SpencerStuart

From Founder-Led to Founder-Inspired: Advice for Successor CEOs

When we work with new CEOs, we advise them to lay a firm foundation in the first 12 months by quickly activating their executive team, defining a few early strategic moves to build momentum, and proactively engaging the board and other stakeholders. They also need to work on their own effectiveness by defining how they want to show up as a leader and connect with the layer of leaders below the top team, who translate strategies into the real work of the organization and have their ear on the "truth on the ground."

Successors to founders must do all these things to succeed, but in a uniquely challenging context. The founder is a big presence in the organization, and their influence lingers, often complicating the new CEO's ability to make timely decisions about the leadership team or key strategic shifts. Many founders stay active with the company as executive chair for a time and, even if they don't, it's not uncommon for long-serving employees to bypass the new CEO and go directly to the founder to complain or share information. New CEOs are often advised not to make changes too quickly in a founder transition, but moving too slowly can jeopardize their ability to advance their agenda.

It's a tight balancing act that can be difficult to get right — and often isn't. Our analysis of founder transitions among S&P 1500 companies underscores the challenges for successor CEOs. Founder CEOs served 21 years on average before leaving, and 45 percent stayed on as board chair (versus 33 percent of non-founders). Twenty-one percent of successors appointed between 2015 and 2022 were replaced within two years. By comparison, 16 percent of all S&P 1500 CEOs appointed between 2015-2022 were replaced within two years.

How can successors overcome these challenging dynamics and accelerate their performance? Here is our advice.

Focus on the future, but honor the past

Everything from the company's culture and purpose to its talent and organizational philosophies to the composition of the board and leadership team are shaped by the priorities, preferences and personality of the founder. Most have one or two "super-powers" — Steve Jobs' uncompromising vision and commitment to excellence, for example — that contributed to the success of the business. A successor won't have the same superpower and, in fact, may have been selected for having skills and experience critical to the company's next phase that the founder lacked. Understanding what a day, week and month in the life of the founder looked like will help identify potential gaps to address by the founder's departure. It may require an "office of the CEO" to take on all the roles the founder served.

To bring people along, successors must have the courage to find their unique voice and approach, both honoring what the founder built and guiding the management team, board, employees and other stakeholders to look to the future. Successors should tie proposed changes to the future vision for the business, underscoring how plans build on the work of the past. This is an ongoing process, requiring the successor to maintain alignment by regularly triangulating plans with the board and founder — proactively working to gain buy in for planned changes and checking in to see how changes are being received. Without this step, support can quickly erode.

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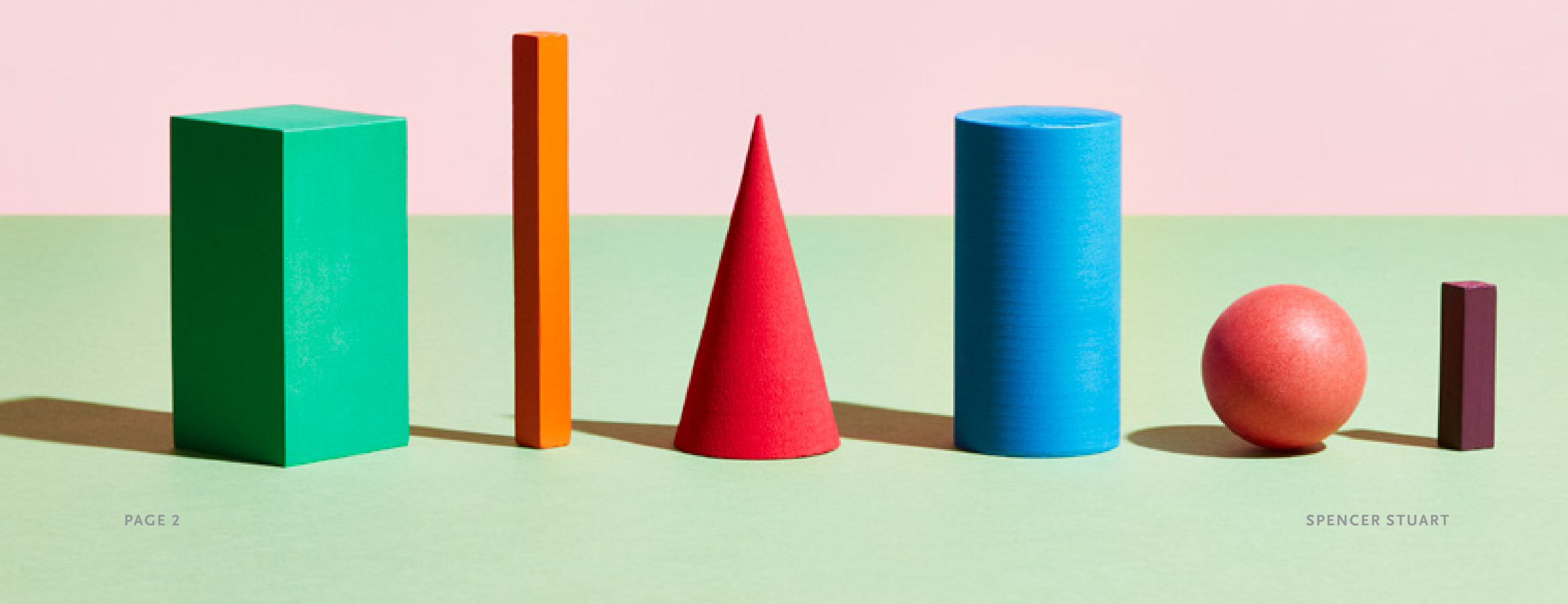


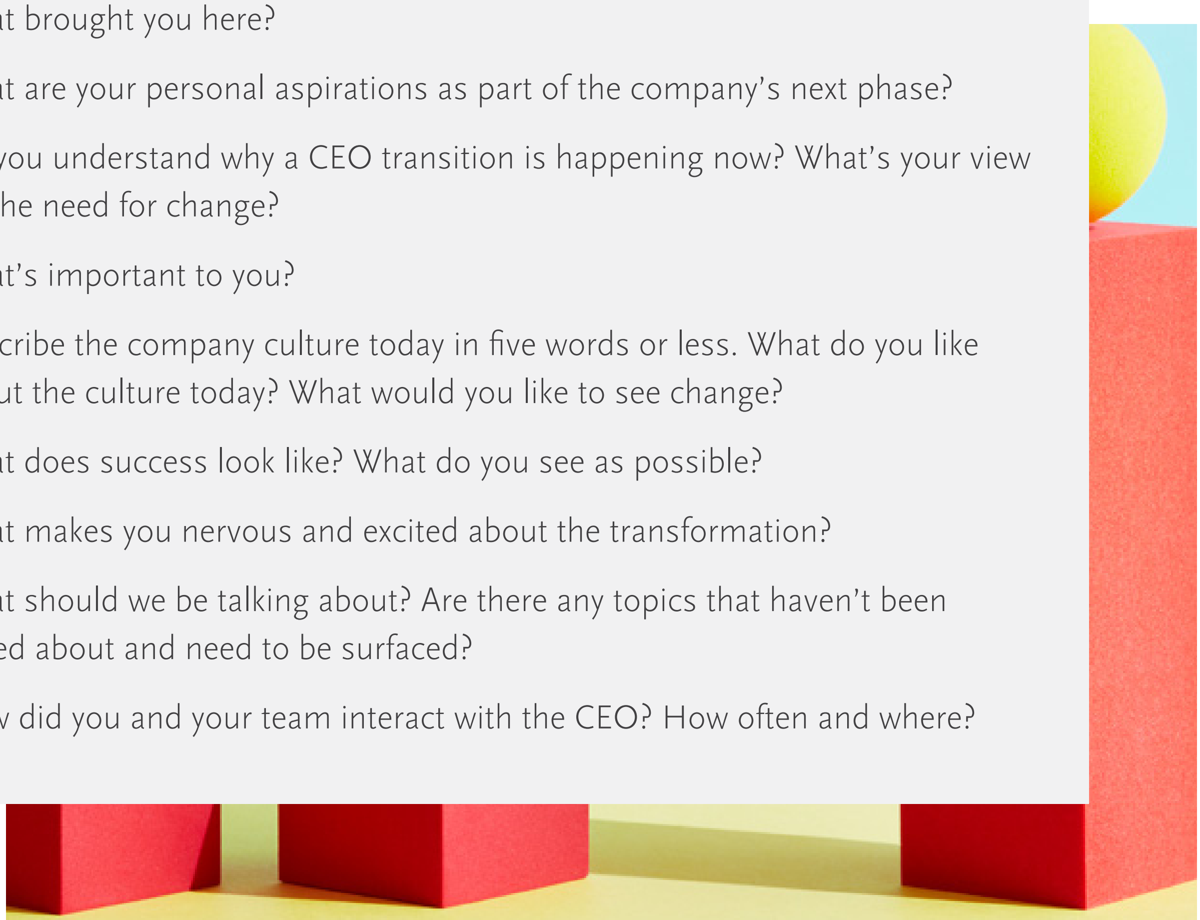
Have a plan for leveraging sources of truth

What elements of the culture need to be kept and what can or should change to support the next phase of the company? Who are the less obvious sources of power and influence in the organization? Every new CEO needs answers to these questions, but for founder successors, understanding the cultural touchstones and "friends of the founder" will help avoid unexpected surprises as they implement changes to the team or make new strategic moves.

We recommend that successors embark on a real listening tour when they start that includes both internal stakeholders, such as the board and broader leadership team, and the external ecosystem of players who can help you get smart on the industry. This includes industry analysts, business partners, competition, people who recently left the company, and customers who will tell you who their go-to people are. Use these conversations to get smart and drive alignment with the board and management team. One successor we worked with had more than 50 one-on-one meetings; he listened, took notes and shared the findings with the founder and the board to build a shared understanding of the current state of the company and the plans for the future.

Listening tour questions

- What brought you here?
- What are your personal aspirations as part of the company's next phase?
- Do you understand why a CEO transition is happening now? What's your view on the need for change?
- What's important to you?
- Describe the company culture today in five words or less. What do you like about the culture today? What would you like to see change?
- What does success look like? What do you see as possible?
- What makes you nervous and excited about the transformation?
- What should we be talking about? Are there any topics that haven't been talked about and need to be surfaced?
- How did you and your team interact with the CEO? How often and where?



Ideally, successor CEOs will develop a standard set of questions and topic areas to focus on. For example, open-ended questions about people's view of the culture, their history with the company, and what makes them nervous and excited about the transformation can be invaluable for navigating organizational change. For some new CEOs, the listening tour reveals untapped talent, important issues that were previously off-limits and good ideas that didn't gain traction.

Add science to talent evaluation to reduce the emotion around change

In almost every transition we have seen, the new CEO finds that that the team isn't exactly the right one to meet the future needs of the business and to complement their own strengths and gaps. This is because the team has been built around the superpower of the founder. Making changes to the top team can meet resistance from the founder or the board, who sometimes overestimate individuals' capabilities relative to the current or future need. Changing long-serving leaders can be emotional for everyone involved, including those who may feel they are being judged based on their association with the founder.

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We recommend new CEOs conduct a formal skills assessment and gap analysis to identify the capabilities needed on the team based on the strategic direction of the company and their own strengths and developmental gaps. A formal approach for identifying talent needs and assessing executive team members levels the playing field, potentially alleviating some of the emotion surrounding team decisions. It also can surface team conflicts or challenges that should be addressed as part of the transition. New CEOs should keep the board informed about the talent assessments and be open about how the founder's superpower shaped the top team and why changes are needed. We recommend that the board undertake its own skills assessment and gap analysis as part of the transition, as the board may also need additional expertise or new skills to support the new CEO and the company's future direction.

Finally, remember that some members of the management team have been with the company for many years — even as long as the founder — and must decide whether they have the interest in and energy for the company's next phase. Some may be ready to move on, while others may feel an extraordinary responsibility to support the transition and view their work as contributing to the founder's (and their own) legacy. It's important to create a dialogue with these leaders and not make assumptions about their commitment or plans.

Push for role clarity

Founders today often have more control over their company's destiny through founder or dual-class shares, and it's not uncommon for founders to remain with the company as an executive chair once a successor is appointed. This approach is not without risk: When we examined the performance of 200 U.S.-based companies with an executive chair, we found that more than half — 54 percent — underperformed their peers over the course of the executive chair's tenure, by an average of 14 percent.

Whether or not the founder serves as executive chair, the presence of two prominent leaders can confuse the organization and hinder the success of the successor CEO. There can only be one CEO, and it must be clear to internal and external stakeholders who that is. For this reason, it is important that new CEOs have explicit conversations with the founder and the board to define the founder's role and responsibilities as distinct from the CEO.

Depending on their skills and personality, some founders who want to stay involved in the company end up leading an innovation center for the company, serving as executive or non-executive chair, or mentoring the next generation of leaders. Our research finds transitions are more likely to be successful when the outgoing founder is clear about what they will and won't spend time on, how they envision the partnership working, and how long they plan to play an active role with the company. This includes defining how the founder will interact with and defer to the new CEO by not allowing employees, partners, board members and clients to "end-around" the new CEO either directly or through a well-intentioned invitation (e.g., "Don't hesitate to reach out," "I'm here for you.")

Recognize what a big deal this is for the founder

Even for CEOs of traditional companies, transitioning from the highly public and powerful role can be a rude-awakening. They may feel disoriented or lack a sense of purpose. For many founders, the transition can be even more emotional; the company represents all the blood, sweat and tears it took to get it to this point, and it often is the locus of their personal lives and friendships. It literally is their whole life. Successors should recognize how challenging the transition is for the founder, show empathy and give the founder the space to navigate the change. Consider giving them a role that is critical to the success of the business, such as helping close deals, speaking at conferences or mentoring engineers, encouraging them to keep pushing the envelope. If the founder decides to depart, get clarity on their willingness to engage with the business and with what frequency.

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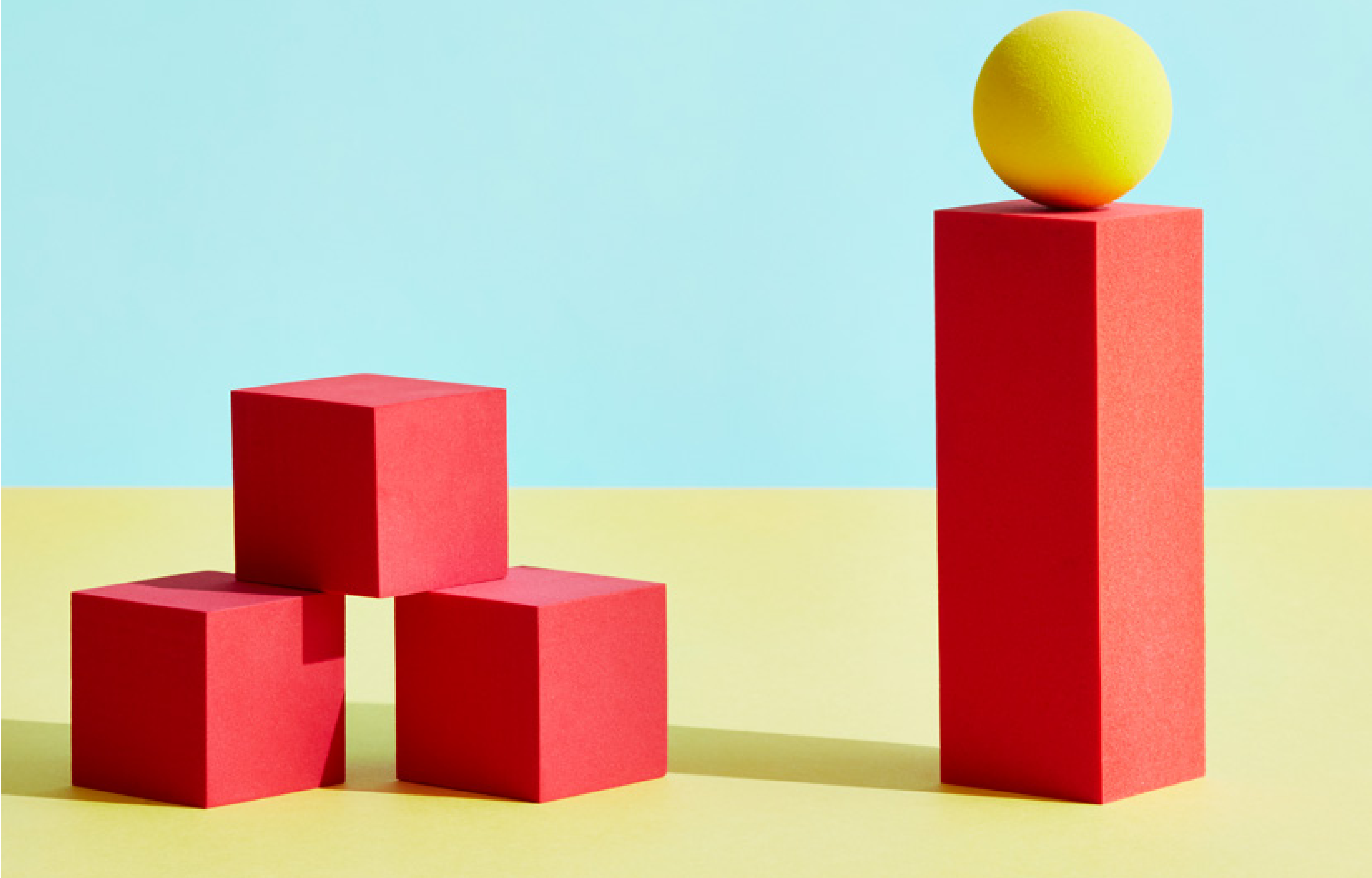
Succeeding a founder is uniquely challenging. The founder's presence and lasting influence can complicate a new CEO's ability to shape the future of the business. CEOs who successfully manage this transition will do the following:

- » **Know the founder**. By understanding the founder's perspective on the transition and clarifying roles, you will be able to set boundaries that sustain the organization's performance.
- » **Know yourself**. Get clear early on how you add value in a way that is new and different from the founder. By leading from a place of strength, you will more likely win the hearts and minds of the team.
- » **Lean on data and trained resources**, including coaching, CEO training, team effectiveness and your own personal board of directors. Don't go it alone.

Finally, one of the hardest things for a successor CEO — and one of the most important — is to become as authentic and unscripted as the founder, which helps build trust with the board, employees and other key stakeholders. To do this, new CEOs must acquire a deep understanding of the organization, its issues and the industry; develop a point of view of what's needed for the business; and articulate a future as confidently as a founder might.

Find more advice for managing a successful founder transition in our related articles: Transitioning from Founder-Led to Founder-Inspired: Best Practices for the Board and From Founder-Led to Founder-Inspired: How Founders Can Create Companies That Outlast Their Leadership.



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Privately held since 1956, we focus on delivering knowledge, insight and results through the collaborative efforts of a team of experts — now spanning more than 70 offices, over 30 countries and more than 50 practice specialties. Boards and leaders consistently turn to Spencer Stuart to help address their evolving leadership needs in areas such as senior-level executive search, board recruitment, board effectiveness, succession planning, in-depth senior management assessment, employee engagement and many other facets of culture and organizational effectiveness, particularly in the context of the changing stakeholder expectations of business today. For more information on Spencer Stuart, please visit **www.spencerstuart.com**.

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