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Interim succession: Temporary leadership in the midst of the perfect storm

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Succession planning;
Board decision making;
Leadership pipeline;
Corporate governance

Abstract The corporate governance environment has changed. The rate of CEO successions is naturally trending up, succession planning is in dire need of repair, and boards are under increasing pressure to focus on oversight. This confluence of events creates a 'perfect storm.' Within this new environment, interim successions are on the rise. But is it all bad news? This article explores the decision of corporate directors to use temporary chief executive officers (CEOs) and the roles served by these interim leaders. We include a typology of interim CEOs and prescribe the contexts in which organizations can strategically pursue this type of succession. We conclude with a list of recommendations for how boards can most effectively manage interim leadership in the new corporate governance environment.

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1. CEO succession: The crisis continues

In 2005, Ram Charan, a noted expert on CEO succession, documented what he referred to as 'the CEO succession crisis.' According to Charan (2005, p. 72), "the CEO succession process is broken"—a conclusion he drew in part because of the large number of companies that had no meaningful succession plans. Offering advice to the directors of

these companies, Charan stressed the importance of enhancing internal leadership development opportunities. Despite the abundance of expert recommendations (e.g., develop the leadership pipeline, consider the external labor pool, separate the CEO and chairman roles) that followed to help alleviate the problem (e.g., Dalton & Dalton, 2007; NACD, 2010), it is notable that more than half a decade since the publication of Charan's article, evidence is mounting that the lack of internal development opportunities may actually be getting worse, not better. In particular, we are seeing a dramatic increase in the number of *interim* CEO successions. Why are interim successions on the rise? When and how are interim successors used? Is it all bad news, or could interim succession be a

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sound strategic decision for a board? In other words, could interim succession be a way of helping to end the crisis?

1.1. The scope of the crisis

The breakdown of the succession process is in part due to three key factors: (1) the rise in the number of successions, (2) the board's lack of effective succession planning, and (3) the board's focus and time commitment to oversight. The scope of the crisis is embodied in the case of Yahoo! Incorporated.

Founded in 1994, Yet Another Hierarchical Officious Oracle, or Yahoo!, is a web portal and Internet search engine providing a multitude of Internet-based services, including email, communities, navigation, broadband, and mobile products. Founders David Filo and Jerry Yang incorporated the company in 1995 and named Timothy Koogle as its first president and CEO. Through aggressive acquisitions and development of new ventures and partnerships, the company has grown into a global network of websites, employing 1,400 people and reaching sales of just under \$5 billion in 2011. This growth has not always been smooth and the company has faced challenges, however, including difficulties with securing permanent leadership and developing a strong leadership pipeline.

In 2001 when the Internet bubble burst, Yahoo! experienced some financial woes. In response, the company replaced Koogle with Terry Semel, the former co-CEO of Warner Bros. Semel helped the company regain financial stability and appreciate in value by about 40% each year. But in 2007, under pressure from investors unhappy with his performance (Yahoo!'s competitor, Google, had experienced a stock appreciation of 55% each year) or compensation package, Semel resigned and founder Yang assumed the role. The company announced that Susan Decker, the expected heir apparent, was not ready to take the top spot and charged Yang with attracting top talent to the company. Within 18 months, after massive layoffs and cost cutting, as revenues continued to fall, Yahoo! secured former Autodesk CEO Carol Bartz to continue the company's turnaround. By 2010, Bartz had overhauled Yahoo!'s organizational structure, cutting costs and laying off another 5% of the workforce. A year later, Bartz was replaced by Tim Morse, then-chief financial officer (CFO) of Yahoo!, as the interim CEO. After four months, Scott Thompson, former president of PayPal, was named CEO, only to be ousted a mere 130 days later after controversy arose over his academic credentials. Ross Levinsohn, then-head of Yahoo!'s new Media group, was named interim; 2 months later,

the company proclaimed Marissa Mayer, a former Google executive, as permanent CEO. Two months into her tenure, Mayer gave birth to her first baby, leaving many to wonder about the future direction of the company. It is safe to say that Yahoo! is experiencing a succession crisis.

1.1.1. The rise in successions

The case of Yahoo! highlights key factors contributing to the succession crisis. The rate of CEO succession is naturally trending up as CEO tenure is trending down, and much could be attributed to financial difficulties. From 2000 to 2009, the overall number of successions among the world's 2,500 largest companies increased from 11.2% to 14.3% as the average CEO tenure decreased from 8.1 to 6.3 years. CEO dismissals rose from 1.1% in the 1990s to 5.1% by 2008, and performance-related CEO departures increased over 300% (Karlsson & Neilson, 2010). Organizations that force out their CEOs significantly underperform organizations that do not, and research has indicated that many boards are apt to oust a CEO based merely on the *potential* for poor future earnings, indicating boards continue to have little patience with underperforming leaders. Over its 18 year history, Yahoo! has experienced six permanent CEOs, four of which left as a result of underperformance, and two interim CEOs. In the past year alone, the board has selected two permanent CEOs and one interim CEO. This rise in succession, and the succession challenges experienced at Yahoo!, illustrates a longstanding and well-documented problem contributing to the crisis: the board's struggle to manage succession planning.

1.1.2. Lack of succession planning

The National Association of Corporate Directors (NACD) has conducted research on over 4,200 public companies regarding corporate governance issues. In its 2011 report, the NACD presented disturbing evidence suggesting a continued lack of comprehensive succession planning processes by the board. The good news? A greater number of boards (77%) are focusing on the development of internal candidates and a majority of boards (74%) have put in place an emergency succession plan, with over half having an interim CEO identified. The bad news? Nearly half of respondents indicated that their board's succession plan is informal and that there is no long-term plan (e.g., 3 to 5 years out) in place. Only 30% of the boards have plans for the engagement of an executive search firm to identify external candidates, and nearly 10% indicated that there is no succession plan (NACD, 2011). Research from the Spencer Stuart Board Index found similar results for the S&P 500.

Though most boards reported discussing CEO succession planning, 30% do not have a long-term or emergency succession plan, 60% do not have a documented description of the skills required for the next CEO, and just over half do not have a formal process to review internal candidates. Most boards agree that CEO succession is a top priority, but 43% of these same boards view themselves as ineffective at managing this process (Spencer Stuart, 2011). This research is consistent with Yahoo!'s experience, where lack of a talent pipeline led the board to select outside CEOs. While this can be an effective succession strategy (Ocasio, 1999), outside CEOs have a higher likelihood of failure (Fredrickson, Hambrick, & Baumrin, 1988; Zhang, 2008). Selecting external CEO hires may deter the board from considering internal replacements and limit efforts toward actively grooming and preparing potential insiders. Separate research conducted by Heidrick and Struggles and the Rock Center for Corporate Governance at Stanford University found that a mere 54% of boards were actively grooming an heir apparent and 39% of board members reported having no viable internal candidates ("New CEO," 2010). This begs the question: How can a board expect to have a CEO ready if it is not currently grooming a successor? For Yahoo!, the answer is the board cannot, and does not. The only two internal candidates named CEO served on an interim basis. As one expert noted, "lack of succession planning at some of the biggest public companies poses a serious threat to corporate health" ("New CEO," 2010, p. 1).

The boards are aware of their own deficits in succession planning. In 2009, the NACD examined governance issues on two dimensions: (1) importance to the board and (2) effectiveness in the board's handling. While 34% of the boards identified CEO succession as critical, a mere 15.7% of directors ranked themselves as highly effective at managing succession (NACD, 2009). By 2011, boards identified CEO succession as their 5th priority; when asked who was responsible for development of an executive talent management program, nearly half indicated it was the sole responsibility of management (NACD, 2011). Yet, turnover and turmoil among the top leadership creates challenges in identifying and grooming potential top talent.

Why do boards appear to be ignoring the advice of experts and disregarding the best practices of companies successfully managing succession? One possible explanation is insufficient time dedicated to succession planning. According to the Heidrick and Struggles research, boards reported spending an average of 2 hours per year on succession planning. David Larcker, a business professor at the Stanford graduate school, suggests "boards of directors

just aren't spending the time that is required to adequately prepare for a succession scenario" ("New CEO," 2010, p. 1). These researchers concluded that the primary reason for a lapse in governance was a lack of focus. Adding another layer of complexity are the socio-political factors likely at play when a board attempts to plan for the next CEO. As research implies (Ocasio, 1994; Shen & Cannella, 2002a), very powerful CEOs (e.g., older insiders who hold the position of chairperson and have a large amount of stock) tend to have longer tenures than other top executives. A powerful CEO may become entrenched and comfortable in her role as 'alpha' and may be disinclined to plan her own departure. As chairperson, the CEO leads board meetings, and may be reluctant to even include succession on the agenda, complicating matters for the board. If the CEO is performing well, she may not recognize it is time to move on. A board-initiated succession plan may upset the CEO ("Why am I being pushed out when I've done so well for the company?"), who then may be reluctant to plan and groom the successor. Consider Warren Buffet, CEO of Berkshire Hathaway, who at the age of 82 still held the title of president, typically a symbolic title bestowed on the heir apparent. Buffet announced that Howard Buffet, his son and a member of the board, would be his successor as the non-executive chairman, and identified an heir, but did not reveal his/her name or a timeline for the transition. If the CEO is underperforming or is a poor fit for the organization, the board would presumably not want her help. The company may be in need of strategic changes but may have difficulties selecting and grooming the successor while the current CEO is still in office. This appears to be consistent with Yahoo!'s situation, in which four of the permanent CEOs stepped down or were forced out due to underperformance and their successors were each charged with turning around the company. Either way, politics and power complicate the selection process. Why are boards not dedicating time to fix the succession process? A look at the new corporate governance environment may shed some light on this issue.

1.1.3. The era of oversight

The final factor contributing to the succession crisis is the time and focus that boards place on oversight. Directors, like most corporate executives, tend to focus on short-term issues, particularly when faced with scarce and competing resources (e.g., time). Even if the board has a longer-term strategic plan, when confronted with pressing issues requiring immediate attention, the board's focus often turns to quarterly matters. Though not new, this short-term

focus appears to have intensified under the new corporate governance environment. The word of the day is 'oversight,' as directors are under increasing pressure to be fully engaged in their oversight role. It is, and always has been, the board's fiduciary responsibility to ensure senior managers are making decisions that are in the best long-term interests of the organization. Yet, the missteps and mistakes at Enron and Worldcom leading up to Sarbanes-Oxley (SOX) and the financial meltdown in 2008 leading to the Dodd-Frank Act have put increasing pressure on boards to actively manage and oversee the strategic decisions and activities of the top executives, and in particular the CEO. In 2011, the NACD asked directors to identify the highest priorities facing boards. A majority of directors (72.1%) agreed that strategic planning and oversight was the highest priority for the board and risk and crisis oversight was an additional critical priority (NACD, 2011).

Certainly, the current strategic direction of the firm or the financial strength of the organization must be discussed and assessed now. These matters cannot be pushed back a year, or even 6 months, as a delay in addressing these critical issues could lead to serious consequences, such as a lack of competitiveness or financial viability. Boards must be sure they are following the rules of SOX and fulfilling the oversight and auditing requirements. These issues that demand attention are no less complicated and could easily take up much of the board's time and energy during meetings, pushing issues such as leadership pipeline development to the end, or even to the next agenda. Though boards should address all of these matters, like so many organizations and groups, they have limited resources; the most critical is time, which is increasingly being filled by expectations of oversight. Further complicating the matter are mounting requirements for effectively managing CEO succession.

The succession process itself has undergone a transformation. Past are the days Richard Vancil (1987) described, when much of the responsibility for selecting, grooming, and 'passing the baton' was left to the current CEO. Because today's boards have a greater percentage of outside directors and more are opting to separate the CEO and chair positions, directors are shouldering a bigger role in succession planning. Ultimately what has occurred is that the board's responsibility for succession planning and executive talent development has increased, but the ability of directors and time available to do this has not kept pace. This appears to be the case at Yahoo!. In the post-SOX environment, the board must spend additional time ensuring adherence to the new rules and regulations, taking time away from effectively managing succession.

2. Increasing successions + Poor succession planning + Oversight environment = Interim succession?

When rising CEO successions crash into poor succession planning in an environment of increasing scrutiny and oversight, is the result a perfect corporate governance storm? If so, what are the markers that tell us when we are in the midst of this storm? Is it judicious to ask whether the increasing trend of interim CEOs is one of these markers?

Recent research reveals that interim successions make up anywhere from 18% to 20% of all successions (Ballinger & Marcel, 2010). More and more companies—like Denny's, E*Trade, First Data, Tyson, Sears, Six Flags, and UBS—have opted for temporary leadership. Even organizations that were recently highlighted as having best practices in succession planning throughout the leadership pipeline (e.g., Boeing, Citigroup, Hewlett-Packard) have employed interim CEOs (Karaevli & Hall, 2003). The question remains: What happens when interim CEOs are selected? Are they simply a sign of a failed succession or is there some strategic value to selecting an interim CEO?

2.1. Interim succession: A failed plan or a strategic choice?

Interim succession has traditionally been viewed as an unsuccessful succession, a clear sign that the board has failed to develop the leadership pipeline (Dalton & Dalton, 2007) and must appoint a temporary executive to keep the seat warm while the board searches for a permanent replacement. In our most recent research, we discovered that boards are selecting interims for a variety of other reasons (Mooney, Semadeni, & Kesner, 2012). We identified five additional types of interim CEOs, including the contender, groomer, marketer, fixer, and cleaner (see Table 1).

The *contender* is the interim CEO who is the likely permanent replacement (e.g., a member of the top management team) but who has been given the temporary label. The board selects a contender when it wants assurance it has chosen the best executive for the job. A contender must prove to the board that she is a good fit by operating as a permanent CEO. Meanwhile, the board has a chance to assess the contender, comparing her to other potential candidates both within and outside of the organization. One place we frequently see the contender interim CEO is in academia, where it is customary to select an interim dean—many times an associate dean, a program chair, or a department head—to allow the selection committee to

Table 1. The six types of interim successors*

Type of interim CEO	Characteristics and role of interim
Seat Warmer	Board member, typically non-executive chairman, who fills the role while the board searches for a replacement
Contender	C-level executive in contention for permanent position who proves her competence as board assesses and compares to external candidates
Groomer	Former CEO and/or founder who prepares and 'grooms' the next permanent successor, an internal executive likely named heir apparent at time of interim succession
Marketer	Board member with expertise in negotiations tapped to help ready the organization for an initial public offering or sale
Fixer	Former CEO and/or chairman of the board focused on repairing the existing companies to reverse the initial stages of financial decline
Cleaner	Professional interim or turnaround specialist charged with making severe changes, such as divesting companies, in order to avoid bankruptcy and organizational failure

* Adapted from Mooney et al. (2012)

complete the due diligence of comparing the best internal candidates to potential external replacements. This process helps the school not only gain assurance that it has selected the best top executive for the position, but also acquire potential ideas for moving the school forward and building its network through exposure to important players in the industry. Organizations in the corporate arena are likely to experience similar benefits when pursuing an interim contender approach to succession.

The *groomer* is the former CEO and/or founder who steps back into the CEO position temporarily. The role of the groomer is to prepare the permanent successor. While this may appear to be a seat warmer, certain elements indicate the difference. First, the appointment of the groomer is accompanied by the designation of an heir apparent (e.g., a top management team member promoted to COO and president). Second, the groomer's job is to focus on managing external stakeholders and act as a spokesperson while enabling the heir apparent to manage the day-to-day operations and develop her skills and expertise. Last, the time horizons differ. The seat warmer typically serves for less than 3 months, while the groomer typically stays between 6 and 12 months. The groomer-heir apparent relationship is very similar to a traditional succession in which the permanent CEO designates an heir and then passes the baton within a year. So why is there a need for the interim title? Why not just use this traditional method? The groomer typically follows a short-tenured CEO ousted due to ill fit with the culture or poor performance issues. When a CEO leaves suddenly and does so early in his tenure, there is a gap in the leadership: the next in line likely needs more training and grooming before taking the reins. The interim groomer closes the

gap in leadership caused by a tight succession timeline.

When an organization is looking to sell, whether through an initial public offering (IPO) or an acquisition, boards may use interim CEOs to find potential buyers. These *marketer* interims focus on managing the external constituents, such as marketing the organization to potential investors or negotiating with potential buyers. The marketer interim typically comes from the board (e.g., an executive who has experience with the organization) and also has expertise negotiating organizational sales. But again, why the need for an interim? Why not simply have the current permanent CEO fulfill this role? Here, an interim is more effective because the CEO is being charged with negotiating herself right out of a job. It is rare that an acquired firm, or one which has gone public, keeps the same top executive structure after the deal is complete. An interim marketer stays focused on the sale of the company, not on the long-term viability of her job.

The *fixer* and the *cleaner* are the final two interims we uncovered. Both serve for longer time horizons (e.g., 12 to 18 months) and are selected when organizations are struggling, but each has different strategic imperatives. The fixer focuses on repairing existing companies within the organization, both strategically and operationally, enabling the organization to become more efficient and effective. In some cases, difficult decisions must be made (e.g., restructuring divisions which may lead to job losses), but the goal is to reinstate the financial health of the organization. The cleaner is tapped when the organization is struggling to survive, when bankruptcy is eminent, and far more severe decisions (e.g., divesting entire segments of the business) must be made. In many cases, a cleaner

is a professional interim: an executive who has the experience and expertise to come into a failing organization and stop the financial hemorrhaging, stabilize the company, and prepare it for the permanent replacement. The advantage of selecting temporary leadership to carry out these types of tasks is threefold. First, it is sometimes difficult for a permanent CEO to make significant and unpopular decisions, as she may have to live with them for the long term. Second, finding a permanent CEO with the necessary expertise and experience may be challenging. Finally, the price premium associated with selecting a permanent CEO to carry out these rather short-term tasks would be far greater than that of a temporary leader.

In all cases, the use of interims appears to be a function of the current corporate governance environment. The succession context has become increasingly complex (e.g., skill intricacies of CEOs concurrent with decrease in CEO tenure), which strains a changing succession planning process at a time when oversight in the governance environment is at an all-time high. Interim successions appear to be one way the board is responding to this perfect corporate governance storm. What does this mean for the board? If interim succession is a sign of the perfect storm, and boards are using interims more often to deal with the uncertainty surrounding succession and the scrutiny of the corporate governance environment, is this good? The answer is: It depends.

3. Interim succession: A contingency model

Under what circumstances does it make strategic sense for a board to engage in interim succession? Seat warmer interims should never be employed. Even in an emergency situation (e.g., the CEO gets hit by the proverbial bus), the board could appoint a more strategic type of interim if a permanent CEO is not readily available. The key is to have a plan in

place and to consider a priori possible scenarios in which an interim succession is the best alternative. The board must determine the needs of the company under alternative scenarios, the types of interims to best fit these needs, and the executives available to fill these interim roles.

3.1. The strategic selection of interim CEOs

Building on extant research and our own observations, we identify scenarios in which companies might strategically and effectively pursue interim succession. Within these scenarios, we observe elements such as CEO tenure, poor organizational performance, and industry changes, which introduce additional uncertainty to an already disruptive event. In describing these situations, we identify the organization's needs as a result of the situation and how an interim executive might meet these needs more effectively than a permanent executive. This inventory of organizational situations is not meant to be exhaustive, but rather a description of common scenarios observed and guidance for organizations to strategically use interim succession (see Table 2).

3.1.1. What just happened? The unexpected departure of the CEO

When the CEO departs suddenly, the board is left with an emergency situation—much like when the CEO dies, but with more complications. Many times, CEO departures result from poor fit between the leadership style of the CEO and the organization's culture; as such, they tend to occur early in a CEO's term (e.g., within the first 5 years). This was the case with Robert Nardelli, who resigned as CEO of Home Depot in 2007, just 2 weeks after stating to critics and the press that he had no intention of leaving. During his tenure with the home improvement chain, Nardelli helped the company grow earnings annually. While the board would not elaborate on Nardelli's

Table 2. Strategic selection of interim CEOs

Scenario	Organizational needs	Interim roles
Unexpected CEO departure	Transition Continuity Certainty	Groomer Contender
Dismissal of CEO	Strategic change Turnaround management Transition	Fixer Cleaner
Retirement of long-tenured CEO	Transition to new CEO Time to identify and groom an heir Strategic change	Groomer Contender

abrupt departure, many speculated a clash between Home Depot's entrepreneurial spirit and service-driven culture and the CEO's centralized, numbers-driven, top-down leadership style. CEOs also often leave due to power struggles with the board, as was the case when Citigroup Inc.'s CEO Vikram Pandit abruptly departed in October 2012 after clashes with board chairman Michael O'Neill. In both given examples, the boards chose to replace the CEO immediately with a permanent successor. But what if the company does not have someone at the ready? In this case, an interim might strategically help the organization.

When a CEO leaves early in her tenure due to cultural or sociopolitical challenges, she likely never effectively led the company or established and strengthened the culture. This produces a great deal of uncertainty regarding leadership and future direction of the organization. It also affects the board, which has lost its groomer for the next CEO; the predecessor may not have had sufficient time to identify, much less cultivate, a replacement. Further, if the CEO is a poor fit or is underperforming, the board may not want her selecting the replacement. This lack of permanent leadership increases uncertainty for the organization, not only around the current state of leadership, but also surrounding future leadership and direction of the organization.

Following an abrupt CEO departure, the interim can smooth the company's transition from its previous leader to a more stable, permanent CEO. He or she could serve during a transition period, when the organization and its employees have time to recover from the former CEO's decisions and get ready for changes likely to occur under new leadership. While the interim CEO is busy transitioning the company, the board has time to complete a thorough search for the new CEO. A groomer or contender interim would be most effective in serving the organization. As the former CEO, a groomer would increase certainty, since he is a known leader, and ensure a level of continuity in priming the heir apparent. While the groomer's role is very similar to the classic relay succession, the interim title is an important distinction: it sends a strong message that the past CEO is not coming back to adopt old strategies, but rather help prepare the successor to lead. Interim leadership allows employees to gain comfort in the familiar while giving a definitive timeline to prepare for the transition to the new leadership. External stakeholders are better equipped to assess the leadership as they know the former CEO will not be the permanent replacement, but rather help move the company forward. There are constraints to engaging in this type of interim succession. For instance, the

board must have access to the former CEO or founder. Many times, these executives still sit on the board, particularly when the CEO departs early in her tenure. The board must also be able to identify an heir apparent to be groomed. If there is a deep leadership pipeline and the board is managing this for succession 5 to 10 years out, this will not be a problem. However, if the board has not developed a solid succession plan with potential future CEOs identified, this type of interim succession will be much more difficult to accomplish.

The contender interim might also fill this role. As a member of the top management team, a contender knows intimately the workings of the organization, including the culture. While the contender may make some changes to prove his strategic competence and leadership capabilities to the board, he is also likely to bring a level of certainty and continuity to the organization, comforting employees and external stakeholders since they can infer much about the contender's strategic intentions as an insider. There are advantages to identifying the contender as an interim and not as the permanent replacement. Securing a contender gives the board a chance to see this executive in action, and not simply guess what type of leader he will be. This helps reduce the likelihood of another abrupt CEO departure due to ill fit. It allows the board adequate time to conduct a wider, more thorough search for a new CEO, and have confidence that it has selected the best possible leader. Finally, if the board does choose an external candidate, the market is less likely to view the transition negatively (e.g., as a failed permanent succession), but rather as the expected transition from a temporary to a permanent leader. As with the groomer interim, a critical aspect of pursuing this type of succession is having a deep leadership pipeline from which to tap potential contenders.

3.1.2. You're out of here! The dismissal of the CEO

Boards are dismissing CEOs at a greater rate than ever (Zhang, 2008). Many dismissals are a result of poor organizational performance or negative assessments by external stakeholders (Wiersema & Zhang, 2011). In other cases, boards appear to be dismissing CEOs proactively, more for their low ability (Ertugrul & Krishnan, 2011) and the potential for poor performance. CEO dismissals tend to be abrupt (Wiersema, 2002) and occur within the first 3 years of a CEO's tenure. This is likely a signaling effect, as the board may be trying to send a strong and swift message: "We messed up and we are going to do something about it. . . immediately!" When an heir is in place and present, there is an increased likelihood of CEO

dismissal when performance is low (Zhang, 2006). This is not surprising: the board may feel more comfortable dismissing the CEO when it has an heir apparent ready to assume the lead role. But what should a board do if there is need to dismiss the CEO to stop organizational performance decline and no heir is ready? It might select a seat warmer, as in the case of E*Trade, when the board dismissed Steven Freiberg for poor performance and appointed board member Frank Petrilli as interim CEO to maintain the company until a permanent replacement was found. But when an organization is underperforming, can it really risk waiting things out? Alternatively, a board could opt for the fixer or cleaner to help pull the organization through tough times and right the ship before securing a permanent replacement.

In these cases, interim CEOs would serve a much different purpose: to make the tough decisions, such as selling off poor-performing segments of the business or restructuring the firm's portfolio to curtail financial decline and enable the company to compete strategically again. The more extreme the performance losses, the more drastic the changes and cost-cutting measures are likely to be. An interim in this context might well help the organization through Chapter 11, as was the case for Sharper Image when it hired turnaround specialist Robert Conway in February 2008 and closed all of its retail stores later that year to become an online-only merchandiser. In extreme cases, the interim may lead the company to the end of its days. But why select an interim in this case? Why not a permanent CEO? First, it could prove challenging, attracting a qualified permanent CEO to a poor-performing firm. Why would a CEO want to take on a dismal performance situation? Second, if the board could find a candidate, the price would likely be high. The power would be in the CEO's hands, particularly if she had proven turnaround experience, which is what the organization would need. The board might indeed be searching for the 'corporate savior' and pay dearly if it selects a permanent CEO to fill this role (Khurana, 2002). An interim, whether a fixer or a cleaner, would be more cost effective. Last—as previously mentioned—an interim fixer or cleaner is charged with making the tough decisions and will likely be more effective at carrying out some very unpopular, yet necessary, strategic moves to turn around organizational performance.

3.1.3. Must you go? Retirement of the long-tenured CEO

Just as the short-tenured, unexpected departure introduces challenges to the succession process, so does the expected retirement of the long-tenured CEO, particularly when he or she is a well-liked and

respected leader. This was the case in August 2010 when 71-year-old Omnicare CEO Joel F. Gemunder retired and board member James D. Shelton stepped into the position on an interim basis. Gemunder's retirement was planned, yet the Omnicare board was not adequately prepared, so it appointed Shelton to keep the seat warm while a permanent CEO search was conducted. Why was an heir not ready? There are several possible explanations. While a longer-tenure CEO may bring stability and certainty to an organization, this limits leadership opportunities for promising internal replacement candidates. If a CEO serves an organization for 8 years and does not anticipate retiring, the next in line may leave to seek leadership opportunities elsewhere. As the tenure of that CEO grows to 10 years, the route to the top for many potential CEO contenders becomes less clear. Furthermore, the retiring CEO may not be keen on preparing for her own demise, as she has successfully served as the leader for such a long time. This situation brings challenges to the selection and grooming process for an internal succession. Longer-tenure CEOs are associated with poorer organizational performance (Shen & Cannella, 2002b), suggesting that an external replacement may make strategic sense. Yet, an external search might send a message to the current CEO that strategic change is necessary—a message the board may not want to send to the well-liked CEO. Given these additional challenges, an interim CEO might well serve the organization.

A contender interim could be a strategic selection. The contender might pursue some changes to help improve organizational performance. At the same time, the interim title gives employees time to transition to the new CEO. This may be particularly critical, as the organization has likely not gone through significant changes in quite some time. The mere retirement of the long-tenured CEO will be a significant change and a contender can help with that transition while still moving the organization forward. Concurrently, the board can begin its external search to gain confidence that the contender is the best CEO, or if not, find the best replacement. The contender interim allows the board to test the waters and see if the internal candidate can live up to following such a revered CEO, while doing its due diligence of an external search. The interim title also allows the board to conduct the search without offending the former CEO and helps the board manage external stakeholders (e.g., avoid a failed succession if the contender does succeed).

While interim succession should not be used to replace sound succession planning, certain situations introduce unique challenges for succession planning. In these cases, interim succession, if

pursued strategically, can help an organization effectively navigate the succession process and transition smoothly to permanent leadership.

4. Interim succession planning: The long and the short of it

With mounting evidence that boards are not effectively handling succession planning, there has been no shortage of sound advice (e.g., involve the entire board, create selection criteria, use formal assessments, interact with potential candidates, develop a contingency plan for emergency scenarios) from industry experts and corporate governance activists about how to fix the crisis (see [NACD, 2006](#) and [Dalton & Dalton, 2007](#) for comprehensive recommendations). However, with the eye of the storm upon us, and the potential for more unexpected successions, we see opportunities for boards to focus on contingency plans and more effectively navigate through the chaos and uncertainty of the new corporate governance environment via use of interim leadership. Boards can do this by considering the interim-driving factors, creating an interim succession plan, and managing the interim succession process. Next, we outline our specific recommendations for how boards can effectively manage interim succession.

4.1. Interim succession: A long-term perspective

The first step in effectively utilizing interim succession is to hold a long-term perspective about this short-term leadership matter. Being open to the idea that it is a viable type of succession and the belief that an interim might better serve the organization in certain scenarios allows the board to create a long-term plan. Boards must also decide when interim successions will and will not work. Interim successions should complement the leadership pipeline and should be employed when the permanent leadership is not a proper fit for the context at hand. Finally, boards should identify possible scenarios that their companies might face and the type of leadership that would best fit those circumstances. Pursuing one of these interim successions may have helped Yahoo!.

When Terry Semel was suddenly pushed out as CEO, founder Jerry Yang was tapped as his replacement because the designated heir apparent, Susan Decker, was not ready to lead the company. Yang was not officially named interim and it appears he was not explicitly grooming the heir, as his successor was an outside selection charged with turning around the company. Carol Bartz, who

appeared to be a fixer, also was not designated as an interim, and when she left just 2 years into her term, it appeared to be a failed succession. What might have happened if Yahoo! had named interims to fill the role of groomer, for example? Might Yang have focused on getting Decker ready to take the reins? Or might the company have been better off designating Bartz as an interim in the role of fixing the company? It is hard to say whether changing some of these permanent CEO titles to interim would have significantly altered the financial outcome of the company. At the very least, the company would have avoided a series of failed successions by engaging interim CEOs focused on very specific strategic tasks. It remains to be seen whether the current CEO should be an interim.

4.2. Interim succession: The short-term actions

Interim succession invites uncertainty regarding leadership of the organization and future direction and viability of the company. The board can reduce this uncertainty by taking specific actions in the near term. Step one is for the board to find the right interim CEO for the job. The board will need to develop a set of criteria to help identify what skills are required of the interim. There will be certain pervasive skills, or 'order qualifiers,' that interims should have in order to be successful. Not unlike a permanent CEO, an interim must be an exceptional communicator. The interim must also possess impressive multi-tasking capabilities; she will have responsibility over a great deal of the organization and operations of the company. Considering these pervasive skills as order qualifiers allows the board to create a short list of potential interim CEO candidates. Boards should then consider the particular context in which the interim will serve and decide what unique skills, or 'order winners,' are required for the job. Skills the board might consider important include knowledge of the organization and/or industry, expertise in a particular area (e.g., finance, marketing), and experience in a particular context (e.g., turnaround management). The board must also set expectations for the interim CEO and create an environment conducive to the interim effectively fulfilling these expected roles. The board and prospective interim CEO should discuss up front the critical aspects of the temporary employment arrangement. In some cases, the arrangement might be similar to that of a permanent CEO. In others, the temporary nature of the role and the specific needs of the organization may introduce new complexities to the arrangement. To most effectively manage interim leadership, boards must

Table 3. Decisions to address in interim successions

Recommendations for the board when hiring an interim CEO	
1. Set goals for the interim	Understand the goals of the interim succession and create clear, concise, short-term goals for the interim CEO
2. Create a succession timeline	Set the timeframe and honor it
3. Establish a structure for communication	Determine the structure of the relationship between the interim and the organization and set expectations for internal communications
4. Address who will serve as spokesperson	Appoint a spokesperson, either the interim or a board member, to interface with external constituents
5. Delegate stakeholder management	Develop a stakeholder management plan for both internal and external constituents
6. Determine resource availability	Understand and provide the resources necessary to achieve the predetermined goals
7. Establish evaluation criteria	Set evaluation criteria based on the goals of interim succession
8. Determine interim's role in CEO transition	Establish what role the interim will take in the selection and transition to permanent leadership
9. Negotiate compensation	Determine amount consistent with purpose of the succession
10. Adopt an exit strategy	Determine the transition from interim to permanent successor

address these issues a priori. Specifically, we recommend that boards consider ten items when engaging in interim succession (see Table 3).

4.3. Ten recommendations for the board when hiring an interim

4.3.1. Set goals for the interim

The board should set clear and concise goals that reinforce the reason it opted for an interim appointment. Given the nature of temporary leadership, the goals should be short-term focused. While the board should consider the longer-term implications of these goals, the interim should stay focused on the short-term. Long-term objectives are appropriate for the permanent CEO.

4.3.2. Create a succession timeline

The board must then determine a timeline to achieve these goals. A predetermined timeframe provides a deadline for the interim CEO in achieving the goals and for the board in selecting a permanent successor. Barring extraordinary events, the board should aspire to honor this timeline, as it will help reduce the uncertainty surrounding temporary leadership. A timeline gives both internal and external stakeholders a sense of certainty about when permanent leadership will resume. Without this, top-level staff often choose to pursue other employment as the leadership pipeline may no longer be clear, and it can become more difficult for the company to attract a permanent successor willing to come into this uncertain environment. This was the case with

Sears, when chairman and majority owner Edward Lampert appointed W. Bruce Johnson interim CEO for an indeterminate amount of time. Three years later, after the company lost four chief financial officers and two senior vice presidents to resignations, Lampert finally named a permanent replacement. Sears may have needed an interim for this longer period of time to aid in its financial turnaround. However, lack of certainty regarding tenure of the interim chief left employees wondering about their leadership opportunities, and analysts confused as to how to assess the future direction of the organization.

4.3.3. Establish an appropriate structure for communications with the interim CEO

The interim is unlikely to be the head of all aspects of the company. There must be a permanent executive, possibly a non-executive chairman or lead director, to provide continuity throughout the interim succession. The board should determine who this permanent top executive will be and the structure of her relationship with the interim CEO. The structure of this relationship, and the roles that each executive takes on, will vary and be driven by the purpose of the interim succession and the specific goals outlined for the interim leader. The relationship between the interim CEO and the board must be clearly defined to facilitate her meeting the predetermined goals within the specified timeframe. Although ensuring free access between directors and the interim CEO is a must, routine communications between board meetings may be best handled

through the permanent executive to make certain that issues are addressed in a coordinated and efficient manner. This also reduces the likelihood of the board micromanaging from the sidelines. We recommend that, at the onset of the appointment, the board determine its expectations regarding communications from the interim. How often should the interim provide updates? What information does the board want/need? What mechanisms are in place for the board to communicate with the interim? This is critical for a temporary leader as the tenure is greatly abbreviated, yet the goals can be expansive.

4.3.4. Address who will serve as spokesperson for the company

In determining the structure of the relationship between the interim and the organization, the board must decide who will take on specific roles traditionally filled by a CEO. Who will be the spokesperson? Who will interface with the media and the investment community? Communicating and managing information with these external stakeholders is the role of a permanent CEO. In the case of an interim, it may be more effective to share this responsibility with a permanent executive. By involving other executives, unnecessary distractions, which might inhibit the interim CEO from achieving the organization's goals in the intended timeframe, are minimized. Shared responsibility may also help the organization manage the uncertainty brought on by temporary leadership. For example, an interim whose key goal is to turn around the company will need to focus on the operational aspects of the organization. At the same time, it will be necessary to have an ongoing dialogue with external constituents, such as the investment community, to keep them informed of changes that are occurring and to squelch potential fears of bankruptcy. In this case, a lead director may help calm fears and provide continuity and certainty for these constituents. Importantly, the interim CEO and everyone supporting her must coordinate their messages so there is consistency and efficiency to this divide and conquer spokesperson approach.

4.3.5. Delegate the management of stakeholders

The board must develop a stakeholder management plan. As mentioned, it is critical that the board keep the interim's distractions to a minimum such that she may complete the temporary job assigned to her. It is also important for the board, as the permanent leading body of the company, to determine which stakeholders need to interact with the interim CEO and which would benefit from interfacing with the permanent executive. This largely depends

on the goals of the interim succession. An interim hired to clean up the organization will want to interface with employees, key customers, and suppliers, as significant changes will be needed to turn around the company's performance; a lead director, on the other hand, may be better equipped to manage external constituents. A marketer interim will need to focus on managing expectations with shareholders, investors, and analysts, while the COO manages day-to-day operations. The interim may need to focus on managing all stakeholders, as in the case of an interim being tested for the top position. Having the opportunity to interact with and manage all the critical constituents will allow the board to see how the contender fulfills these roles.

4.3.6. Determine resource availability

It is critical that the board and the interim CEO determine the resources necessary to carry out the intended goals. The board needs to determine what resources it can make available and then explicitly communicate this to the interim. This is one of the most critical aspects for the board to decide, as directors must be confident that the resources available are sufficient to complete the goals of the succession.

4.3.7. Establish evaluation criteria

The board should establish criteria on which to evaluate the interim. These criteria will be driven by the rationale behind the succession and the timeframe developed, and should be aligned with the goals put forth by the board. The evaluation criteria should be clear, specific, and achievable. If the overall rationale behind the interim succession is company performance turnaround, for example, the board might determine that the interim will have 1 year to make the company profitable. The evaluation criteria should specify exactly how much profit growth is expected. What are the expectations for revenue or for costs? If the purpose of interim succession is to prepare the heir apparent for permanent succession, then the goals for the interim will center on grooming and mentoring the future permanent CEO and the evaluation criteria should be consistent with this. This process ensures that the interim CEO is clear about how her performance as an interim will be measured. It is only through this type of evaluation that the board can determine whether or not the interim succession was a success.

4.3.8. Determine the interim's role in transitioning to permanent CEO

The board must determine what role it would like the interim to take in the selection of and transition to permanent leadership. The board should also

identify possible internal candidates and then decide whether or not to engage a firm for an external search. A groomer is likely to be involved in all of these steps given his knowledge and expertise. A contender is unlikely to be involved in this, as she is vying for the permanent position. Interims that are charged with turning around the company (e.g., fixer, cleaner) may also help in the process, if the board feels it needs to make a clean break from past strategies. The board should decide a priori and be clear about how much the interim will or will not be involved in the transition process.

4.3.9. Negotiate compensation

The compensation decision for an interim may not appear to be a critical piece of the interim succession process, but it should be. If a board is appointing an interim as a seat warmer, then the compensation of that executive may be of little importance given the job and short duration. If, however, the board is looking to engage strategically in an interim succession, then deciding how to compensate the interim becomes as important a factor as in a permanent succession. The board should aim to set a level that matches the requirements of the job. The compensation should be high enough to attract the best executive, but not exceed what is necessary given the task.

4.3.10. Determine an exit strategy

As with any type of succession, a board should have a plan for the transition to the next CEO. If the board has engaged an interim CEO to help groom the successor, then the transition may look like a traditional succession. If an interim is serving to market and sell the company, and the company is then acquired, the transition of the interim will look much different. The transition will—and should—vary, as it will largely be determined by the goals of the succession and the time frame for interim leadership. The source of the permanent successor will also influence how the board chooses to transition from interim to permanent leadership. A clean break from interim to permanent may be more appropriate in an outside succession. Regardless of the type, it is important that the board has an exit strategy.

5. Concluding thoughts

The evidence seems clear that CEO succession continues to be in crisis. Further, this crisis appears to be perpetuated by the perfect storm of increasing CEO turnover, persistently poor succession planning, and heightened oversight in the corporate governance environment. What role does interim succession have in this context? A critical one. Interim

CEOs are being selected more often, in a variety of different scenarios, and for a multitude of purposes. By opting for temporary leadership, the board may well have a better chance of selecting the right CEO and setting the company straight. The board must begin the rigorous task of developing a comprehensive and sound succession plan to help stay on track. Nevertheless, interim leadership appears to be a viable aid in emerging from the crisis. Further, interims have changed in their roles and responsibilities, and in many cases, they provide strategic value above and beyond the extra time for the search process. If interim CEOs are to be tapped, they should have a specified role in the succession process—not as a result of *no* plan, but specifically because there *is* a plan. Interims can, and should, be strategically used to contend with the unexpected circumstances as part of a ‘Plan B.’ Whether the perfect storm is presented by Mother Nature or the challenging business climate now upon us, the only answer to these complex situations is to plan in advance and execute effectively on that plan. We believe that interim CEO appointments can be a useful part of that process.

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