

Pearl Meyer

CEO Succession: Dynamics, Dos and Don'ts

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Today's Session Overview

+ **CEO and Executive succession is our topic**

- Why it matters more than ever and some of our own learnings
- Highlight the key elements in the succession process and role of the board today
- Experiential learning through case studies and discussion
- Take-aways: What boards should and should not do to ensure a successful process

What has changed...



- **Convergence and acceleration of external dynamics:** geopolitical, AI technology, market volatility, societal shifts, etc.
- **Increased visibility and expectations of CEOs** to lead and succeed in heightened complexity and uncertainty
- **Continuous scrutiny from investors, stakeholders, activists, et al on CEOs** and boards of directors to readily and proactively make change **faster** and transform companies when underperforming

And why it matters...

<i>Category</i>	<i>Trends</i>	<i>Board implication</i>
CEO Turnover	<ul style="list-style-type: none"> -Increased post-2020 -1 in 8 Lg. cap companies change CEOs each year 	Have we anticipated and discussed the probability of turnover?
CEO Tenure	<ul style="list-style-type: none"> -Avg departing tenure 7-9 years (2025) – small cap lower -Early departures increasing by 79% (30-36 months) 	Do we have an emergency succession plan and a longer term (3+ years) strategic succession plan?
Internal vs. External hiring	<ul style="list-style-type: none"> -External hires increasing although cyclical (33% in 2025 S&P 500, higher in smaller companies) - But Internal usually preferred 	Do we have appropriate internal bench strength and development? How do we think about external hires?
Incoming CEO Profile	<ul style="list-style-type: none"> -Avg age at appointment lowering 	How do the skills and capabilities of our next CEO differ from the past?
Prior Public Company Experiences	<ul style="list-style-type: none"> -Approx. 80% are first-time public company CEOs -Slightly less in small-caps 	What transition support is required for first-time CEOs to succeed in the public environment?

Stages in CEO/Executive Succession: A Multi-Year Transition

Years 0 through 3

Stage 1: Preparation and Ongoing Activities

Step 1	Step 2	Step 3	Step 4	Step 5	Step 6
Establish leadership criteria and share overall succession process with board Aligned with Business Strategy	Identify internal candidates	Evaluate candidate capabilities	Create initial development plans for internal candidates	Increase board interaction with candidates	Begin search for external candidates – if required, and identify search support

Years 4 and 5

Stage 2: Focus		Stage 3: Selection		Stage 4: Transition	
Step 7	Step 8	Step 9	Step 10	Step 11	Step 12
Narrow internal focus on top 2-3 candidates (internal/ external); involve board in selection	Plan for contingencies/ retention/ Departures; update leadership criteria	Further development of top 2-3 candidates	If external search is sole focus, ensure 18-month transition post selection	Make the final decision; CEO coaches successor prior to assuming role	Introduce successor, ensure successful transition and leave with grace

CEO and Executive Succession and Development

The most important task of a board of directors is to choose the next CEO.

The process should be well-planned and led and executed by the Board and Management.

Key Factors to Consider:

1. Start succession process at least 3 years or more prior to any anticipated CEO retirement while having an emergency succession process in place now. Discuss where and how the process will work within the Board.
2. Define the strategic context for the future...what will the organization need to compete in the future? Clarify the CEO and executive team roles and ensure they include future leadership capabilities needed to navigate complex challenges
3. Identify, assess, and develop internal candidates for the CEO and executive team roles as well as develop a process to assess external potential candidates for the future
4. Engage the board in an 'evergreen' process to keep them aligned, involved, and engaged, making it a process of "guided discovery and planned transition"
5. Ensure there are sufficient internal and external candidates from which to consider to avoid being captive to any one candidate and revisit on an annual basis (minimal)
6. New CEO to begin tenure; ensure successful transition to new CEO and graceful exit of existing CEO



Cases at Tables

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Time for case discussion: 20 minutes total

1. Case instructions: read scenario and individually determine what you think needs to happen (5 minutes)
2. Total table discussion with questions (15 minutes), encourage alternative points of view and possible 'derailers'.
3. Prepare to provide a 2 minute summary of what your table has identified as the problem and course of action to address

Case 1: “I’m Never Leaving!”

- + The very experienced board for B.I.G. company, publicly traded on the NYSE, is faced with addressing the succession of their long-term CEO David Granger.
- + David is 68 years old and has been in his role for the past 18 years and the company has seen strong growth over that time, despite numerous challenges.
- + The board has discussed executive succession over the years and has been presented with tentative plans, with two internal candidates for the CEO being developed: Vivian James and Daniel Baker.
- + The two CEO candidates have presented at board meetings and have been at board dinners, but the board has been kept at arms-length from details regarding the readiness of these two candidates for the CEO role, as David Granger has not been interested in “going there.”
- + There is also some “talk” (discreet sharing from CHRO Lila Frank), that current succession candidate, Vivian James, is getting impatient; she is a top CEO candidate and has been in waiting mode for the last 4 years.
- + The Board sees that they must have a serious, clear succession plan that could be implemented sooner rather than later. The chair of the board, Madeline Wayne, has asked the compensation committee chair, Ralph Clark, to take on this effort.

Case 2: “Holding it Too Close to the Vest”

- + The Tritech corporation, a privately held, \$12B, manufacturing firm, has been making adhesive materials for over 87 years. It has been a strong and relatively stable organization and has grown through acquisitions over the past 10 years, from \$1.2B to over \$12B in annual revenue, thanks to a strong management team and a solid operations focused **CEO, Marge Butters**.
- + Recently, there has been a need for consolidation and redirection of strategy due to disruptive competition in the sector. Tritech is in the process of transformation to address the shifting competitive tides due to AI/Technology innovation applications to the manufacturing process but has little experience with major transformation and it is unclear whether or not they have the right leadership talent to lead through future turbulent waters.
- + The board of directors appreciates the strengths of the current management team and overall strong performance of the organization, but they see a potential shift in leadership requirements for the future.
- + The current CEO and her **CHRO, Martin Blasedale**, have consistently shared high level succession plans, but there has been little detail on how talent is being prepared for the future and whether or not the profiles for the future CEO and other executive roles have been updated to reflect current realities.
- + **The Lead Director, Martin James**, has asked for an update on the CEO succession process, The Nominating and Governance committee charter covers CEO and executive succession and talent development. The **Nominating and Governance committee chair, Juan Garcia**, has decided along with his committee that they need to redirect the CEO succession and talent development efforts.

Case 3: “Letting Go and Gaining Traction” (Ensuring Effective Transition)

- + The very experienced board for B.I.G. company, publicly traded on the NYSE, has successfully selected a new CEO to take over for long-term **CEO David Granger**.
- + The **new CEO is to be Vivian James**, a highly inspirational leader and experienced operator who has been with the organization for the past 7 years. Vivian has gone through a two-year process to accelerate her readiness and overall development to be the next CEO.
- + There is a practical transition plan created by the **CHRO, Lila Frank**, which is focused on day-to-day tasks of the CEO as it pertains to the internal running of the organization but does not address issues understanding the CEO role as it pertains to working with the board and other external entities.
- + Beyond all of this preparation, it is becoming clear to the board that they have a responsibility and a role to play (along with the sitting CEO) in on-boarding this new CEO, ensuring a smooth transition into the role.
- + Also, the current CEO, David Granger, has indicated to the **board chair, Chris Fox**, that he would like to be named executive chair for the next 5 years and would like an office in the headquarters building as well as access to the corporate jet.
- + The chair of the board has asked the **compensation committee chair, Ralph Clark**, to determine what role the board should play in this onboarding process and also has asked the chair to address how the current CEO effectively transitions to be ex-CEO.

Succession Process Helpful Tips

Corporate Board Member



Succession Tips for Boards

Best Practices: What your board should be doing

1. Start early and have a defined and documented process
2. Ensure the Board is appropriately involved for each phase
3. Create a CEO profile – grounded in the business strategy needs for **future** leadership
4. Build a diverse pipeline, going deeper
5. Don't forget to manage the transition

Common Pitfalls: What you should be avoiding

1. Treat this like a one-time event
2. Put little time to developing internal candidates
3. Have a CEO stay too long in role
4. Run a public horse race – often distracting
5. Assuming internal candidates will stay

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Connecting People, Purpose & Performance

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Thank you

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