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HR@Moore

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The Critical Role of CHROs in CEO Succession

2013 HR@Moore Survey of Chief Human
Resource Officers

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Executive Summary

The 2013 HR@Moore Survey of Chief HR Officers (formerly the Cornell/CAHRS Survey of Chief HR Officers) focused on the Chief HR Officer's (CHRO) role in the CEO succession process. The survey revealed three key internal actors to the succession process: The incumbent CEO, the potential successor candidates, and the Board of Directors (BOD).

Quantitative results revealed that over 80% of BODs design exposure for successor candidates, have a defined ownership of the succession process, conduct ongoing assessment of candidates, and schedule conversations with the CEO. However, 60% or fewer companies have developed a role profile for the future CEO based on a 5+ year strategy, provide a feedback process for candidates, have tools for talent assessment, include succession discussions in board minutes, develop role profiles for potential successors, or explore the external market for successors.

CHROs play a key role in helping successor candidates through the process. They begin by designing development plans using the CEO competencies as the ideal profile, then coach the candidates, identify development opportunities, oversee 360-degree feedback assessments, and secure external coaches for them.

CHROs act as critical partners to CEOs regarding succession through helping them to identify the profile of the "future" CEO, encouraging CEOs in ways to develop their potential successors, providing assessment tools and development plans for the successors, and discussing candidates with the CEO. On the other hand, discussions about the capabilities and potential of specific candidates and the timing for succession tend to be the most difficult conversations CHROs have with CEOs.

CHROs help the board by providing an effective process for succession, forcing the development of a "future" CEO profile, providing objective assessments of candidates, and providing ways of exposing the various candidates to the board. CHROs reported a number of different ways of enabling BODs to gain exposure to potential successors through mechanisms such as having them attend BOD dinners, one-on-one meetings, and accompanying the candidates on customer visits.

CHROs also help develop their own successors similar to how firms develop CEO successors. They provide successors exposure to the board, to the CEO, and to the Executive Leadership team. They provide experiences in generalist, talent, and executive compensation roles. Finally they educate successors through mentoring/coaching and sending them to formal educational events.

Introduction

In 2009 Professor Patrick Wright began conducting an annual survey of Chief Human Resource Officers (CHROs). Each survey has explored how CHROs spend their time in a consistent set of roles and on a consistent set of issues. In addition, each survey focused on a current and relevant set of issues identified by the CHRO advisors. The text box below provides an overview of past and the present survey.

As illustrated in Table 1, the 2013 HR@Moore Survey of Chief HR Officers focused on the CEO succession process. In a poll of the survey advisory board members, they identified this as a critical area where a need existed to gain deeper knowledge of the CHRO's role in CEO succession. Given recent governance failures where qualified internal successors did not exist, BODs have increasingly focused their attention on fulfilling their responsibility to make sure that CEO succession be done effectively. They often look to the CHRO for guidance regarding the process, but many CHROs have never participated in a CEO succession. Thus, this survey sought to identify best practices in CEO succession and to explore how CHROs can most effectively facilitate the process.

CEO Succession Processes

Our exploration of the CEO succession process entailed a combination of quantitative and qualitative questions. We first asked CHROs about whether their boards engaged in 14 CEO succession practices.¹ We then asked a series of open-ended questions regarding CEO succession to gain greater understanding and detail regarding both best practices and the most challenging aspects of the process.

CEO Succession Practices

As can be seen in Figure 1, between 20 and 90 percent of boards engage in each of the "best" practices. Almost all CHROs reported that their boards design opportunities for them to gain exposure to those in the CEO talent pipeline. This was followed in frequency by defining clear ownership for CEO succession processes, conducting ongoing assessments of candidates, and having regularly scheduled conversations with the CEO (all above 80%).

Table 1. History of the CHRO Survey

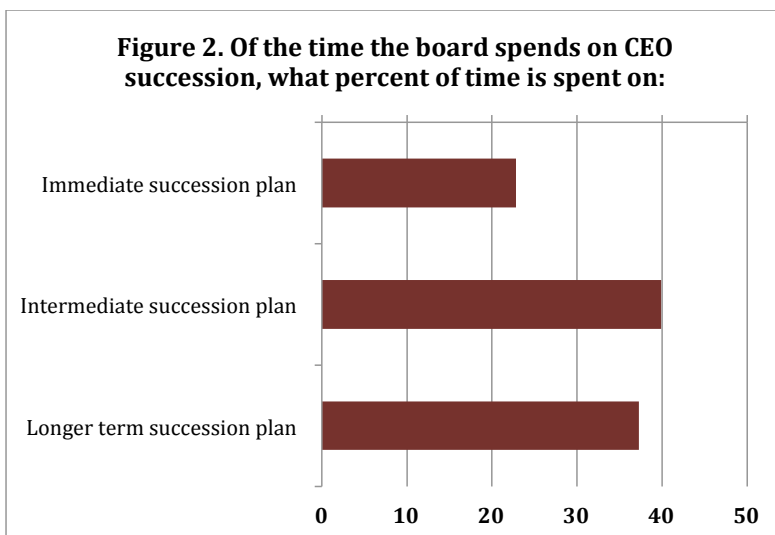
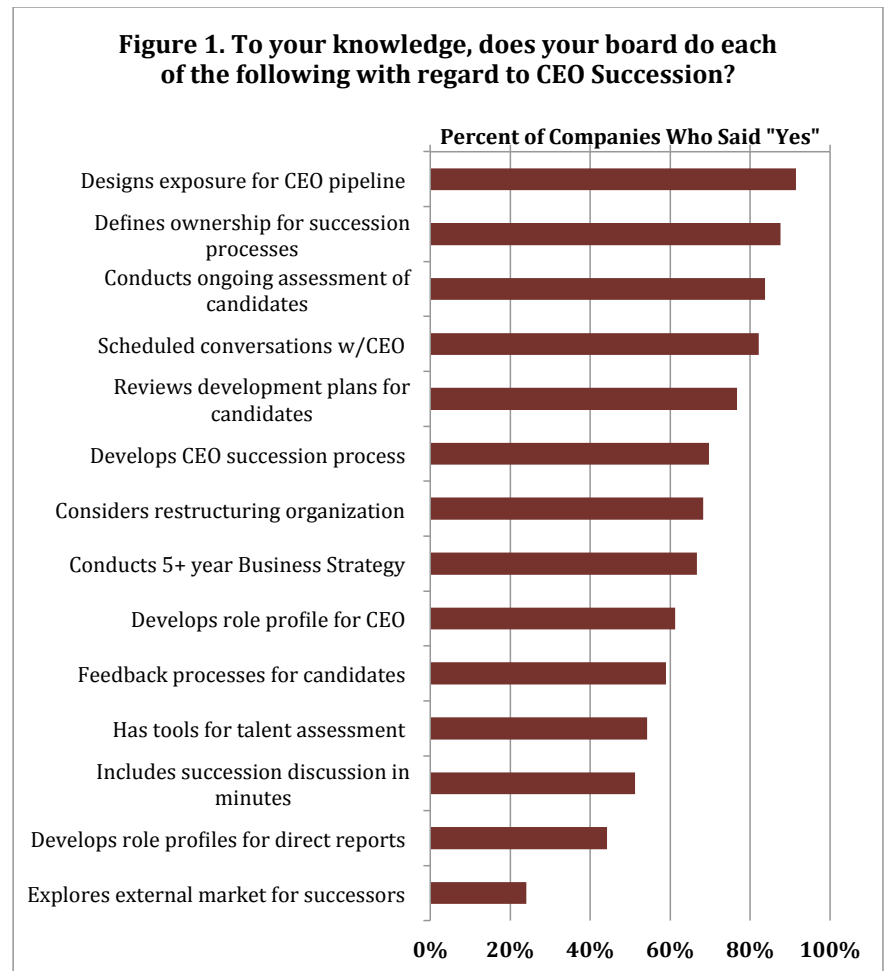
<u>YEAR</u>	<u>#CHROS</u>	<u>TOPICS COVERED</u>
2009	56	CEO's Agenda for HR, CEO's HR Strengths/Weaknesses
2010	72	Board Participation, Non-HR areas of Responsibility
2011	172	Organization and HR Metrics, Increasing CHRO Effectiveness
2012	143	CSR, ELT Dynamics, CEO's Leadership of the ELT
2013	156	CEO Succession, CEO and the Board

Troublingly, while 67% of boards have conducted a 5+ year business strategy and global sector analysis, fewer (60%) have tied the role profile of the next CEO to that analysis, and even fewer (44%) have tied the role profiles of the direct reports to this analysis. In other words, it appears that boards focus more on the current requirements of CEO talent than the future requirements of that talent.

Finally, only 24% of boards regularly monitor the external labor market for potential successors. Note that this does not refer to actively seeking an outsider, but rather to whether or not they benchmark their internal talent against what would be available outside the firm. While hiring from outside certainly creates some risk, it seems that the most effective processes require constantly making sure that the firm's internal talent is at least as good as the external talent.

¹ Special thanks to Marc Van Clief of MVC Associates for sharing their research regarding best board practices in CEO succession.

While these practices provide specific examples, we also asked about the temporal emphasis of the succession planning process (Figure 2). For instance, boards can spend time discussing succession in an immediate/ emergency (“if the CEO were to step down today”) timeframe, in an intermediate (2-3 years) timeframe, or a long-term (5+ years, including the next generation of leaders) timeframe. Figure 2 shows that CHROs suggested that 23% of the discussion was regarding immediate, 40% regarding intermediate, and 37% regarding long-term timeframes.



Finally, we asked about the relative power of the CEO vs. the Board for choosing the CEO's successor (Figure 3). Under most board charters, the board has the ultimate responsibility for choosing the CEO (at least among publicly held companies), but it is clear that some CEOs tend to have more influence over the decision than others. Thus, we created a scale dividing 100% of the power and asking what percentage CHROs believe each party had over the final decision. As can be seen from Figure 3, significant variance exists. Overall, it seems that CEOs tend to have more influence, as 69% of the respondents indicated that the CEO had the most influence. However, the two most frequent noted percentages were 60/40 Board vs. CEO (27%) and 40/60 Board vs. CEO (26%) with 50/50 coming in third at 17%.

CHROs at the Intersection in Succession

In analyzing both the qualitative and quantitative data regarding CEO succession, the CHRO's centrality to the process became readily apparent. Centrality does not imply power or importance in terms of the ultimate decision, but more as a central communication node within the process. Figure 4 illustrates that the CHRO seems to be in regular communication with the three major participants: the CEO, the Board, and the potential successors.

Figure 4. CHRO at the Center of Succession

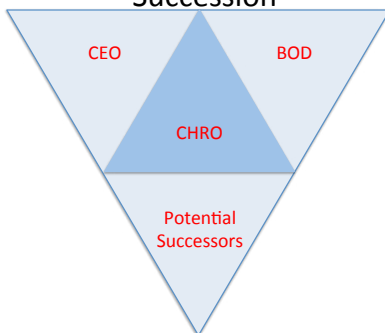
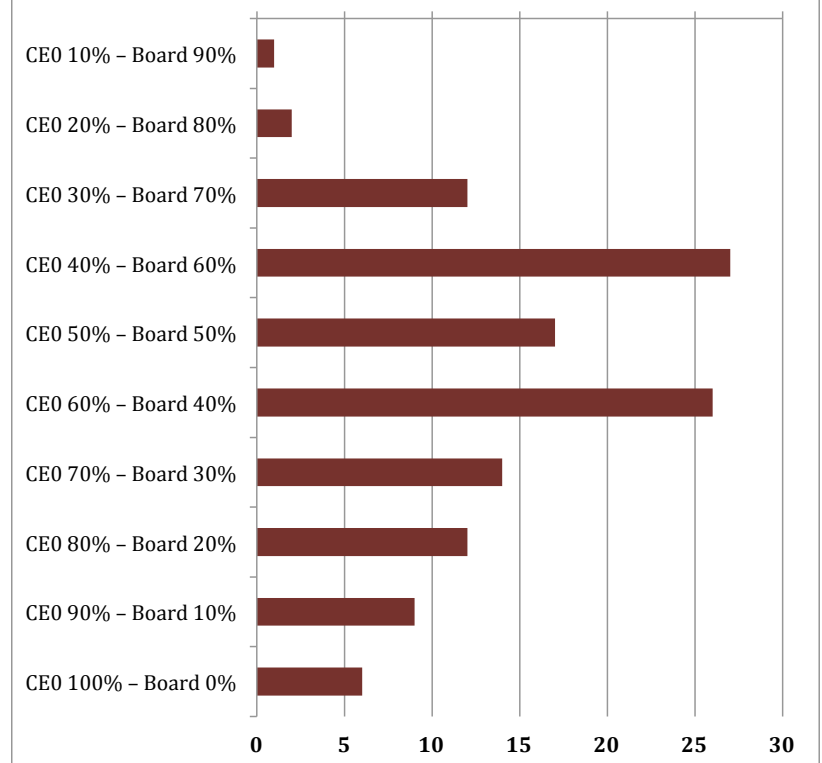


Figure 3. When it comes to the reality of choosing the CEO's successor, how much influence will the CEO have vs. the Board?



Getting Potential Successors Exposure to the Board

Because of the criticality of board members being able to observe and assess potential successors in order to make the right successor decision, we asked about the variety of ways that their firm has tried to provide such opportunities.

Attends BOD dinners. By far the most frequently mentioned avenue for exposure was through inviting potential successors to the dinners during the BOD meetings. Generally CHROs mentioned inviting “them” but in some cases they noted that they might only invite one so that the entire focus could be on that one individual.

Schedule One-on-One Meetings. Probably the second most popular approach to exposing candidates to board members was through one-on-one or two-on-one meetings. Often these would be breakfasts or dinners (i.e., more social venues), but the more important point was to provide a more private opportunity for interaction.

Observe Through Business Visits. A number of CHROs also reported that their board members are required to make one or more visits to areas of the business each year. They noted that scheduling the visits to be at the potential successors’ businesses allows the BOD member to see a candidate describe their business in more detail than they might in a BOD presentation.

Observe on Customer Visits. While not as frequently mentioned as business visits, some CHROs mentioned that they have board members accompany candidates on visits to the firm's customers. This provides them the opportunity to see how candidates connect with customers.

Accompany on Travel to BOD Meetings. Some CHROs reported that they schedule candidates to travel with BOD members on the way to BOD meetings. Again, this provides a more private type of interaction.

Serve on BOD Committees. A few CHROs noted that by having candidates serve on board committees they accomplish two purposes. First, it provides opportunities for BOD members to observe the candidates. Second, it provides candidates the opportunity to better understand how boards work.

Have BOD members consult to candidates' businesses. One CHRO noted that they assign a board member to candidates to mentor/consult with them. It entails having the candidate identify a problem or challenge in their business and then matching a BOD member who might have expertise in that area.

Assign Projects that Give Visibility to the BOD. Again, a few CHROs reported that they assign candidates to lead projects that will require reporting back to the BOD.

Michelle "Shelly" Carlin of Motorola Mobility specifically wrote about the CEO Leadership Forum developed to accelerate talent development in the executive succession space. Thus, we interviewed her to get detailed information and describe this process in the box.

CEO Leadership Forum at Motorola E_ogfa`e

When Motorola Mobility was spun off from Motorola in January of 2011, the combination of a struggling mobile phone business and the economic meltdown had virtually eliminated investments in leadership development. Thus, following one of the first board meetings of the remaining business, Motorola Solutions (MSI), CHRO Michele "Shelly" Carlin began to work on a framework for CEO succession. She chose to think more broadly about executive succession, and from that developed the MSI CEO Leadership Forum.

The CEO Leadership Forum rests on 3 basic pillars that Shelly describes as a "framework, not a program." The first pillar consists of **assessment and development**. The senior leadership team has identified 23 individuals that they considered to be their high potential executives. They have contracted with an outside consulting firm to conduct 360-degree assessments of those participants. From those assessments, each person has received a customized development plan, in some cases including coaches.

Given that many executives have limited experience or understanding of the role of the board of directors, the second pillar focuses on **board interaction**. In 2012 and 2013 all participants were invited to meals at 3 of the board meetings. Board members were broken up such that one set focused on discussing leadership, one focused on board versus management responsibilities, and one focused on shareholder value. Over three meetings, participants rotated through the three sessions. Shelly says this has had two positive effects: it humanizes the board in the eyes of participants, and the board gains a better understanding of the quality of talent.

Finally, a **customized learning experience** comprised the third pillar, and this experience focused on merging the development needs with the business's challenges. This learning experience is designed to consist of three modules. The first module focused on improving the group's capability to think strategically - a consistent development need observed across the participants. It then required participants to work on a project related to a current business challenge. That module revealed an additional internal cultural challenge that became the theme of the second module, and Shelly projects that the second module will produce the topic of the third module.

In addition, as the framework emerges an additional opportunity has arisen to use "volunteerism" as a development tool. Because the board members also tend to sit on not-for-profit boards, participants have been placed on those boards. This will give them experience on a board while providing more of an opportunity for board members to see them in action.

CHRO's Role in CEO Succession

In addition to the basic succession processes, the survey delved into the ways in which CHROs aid the successor candidates, the CEO, and the BOD in the overall process.

How CHROs can Help Successor Candidates

CHROs help potential successors manage through the succession process in three main areas: Assessment, Individual Development Plans, and Coaching.

Assessment. One critical aspect of helping candidates requires having good information regarding their strengths and weaknesses. CHROs mentioned a variety of ways that they provide accurate assessments. In particular, 360-degree feedback approaches provide clear specific information. In addition, using objective assessment tools (testing, assessment centers, etc.) also provides added insight regarding candidates' development needs.

Individual Development Plans. Once assessed, CHROs help to develop individual development plans. First, these plans should be based on the role profile of the "next" CEO rather than the current CEO. Second, CHROs help the candidates to identify external development opportunities such as boards or community groups. Third, a number of CHROs discussed hiring external coaches for all candidates to help them develop.

Coaching. Finally, CHROs discussed that they played a significant role in coaching candidates. This partly entails coaching them around their development needs. Also, a number mentioned coaching candidates regarding inappropriate behavior, particularly the kind of competitive political behavior that happens during the typical CEO horserace. Finally, a number reported that they give clear transparent communications regarding the process so that candidates know where they stand as much as possible.



CHROs and CEOs in CEO Succession

CHROs provide support to the CEO in the succession process in two ways: Process and Personal.

Process. CHROs reported a number of ways that they help CEOs focus on the development and implementation of the basic CEO succession process. First, as a consistent theme across questions, CHROs push for the development of the "future" CEO profile, as opposed to the profile of the current CEO. Second, they can help to design a clear succession process for the board to follow. Third, they can ensure that each potential successor has a clear individual development plan designed for them. Fourth, they ensure that good assessment tools are implemented. All of these aspects may or may not directly involve the CEO, but rather are the ways in which CHROs help to create the "best process" aspects of CEO succession for the board to follow so that the CEO does not have to devote his/her valuable time to process development.

Personal. In addition to the rather objective and public process, CHROs provide more private and personal support to CEOs. One must recognize that any individual's "retirement" creates emotional stress, and that this is accentuated for those for whom the departure means giving up significant fame, visibility, respect, income, and responsibility. First, they can discuss the timing of the CEO's intended departure, not necessarily to accelerate the timing, but to get information regarding the speed at which successors must be identified and developed. Second, they have discussions (and disagreements) about the potential successors' capabilities and potential. Third, they often prod the CEO to engage in development (mentoring, restructuring, etc.) of the potential successors. Fourth, they noted their role in keeping CEOs focused on succession. Fifth, they counsel the CEO on the board, both in the board's role in succession and in prepping them for discussions on succession with the board. Finally, they report being the sounding board for CEOs emotions and frustrations as they prepare for their departure from the CEO role. The table nearby provides specific quotes from CHROs describing how they help CEOs.

Quotations Regarding **Helping the CEO with Succession**

Developed profile of skills needed for next CEO with input from him and the Board. Assessed ELT and next level down against the profile, held discussions with individuals and created development plans where possible. Discuss roles/projects for potential successors and implement plans

1. Listen to his needs and then match his needs with the organizations' needs and the successor candidate needs
2. Help him think about what the future looks like
3. Help him determine his legacy
4. Lay out time lines/alternative/division and transition of roles so the transition is more seamless
5. Help him with board meeting discussions

Clarity about his own timing. Clarity about the skills needed in next CEO. Criteria to evaluate/develop potential successors. Clarity about capability of potential successors. Clarity about Board member opinions on the topic of succession.

Ensure talent strategies are in place to have board and CEO consensus as to the appropriate CEO profile to deliver our short term and long term business strategies, coupled with identifying 1st and 2nd gen leaders in the CEO succession pipeline and their customized robust development plans that involve CEO, board and external stakeholder involvement.

1. I take the lead in preparing a discussion document with the BOD. I initiate the conversation with our CEO.
2. I tell him the things he does and doesn't do that contribute to his potential successors' growth, development, happiness and success so that he can be more effective in cultivating the slate

Make sure he considers involving the successor in decision making, putting him in positions where he has ultimate authority, getting the successor involved in outside the organization community activities, work with board members to better understand the successors skill set, remind the CEO to inform his successor about all aspects of the business that the successor may not normally be exposed to.

As part of the support for the CEO we also asked about the most difficult conversations CHROs have had with the CEO about succession. Importantly, the most frequent response was that there were no difficult conversations. For instance, one CHRO wrote "None. He recognizes how critical succession planning is to the ongoing health of the enterprise. He also sits on a couple of external boards where succession planning was not taken seriously and has seen the subsequent fallout from the lack of planning and smooth transitions." Another wrote, "Actually, I haven't had difficult conversations. He's been very open to modifying his role to be one of a mentor and developer of talent so he can prepare the next generation to succeed him." Thus, while difficult conversations occur, it is important to note that many CEOs have a healthy appreciation for the process.

In terms of difficult conversations, by far the most frequently mentioned stemmed from the fact that his/her first choice might not be the best choice. A number of CHROs discussed how the CEO's favorite might not have the capabilities to serve as CEO, or that though they might have the capabilities, there were more qualified candidates.

The second area of difficulty stems from the emotional nature of the departure. First, the CEO job, while highly stressful, also has a number of perks such as wealth, respect, fame, etc. While the wealth remains, respect and fame will soon begin to dissipate. As one CHRO wrote "... I have been through this a number of times and I don't think it's easy to hear how confused/concerned they are about who they will be without the CEO title."

Second, CEOs obviously feel they are doing a great job, and thus it may be difficult for them to believe that anyone else could do a better job. One CHRO wrote "His bar is extremely high – he has never met anyone that meets his expectations" and another "If the CEO does not believe he's capable of being replaced, it's a moot point."

A third area of difficult conversations has to do with the timing of the CEO's departure. This does not necessarily mean that others want the CEO to leave before s/he wants to, but may only be around getting a specific timetable so that the process can be followed. As one CHRO explained with regard to a previous CEO "...it was about when was the right time. It led to a dinner with

key board members with he and I attending to discuss it, and that triggered a chain of events for an orderly succession."

Fourth, CHROs had difficult conversations with CEOs about the CHROs role in the succession process. Seemingly CEOs either did not want CHROs as involved as they could be, or CEOs wanted the CHRO to be pushing a particular candidate as opposed to trying to remain as objective as possible throughout the process.

Finally, some CEOs wanted more power over the succession process and decision, which led to difficult conversations regarding the CEO's role versus that of the board's in the process.

Quotations Regarding **Difficult Conversations with the CEO about Succession**

Emotions:

I don't find having any conversation difficult, but I have been through this a number of times and I don't think it is easy to hear how confused/concerned they are about who they will be without the CEO title.

Establishing that many of the CEO competencies for future business success are different than those he currently possesses -- getting him to deeply think more broadly about what it will take to run the company down the road compared to today.

His bar is extremely high - he has never met anyone that meets his expectations. Question: " is there anyone that meets your expectations that you have ever met?" Answer: No. Difficult Conversation: How do we get to a different answer than No... conversation revolved around key behavioral expectations and business mindset.

Right Successor:

Determining whether someone is really able to expand and make behavioral shifts that would be required to become CEO. Most often the most cognitively capable are not the best aspirational leaders when it comes to identifying and realizing market opportunities.

A reality check about whether certain potential successors will ever be ready to assume the CEO role and whether the CEO is spending sufficient time coaching them on potential derailers (not just focusing on the positive feedback).

He has a successor who is his sentimental favorite but he, the board, and I all know can't do the CEO job. Even though he knows this he's having a very hard time delivering the message and making the changes to allow others to grow over this person. It's a just a very emotional issue so it's always something I am always trying to strike a balance between when to just listen to his frustrations, when to push him to make the right decision and going at a pace that works for him emotionally but I think is very exhausting for the business.

Timing:

I have been direct about the fact that he has to work with the Board to develop a sound strategy and process for succession including a broad timeline - rooted in strategic actions. He can't be viewed as trying to "hang on" but in fact has a plan which is in the shareholders interests.

Timing. CEOs who have great clarity around their sunset period greatly aids the board in thinking through succession. Absent this clarity, the board is not sure how active they should be in the succession process.

CHROs and the Board in CEO Succession

Finally, CHROs play an active role in the interfaces between the BOD and both the CEO and the potential successors. CHROs noted that they help the BOD in a number of ways, most frequently through developing a best process for CEO succession. Most board members, while they may be CEOs or retired CEOs, look to the CHRO for guidance regarding the most effective process for managing CEO succession. Thus, CHROs can gain credibility with the board if they can provide examples of best practices and from that broad knowledge, provide guidance.

Second, as previously discussed, one important aspect of CEO succession consists of developing the profile of what will be required of the “future” CEO rather than the requirements (or characteristics) of the current CEO. Again, this requires prodding and careful attention because one can easily default to the current situation rather than basing the profile on an industry and strategy analysis over the next 5-10 years.

Third, CHROs play a significant role in getting the board exposed to the successor candidates. Many noted that the current CEO does not focus on this, or that the CEO only focuses on getting his/her favorite candidate exposed to the board. Thus, CHROs must play the role of ensuring that the board has adequate opportunities to observe the entire slate of candidates in a variety of different venues.

Fourth, to the extent that CHROs can provide objective assessment data to the board, the board will have a broader and more extensive set of information on which to make their decision. Thus, CHROs can contract with external assessment firms to conduct such assessments. (We note that we asked about whether or not firms use external help in succession, and even many of those who do not use executive search firms still reported that they used external resources for assessment.

Fifth, and related to the information available to the BOD, CHROs must provide candid personal assessments of successor candidates. This requires them staying as objective as possible in their evaluations, but BOD members will expect CHROs to provide additional data on the suitability of various candidates.

Sixth, a number of CHROs reported that they encouraged or conducted external benchmarking of talent. In some cases at the beginning of the process they enlisted search firms to assess internal talent to compare it to that of other firms. In other cases they conducted regular assessments of the talent at other firms within their industry or related industries. Such assessments helped to evaluate the internal development requirements as well as the potential need to recruit external talent.

Seventh, CHROs can ensure that personal development plans exist for the potential successors and consistently update the BOD with information regarding progress on those plans.

Finally, the CHROs often lead the talent review discussion, including information regarding performance of successor candidates. The table on the following page provides specific quotes from CHROs of the ways they help the board in succession.

CHROs also reported on the “difficult conversations” they had with BOD members. First, similar to the CEO, CHROs often have to push BOD members to be objective in their assessments of candidates, rather than relying on their own personal preferences or on the limited interactions with potential successors (e.g., presentations).

Second, not all boards have embraced the need to devote considerable time to succession. In some cases they believe the CEO will be around for quite some time, thus not requiring attention. In others, they may seem to believe that the right person will emerge when the time comes. Whatever the case, CHROs sometimes encounter difficult conversations with BOD members when trying to convince them of the need to devote attention to succession and to begin to accelerate the development of potential successors.

Third, successful succession depends on hiring the right person for the firm given the strategy. Thus, difficult conversations often emerge around (a) the strategy and (b) the CEO profile. CHROs must help some BOD members to understand and become aligned around the strategy. In other cases the CHRO has to push them to think about the future, rather than the current profile. The table nearby provides some examples of these challenging conversations.

Quotations Regarding **How CHROs Help the Board in CEO Succession**

Encouraged the Board to meet the internal candidates in venues outside of normal board meetings and board dinners. To suggest that the board reevaluate the CEO future spec that was developed 3 plus years ago to see if it is still fully relevant and then to facilitate the session where we made modifications. Facilitate the process by which the board annually rates the internal candidates against this new spec.

Worked with them to develop a structured process. Led the assessment of a firm to assist in the process. Helped to craft the written document that describes in detail the qualities (capabilities, experiences, behaviors, competencies) of the CEO successor in connection to our strategy. Guided the assessment of internal candidates and crafted the development plans. I meet with the Board regularly to discuss the process, to discuss the candidate's progress and to take direction on any changes to the plan.

We have laid out a CEO Succession Roadmap that began as a 7-year plan highlighting key milestones to occur by each year to prepare successors for the CEO role. We also track Critical Development Milestones for a three-year period and identify key steps that need to occur to keep CEO candidates on the list. Every board meeting, the CEO and I provide an update to them on key actions we are taking during their executive sessions. We also provide a very in depth review annually.

Created a detailed multi-year plan with quarterly in person updates/discussions in executive session with the full board. This plan includes succession for the CEO and the members of the Executive Committee. Have dedicated at least one day a year, every year for last 10 years to take the full board through the top 18 positions in the company and the detailed development plans for the incumbents and their successors.

Provided exposure to potential candidates; designed evaluation processes where outside evaluators provide comments on internal candidates; periodically reviewed the pool of external candidates using search firms to provide the outside view; worked with the board to develop development plans for internal candidates; provide detailed performance feedback on all executives including successor candidates

I was very involved (throughout the entire process) working directly with the Board on our recent transition to a new CEO several years ago. For example, I helped craft the future CEO profile based on interviews with Board members. We also did a "paper search" to compare external candidates to our internal candidate. It was a "text book" process and extremely effective. - I'm now involved in discussing the next generation of potential successors and we openly talk about strengths, developmental gaps and actions we need to take to ensure readiness of various candidates.

Examples of **Challenging Conversations with the BOD**

When they ask for honest opinions about various contenders and your role is to stay impartial balanced with having a fair point of view. Challenging balance to strike.

Handling different perspectives on potential candidates - e.g. they like the people that present well versus the better rounded candidates who may not be as smooth or like them

Dealing with stability issues of succession candidates who would like to ascend faster than the current CEO would like. The current CEO is a founder who is relatively young and the potential internal successors have some issues with the length of time before they can get the top job. It is a balancing act.

Acknowledgement that the CEO will not stay forever and that we must start accelerating the development and assessment process of our candidates

There hasn't been a really difficult discussion. Having said that anytime 9 or more people are talking about an individual you get 9 or more points of view. So gathering all the good points of view into aligned feedback and translating that into actionable items that we all can support isn't always easy. It's not impossible, but it means getting to a place where everyone feels reasonably good about the robust actions we are taking requires at least 2 discussions for each big move.

Some years ago, I had to have a conversation with the board about assessing candidates with facts and tools and not opinion based on Board room observation only. That didn't sit well with some Board members, who felt this approach would hurt the chances of the candidate they supported at the time.

I have had to convince the Board that the CEO is not interested in hanging around (he is not) and that they need to make sure he feels supported and appreciated so that he will be an active and helpful participant in the process. At times they are rather cavalier that any one of them could serve as interim CEO if the incumbent were to leave. I have to subtly remind them that not one of them has any operating experience whatsoever and we are an operationally intense, high-risk business.

Board members have varying degrees of alignment on the longer-term strategy for the company. Until alignment on strategy is clear, it is meaningless to debate candidate readiness.

Challenges in CEO Succession

In the final section on CEO Succession we asked CHROs what they considered the top three challenges with regard to CEO succession. Interestingly, the top three challenges, while mapping on issues previously identified, did not necessarily map the same way in terms of emphasis. We list the most frequent responses in terms of their timing in the process (although all occur throughout the process), rather than the frequency with which they were identified.

Hiring for the future. This challenge describes the difficulty in trying to keep the entire succession process focused on the next, as opposed to the current, CEO. Again, it requires developing the profile necessary for the future rather than the present. It also requires developing the candidates toward that future profile as opposed to the current development activities. Finally it entails evaluating candidates against what the business will need, rather than what it currently needs.

Managing the timeline. An additional challenge stems from the overall timeline for succession. Again, it may prove difficult to get the current CEO to think about, much less set a timeline for, retirement. In addition, depending on that date, the firm may or may not have successors ready, leaving the possibility for the need to accelerate talent development. Finally, the successor candidate may want to move right into the role or at least not wait as long as the CEO plans on remaining in the role.

Managing the development process. As previously discussed, the development process must be built around future, rather than current, requirements. Additionally, the process may need to be accelerated in order to have successors ready in time for the handoff.

Managing the Rivals. During the “horserace” candidates’ ambitions may begin to result in dysfunctional behavior. Few people want to lose in this process, and thus they may begin to behave in ways that undercut one another or at the very least put their own interests above those of the firm.

CHRO Succession

The past 5 years of the survey revealed a troubling trend regarding CHRO succession. Generally less than 36% (32% this year) of CHROs came into their jobs as an internal succession (within the firm and within the function) with a large percentage (usually greater than 54%, 55% on this year’s survey) being hired from outside the firm suggesting that potential problems exist with regard to developing CHRO successors.

This year we asked CHROs to answer “What have you found to be most effective for helping to build a potential successor from your direct reports?” The answers clearly clustered around three strategies: Exposure, experience, and education.

Exposure. Similar to CEO succession, CHRO succession requires that the potential successors gain exposure. However, in the case of CHROs, this exposure needs to be broader than just the board, but also including exposure to the CEO and to the other members of the ELT.

In the case of the board, board members need to be comfortable with the potential CHRO, having an idea of their personality, presentation capability, depth of thinking, etc. A number of CHROs

Managing the handoff. The handoff between CEO and successor creates another challenge. In addition to the timing, the handoff requires an increasing delegation of responsibilities to the successor. However, it appears that CEOs only reluctantly cede control, and then prefer to do it all at once rather than a little bit at a time.

Managing CEO emotion. Again, CEOs attain their positions because of their competence and ambition, and the power, money, and fame associated with the position can become intoxicating. Thus, their coming loss of such amenities elicits stress and a potential whirlwind of emotional responses. This was mentioned somewhat frequently with regard to how CHROs help the CEO, but interestingly, this came up more frequently regarding the biggest challenges regarding CEO succession.

Again, these challenges, identified by CHROs may only reflect challenges that exist during the succession process. However, these challenges clearly impact the CHRO’s role because s/he plays a critical role in managing them.

mentioned having potential successors lead the discussion of talent reviews with the board as one means of getting them exposure to this important stakeholder group. In addition, it gives the successors a deeper understanding of the board members as well as the dynamics that exist within the boardroom.

Secondly, since the CEO ultimately makes the decision regarding the successor, potential successors need to give access to that individual. In fact, one CHRO mentioned that s/he provides “...unsupervised access to the CEO from time to time.”

Finally, potential successors need exposure to the rest of the ELT for two reasons. First, if they move into the role, they need to be comfortable with those that will be their new peers (and vice-versa). One CHRO wrote of the importance of getting “...your peers to view the successor as equal.” Second, these peers may one day be CEO, and thus they need to have confidence in the potential successors.

Experience. Also, similar to CEO succession, providing successors with relevant work experiences proves a necessary building block. At a general level some CHROs referred to the need to provide potential successors with challenging job assignments, stretch roles, and chal-

lenging business clients. In other words, whatever the specific role, CHROs seek to get potential successors out of their comfort zones to force them to broaden their skill base.

At a more specific level, CHROs seemed to agree on three areas of experience that potential successors needed. First, because so much of the CHRO role requires acting as strategic advisor, and counselor/confidante/coach, these individuals have to gain experience as an HR generalist/business partner. Second, the talent architect role requires a deep understanding of the talent arena, so potential successors need experience in the talent function within HR. Finally, as executive compensation becomes an even more sensitive and important issue, successors need experience in the top compensation and benefits role.

Two additional areas of experience also emerged with relatively strong consensus. Given the increasing global footprint of most organizations, a number of CHROs mentioned the need for potential successors to have gone through an international assignment. Also, numerous CHROs discussed the positive value that stems from an experience outside of HR.

Education. Two types of education play key roles in developing CHRO successors: informal and formal. Informal education consists of the constant mentoring, coaching, debriefing, feedback, etc. between the CHRO and his/her potential successors. One CHRO mentioned having "... weekly meetings to discuss the business agenda and how HR supports it." Another primary way of developing a successor was through "1:1 coaching and mentoring."

On the other hand, some formal experiences can provide the necessary knowledge base for the CHRO role. Because the top seat requires greater knowledge of public policy trends and their impact, participation in sessions

run by the HR Policy Association can educate successors around these issues. The increasing importance of executive pay (and changing requirements) can lead CHROs to send potential successors to programs focused on this area. Finally, programs such as the "Modern CHRO Role" conducted by the National Academy of HR and Cornell University can provide a broad overview of the challenges inherent in the role and strategies for handling them.

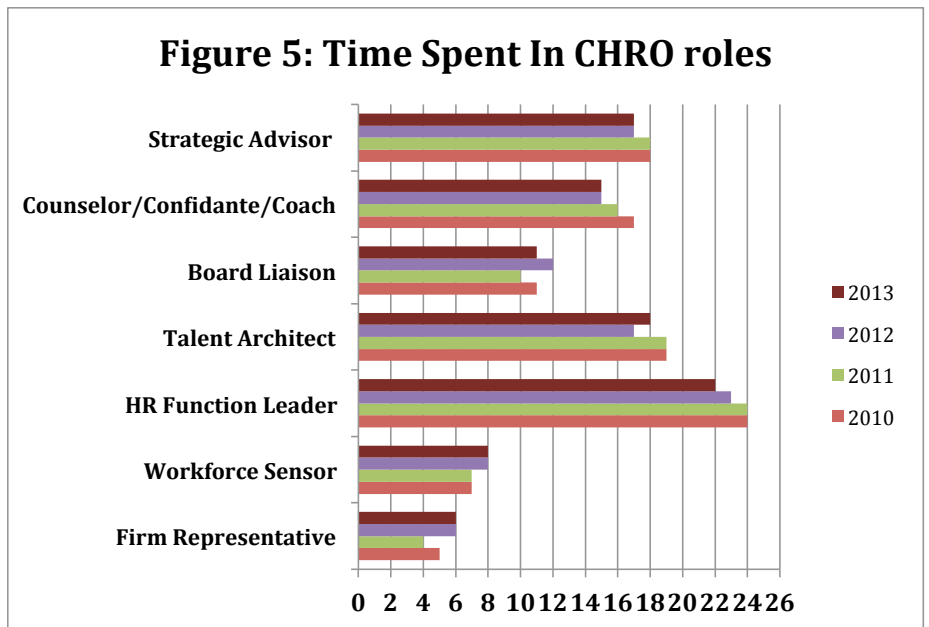
All of these strategies can help to increase the probability of having an internal successor. However, the challenge of finding people with just the right knowledge base, just the right skill set, and just the right interpersonal style remains daunting. In fact, one CHRO summed up the challenge as follows:

"Just find someone the CEO, the CFO, the COO and the GC like and is reasonably competent. I have found getting the chemistry across all the key stakeholders fairly challenging. I gone through several very competent people but for whatever reason they don't make a connection with the CEO on an interpersonal level or they strike out with one of the 4 major stakeholders. Some days I think until they are in a position to have to choose, they just find reasons not to like someone. It's tricky because they want a CHRO they deeply trust personally and professionally and who also has the courage to help them sometimes do battle with the CEO and the BOD, finding the right mix of professional competence and streets smarts has been a challenge."

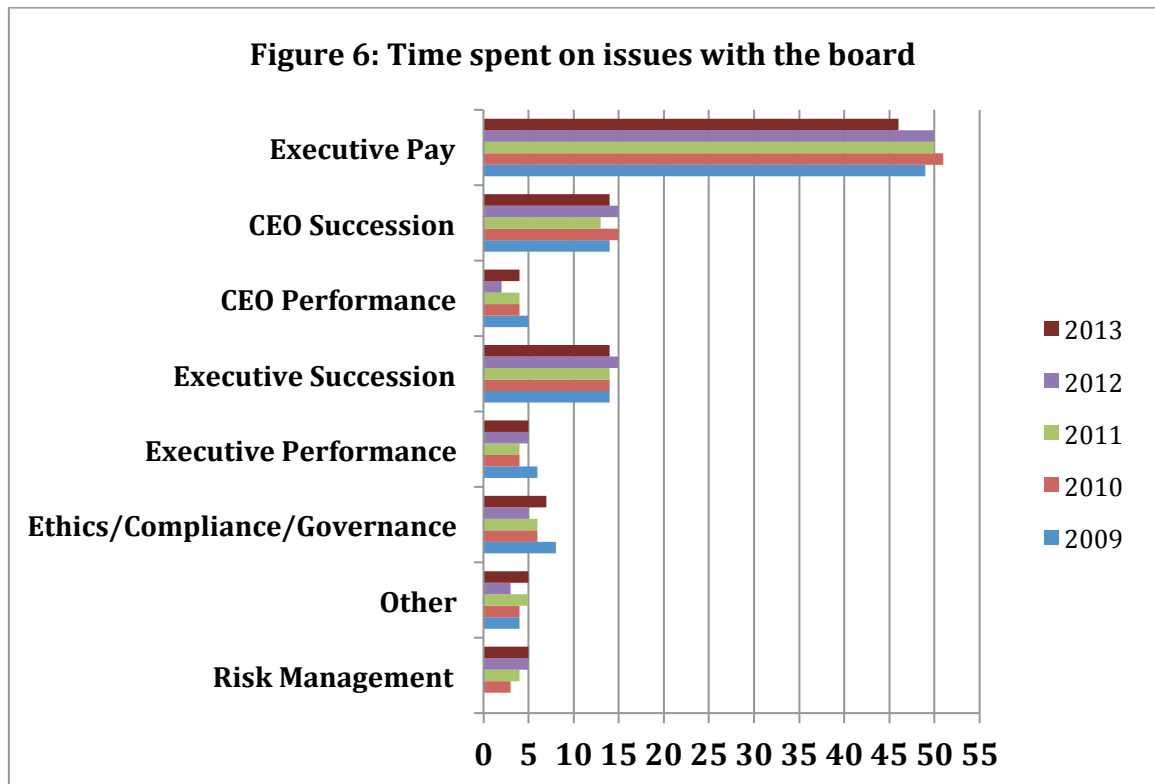


CHRO Roles

Finally, consistent with past surveys, we asked CHROs to indicate the amount of time they spent in the seven roles relevant to CHROs. Figure 5 displays these results. As can be seen in the figure, this year CHROs indicated spending slightly less time than in past years in the HR Function Leader and Board Liaison roles, and slightly more time in the talent architect role. However, these differences are small and the overall results tend to show the stability of these roles over time.



Regarding the issues on which CHROs spend time with the BOD, the results (Figure 6) indicate they spent slightly less time on executive pay (although that is by far the area they spend the most time) and slightly more time on Ethics/Compliance/Governance and CEO performance.



Conclusion

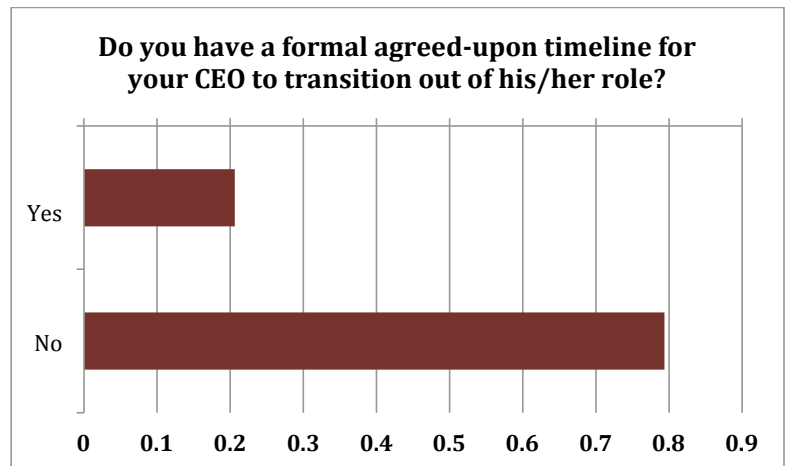
CHROs have emerged as critical players in the CEO succession process, interfacing with the important players. They can provide significant guidance and help in terms of making the process effective.

As CEOs and boards increasingly recognize the critical governance responsibility of CEO succession, the status and impact of CHROs continues to increase.

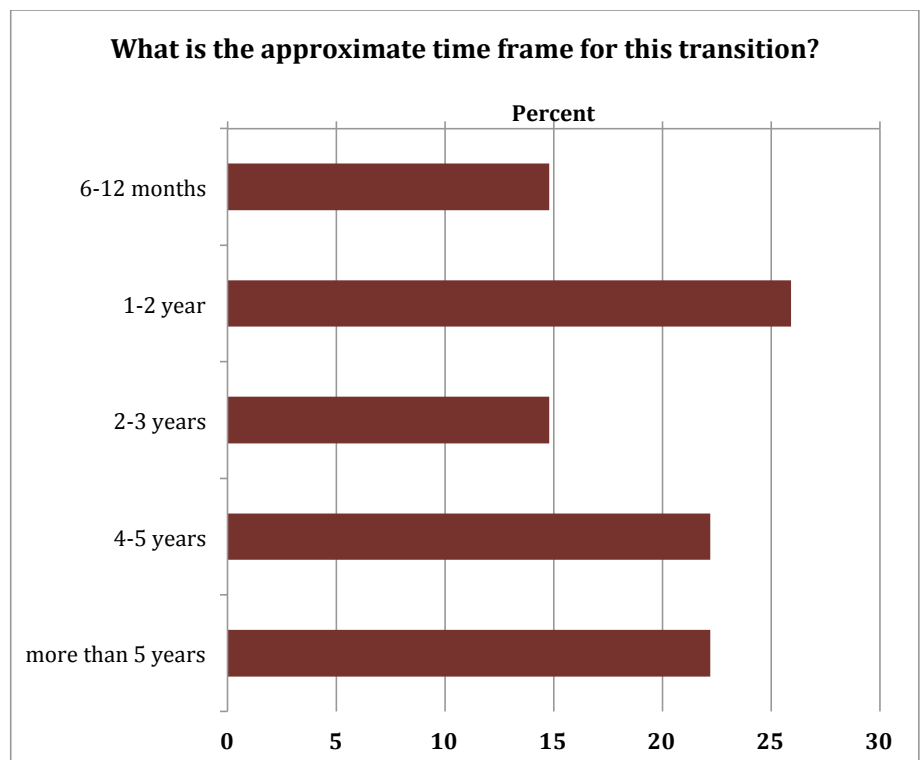
Appendix A

Data on Succession:

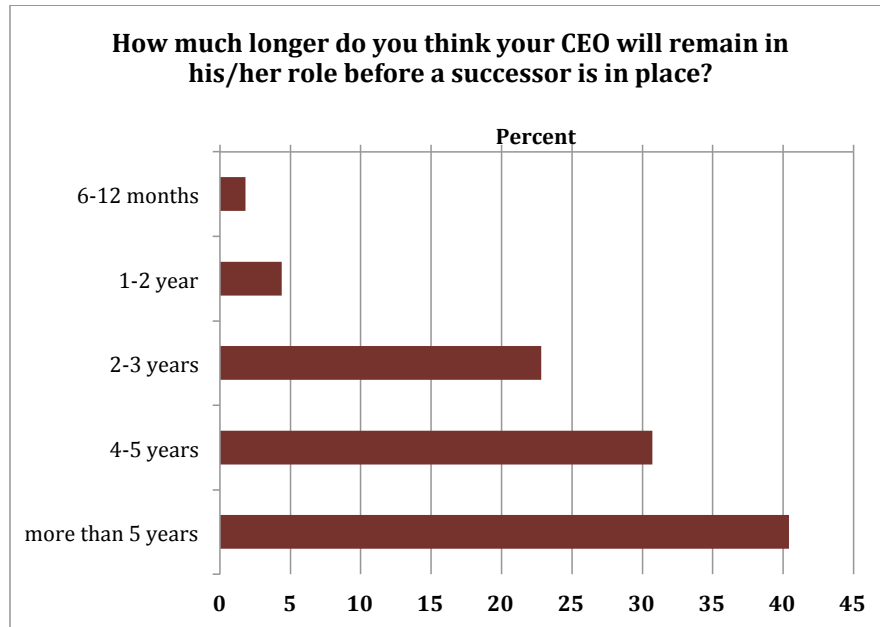
In most companies, there is not yet a formal timeline for the CEO to retire:



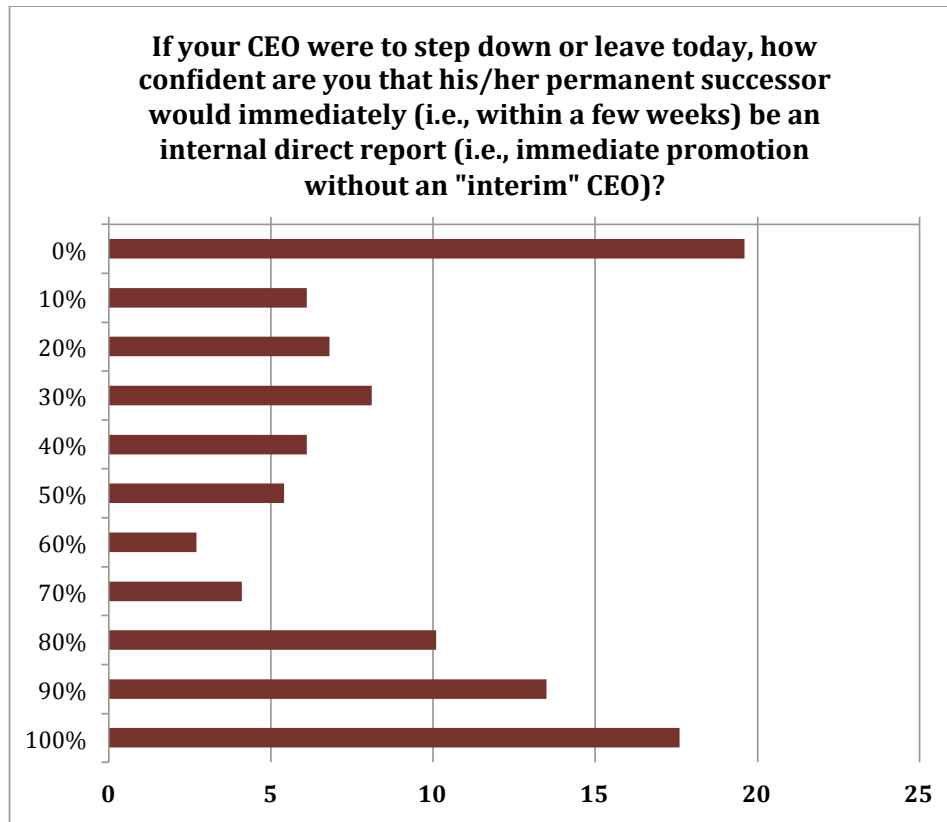
If there is a plan, the timeframe varies considerably:



However, many CHROs expect their CEO to be around for the long term.



A considerable percentage of CHROs do not feel that they have an internal successor ready in the case of an emergency.

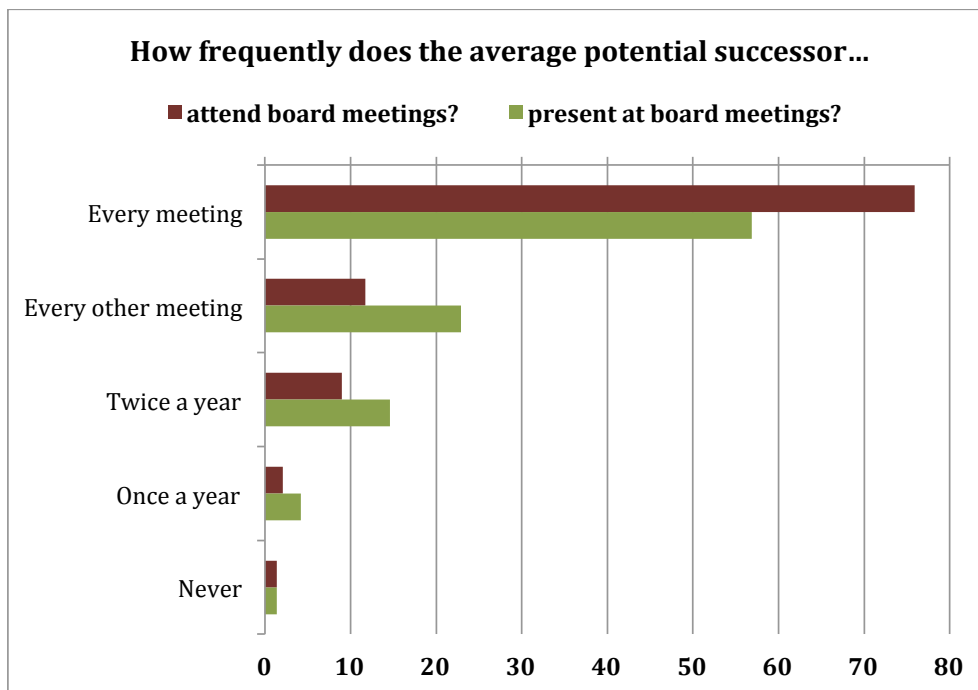


Most CHROs feel they either have a person ready to go, or that it will take 3 or more months to find the successor.

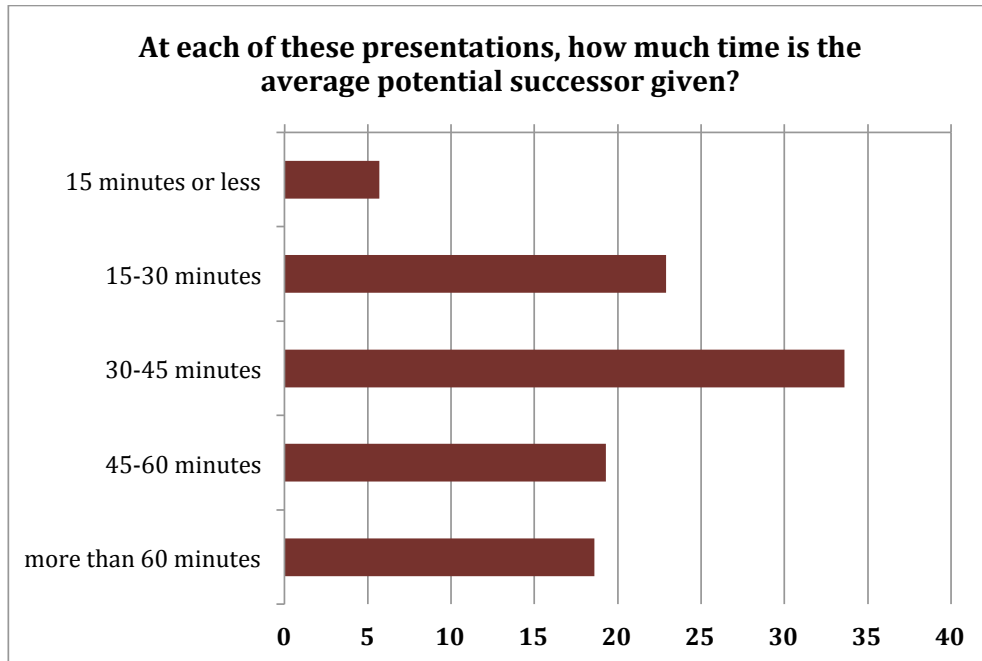


Preparing Successor Candidates and the Board:

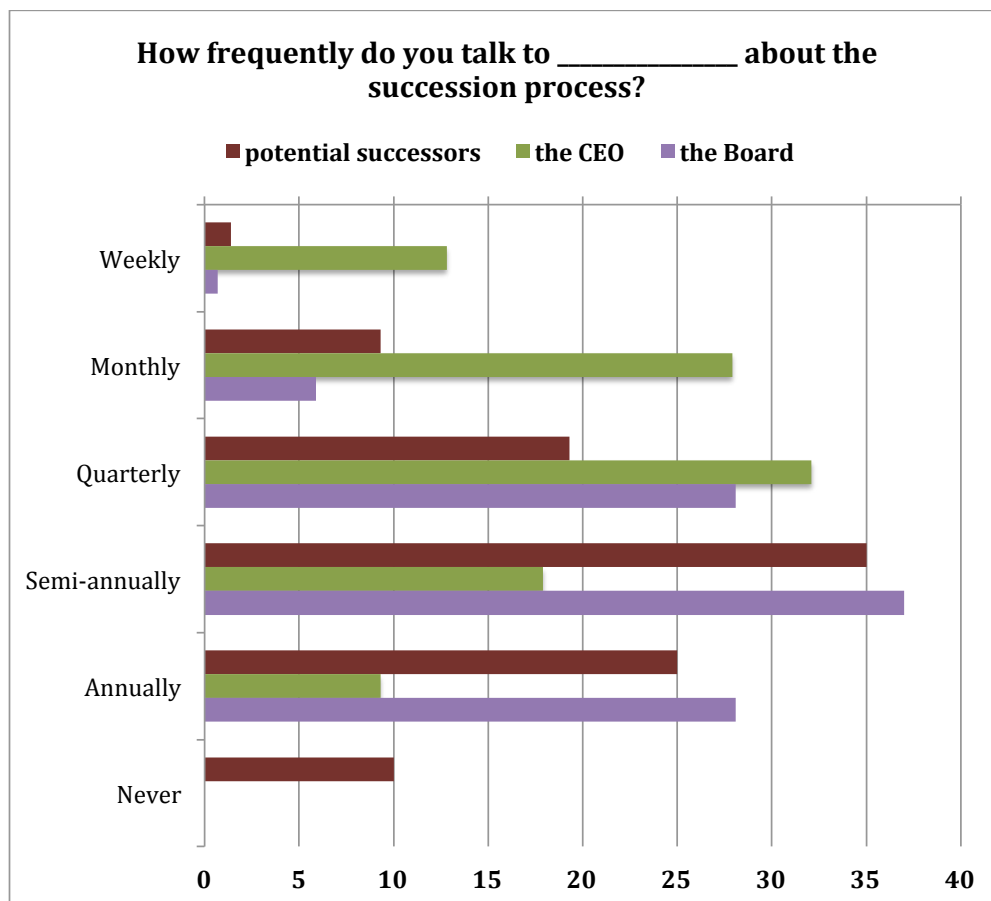
Most companies have the potential successors attend every board meeting but they do not necessarily present at every meeting:



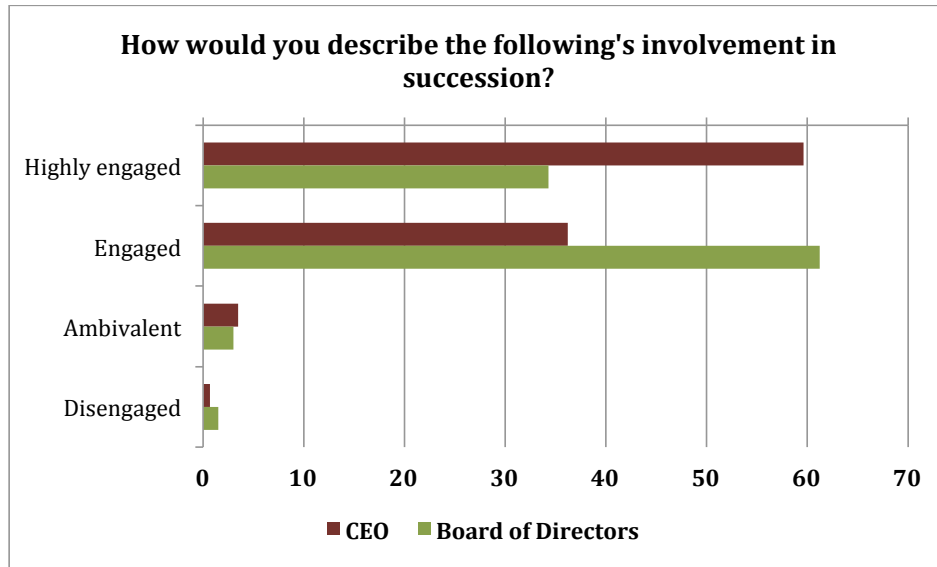
And they get less than an hour of presentation time with the board:



CHROs speak most frequently with the CEO, followed by the Board and potential successors about succession.



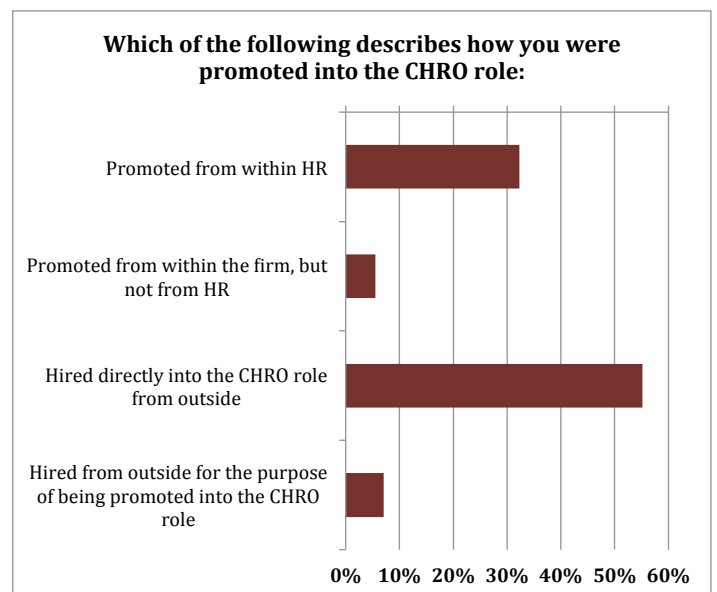
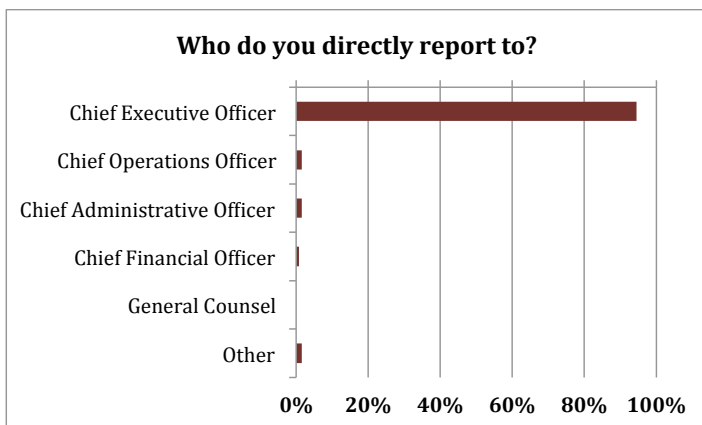
Both CEO and the Board are engaged in CEO succession, although CEOs are more engaged.



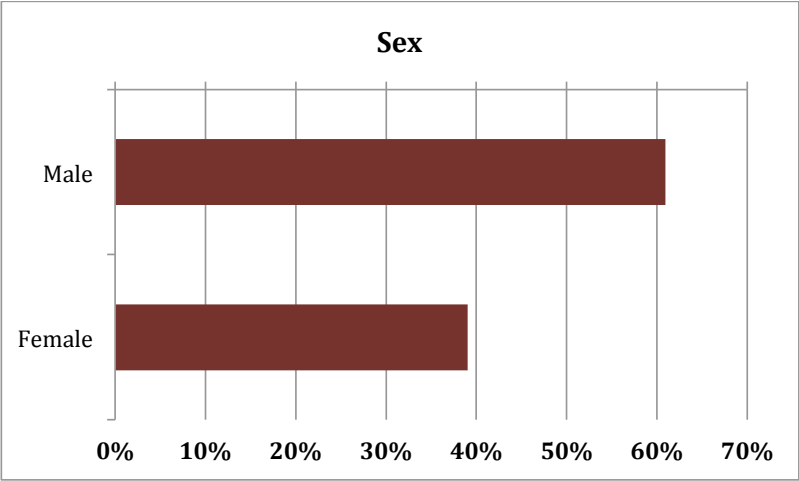
Appendix B
Characteristics of CHRO Respondents:

Ninety-five percent report directly to the CEO:

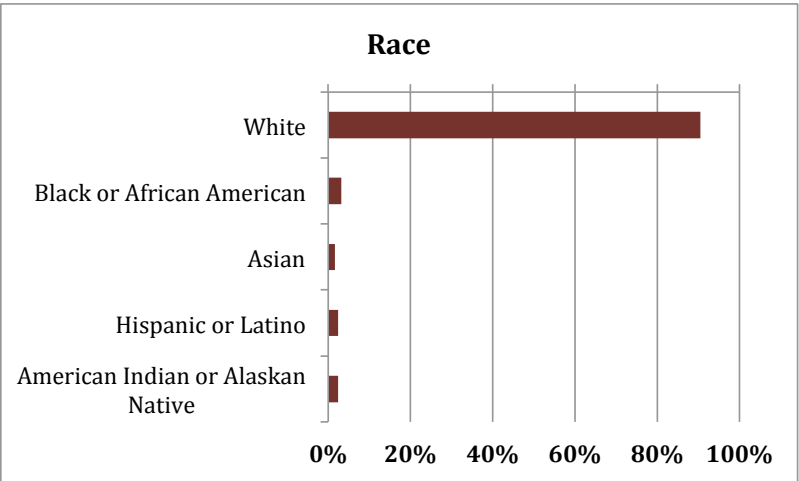
As in the past, most (55%) were hired from outside with less than one third (32%) being internal successors (from inside HR).



A majority of the CHROs were male:



And white (91%):





Building Moore

Our new building at a glance

- » **251,891** gross square feet
- » More than **2,000 classroom seats** in 35 classrooms
- » More than **40 meeting rooms**/project spaces
- » Multiple rooms equipped with **advanced Telepresence technology**
- » **136 faculty offices** and space for more than 100 Ph.D. students
- » **500-seat** lecture and performance hall
- » Café, **electronic trading room**, and areas for individual and group study
- » Outdoor views, skylights and natural lighting elements designed to **enhance productivity** and reduce sick days
- » Advanced systems will continuously **monitor energy use** and air quality
- » A grove of **Sabal Palmetto trees** in the Palmetto Court
- » **Green** rooftop terraces
- » Collection and **reuse of rainwater** for irrigation and toilets
- » Landscaping designed to **reduce the heat** island effect
- » Designed with technical support from the U.S. Dept. of Energy to identify **energy efficiency opportunities**
- » Innovative, **energy-efficient** heating and air conditioning systems
- » Abundant use of natural light for livability and **energy savings**
- » Building materials with **recycled content**
- » **Recycling** of construction waste



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