

WHEN BOARDS WILLINGLY SELECT AN INTERIM CEO

Firms that name interim CEOs suffer short-term performance declines; however, the use of an interim CEO is quite common. New research in the *Journal of Management* illustrates the conditions under which boards of directors are more likely to use an interim CEO. Boards select interim CEOs when disruptions to effective succession planning are likely to be greatest or when the capabilities of chosen successors are likely to be less effective or desirable.

Key Takeaways:

- The use of an interim CEO is more likely following a forced CEO succession.
- Even when succession planning has identified an heir apparent, boards may still select an interim CEO when turnover is forced.
- Succession planning early in a CEO's tenure is critical, as boards select an interim CEO when succession occurs in the first three years of a departing CEO's tenure.

Using data on 375 CEO successions from 1998-2005 in publicly traded manufacturing firms, researchers found that approximately 20 percent (73 of 375) of successions utilized interim CEO appointments. The use of interim CEOs was more likely when the outgoing CEO's turnover was forced. Further, an identified heir apparent was likely to be named CEO after an unforced exit, but more likely to be passed over by the board

following the forced exit of the CEO who was grooming the heir. Interestingly, following forced turnover, the use of an interim CEO was likely regardless of whether the firm had identified an heir apparent or not. Finally, the research team found that the use of an interim CEO was most likely when a CEO departed within the first three years of their tenure. The authors suggest that despite potential negative performance consequences of interim CEOs, the use of interim CEOs is likely to occur when the succession planning process requires disruption or has not yet meaningfully identified a successor. Furthermore, developing a successor early in a CEO's tenure may reduce the need for an interim CEO replacement. Succession planning, therefore, may need to be a continual process, throughout a CEO's tenure.

The research team suggests that boards may select interim CEOs to avoid rushing to judgment on an appropriate successor to conduct a more thorough search. Furthermore, boards are performing an in-depth examination of the firm's human capital to determine whether previously identified capabilities (e.g. an heir apparent's skill set) are relevant to the company's future success. The naming of an heir apparent does not guarantee subsequent promotion.

Source: Mooney, C. H., Semadeni, M., & Kesner, I. F. (2015). The Selection of an Interim CEO: Boundary Conditions and the Pursuit of Temporary Leadership. *Journal of Management*, In Press.

