

Center for
**Executive
Succession**

Current Practices in CEO Succession

Results of the 2016 **HR@Moore** Survey
of Chief HR Officers

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Overview of CEO Succession Research

CEO succession has increasingly gained board attention over the past 10 years. While always a responsibility, the intersection of a number of companies facing CEO succession crises and the increased scrutiny placed on the board due to regulations such as Sarbanes-Oxley have moved CEO succession to the forefront of the board's agenda. In addition, research by PwC reveals that global CEO turnover was 19% last year and recent research shows that up to 35% of CEO departures are forced. Given these developments, not surprisingly recent **HR@Moore** surveys reveal that succession planning has emerged as one of the CEO's top priorities for the CHRO.

In spite of these developments, little rigorous and objective research exists regarding current practices in CEO succession. The Center for Executive Succession was created to be just such a rigorous and objective source of knowledge about the issues, challenges, and best practices with regard to CEO and other C-suite succession decisions.

The **HR@Moore** Survey of Chief HR Officers (formerly Cornell/CAHRS Survey of Chief HR Officers) is now in its 8th year. As part of its association with the newly created Center for Executive Succession in the Darla Moore School of Business at the University of South Carolina, this year we highlight CEO and other C-suite succession practices, issues, and challenges while still examining the changing role of the CHRO. This report presents the results of the 2016 survey questions focused on CEO succession.

For information on becoming a CES partner company, please contact **CES@moore.sc.edu**.

Thanks to the Center for Executive Succession partner CHROs for their input on the survey:

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Executive Summary

The 2016 HR@Moore Survey focused on CEO succession practices firms currently implement to maximize the likelihood of success in the choice of the next CEO. The report asks questions regarding non-public data. Here, we aggregate the results to describe current practices of CEO succession across organizations.

The results suggest that both CEOs and boards are heavily involved in CEO succession. They also show a large number of firms are not prepared for an unexpected CEO departure, having no successor candidates fully prepared for such an event, and would instead be forced to settle for “ready-enough” candidates. And while the diversity of CEO successor candidates has improved over the past five years, CHROs still report the diversity of the candidate pool is less than desired.

The results also indicate that CEO successor candidates tend to be more aware that they are candidates than they are of who the other candidates might be, and this awareness increases the closer they are to the potential succession decision. CEO successor candidates are not likely to serve on other public boards, even when relatively close to the succession decision. However, they are far more likely to serve on nonprofit boards than on public boards at all stages of readiness.

With regard to succession planning, the two most frequent board activities are to engage in formal conversations with the CEO about succession timing

and to design events to gain exposure to successor candidates. The least frequent board activity is to explore external candidates. It is also notable that companies tend to use third parties far more when exploring external candidates than when pursuing internal candidates. Finally, in terms of the influence of the board relative to the CEO in the final succession decision, respondents currently say that there is almost a 50/50 balance between the two; this reflects a minor increase in the board’s relative influence on the decision over the past year, which continues a trend seen over the past few years.

In terms of transitions, firms that have undergone a CEO succession in the past 5 years often used a COO or President role as a chance to develop and evaluate the candidate before naming him/her CEO. CHROs continue to state that the biggest challenge during this time period is the division of responsibilities and accountabilities between the current CEO and the COO/President.

*This research was supported by the **Center for Executive Succession** in the Darla Moore School of Business at the University of South Carolina.*

Any conclusions or errors are the responsibility of the authors.

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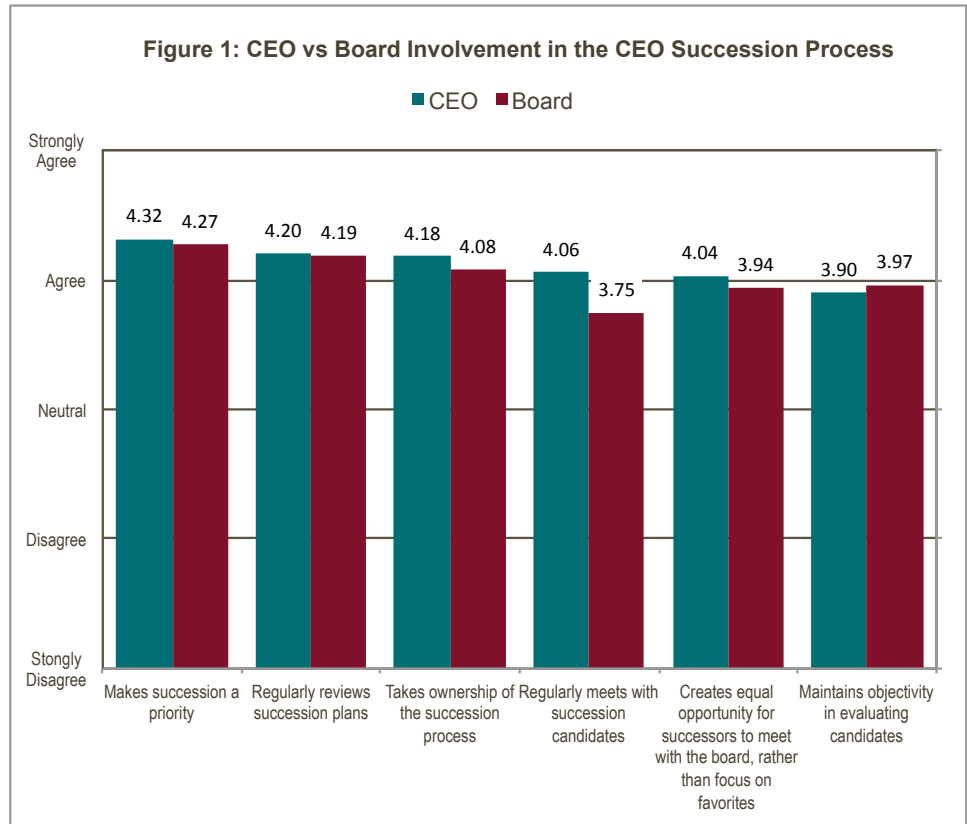
Results Regarding CEO Succession

CEO/BOARD INVOLVEMENT IN CEO SUCCESSION

We first present an overview of the involvement of both the CEO and the board in CEO succession. CHROs rated the extent to which they agreed with the statements regarding the CEO's and board's emphasis on CEO succession. Figure 1 presents these results. Clearly both the CEO and board place a high priority on CEO succession with this item receiving the highest ratings for both. CHROs also report that both groups regularly review succession plans. Both the CEO and board view CEO succession as important and have built succession reviews into a consistent process.

On the other end, both scored lower on the extent to which they maintain objectivity in evaluating candidates and provide equal opportunity for all successors to meet with the board, rather than focusing on favorites. Academic research conducted by CES notes the tendency for succession decision makers to sometimes reach early conclusions regarding their favorite candidate and then tilt the process in favor of the pre-determined successor. The current survey results are consistent with that earlier finding.

Despite the similar levels of responsibility for the outcome of the succession process, CEOs tend to take greater ownership of the succession process than the board, including meeting more regularly with successor candidates. Given their control over the day-to-day workings of the process and their frequent opportunity to interact with the candidates, this is not surprising. However, this may create some conflict as the legal responsibility for making the CEO succession decision lies with the board.



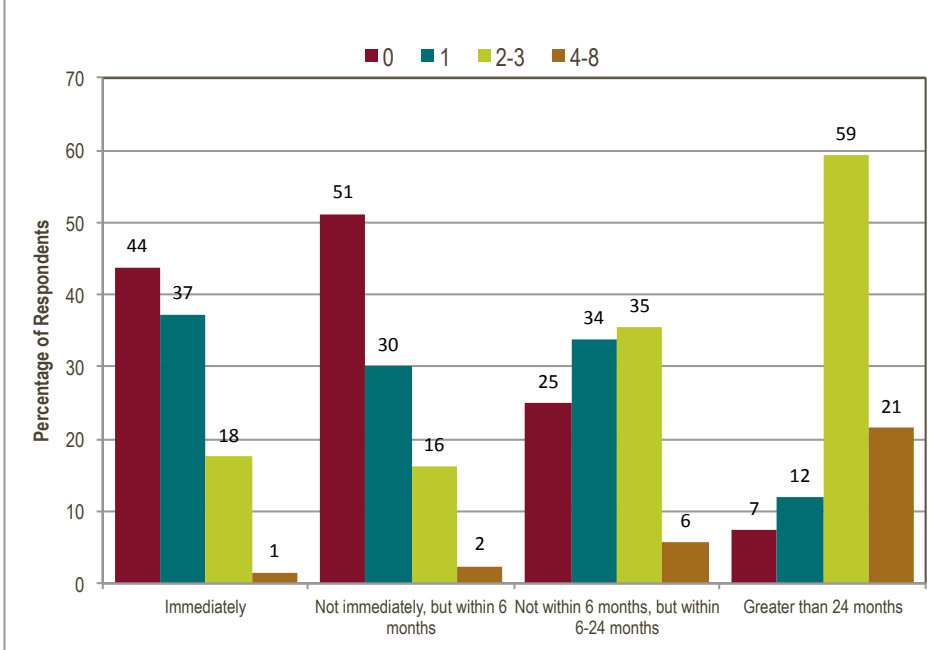
If CEOs can manage the process to favor their preferred candidate, it could also lead to the board making a poor decision.

THE CEO SUCCESSOR CANDIDATE POOL

We asked CHROs to indicate the number of internal successor candidates (0, 1, 2-3, 4-6, 7-8, or 9+) currently being considered as potential successors to the current CEO who would be ready for promotion immediately, within six months, within two years, or longer than two years. Figure 2 reveals the results.

First, 44% of the CHROs indicated that they had zero successor candidates who could immediately step into the CEO role, 37% had one, and 18% had 2-3. In terms of successor candidates who might be ready within the next 6 months, 51% indicated they had zero, 30% that they had 1, and 16% that they had 2-3. In the 6-24 month timeframe, 25% indicated they had no potential successors, 34% that they had 1 and 35% that they had 2-3. Finally, only 7% indicated that they had zero candidates

Figure 2: Number of Internal Successor Candidates and Their Timeframe Readiness



CEO position within their desired timeframe. So, in cases where the current CEO has a reasonably long expected timeframe to transition, having zero candidates ready may, in fact, be a best practice.

This should also be tempered by the fact that while no internals may be considered immediately ready, it does not mean that there are not candidates “ready enough.” We also asked “If your CEO were to step down today, how confident are you that his/her permanent successor would immediately (i.e., within a few weeks) be an internal direct report (i.e., immediate promotion without an “interim” CEO).”

Figure 3 reports these results.

ready in greater than 24 months, 12% had one, 59% had 2-3, and 21% had 4-8. Interestingly, although not included in the graph, only one respondent indicated 9 or more candidates were being considered in the greater than 24 months timeframe.

These results indicate that 48% of the respondents are extremely confident (70% or higher) that an internal candidate would be named CEO almost immediately. At the other end, 40% are not at all

It is important to note that having zero candidates ready to immediately (or even in the short term...up to 24 months) step into the CEO role does not indicate a failure in succession planning. Firms have to balance getting candidates ready to fill the role with the timing of the role coming open. Having one or more candidates “Ready Now” may mean they are actually “Ready Gone” if they do not see the chance of attaining the

Figure 3: Confidence Immediate Successor Would Be Internally Selected if the CEO Stepped Down Today

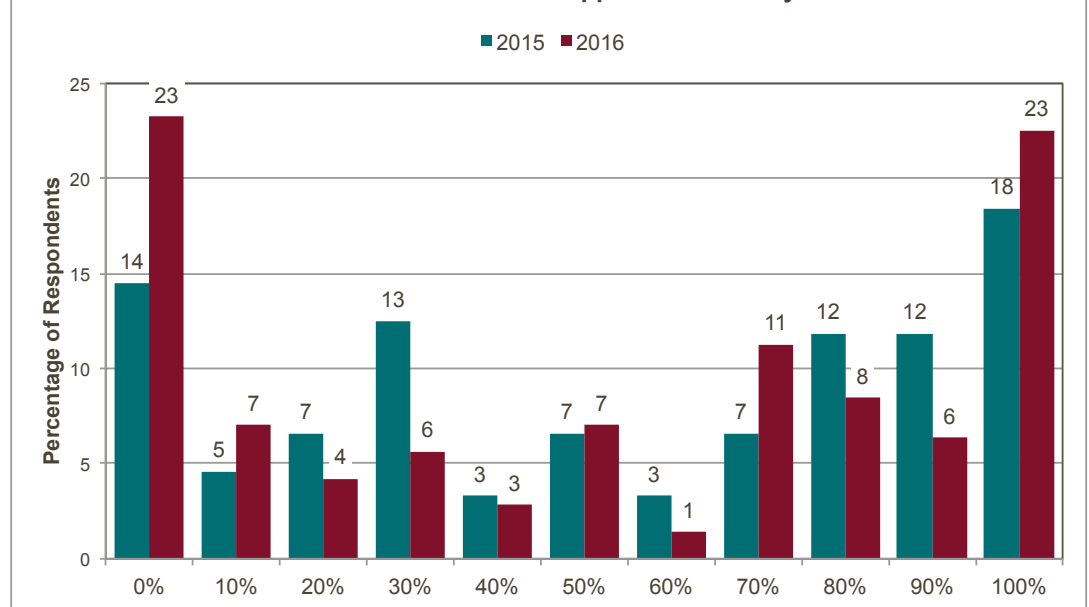
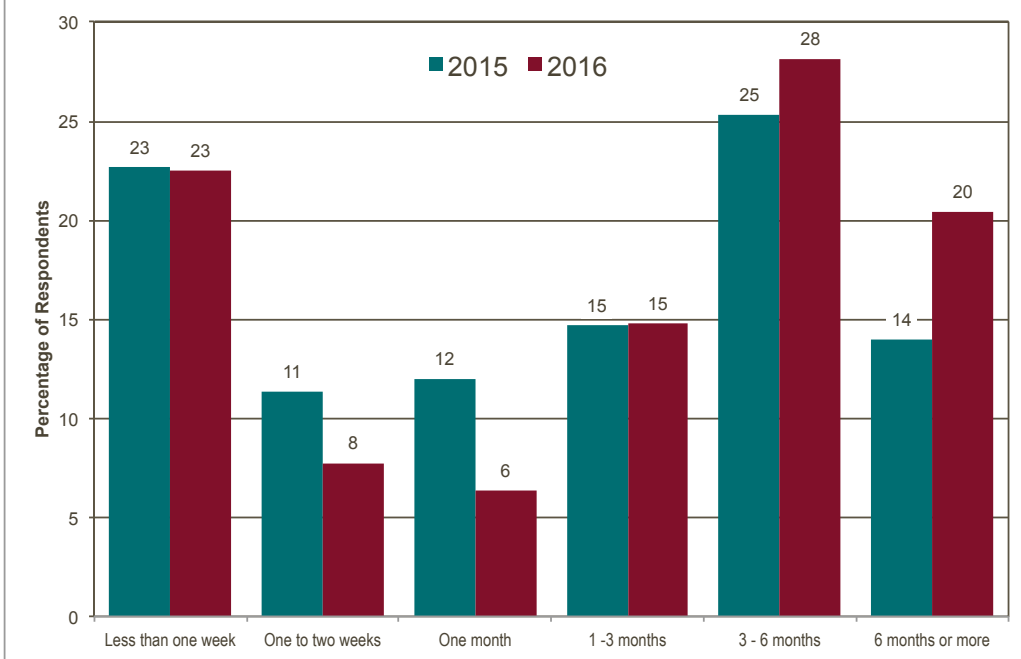


Figure 4: Length of Time to Have a Permanent CEO Successor in Place



confident (30% or less) that an internal candidate would be named CEO without having to go to an interim or external CEO.

Also, we asked about the timeframe to find a successor in the event of a sudden CEO departure. These results are displayed in Figure 4.

The responses indicated that 37% of CHROs believe that the position would be filled in one month or less, probably indicating that the board is confident that an internal candidate (or board member) is ready enough to step into the role. On the other hand, 63% believe that it would take longer than a month. In fact, almost half (48%) indicated it would probably be 3 months or more, indicating a possible external search.

This leads to the question of how many external candidates firms are monitoring

as part of their CEO succession process. We asked this question, and the results are depicted in Figure 5.

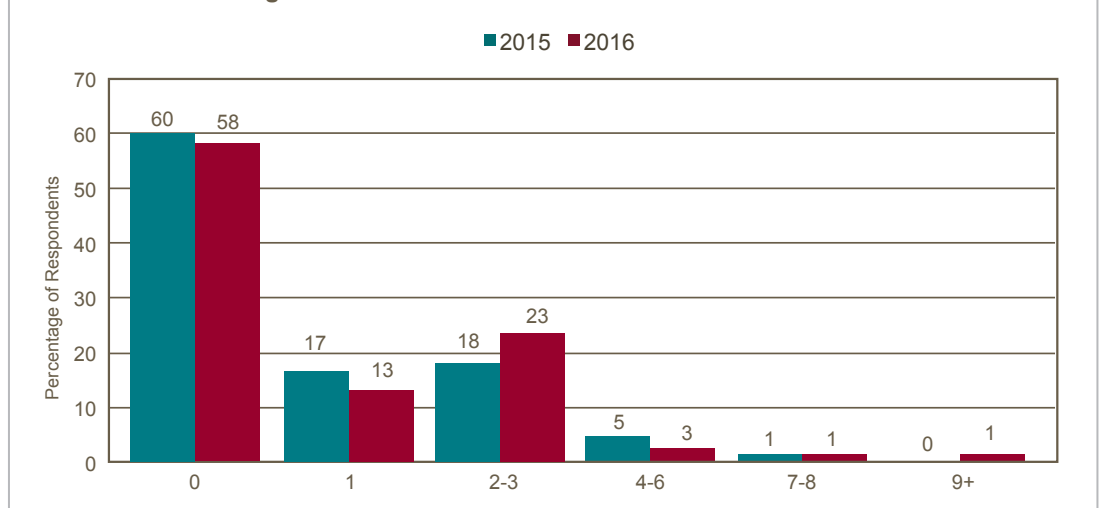
The vast majority of CHROs (58%) indicated they are not currently monitoring any external CEO successor candidates, 13% that they are monitoring 1, and 23% that they are monitoring 2-3.

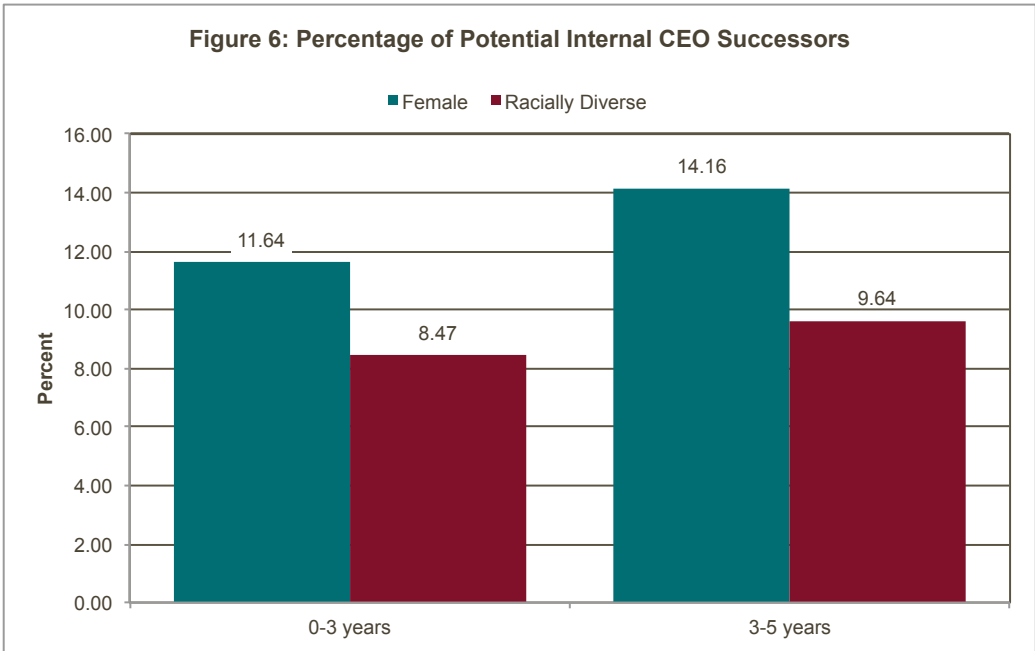
These numbers are very similar to 2015's survey.

CANDIDATE POOL DIVERSITY

An even less examined aspect of CEO succession pertains to the diversity of the candidate pool. A number of leading thinkers have bemoaned the low levels of sex and race diversity among CEOs and other C-suite positions. The 2013 survey revealed that one of the difficult conversations CHROs have with CEOs and boards is with regard to the diversity of the candidate pool. This year we asked CHROs about the diversity of the CEO candidate pool in both the short term (0-3 years) and longer term (3-5 years). As can be seen in Figure 6, the

Figure 5: Number of Potential External CEO Successors





candidate pool is unlikely to become substantially more diverse in the next five years.

CHROs indicated that just over 11% and just under 9% of their short-term candidate pool was diverse in terms of sex and race, respectively. In addition, just over 14% and under 10% of longer-term candidate pools are diverse in terms of sex and race, respectively.

The organizations in our study certainly understand the importance of building a diverse pool of candidates. However, given the current makeup of the executive labor pool, they are finding it difficult to meet their goals. We asked them to indicate the extent to which the diversity level of their candidate pool compared to their diversity goals. We also asked them the extent to which the current diversity level compares to the pool 5 years ago. These results are displayed in figures 7 and 8.

Regarding the first question, the vast majority of CHROs (70%) indicated that their current

pool falls short of their diversity goals. Very few (27%) noted that their pool meets their goals, less than a handful (2%) that they exceed, and none indicated their pool far exceeded its goals.

On the positive side, however, 39% of CHROs indicated that were making some progress relative to five years before. This should be tempered by the fact that greater than 60% indicated that the diversity of their current pool was

the same or had decreased over that timeframe.

TRANSPARENCY REGARDING CEO SUCCESSION CANDIDATES

One issue on which firms differ is whether or not they inform high potential talent that they are considered such. Thus, we also sought to explore the extent to which firms inform CEO candidates of their candidacy, as well as the transparency regarding other candidates in the pool. We asked CHROs to indicate the extent to which candidates

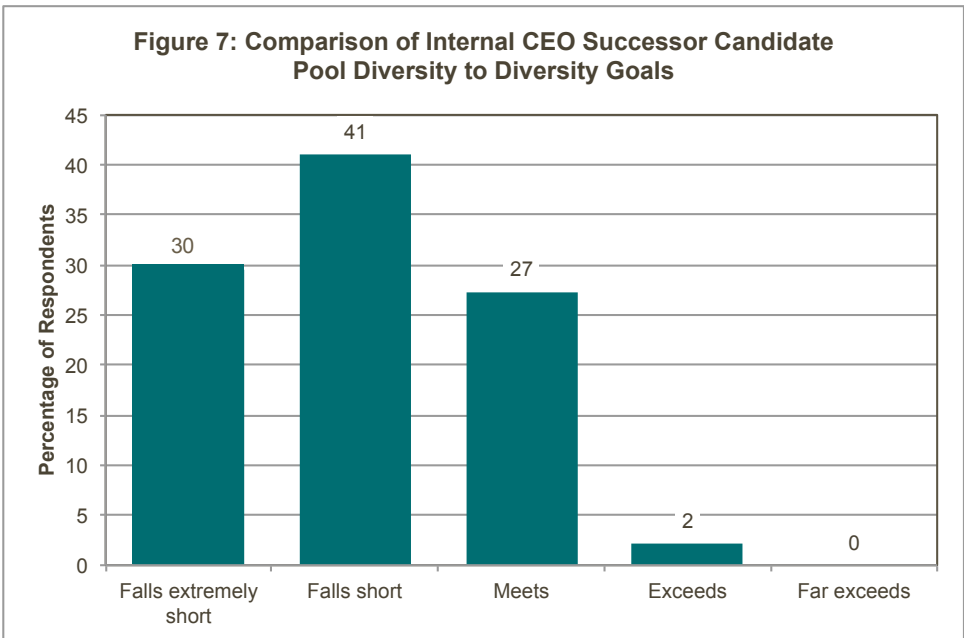
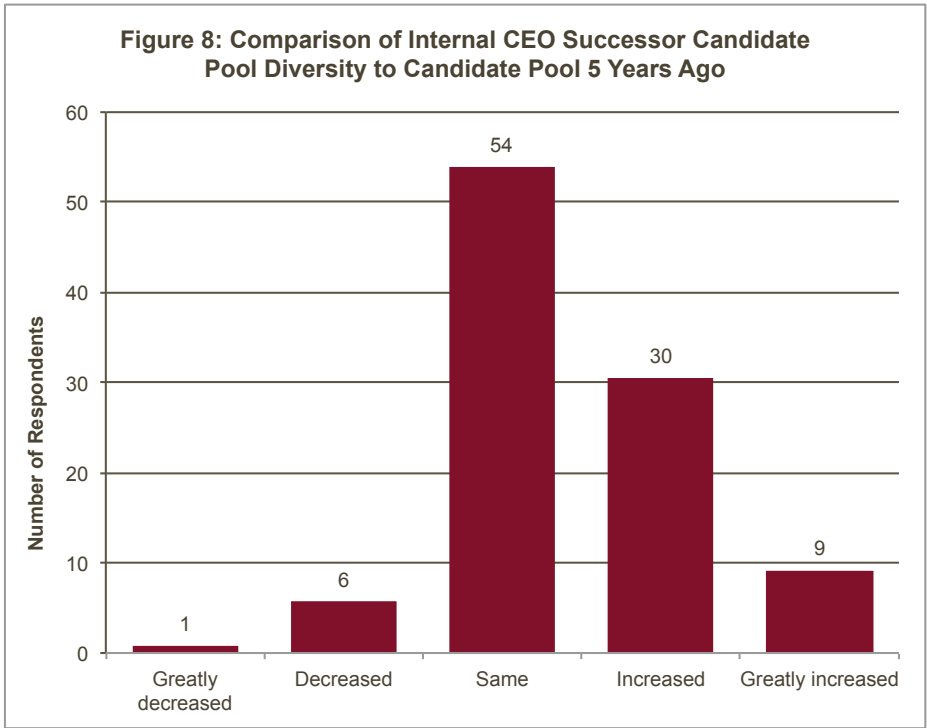


Figure 8: Comparison of Internal CEO Successor Candidate Pool Diversity to Candidate Pool 5 Years Ago



are aware they are such and aware of who the other candidates are at different stages or timeframes in the process. These results are shown in Figure 9.

Not surprisingly, CEO successor candidates are more aware that they are candidates than who the other candidates are, and they become more aware of both the closer they get to the succession decision. Interim (emergency) candidates and those in the 0-2 year range are moderately aware they are candidates and somewhat aware of who the other candidates are. However, as the pool moves further out, they become only somewhat to slightly aware that they are in the candidate pool, and become even less aware of who else comprises that pool.

CEO SUCCESSOR CANDIDATES ON BOARDS

One way that firms might seek to develop CEO successor candidates' ability to deal with the board of directors is to have them serve

on boards prior to assuming the CEO role. Thus we asked what percentage of their CEO successor candidates at different stages served on for-profit and nonprofit boards. These results are displayed in Figure 10.

Not surprisingly, successor candidates are more likely to serve on boards the closer they are to being ready to succeed. In terms of for-profit boards, those ready to succeed in 0-2 years, 2-5 years, and greater than 5-years serve at rates of 17%, 7%, and 2%. Interestingly, while the same effect holds for nonprofit boards, candidates are far more likely to serve on such boards at rates of 36%, 28%, and 18%. This suggests that firms use nonprofit

boards as a tool to prepare candidates more often than for-profit boards.

We also asked about company's policies regarding executives' participation on outside for-profit boards. CHROs reported 59% of their companies had a policy for CEOs and 51% had policies for other executives. In terms of CEOs, 3% of companies did not allow the CEO to serve on an

Figure 9: Successor Candidate Awareness of Candidacy and Other Candidates

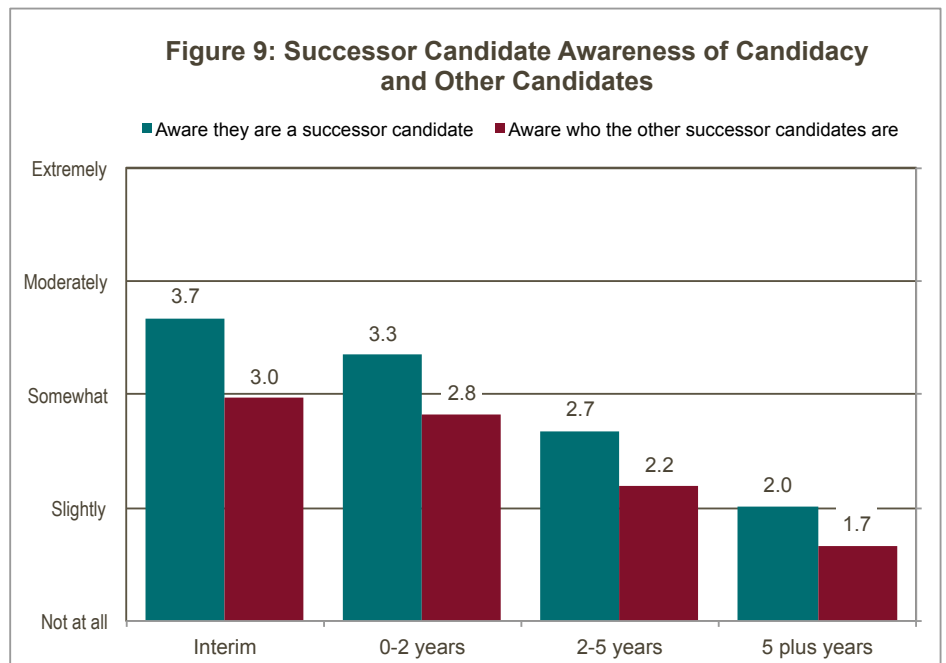
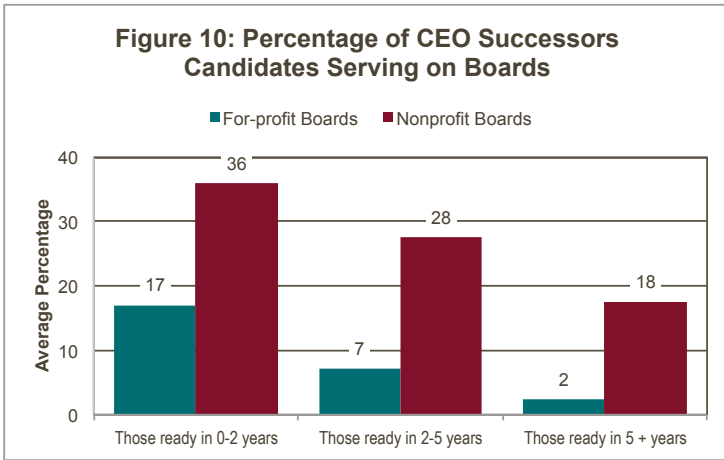


Figure 10: Percentage of CEO Successor Candidates Serving on Boards



outside for-profit board, 32% allowed just one, 23% allowed up to two, and only 1% allowed CEOs to serve on 3 or more boards. Regarding other executives, 6% of companies did not allow them to serve on an outside for-profit board, 34% allowed them to serve on one board, only 10% allowed them to serve on up to two, and only 1% allowed other executives to serve on 3 or more boards.

BOARD SUCCESSION PLANNING PRACTICES

Consistent with past surveys, we asked whether or not the board uses what may be considered best practices in CEO succession planning. The original list was adapted from research conducted by MVC Associates. The results are presented in Figure 11.

The most popular succession practices consisted of having scheduled conversations with the CEO regarding time for succession (87%), designing exposure to the Board for the CEO talent

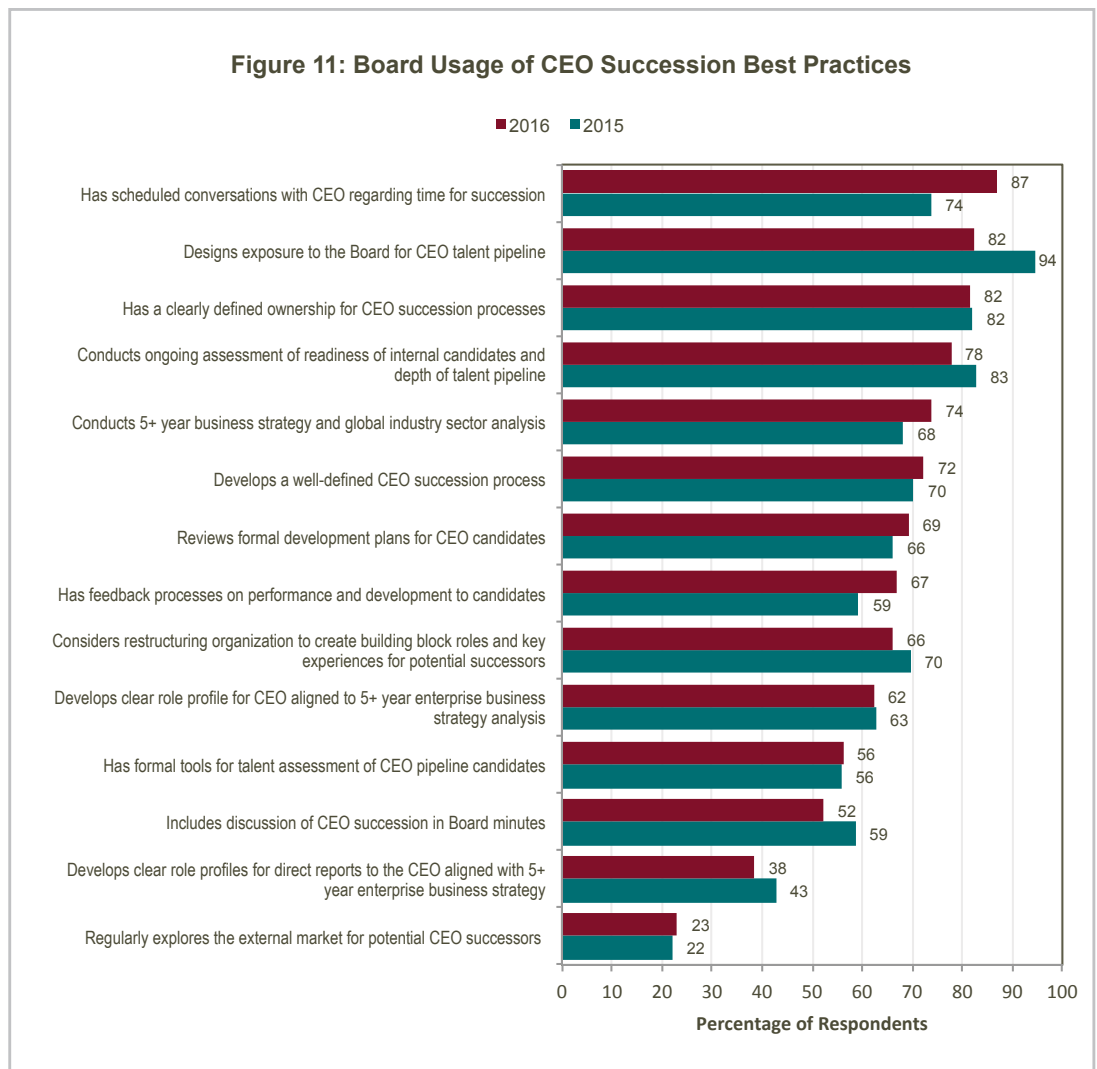
pipeline (82%), having a clearly defined ownership for the succession process (82%), and conducting ongoing assessment of the readiness of internal candidates and the depth of the talent pipeline (78%).

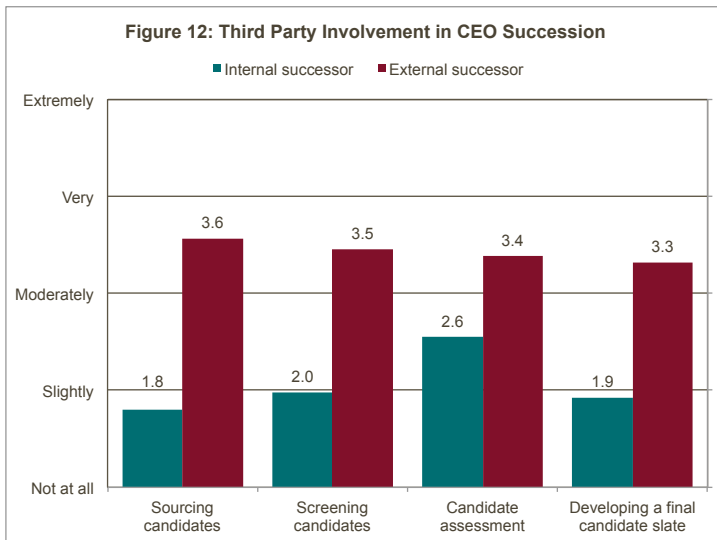
By far the least popular practice was regularly exploring the external market for potential CEO successors (23%). In addition, developing clear role profiles for direct reports tied to the 5-year enterprise strategy was used by only 38% of the firms.

USE OF THIRD PARTIES

We explored the extent to which third parties were previously used as part of the CEO succession process by asking the extent to which they were used in the sourcing, screening, assessment, and development of the final slate for

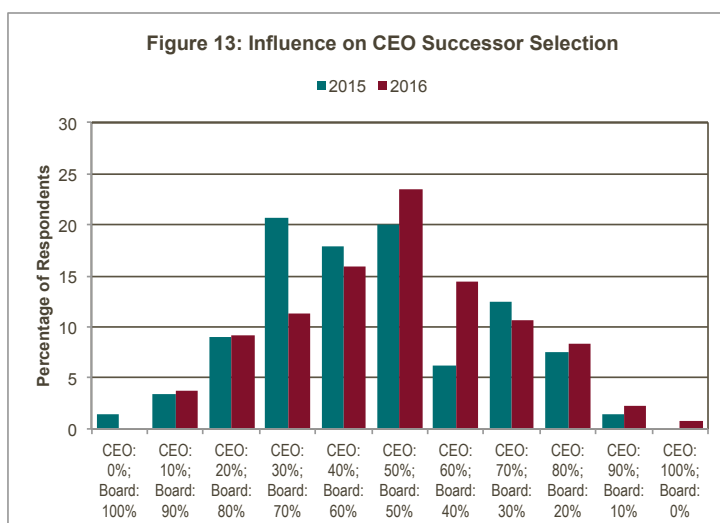
Figure 11: Board Usage of CEO Succession Best Practices





the current CEO, with data broken down by use of external help when selecting an internal versus an external successor. These results are depicted in Figure 12.

Approximately 45% of CHROs reported their current CEO being promoted within the last five years. Of this 45%, approximately two-thirds were internally promoted with the others being external. For firms that reported an internal successor, about 35% reported using third party help to aid in their search. For firms that hired an external successor about 65% reported using third party help. As can be seen in Figure 12, third party firms were more involved when the firm hired an external CEO candidate. Thus, firms that hired an external CEO were more likely to use third party help and that



help was much more involved in the succession process than firms that hired internally.

GOVERNANCE AND THE CEO SUCCESSION DECISION

Consistent with past surveys, we also examined how much influence the board would have versus the CEO in the final decision regarding the CEO successor. This question gets at the reality, rather than the legal responsibility for the decision because legally the board holds the responsibility for selecting the next CEO. We provided CHROs with a series of choices (“CEO 0%; Board 100%” to “CEO 100%; Board 0%”) in 10% increments. These results can be seen in Figure 13.

In past surveys we observed a bi-modal distribution, where there seemed to be one set of firms where the board tended to hold more influence and others where the CEO held more influence. As can be seen in this figure, the responses resembled an almost perfect normal distribution centered at equal influence (50/50), which represents an apparent shift to less expected board influence in CEO successor selection compared to the prior year¹.

CEO TRANSITION PROCESS

In order to examine the usual process for transitioning a new CEO into the role, we asked a series of questions regarding the naming of a COO/President as a step in this process. We asked CHROs to answer if their CEO had been named in the past five years, and if so we asked if the CEO was named a COO/President prior to becoming CEO and if there had been a planned timeline for developing or evaluating the individual in that role. Half of respondents (34 of 66) who indicated their CEO had been named in the past 5 years indicated the CEO was named COO/President prior to becoming CEO. Of these, 76% indicated that there had been a planned time period in the role and the median of that

¹Note that because not all of the companies across the two years are the same, this may be a function of different companies in each sample across years rather than a shift within companies over time.

Table 1: Representative Comments of the Challenges of the Transition Time Period While the Future CEO Held the Office of President of COO as Development or Testing

- *Clearly articulating roles and decision-making of COO and CEO responsibilities*
- *Tough for the executive leadership team to know who to take direction from*
- *The COO became increasingly anxious to become the decision maker given he would be living with the decisions for years to come*
- *Delegation of duties between former and new CEO*
- *Having the COO be patient during the transition*
- *The COO lacked experience in key areas and had to earn credibility*
- *The COO learning about corporate governance and the relationship with Wall Street and analysts*

time period was 12 months (ranging from 3 to 36 months).

We also asked if the actual time period had been shorter, the same, or longer than the planned time period. Most indicated the schedule had been followed. Of the five that had a shorter actual time than planned, most indicated that the new candidate seemed ready early with only one noting that the candidate had received an external offer. Only one company took longer, and this was due to the recession delaying the incumbent CEO's retirement.

We also asked about the greatest challenges that emerged during this transition period. By far the most frequently mentioned challenge was with regard to the CEO handing over responsibilities or simply defining the responsibilities of the COO and CEO. Some of the responses are shown in Table 1.

In the CEO succession transition, often there exists a time lag between the naming of the CEO and his/her actual assumption of the role and duties, so we asked about this as well. Just over 50% of the CHROs indicated that there was such a time lag and that the median was 5 months. Only 3 CHROs indicated that the actual time was shorter than the planned time and this was again because the board felt that the incoming CEO was ready (and perhaps a flight risk).

Again, the biggest challenge faced during this transition dealt with the defining of duties and responsibilities for the incoming and outgoing CEO. Similarly, a number of individuals also noted

anxiety within the organization and the executive team during this transition period.

In addition to the new CEO transitioning in, we also explored the current practice regarding board membership of the departing CEO. We asked if the exiting CEO remained on the board and if so, for how long. In 52% of the cases, the CEO did not remain on the board. In 14% of the cases, the CEO remained until the following annual meeting, 20% for 1 year, 3% for 2 years, 2% for 3 years, and 9% for 4 years or longer. In essence, there are a small minority of firms where CEOs transition to long-term board membership, but in most cases (86%) retiring CEOs either immediately transition off the board, or transition off within a year.

CONCLUSION

Clearly, CEO succession is one of the board's most important governance responsibilities. It is a responsibility held by the board, but implemented internally within the organization largely by the CEO, CHRO, and the HR function. Much of what happens in CEO succession occurs outside the public's view, and therefore very little data exists regarding the number of successor candidates at different readiness stages, the diversity of the candidate pool, and the frequency with which boards use a number of practices as part of their overall succession planning.

This report is the first to publicly present data that are confidential within each firm, but to do so in a way that aggregates it across organizations to present what, in essence, is current practice in CEO succession.



The Darla Moore School of Business building has generated significant buzz since it opened its doors in August 2014, both for its striking appearance and for the ways it promises to transform business education. Drawing on extensive input from students, faculty, staff and the business community about how space can be configured to optimize business education, the \$106.5-million building is the university's most ambitious construction project to date.

With its many sustainable features, the building is targeting LEED Platinum certification, making it a model for sustainable architecture and sustainable business practices. Its open and flexible design facilitates enhanced interaction and collaboration among faculty and students and makes the building an inviting hub for community engagement. In these and other ways, the building is a physical embodiment of the Moore School's commitment to forward-thinking leadership for the business community.

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