

CTGN Summary of Themes

CEO succession and leadership development

December 2023



On November 30, 2023, members of the Compensation and Talent Governance Network (CTGN) met for a conversation on CEO succession and leadership development planning. The conversation covered the attributes of effective leaders and how they are evolving; the elements of an effective succession planning process, including how to identify and develop future executive leaders and handle emergency successions; and key board considerations for navigating CEO transitions.

Members were joined by Lyndon Taylor, leader of the Americas CEO & Board Directors practice for Heidrick & Struggles.

For a list of meeting participants, see appendix (page 6).

This *Summary of Themes* highlights key themes that emerged from the discussion:

Identifying the characteristics of an effective CEO

Approaching CEO succession as a strategic process

Navigating CEO transitions and setting up a new CEO for success

Identifying the characteristics of an effective CEO

Beyond industry expertise and experience, participants identified several key characteristics that boards are now prioritizing in potential CEOs:

- Agility, adaptability, and flexibility.** Given the rapid pace of change, organizations are prioritizing leaders who can stay current and navigate uncertain, volatile environments. *“The biggest trait we’re hearing is agility and having the ability to adapt and flex,”* said Mr. Taylor. Shocks like the COVID-19 pandemic, geopolitical conflict, supply-chain disruptions, and economic and market volatility underscore the need to adapt to unexpected events. One director said, *“Speed is important and being able to quickly adjust the strategic plan.”* Another director emphasized the importance of a learning mindset: *“You have to be at the top of your game, staying current, or you’ll get left behind.”* In this context, CEOs need to be able to make important decisions quickly, especially when things aren’t working. *“They have to build a fail-fast mentality and be willing to quickly make an unpopular decision to pivot,”* one director said.
- Ability to influence internal and external stakeholders.** *“There’s been a real push away from command and control, where collaboration and agility are coming into focus, especially post-COVID-19.”* One director said, *“It’s important that the CEO has influence and can get people to take action—whether that’s communication skills or something else.”* This includes building alignment around business objectives: CEOs need to *“develop the strategy and get buy-in for the strategy,”* Mr. Taylor said. The ability to exert influence and manage expectations extends beyond the organization. CEOs increasingly need to influence *“both internal and external stakeholders and be able to listen to them and sway them,”* said one director.
- Strong leadership around people and culture.** The CEO’s impact on people and culture is increasingly critical. One director said, *“It’s about having value-centric leaders, people who are purpose driven, who can shape culture and help the organization navigate the myriad of challenges that are thrown at them.”* This includes nurturing future leaders: *“The ability to actually develop and lead teams and develop other leaders is really critical,”* said Mr. Taylor.

Approaching CEO succession as a strategic process

“CEO succession planning should be an ongoing process—it should never stop,” said Mr. Taylor. Companies need to approach succession planning as a process that is closely tied to broader strategic planning and to think in terms of not only CEO succession but also succession of the entire executive team. CEO choice can have a major impact on the development of the executive leadership team: *“It’s beyond just a change in CEO. If the CEO succession process is done well, it’s also a retention process and shows the organization’s interest in leadership development.”*

Participants identified several aspects of effective leadership development and succession planning processes:

- **Linking leadership development and succession planning to business strategy.** One director said, *“It’s a strategic process where you’re diving deep into the business while looking at the future profile of the CEO and asking, Where and who is the business going to be three years from now? Are we evaluating talent from the perspective of the future rather than where we sit today?”* A strategic human resources leader can be a key partner to the board and the CEO in fostering leadership development that supports overall business objectives. *“You need someone who’s going to drive this as a truly strategic process, linked to overall business strategy right through the organization. And, equally, it has to be owned by the CEO; the CEO is co-owning this with the CHRO [chief human resources officer],”* a director said.
- **Identifying and assessing leaders throughout the organization.** Effective leadership development requires ongoing identification and evaluation of talent. One director said, *“Most effective organizations have people who are leading human-capital identification processes and working with the CEO and the board to assess broader capabilities and fill skill gaps.”* Participants agreed on the need to *“get a deeper view into the organization,”* which requires companies to delve a few levels below senior management to identify high-potential talent at early career stages. One director said, *“From a board perspective, it is important to identify up-and-coming people who are not just one or two levels down but further down in the organization. Maybe they could become the CEO and you need to tag those people early. During a discussion on one board, we went around the room and asked when people were flagged as having high potential. It was in their 20s.”* Organizations may need to be intentional in making the board aware of early-stage talent; for example, Mr. Taylor said, *“On an annual basis, one client has all members of their executive leadership team present high-potential individuals to the board and explain why they are high potential.”*
- **Creating development pathways.** Participants agreed on the need to take the long view in creating development pathways for high-potential leaders. This includes identifying the developmental needs of candidates relatively early in their careers and thinking multiple steps ahead about the roles and experiences they need to fill any gaps. For example, Mr. Taylor noted that candidates who are given international experience—a common aspect of executive development plans—are often not effectively reintegrated into the business when they return. He said, *“As a search person, the best time to call someone is when they’re about to return from an expatriate position because oftentimes the organization was not thoughtful about how to bring them back.”*

- **Benchmarking against external candidates.** Even boards that are looking internally for CEO candidates can benefit from benchmarking against the external talent market. Mr. Taylor suggested, *“Build a process to assess the internal candidates as well as periodically understand what the external market looks like.”* In discussing how to effectively evaluate external talent, he said, *“Increasingly, we do simulations. We do this both with the internals and externals to see how they would react in a given situation.”*

Participants also addressed emergency succession planning. Effective planning for an unexpected CEO transition requires intentional assessment of the processes, roles, and responsibilities of the board. That starts with a clear and shared understanding of who the emergency successor will be: *“You have to be affirmatively stating every quarter who your emergency successor is and making sure that there’s no confusion on who the board has decided on and articulate it clearly in front of everyone,”* one director said. However, a good plan goes beyond simply identifying the successor: *“You have to have a playbook for who the experts are, who gets convened, and who owns what—and update and review it every single year,”* said Mr. Taylor. *“Having a playbook is a best practice.”* One director cautioned that planning only takes you so far: *“Even when you’re prepared, you can never be that prepared.”*

Navigating CEO transitions and setting up a new CEO for success

Ensuring an effective CEO transition requires thinking beyond the event of the CEO change by ensuring a smooth departure of the outgoing CEO, supporting and accelerating the current CEO in their role, and maintaining a robust executive leadership team.

Directors shared good practices in mitigating the challenges around a CEO transition:

- **Fostering effective relationships between the board and the new CEO.** Directors emphasized establishing intentional relationships and communication channels between the new CEO and the board. Mr. Taylor said, *“Have the lead director and chair be a resource for the CEO and position the board as a resource, not just a body that oversees them.”* Other board leaders play a crucial role as well: *“We set aside time for the CEO to meet regularly with each committee chair,”* not just the board chair or lead director, one director said. Other directors have set up formal mentorship structures for directors to share information and feedback that enable the CEO to lead more effectively. One director said, *“In my opinion, what has helped a lot is the mentor program and having, for example, someone who’s been a CEO at a large company meeting once a month with this person in a safe way to help them be the best they can be.”*

- **Be clear about the outgoing CEO's role and boundaries around that role.** When the outgoing CEO continues as chair, it is important for boards to set clear expectations and boundaries for that role. Mr. Taylor said, *"A pitfall we've seen is when the outgoing CEO becomes executive chair and there aren't any expectations set for their role as chair or a plan for how long they'll be in that role. There has to be a definitive plan for the executive chair's performance and what is expected of them."* The outgoing CEO can play a vital supporting role even in a more informal capacity. One director recalled, *"I've seen in some companies where the CEO steps down and is not the executive chair, there's a period where they're a mentor and an advisor. And that can be very powerful."*
- **Ensuring retention and maintaining a strong executive team.** *"How do we keep the people that are left behind?"* asked one director. Mr. Taylor urged participants to *"think about the CEO succession process as a retention process"* for CEO candidates who weren't chosen. *"To retain top talent, you have to show the organization's commitment and interest in their development,"* he said.
- **Integrating compensation issues.** In CEO transitions, it is important for boards to think ahead about the company's financial obligations to the outgoing CEO, the transition package, and how to ensure that compensation doesn't exceed what is owed in terms of severance. *"Thinking about compensation in advance makes the process more seamless,"* said Virginia Rhodes of Meridian Compensation partners. One good practice is to take an impending CEO transition into account when establishing the last few equity grants for the CEO. *"Being planful, when possible, can be helpful – particularly for equity awards. Retirement provisions should be carefully reviewed to ensure treatment is as intended and to avoid having to make special one-off decisions at the time of a CEO's departure"*.

About Tapestry Networks

Since 2004, Tapestry has been the premier firm for building collaboration platforms with leaders of the world's foremost organizations. Tapestry Networks brings senior leaders together to learn and to shape solutions to today's most pressing challenges. We are a trusted convener of board directors, executives, policymakers, and other stakeholders, connecting them with information, insight, and each other. Top experts join our discussions to learn from the leaders we convene and to share their knowledge. Our platforms help educate the market, identify good practices, and develop shared solutions. We call this the power of connected thinking.

Appendix: Participants

The following members participated in all or part of the meeting:



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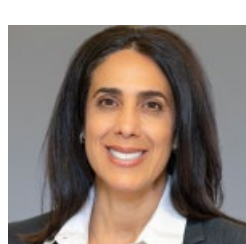
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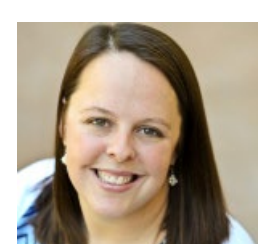
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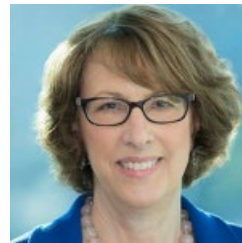
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Appendix: Participants



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Summary of Themes *reflects the network's use of a modified version of the Chatham House Rule whereby names of members and their company affiliations are a matter of public record, but comments are not attributed to individuals or corporations. Italicized quotations reflect comments made in connection with the meeting by network members and other meeting participants.*