates, Engages and Inspires, Global Perspective, and Persuades. As an illustration, CEOs with high Aligns Execution scores achieved 28% higher EBITDA margin than low-scoring CEOs during the first four years of their tenure. Furthermore, these high-scoring CEOs improved EBITDA margin from the year before they became CEOs and outperformed their peers during the first four years in their tenure (see Figure 10). These competencies reflect all four capabilities of Enterprise Leaders.

Figure 10. Impact of Aligns Execution on EBITDA margin across 4-years post the CEO succession



The competencies with a moderate to strong relationship with market capitalization growth include Aligns Execution, Builds Networks, Communicates, Customer Focus, Decision Quality, Engages and Inspires, Financial Acumen, Global Perspective, and Persuades. To illustrate, CEOs with high scores on Builds Networks generated 111% more annualized growth in market capitalization than low-scoring CEOs in the first four years of their tenure. Further, these high-scoring CEOs increased the market capitalization of their companies year over year since they were appointed, and they consistently outperformed their peers (see Figure 11). Once again, these competencies reflect all four capabilities of Enterprise Leaders.

Figure 11. Impact of Builds Networks on the growth of market cap across 4 years post the CEO succession



## Top competencies associated with strong overall organizational performance

After detecting competencies that are positively associated with specific financial outcomes, we aggregated the rating across the three financial outcomes to obtain an “overall impact” rating for each of the competencies. The aggregation identified eight competencies that have the highest overall impact on organizational financial performance. These competencies correspond to the four Enterprise Leader capabilities. The Strategic Leadership capability was reflected in the Global Perspective and Strategic Vision competencies; the Results Leadership capability in the Aligns Execution and Drives Results competencies; the People Leadership capability in the Engages & Inspires and Communicates competencies; and the Ecosystem Leadership capability in the Builds Network and Persuades competencies. This coverage across factors underscores the need for a holistic evaluation of CEO capabilities, reinforcing the notion that the role of a CEO is not only complex but is highly contextual. While CEOs play a pivotal role in shaping strategic decisions, the engagement and support of both internal and external stakeholders in the ecosystem is essential to turn a CEO’s vision and goals into tangible outcomes.

Enterprise Leadership marks a pivot toward the future of leadership (Boulard et al., 2021). In today’s complex and rapidly changing business landscape, the archetypal ‘heroic leader’—a singular, authoritative figure at the helm—is becoming less effective, giving rise to the paradigm of a more inclusive Enterprise Leader. Enterprise Leaders take an elevated and holistic view of the business regardless of their role, i.e. vertical leadership. They demonstrate a collective, interdependent reliance on their peers to lead the organization together, i.e. horizontal leadership. They have a simultaneous and ambidextrous focus on driving performance and driving transformation. And they focus on healthy operations inside, while also taking a leadership role in the ecosystem in which their business operates.

The CEO job is becoming more complex and more demanding. Enterprise Leadership underscores the necessity for even the most historically successful leaders to embrace a more empowering, integrative, and inclusive style.

Such a shift is essential to equip organizations with the agility and capability to tackle intricate challenges and capitalize on new opportunities effectively. In this environment, “leading is no longer only about vertical power; now, it is also about horizontal influence” (Boulard et al., 2021, p. 17). Essentially, CEOs today are architects of the ecosystem (Remick & Orr, 2020). These eight competencies enable CEOs to see the big picture, integrate different perspectives, expand their reach, and galvanize collaboration and interdependence to create lasting value for the whole enterprise and ecosystem.

## Conclusion

The data from the study, encompassing 111 publicly traded firms representing a combined 550 years of CEO tenure, demonstrates a clear correlation between high-touch, scientific CEO assessments and the financial performance of their companies. High-scoring CEOs in Korn Ferry assessments showed a consistent ability to enhance an organization’s performance, compared to their lower-scoring counterparts.

Moreover, the longitudinal analysis of a CEO’s impact, as detailed in this paper, provides a nuanced view of how leadership influences a company over time—including how strong CEOs can transition and accelerate through a company’s tough period—first catching, then over-taking their peers in terms of performance. This approach not only captures the immediate effects of a CEO’s decisions but also their long-term strategic impact, offering valuable insights into the dynamics of corporate leadership and its effect on organizational performance.

On the whole, the findings emphasize the opportunity for organizations to adopt a holistic, scientific approach to CEO selection. With a holistic assessment of leadership qualities, companies can increase the chance of appointing a CEO equipped to not only handle the immediate challenges of the role, but capable of reversing an organization’s fortunes and delivering long-term success.

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## Notes

1. Among the 111 CEOs, nearly 80% were hired within the last decade. They represented a broad range of sectors, including industrial, financial services, life science, health care, retail, high-tech, and consumer goods. The financial outcome is the percentage change in market capitalization over a CEO's entire tenure, which is the difference in market capitalization between the CEO's last and first data divided by the market capitalization on the CEO's first date. If the CEO was still on the job at the time of data collection, market capitalization on Sept. 30, 2023, provides the latest financial data. The average tenure of the 111 CEOs is 5 years. For comparison purposes, the study identified up to 5 peer companies for each CEO in the same industry. The financial research platform Capital IQ provided the competitor lists. Peer companies were selected based on several considerations—they are public companies, close in size when these new CEOs started their jobs, and if possible, headquartered in same regions. On average, each of the 111 CEOs has 4.5 peers.
2. In the longitudinal investigation, sample size and the number of years of the CEOs tenure emerged as a tradeoff. The objective is to assess the impact of CEOs over multiple years. And because of newly appointed CEOs, increasing the number of years for analyzing CEO impact will reduce the sample size. A small sample size poses a threat to the generalizability of findings. We eventually decided to investigate the financial impact of new CEOs across four years post the CEO's appointment, giving us a sample size of 58 CEOs. On average, each of the 58 CEOs have 4.6 peer comparison companies. The 58 participants are divided into high-scoring and low-scoring groups based on their assessment scores. Specific sample sizes of the two groups vary slightly across analyses due to missing financial data in certain years.
3. We rated the impact of each competency against 3 criteria:

Were higher scores on a competency associated with increased financial performance?

Were higher scores on a competency associated with outperforming your peers?

Were lower scores associated with being outperformed by your peers?

We awarded each competency 1 point for each of the above conditions that was met. Competencies with a score of 3 were therefore those with the strongest and most consistent relationship with post-appointment performance. Conversely, a score of 0 indicates a competency has no impact on a specific financial outcome.

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