

ARTICLE

Succession planning focus: How industrial companies are revving up their processes

Current CEOs share their insights on how forward-looking CEOs and boards are rethinking their approach to CEO succession planning to ensure their company's next leader will have the best chance of success.



"It's very unusual for CEOs to be engaged in scheduling issues, supply chain issues, at a third-tier supplier—it's never done. But now, if you don't get in there and make sure all the CEOs in that chain understand it's fundamental to your business, you'll fail."

John Garrison
President and CEO, Terex

The past several years have rattled companies across industries and sectors. The ongoing COVID-19 pandemic, skyrocketing inflation, and the devastating war in Ukraine have taken a vast humanitarian toll while also, among many other effects, straining supply chains and raising concerns about globalization in the context of current and future geopolitical risks. These issues are particularly pressing for industrial companies, which have increasingly relied on parts and plants all over the world. John Garrison, president and CEO of Terex, explained that "it's very unusual for CEOs to be engaged in scheduling issues, supply chain issues, at a third-tier supplier—it's never done. But now, if you don't get in there and make sure all the CEOs in that chain understand it's fundamental to your business, you'll fail."

Supply chain challenges may be most industrial CEOs' biggest current challenge but, like most CEOs, they are also facing a range of new and pressing concerns. Economic volatility and societal shifts that have brought diversity, equity, and inclusion (DE&I) and sustainability to the fore of both customers' and stakeholders' concerns are bringing more issues—and stakeholders—than ever to the top of CEOs' agendas. More is at stake, more is uncertain, and more stakeholders expect more. Leadership across boundaries is necessary.

Forward-looking CEOs and boards are rethinking how they approach CEO succession planning to ensure their next leader will have the capabilities to lead effectively in the near future. Insights from four current industrial CEOs suggest that for them this means focusing more than ever on leadership capabilities such as curiosity and agility, as well as on specific skill sets, prioritizing people and culture, knowing their values, and starting succession planning earlier, thinking more broadly and comprehensively about needs and trade-offs.

The capabilities of tomorrow's industrial CEOs

Of course, it's always been the case that companies don't know what their next challenge is going to be, but we are living in a particularly tumultuous time. "What do we need for the future?" asked Dave Burritt, president and CEO of U.S. Steel. "No one knows, especially in these times. Crises are coming faster and are more disruptive globally." At the same time, as Sundaram Nagarajan, president and CEO of Nordson Corporation, put it, "as a first-time CEO, I have more bosses than I've ever had in my life: shareholders, the board, our employees and communities."



Build and support agility

Under these circumstances, companies and their leaders must be nimble. They need to be able to react quickly as new threats and challenges arise. “We have to modify plans at speed,” said Terex’s Garrison. And beyond that, leaders must be comfortable not knowing what’s next. “The ability to deal with ambiguity, both strategically and tactically, is more important than experience. Will supply chain jams change? How should geopolitical risk be factored into business strategy?” Garrison asked. CEOs need to be able to embrace this ambiguity and navigate with agility as challenges arise and shift.

While many companies have increased their focus on agility over the past decade, industrial companies, on the whole, have been slow to change. By nature, leaders at these companies tend to be methodical, logical, and careful. In normal times, this serves them well. But in an environment rife with upheaval and change, agility is key.¹

Prioritize people and culture

While much of the world has gone remote or hybrid over the past couple of years, many industrial companies have been split: those on the front line never stopped working on site while people in office roles very often worked from their homes. Industrial company CEOs today are dealing with tension between people who lack the option to be remote and those who are resisting returning to a physical workspace. Being clear that they prioritize their people, CEOs suggest, is key.

“You have to align yourself with your employees—even more than aligning with the customers—because they are now running the show in terms of where they want to work and how they want to work,” said U.S. Steel’s Burritt. “CEOs have to let employees create an environment in which they can be most effective. Without this trust, people will leave. Focus on employees, who then take care of the customers, who then take care of the stockholders—it’s a virtuous cycle.”

“People’s own personal circumstances, and so many things around them, have changed, and the company needs to adapt along the way.”

Sundaram Nagarajan

President and CEO, Nordson Corporation

The volatility of the world is also putting pressure on CEOs to focus on these areas. “People’s own personal circumstances, and so many things around them, have changed, and the company needs to adapt along the way,” said Nordson’s Nagarajan. The CEO needs to think about what it means to support its people and uphold the culture in this environment, as U.S. Steel’s Burritt explained: “They have to meet the goal of profit, but where will they spend time?” The answer, he said, is “having virtual interactions with everyone, keeping everyone aligned, supporting projects to help develop people on that path—you can’t go wrong with a focus on the people.”

Know your values

More than ever, the world is calling on companies to know and live their values—and to include in those values DE&I and sustainability. But this can pose a particular challenge for industrial companies—DE&I in particular. Industrial companies have long been male-dominated; the percentage of women in the industry’s workforce has hovered around 30% percent for decades² and the share of female CEOs at the world’s largest listed industrial companies was 4% in 2021;³ in Fortune 100 industrial companies, only 17% of direct reports to the CEO are racial or ethnic minorities. These situations are no longer acceptable to an increasing number of stakeholders, and lack of progress is decisively shifting from being a reputational risk to putting access to capital at risk.

¹ For more on developing agility in leaders, see Steven Krupp and Becky Hogan, “Agility for the long term,” Heidrick & Struggles, heidrick.com.

² Lynda Laughlin and Cheridan Christnacht, “Women in manufacturing,” United States Census Bureau, October 3, 2017, census.gov.

³ *Route to the Top 2021*, Heidrick & Struggles, heidrick.com.

“Today’s environment demands that CEOs be able to address the different stakeholders around corporate social responsibility, including diversity and social justice and sustainability; they must be able to operate in those spheres now.”

Evan Smith

President and CEO, Hypertherm

As they look for and develop their successors, industrial CEOs need to find people who will take these imperatives—and threats—seriously, and can find the right approach to meeting them through a commitment to values. As Evan Smith, president and CEO of Hypertherm, said, “Today’s environment demands that CEOs be able to address the different stakeholders around corporate social responsibility, including diversity and social justice and sustainability; they must be able to operate in those spheres now.” Terex CEO Garrison added that “There is no equivalence to five years ago. We need to blend the business needs of today with the need to improve our environmental footprint and our products.”

Knowing their values will help leaders adapt and react to the shifting landscape. According to U.S. Steel CEO Burrirt, “CEOs need to have a heightened sense of their values so that when something comes up, they don’t have to think deeply—they just follow the rules, and do it from a company perspective, not a personal perspective. Pivot back to the principles and what we’re doing with our employees.” Nordson’s Nagarajan relates the story of how he considered his response to an email from an employee about one of the company’s DE&I policies, saying it’s important to “Consider what you as a person and what, as a company, you care about. The company must reflect the environment around it to build the best competitive position we can with the talent available in the market. So, for example, I have to be more open in my own thinking. It’s not easy, you just have to balance.”

Starting sooner to identify the right leader

Best practice companies across industries are starting succession planning sooner and digging deeper internally than ever before. At industrial companies, where leaders are particularly used to planning over long timeframes in areas such as building plants or other infrastructure, this is a matter of applying familiar principles in a new area.⁴ Hypertherm’s Smith explained that “the cadence can change depending on how close succession is, but succession is part of the CEOs ongoing priorities and board process. And it can’t just be pro forma, it needs to be meaningful cultivation and development. To be a truly sustainable organization, we have to pull off succession gracefully, and that takes long-term planning.” U.S. Steel’s Burrirt noted that succession planning is “a much higher priority now than it was when I became CEO,” in 2017. “There is more of a rhythm than there used to be; it’s more like board succession.”

Now, in addition to it being part of the board’s remit, the responsibility of succession planning is increasingly falling to the current CEO as well. Today’s CEOs believe they haven’t been successful if they don’t have a bench of potential successors. Said Nordson’s Nagarajan, “We are building a strategy to deliver long-term, profitable growth now that will live past the current leadership team and me. With this in mind, we are cultivating a talent pipeline that is best positioned to lead the company forward with this growth strategy.”

“Will [external candidates] fit and embrace the culture? They have to meet the goal of profit, but where will they spend their time?”

Dave Burrirt

President and CEO, U.S. Steel

Indeed, the question of looking for a successor internally or externally is a perennial one—and the answer is always subject to the unique context of a given company. Regardless of which way they ultimately go, many industrial CEOs and boards today are focusing on cultivating internal talent so that those options exist. “I will do my best to develop an internal candidate,” Nordson’s Nagarajan said. “If you’re thinking about the company’s current needs plus its future needs, you’ll make different choices than you would have if you only thought about the current needs.” However, as all the CEOs we spoke to stressed, context matters. One consideration, Terex’s Garrison said, “is what level of change is required going forward. An external candidate may be more willing to create change than an internal one.” But U.S. Steel’s Burrirt emphasized caution with regard to external candidates: “Will they fit and embrace the culture? They have to meet the goal of profit, but where will they spend their time?”

Questions for boards and CEOs

As they juggle these considerations and plan their approach, industrial CEOs and boards can ask themselves a number of questions to ensure they're setting their companies on the right path:

- Have we aligned on the characteristics and capabilities most important today and tomorrow? Do we reassess regularly? Have we incorporated scenario planning into our strategy and succession planning discussions?
- Have we made succession planning a priority and built it into regular conversations?
- Can we address succession planning in the context of risk mitigation? Where does it sit in those discussions?
- Have we taken the expectations of all stakeholders into consideration? Have we openly communicated our commitment to succession planning?
- Is the current CEO leading succession planning discussions?
- Who within our company is ready now, who will be ready in the next couple of years, and who should we watch for the future? How can we support development at each stage? How often do we reassess readiness?
- How are we making diversity and inclusion a priority?

About the author

Jonathan M. Graham

is a partner in Heidrick & Struggles' Chicago and New York offices and the global managing partner of the Industrial Practice.

jgraham@heidrick.com

Acknowledgments

The author wishes to thank the following executives for sharing their insights. Their views are personal and do not necessarily represent those of the companies they are affiliated with.

Dave Burritt

President and CEO
U.S. Steel

John Garrison

President and CEO
Terex

Sundaram Nagarajan

President and CEO
Nordson Corporation

Evan Smith

President and CEO
Hypertherm

Industrial Practice

Heidrick & Struggles' Industrial Practice helps industrial companies identify and recruit the leaders they need to succeed in this diverse sector.

Today, leading industrial companies increasingly recognize that the quality of their leadership will make the real competitive difference in a world of globalization, rapidly emerging markets, offshoring, outsourcing, and far-flung supply chains. These companies need innovative global leaders who possess the strategic, operating, and financial skills required to win in this complex environment. They need commercially-focused leaders who can develop distinctive value-added solutions. And, above all, they need leaders who have the ability to make both an immediate impact and a long-term contribution.

Our Industrial Practice experts combine unparalleled search resources with a deeply consultative approach, developing the ideal candidate profile based on each client's unique competitive challenges, business objectives, and leadership culture. We have deep vertical experience in every industry sector and specialty area and serve every region across the globe, including emerging markets such as China, Eastern Europe, India, the Middle East, and Russia.

Leaders of Heidrick & Struggles' Industrial Practice

Global

Jonathan Graham
Global Managing Partner
jgraham@heidrick.com

Americas

Jane Bargmann
Regional Practice Managing Partner
jbargmann@heidrick.com

Asia Pacific and Middle East

David Hui
Regional Managing Partner
dhui@heidrick.com

Europe and Africa

Fabrice Lebecq
Regional Practice Managing Partner
flebecq@heidrick.com

WE HELP OUR CLIENTS CHANGE THE WORLD,
ONE LEADERSHIP TEAM AT A TIME®

Copyright © 2022 Heidrick & Struggles International, Inc. All rights reserved. Reproduction without permission is prohibited. Trademarks and logos are copyrights of their respective owners.