

# AGENDA

## New CEOs: Better With Board Experience?

By Amanda Gerut July 13, 2020

As the pandemic lays bare the need to either speed up or delay CEO transitions, some boards are prioritizing candidates with prior public company board experience over those who might be learning on the job when it comes to governance.

The first quarter of the year saw more CEO transitions among S&P 500 companies than any quarter since 2015, according to search firm **Spencer Stuart**. Among the 23 CEOs appointed during Q1, 11 previously served on a board, including four who are also first-time CEOs.

For instance, **David Gibbs** joined the board of **Sally Beauty Holdings** in March 2016, when he was chief financial officer at **Yum Brands**. The restaurant company then announced in August 2019 that Gibbs would succeed CEO **Greg Creed**, and Gibbs stepped off the Sally board in January 2020, the same month he officially took over as CEO at Yum Brands.

Similarly, **Hal Lawton** has served on the board of **Sealed Air** since January 2019 and had a brief stint previously on the board of **Buffalo Wild Wings**. Lawton was named CEO of **Tractor Supply Company** in January 2020.

Newly minted CEOs with outside board experience bring a deeper understanding of governance and the way in which boards reach decisions and think about overarching long-term strategy, sources say. However, while that previous experience is often viewed as a net positive, new CEOs must still sort through the individual dynamics of the group of directors that hired them.

Moreover, in past decades, internally developed CEOs often served as inside board members before being promoted to the CEO position. Now, the sitting CEO is often the only non-independent board member, which means that executives one or two levels down don't have the same relationship dynamic with individual directors — or the board as a group — as CEOs did in the past. In addition, one-on-one or small group meetings between executives and board members are often set up in a way for board members to learn about the executive, rather than the other way around, sources say.

**Raj Gupta**, chairman of **Aptiv plc** and **Avantor** and a board member at **DuPont**, notes that executives below the CEO rung often only have exposure to running a business or segment within an organization. CEOs must take a more holistic view of the entire business, including overseeing

multiple stakeholders inside the company such as employees, investors and customers, as well as dealing with the board, he says.

“Your time distribution moving from an executive role to CEO is very different from running a business or a function,” Gupta says. “To get that experience, obviously, you have to be in that position, but more important, you have to learn how to manage your own board and how to be a board member.”

Gupta, who is the former CEO of chemicals manufacturer Rohm and Haas, recalls that his predecessor at the firm recommended that he join an outside board several years before he was named CEO. “He said, ‘Raj, you think you’re a boss when you become CEO, but the board is your boss.’”

“Lots of times I’ve found that people who don’t have board experience have a more difficult time differentiating between the role of the board members versus being a manager,” he adds.

Similarly, **Margaret Whelan**, audit committee chair at **PropTech Acquisition Corporation**, who has also served on several other public boards, notes that CEOs who have “worn a few hats,” including that of independent director at an outside company, have less to learn about facilitating communication between the board and management. CEOs with board experience typically have a thorough understanding of how to get “the right points across succinctly to the board” and can help directors prepare for what might be coming down the pike, she says.

“Anticipating what is around the corner is essentially one of the most important roles of any board,” says Whelan. “Understanding and anticipating what’s coming from a business perspective in terms of competition, a pandemic, protests. What are the key risks to the business and to the industry? And, if you have an individual who is wearing the hat of a CEO with a separate board seat, that’s incredibly valuable.”

A CEO with board experience may be more adept at distilling, for example, the 10 or so individual key performance indicators that are most critical to the company and offering their thinking on the context surrounding them — which enables the board to think bigger picture, says Whelan.

She adds that a private company where she serves as a director, **Mattamy Homes**, recently launched a search for a new CEO. The candidates being considered all have deep board experience, so it’s unlikely that the new CEO will be walking into a boardroom as a board member for the first time, she says. “If they were, it would be a deer in the headlights situation and could pose a lot of risk to the stakeholders of the company,” says Whelan.

Still, there is no perfect executive pathway for an internal CEO succession, board members say. Much depends on the circumstances facing the company and the executives the board believes are ready.

Plus, from the perspective of an outside board, director seats are not developmental assignments for executives with CEO potential, points out **Anna Catalano**, a director at **Frontdoor**, **HollyFrontier**, **Kraton** and **Willis Towers Watson**. Some executives — CFOs, for instance — are attractive candidates to serve on boards because they are financial experts and can serve on the audit committee. However, boards typically don't want to use their seats as stepping-stones for potential CEOs, Catalano says. If there is a situation that is mutually beneficial, in which an executive fits the criteria an outside board is requiring in a new director, and it helps the executive gain board experience, that can prove fortunate. "But it needs to be a pull from the board, not a push from the candidate," says Catalano. "The board should not be giving up their seats for people who want to learn how boards work."

Indeed, Catalano says that good succession plans with two- to three-year horizons with known internal candidates should build in plenty of meaningful exposure to individual board members and opportunities for executives to present and interact with directors in and outside of board meetings. That way, executives can gain insights into how individual directors tick and there is less likelihood of surprises if and when they step into the CEO role.

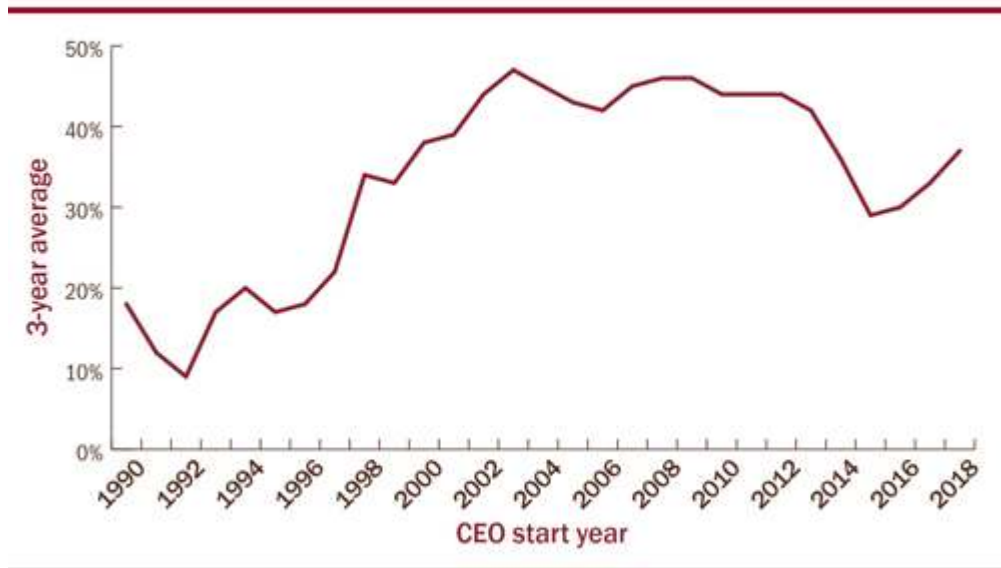
### **Data Shows: It All Depends**

Data doesn't show conclusively that an outside board seat helps or hinders a new CEO, explains **Bob Stark**, who co-leads Spencer Stuart's CEO succession advisory services. In 2019, 34% of new CEOs had outside board experience, compared to 42% in 2018 and 34% in 2017, according to data by Spencer Stuart.

Meanwhile, the search firm reviewed data on 736 CEOs who left the position between 2004 and 2017, and the total shareholder return the CEOs achieved during their tenure in the study, "Prioritizing Experience: With the Stakes so High for Selecting the Right CEO, Are Boards Looking for a Safer Bet?" From 1990 to 2015, the three-year rolling average percentage of new CEOs who had served in outside board roles steadily increased from about 20% to 70%, and then plummeted between 2013 and 2015. (Additional data showing all incoming and outgoing CEOs shows a less dramatic spike in CEOs with prior board experience, but a similar increase nonetheless.) According to the study's findings, there was "no discernable link" between prior board experience and stronger TSR, the report concluded.

In a survey of 48 board members that accompanied the study, 52% of respondents said prior board experience was beneficial in terms of "governance perspective, pattern recognition, exposure to other functions and industries, and managing risk." Still, it all depends on the company, Stark says. "This is one of those situations where data points in one direction and common sense points in the other direction," he explains. "It's hard to make sense of what's going on."

## Three-Year Rolling Average of CEOs with Prior Outside Board Experience



Source: Spencer Stuart

Note: Data includes all incoming and outgoing S&P 500 CEOs

Some new CEOs struggle with managing boards and don't fully appreciate the complexity and time required to manage a comprehensive CEO-board relationship, says Stark. The general sense among boards is that more experience is better, whether it comes from a previous CEO role or a previous independent director role, he adds. Directors often see it as a risk mitigator if a CEO candidate has "been there

and done that," he says. However, understanding an executive's plans for the future, their vision and ability to adapt and drive change, and their overall potential can also be as weighty as their previous experience, the study concludes.

Every executive has individual development needs, says Stark, and will thus need different development levers pulled as a result. Some executives will benefit from a performance coach, while others will excel with a mentor or peer learning groups. Other executives develop most when the role they're in expands or is modified to provide more experiential value, he says.

One of the risks in trying to obtain an outside board seat for an executive is that the timing for boards in search of new directors might not sync up with companies' seeking board experience for CEO candidates. If an executive lands a board seat and is in the first year of the onboarding process when the CEO baton is passed, that timing is less than ideal.

"What you don't want is somebody transitioning into a public company board independent director role at the same time they're transitioning into the CEO role," says Stark.

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