

**Center for
Executive
Succession**

CEO Succession Success: A Board Perspective

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Executive Summary

In order to examine how boards define “success” in CEO succession, we interviewed 22 members of Fortune 200 boards (as well as some smaller boards), who sat on over 100 combined boards, about their experiences with CEO succession as board members. Of the CEO successions of which they had been a part, we found that unplanned successions were more likely to fail than planned ones, but surprisingly, that internal successions were at least as likely as external ones to fail. We found that they tend to take longer to conclude a CEO is a failure than a success, and that they use more qualitative metrics than might be expected in their evaluation. In terms of process, we found that practices for success in managing CEO succession include: starting the process early, correctly defining the role’s specifications, and gathering as much information as possible about CEO successor candidates. Finally, some board members discussed the causes of CEO failure, and many described failed CEOs as those who displayed excessive egos, failed to listen to others, and eschewed feedback. In short, failure was often associated with personality problems rather than competence issues.

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Success in CEO Succession

OVERVIEW

Examples of firms who have not adequately prepared for the succession of their Chief Executive Officer (CEO), such as HP who went through 4 CEOs in 6 years, have led boards to recognize CEO succession as one of their most, if not the most, important governance responsibilities. Numerous academic studies have attempted to identify the determinants of board decisions on CEO succession and selection, yet these are based only on publicly available data that cannot shed light on how the board makes the decision. While consulting and executive search firms have examined CEO succession practices, little systematic work has focused on understanding what goes on “behind the veil” from the perspective of directors with responsibility for succession decisions. The purpose of this study was to explore with board members, through in-depth interviews, the processes that, in their experience, underlie both successful and unsuccessful CEO succession decisions, while also understanding how board

members evaluate both success and failure in CEO successors.

In order to examine this phenomenon, we utilized a network of Chief HR Officers (CHROs) to solicit from their companies’ boards of directors, those that they believed would be willing and interested in participating in the study. This resulted in 22 board members (the vast majority of whom sit on multiple corporate boards) agreeing to participate in a 45-minute interview regarding how boards define success in CEO succession. Each interview was conducted telephonically with 2-4 members of the research team present, and 1-2 Masters in HR students present to take detailed notes from which detailed transcripts were developed. The interview protocol is provided in Appendix A on page 15. It entailed asking board members broad questions regarding their experience with CEO succession, then two sections that drilled deeply into each of a specific successful and failed CEO succession example of which they had been part as a board member. This section included understanding how



board members evaluated whether the succession event was a success or failure. Finally, we asked board members to reflect on their perspectives of what things make CEO succession successful or unsuccessful and the role of the CHRO in the CEO succession process.

The interviews were both anonymous and confidential. In terms of anonymity, interviewees were told not to identify the companies or the individuals involved in the stories they told as the researchers only needed to know the process. In terms of confidentiality, the interviewees were promised that the researchers would never identify them as having been interviewed – if a board member’s name was known, it might be possible for readers to determine the companies and CEO succession experiences in which they had participated. Because of these reassurances,



the interviewees were quite candid (in some cases, extremely candid) regarding both their experiences and their perspectives on CEO succession.

The 22 interviewees served on a total of 135 boards (ranging from 3 to 13 and average of 6.1 per interviewee) and had been part of 97 CEO successions. Roughly half of the interviewees were current or former CEOs with the rest having held senior executive leadership positions in business and/or government.

CEO SUCCESSION SUCCESS: THE BASE RATE

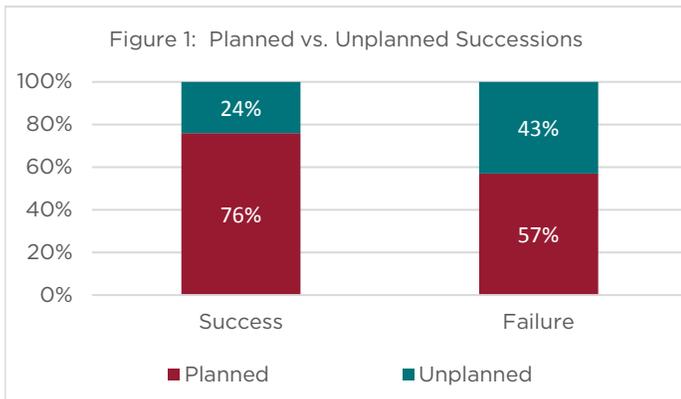
As described, the board members had participated in a combined 97 CEO successions. We asked each interviewee how many they would categorize as a success or failure. Of the 97 CEO appointees, board members classified 65 (67%) as successful CEOs and thus represent a successful CEO succession decision on the board’s part. They identified 27 (28%) as having been failed CEOs and CEO succession decisions. The remaining 5 (6%) were described as “too early to tell yet” although many of these “lean toward failure.”

We also asked board members to rate the level of success (1=Absolute Failure to 9=Absolute Success) of the specific successful and failed CEO successions they described. The average of successful decisions was 8.5 and the average of failures was 3.3.

22 INTERVIEWED
ON 135 BOARDS
97 SUCCESSIONS

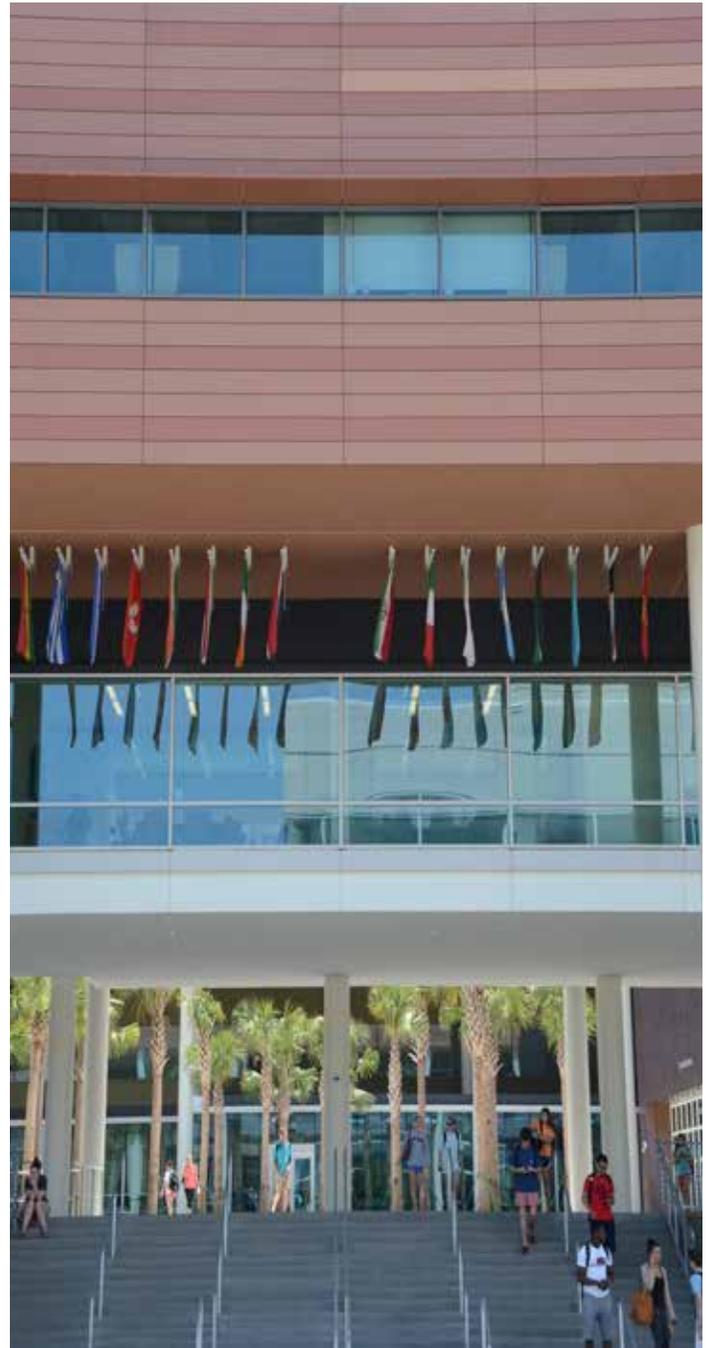
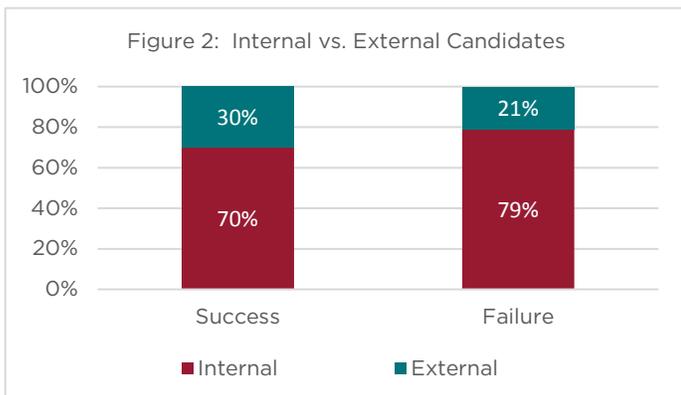
CEO SUCCESSION PROCESS

Board members were asked for details regarding one successful and one failed succession, beginning with whether the CEO succession event was planned or unplanned. Of the 22 successful events described in detail, 16 (76%) were part of a planned succession process, 5 (24%) were unplanned successions, and one did not answer. Of the failed CEO successions, 8 (57%) were planned, 6 (43%) unplanned, and 4 could not be determined or the board member did not answer.



While not statistically significant, these results tend to promote the idea that boards are more likely to make incorrect CEO succession decisions when the succession is unplanned. In some of these cases the lack of a planned succession event may have been driven by a surprise event (e.g., illness), leading to higher time pressures.

In addition, much debate exists regarding whether internal or external hires are preferable or result in a higher likelihood of success. For each event we asked whether the successor



was an insider or an external hire. Among the successful CEO successions, 14 (70%) were internal promotions, 6 (30%) external hires, and 2 were other or did not answer. Of the failed CEOs, 11 (79%) were internal promotions, 3 (21%) external hires, and 4 were either other or failed to answer. These results suggest that hiring internally or externally is not necessarily a determinant of good or poor decisions, even though boards ought to have more data about internal candidates.

Lessons on Measuring Success in CEO Succession

SUCCESS IS SEEN EARLY; FAILURE TAKES A WHILE

The original impetus for the study was to explore how boards measure or define whether or not a CEO succession decision was successful. After having identified the most/least successful decision, we asked board members how long it took before they felt confident in their evaluation that the decision had been correct or incorrect.

Not all board members gave specific timeframes, but of the successful decisions, in 14 cases (82%) board members said they knew it was successful in less than 12 months (4 in 6 months or less and 10 in 6-12 months) and only 3 in more than 12 months. However, of the failures, only 5 (42%) knew it in less than 12 months, and 7 (58%) took more than 12 months to reach this conclusion (with some saying 4-5 years). This indicates that success in the CEO role either appears much sooner than failure or board members are willing to admit success far sooner than they are failure. Our further questioning indicates this is partially due to the types of data and information



board members evaluate to determine success or failure. As we will detail later, our interviews suggest that when they see the CEO making the right people moves, developing the right strategy, and taking the right steps to implement the strategy, board members feel confident that the results will soon follow and thus feel confident in judging their decision regarding the CEO successor as correct. However, if they do not see the CEO making all these necessary moves, they feel a need to at least let the CEO's

decisions play out into actual operational and financial results. When those results do not improve (which takes a while), then they can feel confident that the board made the wrong decision.

These results also suggest that if the appropriate people and strategy moves do not occur in the first year, it may be less likely that a CEO will become more successful if given more time.

CRITERIA FOR JUDGING SUCCESS OR FAILURE

The time required to judge success or failure helps to explain the measures or criteria that board members use to make such a judgment. Based on the interviews we conducted regarding how board members define or measure success in CEO succession, we identified the following eight lessons:

It Takes Time. As was discussed board members recognize that new CEOs may not see the impact of their decisions on financial results for 2-3 years. The first few months may consist of developing a deeper understanding of the company's current situation and beginning to set the framework to take actions to address current needs. However, part of the necessary strategic response may often require driving change and that can rarely be done quickly.

Our interviews noted that one potential mistake boards may make is to presume that insiders can drive change more quickly due to prior relationships and knowledge. However, since organizations are often resistant to change, insiders may actually be a liability as they may be too sensitive / sympathetic to the company's culture, prior relationships, or strategies which they helped develop and implement in a prior position.

Regardless of whether the CEO is an insider or outsider, if performance has been lacking, it will require a transformation of the executive talent.

Quotes on Measuring Success

“Is the person making a change around the things that haven’t been working? Is this person making a vision and direction that the senior team signs on to? Are people responding? What type of tone is this person setting? What is the strategy for value creation? What levers do they intend to pull to deliver results? Do they have a handle on the task at hand, strategically and operationally? Are they able to articulate a game plan, and milestones? Then you measure if they are doing what they said they would do.”

- Board Member

“First, you have to look at the management team around the CEO. Are they fully behind/backing this candidate? Are they willing to help him/her? Do they trust this candidate and the business’ strategy? Second, you have to look at how the company is performing. How is the company doing financially? Are they moving forward with a sense of continued progression/success? Finally, an important question is how does the board feel about the openness of the new CEO? The board must trust CEO to come in and make necessary management changes and they must trust the quality of the new management that the CEO brings in. If CEO’s are transparent about what they are doing and why, it puts the board more at ease.”

- Board Member

Some of those who were in contention for CEO, but who didn’t get the job may leave immediately. However, some may not leave of their own accord. In many instances, there may be value in managing out those employees and this must be done in a way that is not disruptive to the organization (i.e., with replacements ready) that is already undergoing substantial disruption.

Thus, board members recognize that a new CEO may have to change the organizational strategy, change the organization’s culture, and change the executive team, all of which takes time. If the CEO makes the right calls on all of these, it can still take 6-12 months to begin to see the results of these changes once the changes have been implemented. Thus, success is often determined by board members not by the outcomes of changes made by the new CEO but the processes used by the successor in identifying needs and establishing organizational systems.

Relationship with the Board is Crucial. Our interviewees indicated that boards have expectations for what is expected in terms of

communication between the CEO and the board. They want specific information presented in certain ways and with certain frequency. New CEOs who communicate more information more frequently are viewed more positively by the board. In contrast, new CEOs who fail to communicate or who communicate poorly create concerns within the board. The board has to feel a level of trust, both in the CEO’s strategy and in the CEO’s integrity. Failing to communicate the strategy makes the board wonder if there is a strategy. Failing to communicate important information can also lead the board to doubt the CEO’s honesty and transparency, which promotes distrust between the board and CEO.

The relationship with the board goes both ways. New CEOs need to feel confidence that the board supports them. As one interviewee stated, “This is probably the most pressure the individual has ever been under in their career. They need to know that the board is behind them, not looking over their shoulder or waiting for a mistake on which they can pounce.”

Clear Strategy Communicates Confidence.

Surprising to us, board members indicated that one of the earliest and most important criteria they use to determine if their choice of the CEO was the right one was the new CEO's strategy. The CEO has to be able to articulate a strategy that addresses the issues the board feels the company faces. If the strategy is not clear, or it seems divorced from the challenges the board believes the firm faces, then the board can quickly lose confidence in the CEO.

Additionally, board members expect a change to the strategy, regardless of the firm's current performance. Any new CEO brings a different perspective and a different skill set to the role. Thus, even if the current strategy seems effective, maintenance of the status quo suggests a problem. It may lead the board to question the decisiveness of the new CEO.



Effective Execution Demonstrates Excellence.

Once CEOs have articulated a strategy, the board determines if the CEO is taking the necessary steps toward executing that strategy. Any new strategy requires changes in the organization, and the board wants to see those changes happen. Has the CEO begun to change out the executive team to get the necessary talent to drive the strategy? Has the CEO begun making the relevant budgetary decisions for investments and cuts where needed? Has the CEO begun to identify the relevant operational measures for the strategy and made decisions that begin to impact

those measures? As with financial results, board members recognize that it will take time before the CEO's decisions begin to affect the relevant operational metrics, but boards can still evaluate whether or not they think the CEO's actions seem to be directed towards making the changes necessary to execute the strategy.

Asking for Help Helps. As an insecurity defense mechanism, CEOs may think that they need to promote an image that they know everything they need to know and thus could avoid asking for help. However, our interviews suggest such behavior actually leads board members to doubt the qualities of the CEO. Board members (many of whom are current or former CEOs) recognize that early in a CEO's tenure, they are learning the job. So they look for signals that the CEO is seeking help where appropriate. When resources (e.g., leading consultants) are made available to CEOs, do they use those resources? When discussing strategy with board members, do they ask for input or try to act like they have already aced the strategy exam? When given feedback or suggestions by board members, do they appreciate and accept the help or push back as if the help is unwanted or unwarranted? Board members look for CEOs to exude confidence in their ability to make the right decision, but humility in recognizing that others may have valuable information that can help them to make the right decision.

The Team Signals Success or Failure. Another relatively surprising finding from our interviews was the almost universal belief that the major source of information regarding a CEO's early success stems from the executive leadership team. The board members noted that they look to the executive leadership team to gauge their excitement and enthusiasm for the future. Are they engaged and energized by the new strategy and by the CEO's leadership? Have they bought in to the new CEO's leadership and are they actively supporting the strategy?

This assessment of the executive team also entails examining the people that leave. Turnover, per se, is not a problem; the more important

questions deal with who is leaving and why. One board member noted:

“Competitors will leave...that’s expected. The team will have to be transformed...that’s necessary. Talent can’t begin to flee...that’s problematic.”

In board members’ minds, team morale is important. Board members note that when those loyal to the organization are leaving, this could be a signal of leadership failure. In addition, they said that they learn from members of the executive team who come to the board to share concerns. Finally, some noted that the non-verbal cues displayed by executive team members may provide a hint of the team’s morale. When the CEO is speaking to the board, are the team members interested and energized or do they seem disinterested and almost disrespectful to the CEO. These indicators may lead the board to believe that they chose the wrong person as the CEO.

Financial Results are Critical...or Not! Going into the study we expected little variation in the types of metrics that board members use to evaluate whether or not the board made the correct CEO succession decision. We fully anticipated that they would point to a number of quantitative operational and financial metrics. However, we were surprised to learn that this is not the case. As one board member noted, “if the CEO is doing everything else right, financial performance will follow.”

First, board members recognize that they may need to see deteriorating operational and financial results to justify getting rid of a CEO. They note that while decreasing financial results present a strong justification for removal, often waiting for them puts the firm farther in the hole. Thus, they note that observing deteriorating operational results point to future financial deterioration and thus may be sufficient justification for ousting a CEO.

Second, they note that the context matters. Simplistically looking at quantitative metrics may provide misleading information for how well a

CEO is performing. For example, disruptive events can hurt financials, and it’s important for the board to explore how the CEO responds to these events without focusing too aggressively on the financials themselves. Also, board members note that every situation is different. What one might consider ‘poor’ performance in one context for a new CEO may be strong performance for another incoming CEO. A CEO that inherited a bad situation will often require a few years before his or her efforts are rewarded by increased financial performance.

It’s the Delta, not the Absolute. Related to the previous point, board members recognize that every new CEO inherits an organization capable of its current performance and that the true measure of a CEO’s succession is not the firm’s absolute performance, but how the performance changes over time. The financials are evaluated more in terms of how they change over time more so than where they are now.

In summary, the board members we interviewed described a slowly unfolding process through which they gather information to determine whether or not the board chose the right CEO successor. In the early stages they look to qualitative phenomenon such as team dynamics, valuable executives fleeing the organization, the CEO’s interactions with the board, the CEO’s articulated strategy, and his or her early decisions as to the best indicators of success. When those all show positive, they feel confident that the hard results will follow, and thus can make a conclusion that they chose the right person. However, when those qualitative criteria are not met, they often feel the need to wait to see if the changes in operational and financial metrics reflect that the decisions (both people and strategy) the CEO has made were the right ones. They recognize that it takes at least 12-24 months to observe performance changes from a new CEO’s decisions and they feel hesitant to remove an individual or consider an individual a failure based on qualitative measures alone. Thus, they note the need to wait until the hard measures provide the justification to replace the CEO.

Processes Leading to Success

As part of the exploration into the details of the successful and failed CEO succession events, we asked the board members about the process that were used leading to the succession decision. This provided rich information regarding where boards may make mistakes in the process that can lead to failed decisions. Below are five of the learnings we gleaned from these interviews.

The Board needs to be on Board. Boards are made up of extremely intelligent, and usually opinionated members. Often these opinions vary within the board, particularly around CEO succession issues. For instance, board members may disagree about what skills, competencies, and experiences the next CEO must have to be effective. Or they may disagree about the proper process for evaluating and selecting the CEO successor. Finally, they may disagree about the relative merits of various CEO successor candidates.

Thus, board members tended to agree that the key to avoiding conflict was to get agreement around issues early in the process. For instance, one board member described how a consultant interviewed each member about what they thought the business would face over the next five years and then what characteristics each thought the next CEO would need to effectively face those challenges. The consultant aggregated all the data, fed it back to the board, and then facilitated a discussion to get them all to agree on both the issues the company would face and what skills and experiences the CEO must have to be effective in the role. Such agreement up front minimized disagreements later in the process.

The board must also agree on the process to be used. For instance should they engage a search firm to explore external candidates as well as internal candidates? What types of assessment information do they need to gather on the candidates? Who will be involved at different stages in the process? What types of roles should the internal candidates experience for further development and assessment? The more

these decisions are made early, the easier it is to maintain objectivity during the process.

Finally, a subtle aspect of the process was noted, and that was to keep the discussions in the boardroom and allow for all to share their input. Some expressed that factions can develop as 2-3 board members try to informally influence the decision (e.g., when members golf together). Thus, the recommendation was to only discuss CEO succession in the boardroom with all members present. Further, board members noted that it is important to ensure all members thoughts are heard, as some voices appear louder than others in the board room. Thus, developing processes to solicit input from all board members, usually anonymously, can help overcome the reticence of some board members who may feel uncomfortable sharing their thoughts in the board room; particularly if those thoughts are different from influential or powerful board members.

Fail to Plan; Plan to Fail. As noted earlier in the report, it seems that unplanned succession events tended to fail at a higher rate than planned ones. Numerous board members noted that time constraints usually result in poor decisions. Thus, responsible boards must constantly prepare for both planned and unplanned successions.



The Perils of Time Constraints

“The process was unplanned because the old CEO was doing a good job in a difficult time for the company, but had to step down for personal reasons. The company had to replace immediately the board felt it could not afford to have a missing CEO for 90 days. This meant that they had to find someone fast, had to be an internal candidate which ended up forcing the board to choose [the least unqualified candidate].”

- Board Member

“When boards make bad decisions, it is because of unrelenting pressure to make a decision quickly. The odds of being successful are 50/50 under such strenuous pressure. The board should do anything it can to give itself the luxury of making the right decision.”

- Board Member

Regarding planned successions, many noted that ideally the board has some sense of a coming succession 3-4 years in advance. They need not know the exact date, but have enough warning to begin assessing the talent in the organization to determine if sufficient talent exists to fill the upcoming role. This allows the firm to begin placing potential successors in new roles both to develop them in necessary areas and to assess their performance when given responsibilities outside their comfort zones. A 3-4 year time frame allows boards to determine after a year whether or not they believe there are people internally who can succeed the CEO.

If a board determines that there are not viable internal candidates, a longer timeframe enables them to recruit talent from outside the firm. Board members expressed a preference to hire externally into roles other than the CEO in order to provide the board with better information as to the potential successor's viability as a successor candidate and assimilate the candidate into the organization's culture.

Finally, some unplanned events cannot be avoided, such as the death of a new and relatively young CEO. However, board members emphasized the need for the board to have a plan for unplanned events, i.e., an emergency succession plan. A few board members noted that when an unplanned event occurred, they rushed

to find the permanent replacement, and this resulted in suboptimal decisions. They said that, looking back, the board would have been better served choosing an interim CEO and conducting a full-blown search for the permanent replacement.

One common solution for identifying an interim CEO involved designating the Chair of the board to step-in if there is an unexpected need to have an interim CEO.

As a caveat to this finding, some board members suggested that, occasionally, it is simply impossible to wait for the perfect CEO successor. In some cases hiring the least unqualified candidate is the only choice. However, with more planning up front, it may be easier for boards to avoid finding themselves in such a situation as they supplement internal talent with external hires.

It's the Future CEO, not the Past.

Great consensus emerged that as the board develops the specifications for the successor, they should focus on the skills, characteristics, and experiences that the next CEO will need, and not those possessed by the current CEO. Often this is prompted by questions about what the business will face over the next 3-5 years, how the industry will change, how the nature of competition will change, etc. With a focus on the future challenges, boards can be better equipped

Digging Below the Superficial

“You have to separate the superficial from the profound. Separate style from substance. Groups of people have tendency to be swayed by the superficial and people who look the part. Some of the most successful CEOs have different styles, for example, low key and soft-spoken with no drama. Sometimes they may not look the part, but the content is there. The content is more important than the optics. Be aware so you listen to the content and not focus on the optics.”

- Board Member

“The board may be locked into a single candidate because the process is being managed by the CEO. The board needs to make sure that the candidate is not being propped up and is able to handle ideas from many different directors and made decisions and execute. It should be clear that the person is standing on his/her own and not being overly pushed. The board also needs to make clear to the CEO that he/she needs to expose this candidate to the board in the process and let that person develop. Finally, the board should build in some independent objectivity such as a psychologist, search firm etc.”

- Board Member

to develop specifications that will be relevant to that future rather than those that have served the current CEO well.

Another aspect of this deals with succession processes around failed CEOs. Some board members mentioned that it is often easy to develop a profile that looks the opposite of the failed CEO, rather than recognize that only some traits of a failed CEO resulted in failure. At the same time, some board members noted that failures have arisen when the board has attempted to clone the current CEO, rather than considering the qualities needed for the future.

Dig Below the Superficial. Many of the failed CEO succession examples relayed by board members consisted of individuals who appeared great on all the superficial components. For instance, they all presented well to the board at board meetings. However, board presentations do not convey how an individual leads, works, communicates, or delivers.

Those interviewed suggested three ways to dig below the superficial. First, they said that one needs to talk to people that have worked with the individual to get a better sense of how they lead and how they deliver results. Second, they noted that some of the most effective leaders are

not dynamic charismatic leaders, but ones who have clear, quiet vision. Thus, boards should not focus too much on an individual's charisma, but focus more on their vision. Finally, they noted the need to place more emphasis on the content of successor presentations than the style of those presentations. One board member recalled a situation where an outgoing CEO answered difficult questions on behalf of his handpicked successor. This hid some of the candidate's flaws, which became clear after his ascension to the CEO position. The board, however, never pushed hard to challenge the candidate when the CEO stepped in on his behalf.

Boards Need Breadth and Depth of Exposure. Related to the previous point, those interviewed noted the necessity of getting as much information on internal (and external) candidates as possible. They noted the need to see the candidates in a variety of contexts rather than just at board meetings.

A few board members suggested strategically managing seating charts at board meetings and board dinners. The goal is to ensure that each board member gets seated next to each candidate over time. Such informal interactions can provide greater insight into how candidates relate to people in a one on one context.

Also, those interviewed noted that, as much as possible, board members should be exposed to candidates outside the boardroom because these exposures can provide more insights on candidates. For example, having board members travel with candidates to board meetings may provide a unique context to get to know them personally. Similarly, having board members conduct site visits with candidates provides them even more information on the candidates, particularly in terms of how they relate to their employees. This process provides exposure to the candidate in their “natural environment.” One key finding relevant to this topic was that boards should think creatively about how to expose candidates to board members in more contexts than just in board meetings.

SUMMARY OF PROCESS FINDINGS

The best summary of what constitutes a good CEO succession process might be to quote one board member who obviously had prepared for our interview. The board member stated:

“Here’s what an effective process should look like.

First, a good non-factionalized board of directors is a serious prerequisite to effective CEO succession because factionalized boards make CEO succession difficult.

Second, continuous active attention to CEO succession is critical. At a minimum you have to have annual evaluations by CEO with the Board of the next two or three tiers of executives because it’s important for the board to be conversant with the CEO’s perceptions of next tiers. While this typically occurs annually in a half-day session, some CEOs will do a five-minute recap of how direct reports are progressing as part of every board meeting.

Third, informal gatherings are very important where the current CEO assigns where people sit so everyone gets a good conversation with potential CEOs.

Fourth, the board needs to be forward looking

about the needs of the company - what are going to be the strategic requirements for the company? When there is a lack of consistency in the board about what the company needs over 5-7 year time frame, at the end there can be contention over what half the board thinks the company needs versus the other half. One way to avoid this is to have a consultant interview every board member individually, then present the results to the board as a whole. When there are differences, they can be surfaced early and addressed quickly among the board. This also keeps the conversation in the boardroom, rather than letting it get factionalized through conversations taking place among subgroups on the golf course.

Fifth, when you get to the end of the process, the comp committee chair should be prepared with parameters of the compensation of the new CEO. You don’t want to have a bad negotiation. Board needs to have on standby an attorney in case there are any last minute difficulties (such as when it is involuntary succession).

Sixth, there has to be a communications plan in place. This plan can depict how the new CEO is presented inside and outside of the company to ensure effectiveness with morale and investors in the early days.

Finally, you have to develop a plan for the transition. You need to address how long the transition will take place and how the current CEO will help the new CEO to adapt to the role.”

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Causes of Failure

Finally, we also asked some of the interviewees about the causes of failure among the CEOs who they had seen fail. A few mentioned that the person had been placed in the job without adequate experience and had difficulty scaling up into the larger role. In these cases boards try to provide help to the CEO through personal coaching (often the board chairman) or through bringing in consultants who can help the new CEO navigate the new role. However, the more consistent theme seemed to revolve around the new CEO's inability to listen to others (including the board).

In essence, a few of those interviewed described successful CEOs as those who displayed humility (i.e., recognizing others' skills and perspectives), a focus more on the company's success than their own financial success, and a willingness to accept and even seek out feedback from others. Failed CEOs, on the other hand, were described as extremely arrogant (to the point of not listening to others), focused more on their individual outcomes (in terms of money and perks), and avoiding or ignoring feedback. While only a few of the interviewees went into such detail, when

asked, they noted that in today's world, CEOs have to have an ability to build relationships with the board, their team, their organization, and external constituencies, and that those who were too arrogant or self-absorbed would be unable to build such relationships.

SUMMARY AND CONCLUSION

We began this study expecting that we knew what we would find: board members focus on financial results for determining whether or not the board made the right CEO succession decision. However, we found that boards are much more nuanced in how they determine success in CEO succession, and pay extensive attention to the context a new CEO enters. Those we spoke with also expressed a sophisticated approach to conducting CEO successions, built over years and over multiple CEO successions, both successful and failed. Finally, they seem to recognize that while all CEOs must be confident, when this confidence morphs into self-absorbed arrogance, it may make it nearly impossible for new CEOs to succeed.

Causes of Failure

“The CEO had bad soft skills, management style, aggression. His personality and management style did not match; he was a leader who kept to himself and did not mix with his senior staff, ruled by fiat with incomplete facts, did not have a positive personality (kind of an Eeyore personality).”

- Board Member

“First issue was that there was only one candidate that was being considered for the CEO position, and the board had serious reservations about this candidate because of his personality. The board described candidate as unlikable, immature, impatient for financial success, compensation-driven and not humble, but he really knew the business which was very complicated and complex. The board thought he was a money-grabber and that if he was not hired as CEO then he would leave the company to look for another CEO position. The new CEO was very sensitive to feedback. Very thin-skinned and took everything personally.”

- Board Member

Appendix A: Interview Protocol

INTERVIEW PROCESS

- All Interviews will be confidential and in our reports we will never identify who participated in this study.
- We do not want to know company or CEO names; just analysis of process. Thus interviewees need never divulge any names or identify any companies.
- All results will be aggregated into common themes. No company or individual information will be shared.
- If you feel that any question makes you uncomfortable for any reason, feel free to skip it and we will move to the next one.

INTERVIEW QUESTIONS

1. Including those you are currently on, on how many corporate boards have you served?
2. How many CEO succession events have you witnessed while a board member?
3. Of these, how many would you classify as a (a) success? (b) Failure?
4. **Success example:** Think about a specific CEO succession that you have been part of that was a success, or at least the “most successful”:
 - a. If you were to think about this decision along a 9-point scale where 1=Absolute Failure, 5=Adequate, and 9=Absolute Success, how would you rate this succession event?
 - b. Was this a planned or unplanned succession event?
 - c. Was it an internal or external hire (or something in between?)
 - d. How long it did it take to realize that the outcome was a success/failure?
 - e. How did you know that it was a success/failure? What events, developments or metrics led you to conclude that it was a success/failure?
 - f. What was the most important or influential part of the succession process that led to the board making the correct/incorrect decision?
5. **Failure example:** Think about a specific CEO succession that you have been part of that was a failure, or at least the “least successful”:
 - a. If you were to think about this decision along a 9-point scale where 1=Absolute Failure, 5=Adequate, and 9=Absolute Success, how would you rate this succession event?
 - b. Was this a planned or unplanned succession event?
 - c. Was it an internal or external hire (or something in between?)
 - d. How long it did it take to realize that the outcome was a success/failure?
 - e. How did you know that it was a success/failure? What events, developments or metrics led you to conclude that it was a success/failure?
 - f. What was the most important or influential part of the succession process that led to the board making the correct/incorrect decision?
6. As you look back on your experiences with CEO succession, how would you define success? How would a board know if the CEO succession process has resulted in choosing the right person? What are the critical dimensions boards need to attend to in order to define success?
7. As you think about your experiences with CEO succession, if you were to categorize them into failure or success, what would you guess is the average peer group percentile rank in terms of annual TSR of CEO succession failures and what is the average peer group percentile rank annual TSR of successful CEO succession decisions?
8. As you look back on your experiences with CEO successions, what do you think are the most critical things a board can do to maximize success?
9. What do you think are the areas where a board may be most prone to making decisions that might result in failure?
10. In what areas do you think CHRO's can contribute most to CEO succession?
11. Is there anything else you'd like to share?



The Darla Moore School of Business building has generated significant buzz since it opened its doors in August 2014, both for its striking appearance and for the ways it promises to transform business education. Drawing on extensive input from students, faculty, staff and the business community about how space can be configured to optimize business education, the \$106.5-million building is the university's most ambitious construction project to date.

With its many sustainable features, the building has earned LEED Platinum certification, making it a model for sustainable architecture and sustainable business practices. Its open and flexible design facilitates enhanced interaction and collaboration among faculty and students and makes the building an inviting hub for community engagement. In these and other ways, the building is a physical embodiment of the Moore School's commitment to forward-thinking leadership for the business community.

Center for Executive Succession

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