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Executive
Succession**

The Chief HR Officer's Role in CEO Succession: The View from the Board

**Patrick M. Wright
Donald J. Schepker
Anthony J. Nyberg
Michael D. Ulrich**

All of:

Center for Executive Succession

Department of Management
Darla Moore School of Business
University of South Carolina



UNIVERSITY OF
SOUTH CAROLINA

Darla Moore School of Business

Executive Summary

Interviews with 22 members of public and private company boards revealed their beliefs about and expectations for CHROs in the Chief Executive Officer (CEO) succession process. Board members distinguished between credible CHROs who can add significant value to the process and those CHROs who they do not want to see included in almost any aspect of the process. When credible, board members want CHROs to have confidential conversations with the current CEO, to create processes and development plans for potential successors, and to provide their own independent insights regarding candidate strengths and weaknesses. Directors noted that CHROs who add value must display expertise, honesty, transparency, courage, and the ability to build trusting relationships.

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Lucien Alziari

Group Head of HR
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Overview

Researchers at the Center for Executive Succession recently conducted a study examining board members' perceptions and evaluations of the CEO succession process. This research appears in the recent report "Defining Success in CEO Succession: A Board Perspective." The current report builds on that work, describing the role that CHROs should play in CEO succession from a director's perspective.

As noted in the previous report, we interviewed 22 members of public and private boards of directors. These directors had experience with 135 boards and 97 CEO successions. Thus, as board members they have been exposed to at least 135 CHROs (possibly 200+ given the long tenure of most board members and relatively short tenure of most CHROs) and seen CHROs in action (or inaction) in 97 CEO successions. We note that board members often have limited exposure to all aspects of the CHRO's role. So we caution readers that what we report here focuses only on their interactions with CHROs, and note that what they mention should not be considered an exhaustive list of the ways CHROs should be involved in CEO succession, but rather the critical aspects board members identify.

The CHRO's Role in CEO Succession

After each board member shared their experiences and opinions about the CEO succession process, we asked them what they believed the role of the CHRO in CEO succession should be. Before describing the details, we note that virtually all board members made the distinction between CHROs who they viewed as having credibility and those that have no credibility with the board. Some mentioned they had never really seen a credible CHRO. Others noted that on one or more boards there was a very credible CHRO, but on others the CHRO was not viewed positively by the board. Later in the report we will describe the characteristics they listed for those they deemed credible. However, for the following discussion we note that it

describes what a credible CHRO can and should do as part of the CEO succession process. We identified **13 steps** CHROs undertake during the process, beginning with anticipating when the CEO will step down and ending with managing the CEO's departure.

Sense the CEO's Timing for Succession.

Discussions between the board and CEO about the CEO's timing for succession can be tricky, at best. If board members raise the issue directly, the CEO may feel that the board thinks s/he needs to be replaced. Yet, the board needs to have a general idea of the CEO's timing in order to ensure that they have enough time to identify, evaluate, and develop candidates. This sensitive topic can be broached by the CHRO who has no apparent vested interest (CHROs are uncommon CEO successors). Because the CHRO oversees much of the development processes, it is entirely appropriate and non-threatening to ask the CEO about timing. This can then be communicated to the board in general terms (e.g., "I don't think the CEO plans on retiring for another 5 years" or "I think the CEO wants to see this strategy implementation through to completion."). Thus, the CHRO plays a vital communication role with the board.

Assist the board and CEO in developing the

CEO specs. Past CES research has revealed the importance of building the specifications for the new CEO relative to what will be necessary in the future, rather than what seems characteristic of the current CEO. However, particularly when the board views the CEO as very successful, they can easily slip into wanting to find a clone. Board members believe that CHROs can help them look forward in developing appropriate specifications. This may be through bringing in outside consultants, or engaging in one-on-one conversations with the board. Whatever the process, our interviewees saw this as one way that CHROs can facilitate the CEO succession process.

Identify the CEO's internal successor candidates.

Board members believe that the CHRO can be the catalyst to get the CEO to identify potential successor candidates. They believe that the CEO ultimately has to be the one that makes the list, but that consultation with the CHRO improves the list. When CEOs are not fully committed to developing a list of potential successors, the CHRO can prod the CEO to do so.

Create the infrastructure for development and assessment.

The CHRO should have responsibility for building the leadership development infrastructure within the firm. This includes the entire talent management process from assessment, through performance management development, to retention. Such a c-suite talent management process can provide internal leaders with the experiences and learning opportunities preparatory to becoming CEO. Depending on the timeline for CEO succession, the CHRO should be aware of potential successors who are ready immediately (the current executive team) to those who could be ready in five years (the next level below the executive team). This creates a pipeline of talent so that a pool of potential internal successors is available or in development, regardless of when the CEO succession occurs. While board members may not need to know the details of this infrastructure, they do hold the CHRO accountable for the fact that an effective infrastructure exists.



Create development plans for candidates.

Because of their eye for talent and deep knowledge regarding how to develop it, board members view the CHRO as the lead person in the creation of personal development plans for all internal successor candidates, whether those candidates might be required immediately or in five years. This consists of matching individual needs with organizational opportunities, in job experiences, projects, and classroom learning opportunities.

When necessary, encourage external hiring for successor talent.

Again, board members see effective CHROs as being able to recognize talent. They look to the CHRO to have a point of view regarding the potential of the internal talent to rise to the CEO role. When it becomes clear that a sufficient internal talent pipeline does not exist, they look to the CHRO to begin encouraging the hiring of external talent who can ascend into the CEO role. This must take place early enough for the individual(s) to demonstrate through their performance in internal roles that the board can accurately assess their potential to become CEO. Once hired, external talent require different development plans than internal candidates, with more emphasis on company culture and establishing key relationships.

Keep board up to date (e.g., presenting at board meetings).

While much of CHRO interaction with the board has traditionally focused on executive pay issues, board members want the CHRO to devote more attention in the board room to CEO succession issues. They wanted the CHRO to regularly update them on the CEO succession pipeline and how those in the pipeline are progressing.

Provide exposure to CEO candidates. Our interviews with board members revealed their desire to see successor candidates as much as possible and in as many different settings as possible. They also noted that sometimes CEOs may try to limit board exposure to a preferred candidate and in settings that works to that candidate's strengths. Thus, they want CHROs

to be involved in the process, ensuring that board members get exposure to a broad set of candidates. They suggested that CHROs arrange dinner seating charts so all board members get exposed to all candidates over time. Also, anything CHROs can do to encourage interactions with candidates outside the board meeting was appreciated.

Coach candidates regarding developmental areas and plans. Once the individual development plans have been designed, board members suggest that CHROs should play a pivotal role in coaching the candidates. This entails regular meetings to check on their progress, and to update candidates on the succession process.

Provide objective perspective to the board on successor candidates. The most critical role that CHROs should play, according to those we interviewed, was to provide the board with an objective perspective on the successor candidates. They all recognize that CEOs can be prone to favoritism and other biases. Thus, they want the CHRO to provide independent assessments of the candidates, not shaded by the CEO's opinions. This does not mean that they place more value on the CHRO's opinion than the CEO's, but they want to have alternative perspectives of the pros and cons of each candidate.

Ensure the CEO stays in touch with candidates. Because CEOs have so many demands on their time, board members want the CHRO to keep succession on the CEO's radar screen. In particular, they want CHROs to ensure that the CEO regularly meets with the candidates to track their progress and to give them feedback.

Help the board understand the culture of the business. Some board members recognized the importance of cultural fit to the success of a new CEO. However, because they only helicopter in to the company a few times a year and have limited information on the specifics of the organization, they look to the CHRO to educate them about the culture of the business and of the executive team. They believe this can help them avoid selecting a



candidate who will be rendered ineffective by the existing culture.

Help manage the outgoing CEO's transition. Finally, board members recognized the emotional turmoil that many CEOs go through as they transition out of the role. Some of it is simply personal as they face the loss of power, money, and fame. However part of it is simply the process of handing over tasks in an organized fashion, giving the incoming CEO increasing experience in certain aspects of the role without the full set of responsibilities. CHROs, because of the trust they have developed with the CEO, can help on both dimensions. They can provide guidance for when certain tasks can be handed off to the successor. They can also serve as the sounding board for the outgoing CEO who needs to process the emotions inherent in letting go of the role.

Necessary Skills in Effective CHROs

While the board members discussed the roles that they believed CHROs should play in CEO succession they often explicitly or implicitly referred to the skills that CHROs need to effectively fulfill these roles. These are:

1. *Assessment excellence* – they have an ability to assess talent and personality of those with whom they come into contact, particularly in this case both the CEO and potential CEO successors.
2. *Conflict / emotional management* – because of all the conflict and emotions that can play into the process on the part of both the current CEO and potential successors, CHROs almost have to act as a “psychotherapist” as one board member said.
3. *Credible with the board* – CHROs have to “show up” at board meetings in a way that impressed board members and gives them confidence that the CHRO knows the business and all the internal processes, not just HR. Respected CHROs also possessed knowledge of external trends and risks.
4. *Honest and transparent with the board* – because board members want independent opinions on successor candidates as well as knowledge of potential problems with the process, they expect the CHRO to be honest and as transparent as possible.
5. *Honest and transparent with candidates (as necessary)* – board members believe that successor candidates need to be able to go to the CHRO for coaching and counseling, and thus CHROs must be honest and as transparent as is appropriate.
6. *Strong and trusting relationship with the board* – If the CHRO is viewed as credible, honest, and transparent, the board will feel that they can trust the CHRO to do the right thing for the firm as opposed to the CEO, potential successors, or even him/her self.
7. *Independent of the CEO/courageous point of view* – a number of board members noted the risk inherent in having a view independent of the CEO, and thus believed that effective CHROs must display courage to express this independent view.
8. *Accountability* – board members cautioned that many CHROs who they do not view as effective do not display the level of accountability that they observe from leaders in other functions.
9. *Know the numbers* – part of building credibility with the board stems from being literate in the numbers most relevant to the business.

Conclusion

We reiterate that the results presented here provide a limited view of how CHROs can effectively work in the CEO succession process. These views come from the perspective of board members who have a limited view of much of the behind the scenes processes that help to build the pipeline of talent that can ascend to the CEO role. However, this perspective comes from those given the legal responsibility of choosing the CEO successor and thus need help in certain areas relevant to the CHRO’s role. The report identifies what board members believe are the critical areas where CHROs can contribute to CEO succession, and while not exhaustive, it does point to where CHROs can gain respect and credibility with board members.

What stands out from the perspective of the board is their desire for CHROs to act as independent executives who are able to honestly, clearly, and courageously share their perspectives throughout the CEO succession process. If these individuals are credible, honest, and transparent, they will be viewed as a valuable asset to the board.



Appendix: Quotes from Interviewees

HR manages the process, (in terms of the helping develop the desired characteristics of the candidates), but the CHRO's opinion may or may not matter, depending on his/her credibility within the company.

The CHRO can be a good source of information for just one person on the board (not everyone). S/he can facilitate the process of the outgoing CEO and keep him/her informed and calm. It's less about mechanics and more about psychotherapy.

Put the infrastructure in place for the process. Deal with the board through the compensation committee (based on transparency, credibility, understanding of the process). This lets the board know that the CHRO is engaged. The relationship allows the CHRO to let the board know if there are issues with the current CEO or organizational problems ("not to be a rat, but you know, to help out.")

The CHRO should give candid feedback about a CEO's internal slate of CEO candidates. Around 4 years before the CEO's retirement the CHRO should be asking the CEO about his/her timing for retirement, and communicate that to the board. S/he should then ask about the internal candidates the CEO wants to consider to succeed him/her. If the slate is at all weak, the CHRO should push the CEO to hire an external candidate and/or to begin developing a(n) internal candidate(s) that has the potential to take over the CEO role. Finally, the CHRO needs to make sure that all of these items get in front of the board.

The CHRO has to be a partner to the existing CEO and to the board initially and a full partner in the organization's presentation of new candidates. S/he has to honestly share judgment/opinion independent of the CEO's judgment/opinion of candidates. Gradually the CHRO must serve the board slightly more than serve the existing CEO...it's very difficult, but it must be done.

The CHRO works with the CEO and the board in the development and assessment of the successor. The CHRO can give feedback to the successor and the board from a different, courageous point of view, independent of the CEO. The CHRO must be confident, highly skilled at assessment, and have the trust of the board.

The individual is not in the front line of the process, but they specify the nature of the job and are involved in some aspects of the process, but not directly involved in the selection of the successor.

The CHRO gives a quarterly update on succession and one long meeting per year (1/2 day) to talk about updates. The update is with regard to which candidates are still candidates. The CHRO needs to develop a feedback loop to the board with the candidates themselves. The CHRO works with the CEO to provide access to candidates at each board meeting. The CHRO works with the internal candidates on a monthly basis (reviews, 360's etc.), coaching the candidates on what they need to do to ensure they are ready. The CHRO also needs to ensure the CEO is in monthly contact with candidates...not letting them get out of the CEO's headlights at all.

The CHRO plays a big role in helping the board to understand the culture of the business. The CHRO also helps the board to decide on what criteria to use to judge candidates. Finally, the CHRO can help in running the process.

The CHRO is extremely valuable in working with the board around what is needed in the next CEO...writing the job description for the CEO according to the future business challenges that CEO will face. They also help in giving assessments of internal candidates as they have a lens that no one else has. Exiting CEOs try to push their favorite candidate, but the CHRO plays a role by being independent of the CEO. Any smart board listens to the CEO and the CHRO's view of the strengths and weaknesses and combines them to come to a decision.

CHROs need a strong and trusting relationship with the board. They play a major role in working with the board for the process, making sure the company does both internal and external searches, gives feedback to the board about the CEO in stressful times, updates the board on the CEO's feedback and coaching. CHRO must have a seat at the table. CHROs also create the development plans for the internal candidates to ensure that there is a pipeline of talent.

Most of the largest companies view the CHRO as the #2 position in the CEO succession process. They help to build out the executive team and are the top advisor to the CEO. Most of the time the HR people are really underwhelming in terms of ability. There are a select few who are incredible, who can drill in. They can do the social side and they can do the quantitative side. They know the law. I've only seen 5-10% of these people who can hit that bar. HR can be a consigliere for the CEO.

It depends on how the board wants to use the CHRO. Some don't involve them at all and I think that's a mistake. The CHRO can play a unique role if s/he can help structure the discussion. This is a person who is uniquely in a position to say what the business needs functionally...these are the skills that we need...this is what we need from a cultural view. The CHRO can evaluate the departing CEO in terms of strengths and weaknesses which need to be shored up or continued. The CHRO can also uniquely talk about the merits of internal candidates, explaining the pros and cons of candidates and the company's reactions to candidates. The HR person can say "if we pick X, an internal candidate, and we support them through this kind of training and development, they can potentially succeed in the role."

I'm not a good guy to ask. I do not have a great history of seeing very strong CHROs. There's some notable exceptions. It has been a challenge in several places I've seen where the CHRO wasn't strong enough. There has been a discussion about how to get these people. The most critical hires are the CEO and CFO, and it seems like the CHRO is not appreciated much when it comes to stacking the executive ranks. CEOs don't always value the CHRO. They aren't looking hard for accountability like they would with an operations executive. The CHRO isn't stacked with a forceful personality compared to the CEO and isn't a trusted advisor to the CEO. I don't know if they're inherently weaker as a class or if the CEO views the CHRO as less important than other hires. I've only been in one situation where the CHRO was strong enough for the board to really value their opinions. CHROs don't seem to be as independent of the CEO as other executives. They seem to be more focused on building their own kingdom within the company without really driving what matters to the company.

Boards need to have a top HR person in charge of this. This person needs to be as strong as anyone else on the leadership team and have a strong relationship with the CEO. The HR leader should also have a strong and trusting relationship with the board to create the right plan and make sure the plan is being followed.



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Center for Executive Succession

Patrick M. Wright

Thomas C. Vandiver Bicentennial Chair
1014 Greene Street
Columbia, SC 29208

803.777.7819

803.777.6876 Fax

patrick.wright@moore.sc.edu

moore.sc.edu/CES

moore.sc.edu

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