CORPORATE BOARD MEMBER®
An NYSE Euronext Company

2011 SPECIAL SUPPLEMENT

TRANSITIONS IN LEADERSHIP

A 2011 Corporate Board Member/RHR International study on managing successful CEO transitions

STRUCTURING A
SUCCESSFUL CEO TRANSITION

The results of the 2011 Corporate Board Member/RHR International survey on CEO transitions offer insights on successful practices from board members who are executive succession veterans.

If CEO succession is not a hot topic in your boardroom, sooner or later, it will be. A change at the top can be driven by any number of events—some of which are anticipated, others that no one sees coming. Whether it involves a planned retirement or health issues, mismanagement or poor performance, or an acquisition or restructuring, in every case, the more prepared a company is, the easier and more successful the transition will be.

In January, Corporate Board Member and RHR International surveyed 246 board members, predominantly from companies $1 billion in revenue and above, to find out more about their CEO succession and transition experiences. More than 50% polled serve as outside directors, with the remainder primarily chairmen or CEOs.

Most respondents indicated they had experienced three or more CEO transitions in their careers. And while more than half (66%) indicated that most CEO succession experiences had met their expectations, about a third reported mixed experiences, with some transitions falling short of expectations.

A closer look at these results offers some insightful data, including how most companies approach the transition timeline, new CEO and board/management effectiveness ratings in several key areas, internal or external resources used, and exit strategies for the outgoing CEO.

Transition effectiveness

We first asked respondents how effective their company had been during its most recent CEO transition (Figure 1). Nine out of 10 rated their new CEO as effective in setting the right tone in communications and appearances, and almost as many (89%) said their new CEO was effective both in communicating a clear direction early on and in aligning with the board on strategy and goals (88%). Similarly, 88% reported that their board and management were effective in making their expectations of the new CEO clear.

Eighty-six percent said their new CEO was effective at working to build a relationship with the board of directors early on, and nearly as many noted the same in regard to the new CEO's ability to understand and adapt to the company culture, address a pressing issue quickly, and establish and implement the proper business strategy. A slight dip in these numbers was noted when respondents were asked how effective the new CEO was at quickly getting his or her team up and running, with 76% garnering an effective rating in that category.

We then surveyed directors on which factors had the greatest influence on their company's most recent transition. The ability

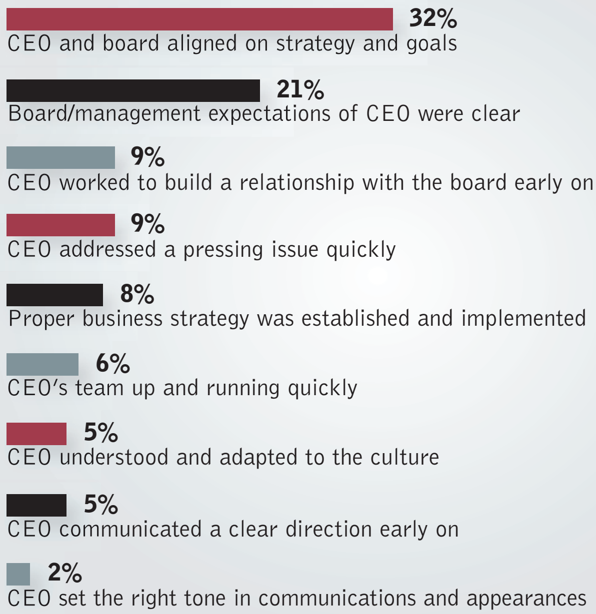
Figure 1

Effectiveness Ratings for Most Recent CEO Transition

	Very Effective	Effective
CEO setting the right tone in communications and appearances	61%	29%
CEO communicating a clear direction early on	58%	31%
CEO and board aligning on strategy and goals	52%	36%
Board and management making their expectations of the CEO clear	47%	41%
CEO working to build a relationship with the board of directors early on	58%	28%
Company establishing and implementing the proper business strategy	46%	39%
CEO understanding and adapting to the company culture	57%	26%
CEO addressing a pressing issue quickly	50%	33%
CEO able to get team up and running quickly	36%	40%

Figure 2

Most Important Contributor to Success/Failure of CEO Transition



ENSURING TRANSITION SUCCESS

***Corporate Board Member* sat down with RHR International partner Joseph L. McGill Jr., Ph.D., to ask about his recommendations for boards that anticipate undergoing a CEO transition and about his insights on the research results.**

More than half of those surveyed believe a CEO has two years or less to deliver on expectations. What does that say about the current culture of corporate America?

Part of the issue really goes back to 'What is the state of the business?' The sense of urgency around the expectations of the new CEO will be dictated, to some extent, by the specific issues at hand. The sense of urgency in a turnaround situation is obviously much different than the timetable for a more stable business, for example. Most boards will set expectations that are consistent with the business challenges.

Nearly half of the respondents indicated their company did not engage specific resources to assist with their most recent CEO transition. Is this surprising?

Boards sometimes make the assumption that if the incoming CEO is smart enough to get the job, he or she is smart enough to figure it out. Boards may also be reluctant to offer a great deal of counsel for fear of communicating doubt about the new CEO's ability. Ultimately, it does not make sense to go through all the expense of selecting a new CEO and then throw the transition up to chance, particularly when there are specific things that can be done to increase the likelihood of success.

The CEO's role is different from other organizational positions in ways that are not easy for the individual to anticipate. And for some new CEOs, the role represents a huge change from their previous experience. As just one example, they often don't have the same sources of input, feedback, or information that they had in other positions. While this can be challenging at any point in a CEO's tenure, it can significantly impede the CEO's ability to gain traction when experienced early on. Thus, having a trusted adviser lined up in the early stages can be a huge benefit.

What are some recommended steps for ensuring a successful CEO transition?

A successful CEO transition requires a complex interaction of three related but distinct sets of issues. The first involves the personal transition that the new CEO makes as he or she moves into a role that is much more complex than any position held prior to this move. Arranging frequent interactions between the new CEO and board members in which they share thinking about strategy as well as personal experiences in the CEO role would help the new CEO avoid many of the common pitfalls experienced during transition. The new CEO should also have clear expectations of how he or she will be evaluated by the board.

Second, there are organizational adjustments that will be required. The most important issue here is having alignment between the new CEO and the board on the strategic imperatives going forward. The new CEO also needs to assess the cultural and structural adjustments that are required to meet the demands of the strategy.

The third dimension of a successful transition is having a senior team that is aligned around the company's strategic objectives and has the requisite mix of skills necessary to develop and execute a plan. The new CEO needs to assess the senior team fairly early in his or her tenure and plan to execute the necessary adjustments in a timely manner.

Just over half of those surveyed indicated their company employs a formal evaluation of the CEO at six-month intervals during the first year. Is this an adequate time frame to evaluate performance?

The bottom line with evaluations is that you want to prevent transition problems—not just call them to the CEO's attention. This implies that you need to have some ongoing dialogue about how things are going so you can identify issues before they become real problems. So in some cases, waiting until the six-month mark may even be too late. If the board waits until then to conduct a formal evaluation, there may already be damaged relationships, cultural missteps, or missed opportunities.

Survey respondents were evenly split on whether an outgoing CEO should exit quickly or should participate in the transition period with the new CEO. Which method has proven most effective in your experience?

There are some cases where a clean break is best and others where some overlap is valuable. A major factor is the chemistry between the two executives. Either way, the outgoing CEO can make a big contribution prior to the transition. I would offer the following recommendations:

- The outgoing CEO can help the new CEO anticipate some of the major adjustments that the new CEO will face in the transition.
- A sizable contribution can be made by the outgoing CEO in helping the incoming CEO understand how the board operates and what kind of issues are on the agenda.
- The outgoing executive can lend assistance with intelligence regarding external relationships, including major customers, members of the investment community, and others.
- In some cases, the exiting CEO should deal with obvious personnel problems before leaving office, such as making decisions on firing poor performers but leaving the selection of replacements to the new CEO.

All these areas can make a positive impact on the success of the transition and the leadership of the company going forward.

of the CEO and board to align on strategy and goals was selected most frequently as the key contributor to the success or failure of the CEO's transition, while the ability of the board and management to make their expectations clear was the factor noted by the second largest group of respondents (Figure 2).

Regarding the transition timeline, we were interested to discover how long respondents believe a new CEO should be given to fulfill expectations. More than half (55%) indicated a new CEO has up to two years to deliver, and another 28% think a new CEO should be given a longer period of time. However, 15% believe a new CEO has only up to one year (and 1% say just six months) in which to be judged successful.

Transition resources and monitoring

While having the foundational support of the board is crucial to an incoming CEO's success, half of those surveyed said their company used one or more of the following resources to help their new CEO transition more effectively: Twenty-four percent engaged an inside mentor to assist with the process, and 21% provided the new CEO with a personal coach. Twelve percent utilized a human resources executive, and 10% hired a strategy consultant. Thirty-three percent of respondents indicated their board retained these resources, while 14% said the CEO made the request for assistance. Only 6% said engaging such resources is a standard company practice (Figure 3).

With regard to transition monitoring, 93% of those surveyed indicated their company participates in ongoing CEO monitoring, with feedback and support provided by the board throughout the year. A formal evaluation at the end of six and 12 months is employed by 58% of companies represented in the study. This method is used more frequently by companies with revenues above $5 billion. Finally, conducting one or more "pulse checks" with internal stakeholders, particularly the senior management team, is used by 47% of respondents to monitor the CEO's progress. Again, this method is employed more frequently by companies with more than $5 billion in revenue.

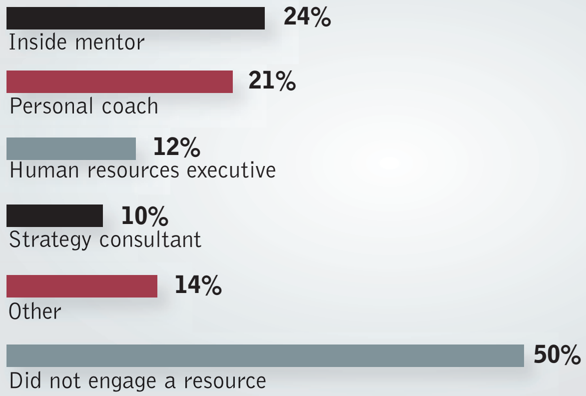
Exit plan for outgoing CEO

The strategy for dealing with the exit plan for the outgoing executive can be a fairly sensitive matter in many cases, so we wanted to find out how our respondent companies had dealt with this issue in previous circumstances. Survey respondents were split on the best role for the outgoing CEO. Forty-six percent believe he or she should exit quickly, while another 46% indicated the outgoing CEO should participate in an overlap period to assist in the transition. Only 5% believe the outgoing CEO should become chairman of the board, while just 3% indicated he or she should become a board member.

The bottom line on successful transitions

Our survey results fully support the concept that a successful transition requires a sound plan that is supported by the board and management, with clear communication early on among the incoming CEO and the existing board and management. The plan should be reviewed to closely correspond and align with the company's business strategy and should outline clear expectations and provide a means for consistent feedback. For best results, the new CEO should strive to operate within the current culture, interact effectively with the board and executive team, and maintain open lines of communication. In addition, many resources such as inside mentors, personal coaches, and strategy consultants can be employed to enhance the process and ensure the company moves forward confidently with its new team at the helm. Directors surveyed also mentioned such things as exposure to stakeholders, holding offsite meetings, and encouraging the new CEO to write regular monthly updates on key issues as having a positive effect on the transition success.

Figure 3
Resources Used for CEO Transition



Overall, it appears the single most important factor in executing a smooth transition can be boiled down to one word: communication. It is crucial that the incoming CEO understand the culture, the issues at hand, and what the board expects in order to bridge the gap between old and new and move the company forward toward a successful future.

RHR International

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