INSIGHT
FROM THE
BOARDROOM

FINDING THE NEW BOSS

CEO turnover is ticking up. That puts more pressure on boards to find the right replacement and ensure a smooth transition.

By Sarah Fister Gale

CEOs made some quick exits in 2018. Sexual misconduct allegations triggered the departures of chief executives at CBS Corp. and Wynn Resorts. Intel's CEO departed last summer after a past consensual relationship with an employee surfaced. JC Penney CEO Marvin Ellison left the struggling retailer in May to take the top job at Lowe's. CEO turnover in the U.S. reached an eight-year high in January 2018, according to a report by executive recruiting firm Challenger, Gray and Christmas.

At this point, boards of directors should expect the unexpected—and take succession planning even more seriously. Given the increased accountability CEOs are facing around sexual misconduct—along with issues like data breaches and cybersecurity—boards are under incredible pressure to find the right replacement and ensure transitions go smoothly, says Ken Goldman, who serves on the board of directors at NXP Semiconductors, TriNet, RingCentral, Zuora and GoPro Inc. (He is also a former CFO of Yahoo.)

In today's environment, board members may be asked to provide more detail about succession plans and the health status of leaders than in the past, according to Kevin Groves of Pepperdine's Graziadio Business School. "Boards today need to have a detailed profile of the type of individual that is required to lead their organization in the

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future—and this profile should be different from the one who is leading it today," Mr. Groves told *Corporate Board Member* magazine last year.

Whether or not a CEO departure was expected, board members need a playbook to follow, says Mr. Goldman. "A board's No. 1 responsibility is to have a plan in place for the transition." Yet many companies do not have such a plan. A 2010 study by Stanford University and the search firm Heidrick & Struggles, for example, found that just 54 percent of boards were grooming a specific successor, and a stunning 39 percent had "zero" viable internal candidates who could immediately replace the CEO.

INSIDE JOB

If a CEO is removed for failing to deliver financial returns, the replacement strategy is fairly clear: Find a leader who can right the ship. But when a CEO leaves a high-performing company, the board must decide between picking someone who will maintain the status quo and using the exit as an opportunity to shake things up.

Internal candidates can be ideal for boards that want the company to continue on the same path. An insider knows the company and culture and likely has a well-defined plan for where to take the company in the years to come. Another plus: He or she probably has supporters in the ranks to help enact the plan.

Mr. Goldman points to Goldman Sachs as an example of a recent smoothly executed transition involving internal grooming. The firm's board selected President David Solomon to succeed Lloyd Blankfein as CEO when he stepped down in September. Mr. Solomon was one of two executives being groomed for the top role—his competitor for the CEO spot resigned early last year, clearing the way for his ascension.

Boards should be prepared for passed-over candidates to leave and have a plan to promote or hire new leaders to fill those gaps, Mr. Goldman says. "Unless one candidate is clearly ahead of the others, expecting everyone to stay isn't realistic."

An exodus of management talent is not the only risk companies face when an internally groomed CEO steps up. Any new leader will want to put their stamp on the organization, says Sue Gove, a former CEO of Golfsmith International who serves on the boards of Iconix Brand Group and Tailored Brands. For a board looking to sustain a strong company performance, the trick is making sure the new CEO's vision for the

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future does not threaten to undermine the company's current winning streak.

OUTSIDER APPEAL

At struggling companies in need of dramatic change, boards commonly look externally for new leadership. "I often see boards carrying out their hiring responsibilities by looking to the outside for fresh thinking and innovation," Ms. Gove says, citing Lowe's, JC Penney and Neiman Marcus as examples. "There is also often a drive for a shift in strategic direction that may be lacking internally."

Uber has seen success with its outsider CEO hire following a disastrous year of lawsuits, boycotts and claims of sexual harassment inside the company. Its board chose Dara Khosrowshahi, the former CEO of Expedia, to course-correct the struggling company. Many in the industry saw the choice as a truce among conflicting board members, noting that Mr. Khosrowshahi has a reputation as a diplomatic leader who listens before he acts—unlike his unpredictable predecessor, Travis Kalanick.

But working with an executive search firm can take months—which is fine if the search process is part of a planned transition, but a real problem if a CEO departs suddenly, Mr. Goldman says. For example, the boards of Intel and CBS were still in hiring mode as of mid-November.

Outsiders are also generally unknown to the board, making the choice riskier. Board members should of course vet candidates' business skills, leadership style and vision for the company, but cultural alignment matters as well. "Fitting with the culture is extremely important for a CEO's success over time," Mr. Goldman says.

WHAT DOES SUCCESS LOOK LIKE?

Whether focused on internal or external candidates, however, every board must make its priorities and expectations clear to prospective CEOs. Whatever its vision, the board needs to communicate it as part of the vetting process so candidates know what is expected, Ms. Gove says. The new executive needs to know what success looks like in the eyes of the board. Some boards may just want continued strong financial results, whereas others may want the CEO to fix long-standing problems with the culture. "The board has to be clear about how it will measure the CEO's success," she says.

Setting clear expectations is important because once a CEO is hired, there is no one there to train them, Ms. Gove says. "It is uncommon for exiting CEOs to stick around for the transition and can be distracting," she says. "The successor is hired because they have a vision and strategy. The expectation is that they are ready to go." The importance of getting the hiring right is underscored by how difficult it is for boards to compensate for a CEO's shortcomings. If the wrong person is chosen for the job, no amount of mentoring, coaching and special help from the board can change that fact, according to veteran CEO and board adviser Ram Charan, writing in *Harvard Business Review*.

Still, boards should stay closely connected with new executives during the early months of their tenure. Ms. Gove suggests that new CEOs report formally to the board every month—not just every quarter—to share

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progress and goals. This gives the board an opportunity to ensure the direction is in sync with expectations, Ms. Gove says. "Communication is one of the most important aspects of bringing a new leader in," she says.

NO TIME TO WASTE

As boards monitor new CEOs in these crucial first months, they need to be realistic about what someone can reasonably accomplish. "When boards expect too much too soon, they set their CEO up for failure," Mr. Goldman says.

This is a common scenario, especially in public companies judged on the latest quarterly results. But boards need to recognize that no matter how good a CEO is, he or she may make a few mistakes while getting up to speed, Ms. Gove says. "Boards have to give them enough time to find their way."

For board members watching the first months of a CEO's tenure, this can be an uncomfortable process, especially if the executive does not cleave closely to the board's vision. A charismatic leader who delivers early impressive results may be able to get away with ignoring the board's advice; otherwise the person's tenure will be short-lived. But no matter how much they are pivoting strategy or driving strong results, a new CEO needs to be adaptable to a changing environment, Ms. Gove says. Being able to "introduce new ideas while accommodating the culture and legacy of past leaders" is a sign of a respectful leader who can carry a company into the future. **IQ**

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