

## Review of Selected Literature on CEO Succession

In the annual survey of top priorities for CHROs the topic of executive development and succession is a perennial top five item and in the 2011 survey was the most frequently mentioned priority for member HR leaders. The issue of leadership development and succession has also been a topic generating robust discussions in our regional CHRO meetings. This high level of interest among our member CHROs in the topic of succession prompted me to review some of the recent literature on CEO succession and leadership development to gain a better understanding of the state of the art in this area. Outlined below is a brief review of some of the literature you may find to be of interest on the topic of executive succession.

David Larcker and Brian Tayan have recently published a new book entitled Corporate Governance Matters: A Closer Look at Organizational Choices and Their Consequences, Financial Times Press, 2011, in which an entire chapter is dedicated to a discussion of the labor market for executives and CEO succession planning. The authors provide a comprehensive review of the academic research on CEO succession and turnover, a few of the interesting statistics included in this review include:

- The average CEO has been employed at his or her company for 14 years, having served five years as CEO.
- In 2009, CEO turnover was 14.3% on a worldwide basis. This compares to a turnover rate of 8% in 1998.
- While previous research did not find that forced resignation of the CEO exhibits a strong correlation with firm performance, recent comprehensive research on CEO turnover found that 59% of CEOs who perform in the bottom quartile over the last five years are terminated whereas 17% of those in the top quartile are terminated.
- A survey by Booz & Co. reports that approximately 80% of CEO successors are internally generated. Other research found that 8.3% of new CEOs at S&P 500 companies were external recruits during the 1970s compared with 18.9% in the 1990s.
- According to a report by Equilar, when an external CEO is recruited his or her first-year compensation is approximately 50% higher than that given to internal candidates.

Larcker and Tayan also provide a discussion of the various approaches companies employ in the succession process and note the potential pros and cons of the more popular approaches (internal horserace, external candidate benchmarking, etc.). I found the discussion of leadership development and succession by Larcker and Tayan to be thought-provoking, comprehensive and grounded in a review of the academic research on this topic.

Another recently published book, Great Companies Deserve Great Boards: a CEOs Guide to the Boardroom, Palgrave Macmillan, 2011, by Beverly Behan provides a review of CEO succession issues with particular emphasis on the respective roles of the CEO and the board in the succession process. Behan provides many "how-to" suggestions for the board and CEO in helping to guide the company through the succession process. While not providing a significant amount of new thinking on this topic, Behan does provide a useful checklist which reinforces the disciplined, board-driven process found in best practice approaches to executive succession.

Ram Charan in his 2005 book Boards That Deliver: Enhancing Corporate Governance from Compliance to Competitive Advantage provides a useful discussion of the board's role in CEO succession and offers advice as to how boards can help ensure the success of the successor candidate. Like Behan, Charan provides suggestions for structuring a well-managed CEO succession process, including a model for assessing the issues that are important to CEO and the company success. Key takeaways from Charan's observations are the requirement that the board spend sufficient time on CEO succession planning and that the board not delegate too much of this important responsibility to the outgoing CEO.

Having an open, candid and proactive approach to CEO succession and leadership development are consistent with the foundations of good corporate governance. Jeffrey Sonnenfeld's September 2002 *Harvard Business Review* article "What Makes Great Boards Great" emphasizes that board effectiveness is most significantly influenced by board members' willingness to challenge each other in a respectful, constructive, open and candid manner. I found this article to provide a helpful foundation for thinking about the board's role in effectively managing CEO succession and executive development.