RESEARCH STUDY

Chief Executive Transitions

Keys to an Effective Transfer of Leadership at the Top

WHAT WE THINK

From the persistently high CEO turnover rate to the declining tenure of those at the top, we are continually reminded that company performance is not the only factor that plays a role in failed transitions.

While succession plans are essential to successful change at the top, a well-planned transition, with clearly defined roles for key stakeholders (particularly board members), can serve as the springboard to accelerate strategic alignment between the CEO and board and help to maintain and even build business momentum.

A well-planned transition is critical to a smooth transfer of leadership, maintaining business momentum, and meeting the expectations of stakeholders and shareholders. Between the significant costs associated with a failed CEO transition and the push for increased board oversight in practically all areas of the business, boards are ever more diligent about ensuring that succession plans are in place for their CEOs.

Many believe, however, that a diligent search and selection process is the critical ingredient of a successful CEO transition. Based on our research and experience working with CEOs and boards, we gathered data from in-depth interviews with 22 CEOs and separately via a survey of 210 board members. Our results reveal insights on the following:

1. Lack of alignment between the board and the new CEO on the strategy and clarity of board expectations for the CEO's performance are leading factors in failed transitions; however, success on these factors alone does not guarantee success.
2. The board's potential contribution to a successful leadership transition extends well beyond the selection decision.
3. Predecessors have a significant impact, both before and after succession.
4. In hindsight, new CEOs would have acted sooner to make the people changes necessary.
5. Transitions are challenging for every chief executive, but they are exceptionally difficult for first-time CEOs.

About This Research

Our research was focused on understanding the ways organizations support a CEO's transition into the role, where the pitfalls are that should be avoided, and how a company can accelerate the CEO's ability to drive the organization forward.

Methodology
Built on a foundation of over 70 years of experience working with C-suite executives and CEOs, in addition to a CEO succession and board effectiveness research program initiated in 2004, this research consisted of two separate studies and was designed to further investigate the factors that go into a successful transfer of leadership at the top from the perspective of CEOs and board members.

Director Perspective
Phase one of this research was conducted in 2011. RHR International and *Corporate Board Member* surveyed over 200 board members, predominantly from companies with $1 billion in revenue and above, about effective CEO transition practices. Survey responses from 210 non-CEO board members were included in this study.

CEO Perspective
For the second phase of the research, also completed in 2011, RHR International conducted in-depth structured interviews with 22 CEOs who had transitioned into the role within the last six years. Seventy

percent were from companies with $1 billion in revenue and above.

The interview protocol included both open-ended and rated questions about the CEO's transition experience and what can be done by the board, organization, and CEO predecessor to increase the likelihood that new chief executives are able to hit the ground running at the start of their tenure. The results of this research are summarized below.

I. Transition Vantage Point

Director Perspective

Directors responding to our survey had an average of three CEO transitions under their belts. As company size increases, so does director experience in this area, with those associated with larger companies significantly more likely to have gone through multiple CEO changes as part of their role on current and prior boards. While 40% of directors have experienced a transition that has not gone well, the majority hold a decidedly favorable view on the success of prior transitions experienced.

CEO Perspective

For an overwhelming number of CEOs, their first experience with a CEO transition is likely to be that of their own. In our sample of CEOs, 83% were in the role for the first time.

Fifty percent of CEOs described a challenging and at times chaotic transition into their role. Even for CEOs who depicted a straightforward and less rocky transition, it was never characterized as easy. In addition, counter to what one might expect, this finding held up regardless of successor type—as a similar proportion of internal and external successor CEOs related that they had experienced a challenging transition.

> "I expected more involvement from my board than I actually received. I initiated a lot of the reaching out during the first year."

RHR INTERNATIONAL: THOUGHT LEADERS IN CEO TRANSITIONS

RHR International has been a major contributor to the development of CEO succession/transitions and best practices through three major research projects with *Directorship* and *Chief Executive* magazines, in-house interviews with directors of large and mid-sized companies, numerous articles and white papers, and a blog series based on interviews with highly successful chief executives.

For more than seven decades, RHR International has partnered with boards and C-level executives to help their organizations prepare for succession. This includes working with the incoming CEOs to assist them in successfully undertaking their new duties. By developing a proven and practical process that can be customized to the individual and the organization, RHR consultants are able to increase the probability of success, extend time of tenure in the office and sure a seamless changeover in power.

II. Important Transition Factors

1. Strategic Alignment and Clarity of Expectations

There is a shared view among directors and CEOs that two keys to a successful transition are: 1) CEO-board alignment on strategy and 2) clear board expectations about the CEO's performance. Views on the ability to achieve success on each of these factors differ greatly however, and success on these two factors alone does not guarantee transition success.

Director Perspective

When asked to identify the most important factors contributing to the success or failure of the most recent CEO transition directors had experienced, strategic alignment and clarity of board expectations came out on top. In addition, 85% of directors report that their companies were either effective or very effective on these two factors.

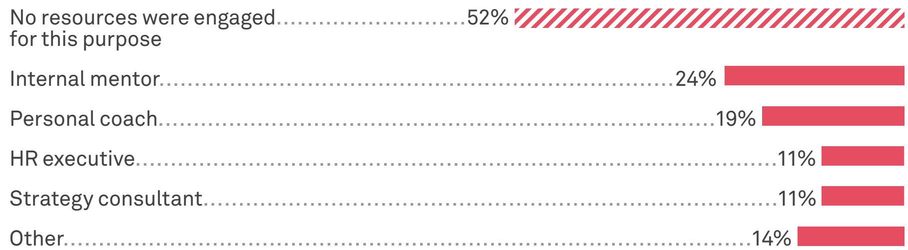
CEO Perspective

Interviewed CEOs were asked to reflect on their transition experience, relative to these two factors, at points in time both early and more recent in their tenure. By the end of the third month, less than half of CEOs (47%) were aligned with the board on the company's direction and only 41% were clear on the board's expectations of their performance.

As compared to the CEOs' current view, results suggest that for most, time and effort increases alignment (88% of CEOs indicated alignment).

Somewhat disconcerting, however, is that gaining clarity on board expectations remains a significant challenge for many CEOs, with ratings showing little improvement in this area. This finding is counter to the directors' views and it is possible that board members assume they have been clear about their expectations of the CEO's performance. When this finding is considered within the context of how challenging transitions can be, it is reasonable to assert that clear, direct communication from the board about expectations (including checks for shared understanding) could have helped to eliminate noise and accelerate the CEO's ability to focus on driving the organization forward.

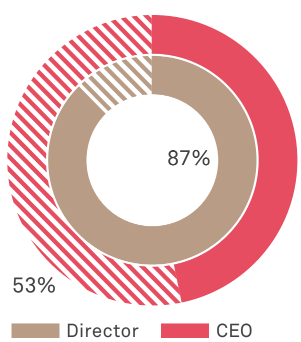
Transition-Specific Resources



2. Board Involvement and Support Make a Critical Difference

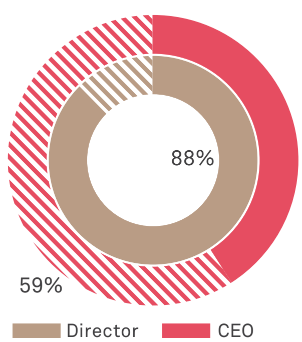
The board's potential contribution to a successful leadership transition extends well beyond the selection decision. From the CEOs' perspective, board involvement and support make a critical difference in their transition experience. Although many board members believe they currently provide sufficient support to the new CEO, a majority of newly appointed CEOs were disappointed with their board's contribution to their transition.

Strategic Alignment



87% of directors rated their company as effective or highly effective on board alignment with the CEO on strategy (specific to most recent transition).

After three months in role, 53% of CEOs were not sufficiently aligned with their board on the company's strategy and goals.



88% of directors rated their company as effective or highly effective on clarity of board expectations about the CEO's performance (specific to most recent transition).

After three months in the role, 59% of CEOs did not have a clear understanding of the board's expectations of their performance.

CEO Current View

Aligned on Strategy
88% are aligned with the board/12% are not aligned

Clear Expectations
63% are clear on their board's expectations /27% are not clear

Director Perspective

Results from the director survey indicate that one out of every two CEOs will move into their role without the support of transition-specific resources.

Specific to the board's role, directors were asked to list the ways that their board provides support to CEOs during their transition. Results reveal that board accessibility is a defining characteristic for directors. With this type of support, board members extend an open invitation to new CEOs to seek them out for advice or counsel, but they give little structure to the process. This approach often runs counter to the expectations of incoming CEOs, and, in our experience, this style is not that dissimilar from the ways boards interact with CEOs throughout the course of their tenure. What was more surprising, however, was the number of directors who indicated that no special efforts were undertaken to increase the level of board support, primarily because the successor ascended from within the organization. The implication is that the successor's familiarity with the organization, people, and culture is sufficient for an effective transition. However, a number of internal successors expressed quite the opposite view.

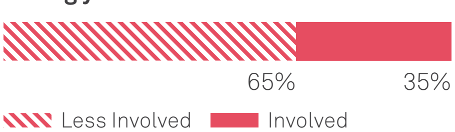
HOW DO BOARDS SUPPORT CEO TRANSITIONS?
(Director responses presented in order of most to least frequent)

1. By being open and accessible
2. Designating a board liaison to provide support
3. Lead director specifically plays an active role
4. Predecessor overlap with incoming CEO

CEO Perspective

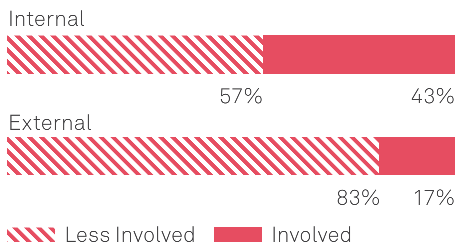
From the perspective of the CEOs we interviewed, a surprising number are left to navigate the transition on their own, with little or no involvement of the board or in the form of other support structures. In fact, only 57% of CEOs indicated that their companies provided integration support, and an even smaller proportion (35%) conveyed that they had an involved and engaged board.

How involved was the board during your transition?



When the data were analyzed by successor type, compared to internal transitions, an even smaller proportion of external successors had an involved board during their transition. In addition to results from the directors survey, this finding suggests that some boards may not be considering the full set of challenges a new CEO faces.

How involved was the board during your transition?



It is not surprising then that a full 61% of CEOs shared with us that from the onset they had very different expectations for how their board would support their transition and help them get acclimated to the post. For example, a common expectation on the part of CEOs was that they would receive frequent feedback from the board, as well as more proactive and forthright communication about expectations and strategic priorities. In short, the CEOs expressed a desire for more guidance from their boards.

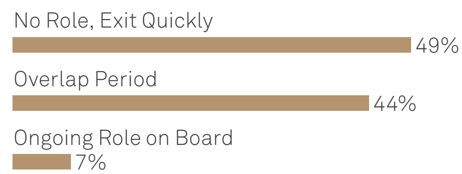
3. The Predecessor's Influence

Predecessors have a significant impact, both before and after succession. New CEOs have to deal with the legacy of their predecessor regardless of whether the outgoing CEO remains on the board. For outgoing CEOs that remain, lack of clarity on their role post-succession can also lead to confusion and mixed signals to the organization.

Director Perspective

When asked their perspective on the best role for the outgoing CEO, directors' responses were almost evenly split. Approximately half of directors share the view that a clean break is best, with no formalized ties left to bind the CEO and organization. Another 44% believe that an overlap with the successor would be preferred. Only a small percentage of directors believe that it is best for the outgoing CEO to remain involved over the long term, beyond the transition.

What Is the Best Role for the Outgoing CEO?



CEO Perspective

Of the CEOs we spoke with, 60% indicated that their predecessor left immediately after the role change. Predecessors who stayed on as a board member did so on average for eight months—three quarters of the first critical year of the transition process.

For some organizations, a critical part of the board's support occurs via interactions between the incumbent and the outgoing CEO. In situations when the outgoing CEO remained on the board, what new CEOs appreciated most was a predecessor who was there to support them as a "sounding board" but who from the start gave them "room to run" and lead the business. Effective predecessors were also described as those who sought opportunities to connect with the incoming CEO, helped to strengthen the CEO's relationship with other board members, and introduced him/her to key external stakeholders. They also proactively clarified their role relative to the incoming CEO, board, employees, and shareholders.

Eight: The number of months, on average, predecessors remained on the board.

While some predecessors can be enormously helpful, our interviews with CEOs and experience show that in certain situations the prior CEO can impede the incumbent's progress and ability to gain credibility with the board. Warning indicators that the ex-CEO is not "letting go" include: a) being too involved in business and key decisions, b) exerting undue influence on the board behind the scenes, and c) their opinions to the board continue to outweigh those of the incumbent.

"I wanted clarity of the board's expectations, which they were hesitant to express."

RECOMMENDATIONS FOR THE OUTGOING CEO:

- Help the incoming CEO anticipate some of the major adjustments to be faced during the transition
- Share insights on how the board operates, how to utilize the board effectively, and what kind of issues are on the agenda
- For those remaining on the board, give the incumbent "room to run" and lead the business
- Offer support as a mentor or sounding board, but be careful not to overstep your advisor status
- Clarify post-leadership role with the incoming CEO, as well as with the board, shareholders, and employees

III. CEO-Specific Findings

What CEOs Would Change About Their Transition

Hindsight being 20/20, interviewed CEOs were asked what they would change about their integration if granted the opportunity. While they shared differing inclinations, the common denominator was that the CEOs would have acted sooner.

CEO Perspective

Change 1: Board Interaction

One aspect that CEOs would change if they could would be to have more frequent, high-quality interactions with the board earlier in their transition. CEOs emphasized the need for transparent and candid communication concerning the board's view on strategy, role clarity, and a desire to have the increased engagement of individual board members and the board as a whole.

Change 2: Tough Calls

On average, the CEOs we interviewed made key people changes approximately four months into their tenure. Several CEOs shared with us that they would have initiated people changes earlier in their tenure, particularly as they relate to executives who were not performing up to expectations. While CEOs expressed the desire to provide the underperforming executive with ample time to prove themselves, they also recognized that had they acted sooner, they would have significantly limited the negative impact that this individual had on the executive team, their direct reports, and the broader organization.

Change 3: Preparation

Regarding the CEO's integration, there was a desire for a more planful process in place prior to the role change. This would have allowed more time for the CEO's due diligence on the existing team and to create a preliminary business plan. CEOs would have also extended this more planful process once in the role rather than having a transition that was "baptism by fire."

Recommendations

Board members and new CEOs have a responsibility to ensure that the transition leads to an effective transfer of leadership and sustainable business momentum. It demands an active role and open communication for both parties in planning and executing the CEO's transition into this most challenging role.

Advice for Boards

There is No Approach. However, based on this program of research, we conclude that to execute well, the board should first recognize that the process does not stop with the selection decision. Take the initiative to engage the CEO around strategy. Assist with the important connections and provide the necessary support. It is also important to share experiences—help the new CEO anticipate the demands of the role. Finally, the transition plan should be based on an assessment of the organization's needs and the characteristics and capabilities that the CEO brings to bear.

The Board's Role in a Well-planned Transition:

- Clarify expectations of the transition period
- Take the initiative to engage the new CEO around strategy and expectations
- Maintain frequent communication with the CEO to stay calibrated
- Help the new CEO anticipate the demands of the role
- Make sure that the role of the predecessor is clear

Advice for CEOs

Get to Know the Board. Seek opportunities to meet informally with directors. Discuss how they see the company. Former CEOs on the board will likely welcome an opportunity to share their own perspectives. Put a lot of time and energy into preparing for the formal board meetings as well. This has to be done right to facilitate strategic alignment and stimulate critical discussions.

Create a Support Network and Find a Champion. Seek a veteran CEO to act as a mentor, find a trusted advisor/HR professional within the organization, and/or take counsel from an outside consultant. The goal is to have a team of experts that can help guide your personal transition process, reveal potential roadblocks or derailing events in advance, and help you normalize frustrations that are bound to occur.

Put Your Team In. Assess your senior team early on. New CEOs may need to make adjustments to get the right mix of talent and capabilities for the given strategy. Build an environment that encourages open, transparent communication so direct reports are forthcoming with both good and bad news.

Get Out There. Leave your office, walk around, connect with employees, and initiate relationships with your key constituencies. Learn what is important by preparing and asking good questions. Have a clear idea of the message you want to communicate. It is important that this vision be delivered in a consistent way through deeds as well as words.

A WELL-PLANNED TRANSITION LEADS TO:

- Clear critical roles, particularly board and predecessor
- Establishment of important relationships
- Alignment of key constituents on strategic priorities
- People issues addressed in a timely manner
- Developmental issues for the new CEO identified and a plan put in place to address them
- Business momentum and sustained organizational performance
- An established and aligned senior team; team membership composed of the right people executing the right strategy

Summary

CEO Transition as an Organizational Event

The CEO transition process is above all else an organizational event, composed of the interplay of individual (CEO), senior team, and organizational dimensions. All three areas must be addressed in an integrated, holistic manner in order for the transition to be successful.

The individual component

refers to the challenges that accompany the personal transition that the new CEO makes as he/she moves into a role that has a significant increase in scope of responsibility and is much more complex than any position held prior to this move.

Early considerations

Arrange for frequent interactions with board members in which they share thinking about strategy as well as their own personal experiences in an effort to help the new CEO avoid many of the common pitfalls experienced during the transition. The new CEO should also have clear expectations of how he/she will be evaluated by the board.

The senior team component

refers to the movement toward a top team that is aligned with and committed to the strategic direction, collectively capable (has the requisite mix of skills necessary) to execute on that strategy and build the necessary momentum in the organization around change, growth, etc.

Early considerations

The new CEO needs to assess the senior team fairly early in his/her tenure and plan to make the necessary adjustments in a timely manner.

The organizational

effectiveness dimension refers to the necessary adjustments that take place as a result of new leadership and shifts in the strategic direction of the organization.

Early considerations

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 will be required to meet the demands of the strategy.

About The Research

Director Survey

RHR International and *Corporate Board Member* surveyed 246 board members about effective CEO transition practices. Survey responses from 210 non-CEO board members were included in this study.

Title With Primary Company	Frequency	Percent
Chair	26	13
President	9	4
Vice Chair	2	1
CFO	2	1
Retired CEO	12	6
Retired (not CEO)	12	6
Outside Director	126	61
Other	17	8
Did not answer	4	
Total	210	100

Annual Revenues	Frequency	Percent
Under $500 Million	6	3
$500 Million to $1 Billion	19	9
$1.1 Billion to $5 Billion	112	55
$5.1 Billion to $10 Billion	38	18
Over $10 Billion	30	15
Total	205	100

ABOUT RHR INTERNATIONAL

RHR International LLP is an independent, global firm of management psychologists and consultants who understand the distinctive challenges and pressures that CEOs, board directors, and senior executives face. Its singular focus on senior leadership effectiveness, business outcomes, and research-based practice sets it apart from other executive and organizational development consultancies. For more than 70 years, RHR has been helping leaders and their teams transform themselves and, in turn, the performance of their organizations. RHR offers Board & CEO Services, Senior Team Effectiveness, Leading Transformational Change, Executive Development, and Executive Assessment. For more information, visit rhrinternational.com.

RHR offers consulting services as RHR International LLP in the United States and through its wholly owned subsidiaries and affiliates including Europe, North America, South America, Asia, and Australia.

CEO Interviews

RHR International conducted in-depth structured interviews with 22 CEOs about a total of 23 transitions (one CEO shared experiences from two separate transitions). Four CEOs had transitioned into the role within the preceding six years but at the time of the interview no longer held the CEO title.

Tenure	Frequency	Percent
Less than 6 months	1	4
6 months to 12 months	1	4
12 months to < 18 months	3	13
1.5 yrs to < 2 years	1	4
2 years to < 3 years	5	22
3 to < 5 years	5	22
5+ years	7	30
Total	23	100

Prior Role	Frequency	Percent
CEO	4	17
President	5	22
COO	7	30
CFO	3	13
EVP, SVP, other	4	17
Total	23	100

Transition Type	Frequency	Percent
External	7	30
Internal	16	70
Total	23	100

Transition Type	Frequency	Percent
< $50 Million	2	10
$50 Million to < $100 Million	2	10
$100 Million to < $1 Billion	2	10
$1 Billion to < $5 Billion	10	50
$5 Billion to < $10 Billion	3	15
$10 Billion or more	1	5
Data not available	3	
Total	23	100