

Athabasca University

The Path to the Top:

An Exploratory Investigation into Process, Situational, and Personal Characteristics

Influencing Directors' Willingness to Appoint a First-Time CEO

Presented by

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First-Time CEO”**

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## DIRECTORS' WILLINGNESS TO APPOINT A FIRST-TIME CEO

### **Acknowledgements**

No exploratory research project can possibly bring complete satisfaction to the investigator as inevitably one ends with more questions than he (she) started with. The positive reinforcement, the growth, the progress therefore must come from another source than the one provided when crossing a finish line. In my case, it stemmed from an amazing wife and five beautiful daughters constantly supporting my endeavours and curiosity. It also emerged from my supervisor's relentlessness to never let me settle: Dr. Michael Mauws pushed me to the ledge, but never let me jump.

About the topic - *CEO succession* - which caught my interest and triggered this study, I can only quote my favorite author to summarize where my thoughts are five years later:

*It is a riddle, wrapped in a mystery, inside an enigma.*

- Winston Churchill

Thank you;

Pascal Bécotte

## DIRECTORS' WILLINGNESS TO APPOINT A FIRST-TIME CEO

### **Abstract**

Selecting a new CEO is a difficult task for any board director ultimately accountable for that decision. It is rendered even more challenging as a result of the shrinking supply of experienced CEOs, which is in part due to the fact that the present generation of baby boomers is approaching retirement age. This unavoidable demographic state of affairs will most likely mean the appointment of a higher number of first-time CEOs (FTCs). Understanding the extent to which process, situational, and personal characteristics influence a director's willingness to appoint a first-time CEO is key, as it will permit better preparation of both a) board directors and b) CEO candidates, who play crucial roles in shaping the future "corporate North America." The literature review conducted identifies and categorizes characteristics linked to the selection process, company situational differences, and personal backgrounds of CEO candidates. While the combinations of meaningful characteristics uncovered in the literature are numerous, three guiding propositions are put forth for testing. The methodology selected for this research rests upon one-on-one interviews with 27 corporate directors currently or recently sitting on boards of Canadian-headquartered, publicly traded companies who have experienced a CEO succession event in the past five years. Two initial trial interviews were conducted to refine the interview protocol. Content analysis was used to examine the transcribed interviews and uncover the meaningful characteristics of FTC candidates that were mentioned. Those characteristics were then analyzed against the three guiding propositions to assess their validity and the extent of their influence on directors' willingness to appoint a FTC.

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## Chapter 1: Introduction

Every organization (be it a sports team, military unit, hospital, or any company) has an ultimate leader: someone who cannot blame a mistake on, or attribute a good decision to, his or her superior because there is no one above. In a publicly listed company, that leader is the chief executive officer (CEO). CEOs play a critical role in a business (Bower, 2007; Beatty & Zajac, 1987; Wasserman, 2003): they set the strategic course, hire key personnel to execute this strategy, and make every day tactical decisions with their team to acquire new customers and conquer new markets. In the past, CEOs were often in the role for extended periods of time, steering their company through economic cycles without necessarily having to worry about their job if short-term results were not as expected. Today, the average stint at the helm of a publicly listed company is dropping (Bower, 2007), CEO turnover rates are rising (Booz & Company, 2012; Warren & Van Der Zon, 2012) and for Canadian public companies tenure for CEOs is down to about five years (MacDougall & Limonchik, 2009). This, of course, puts CEO succession on the agendas of boards of public companies more frequently, and directors are often being tasked with commencing new CEO succession planning cycles immediately after a new CEO has been appointed.

The environment in which this is taking place has changed dramatically in recent years. The governance debacle of the past decade has led to a stricter governance framework, reducing a board's capacity to have—and interest in having—members of the management team other than the CEO formally sitting on the board. The direct impact is that the chief financial officer (CFO), chief operations officer (COO), and divisional presidents (who are typically being groomed as potential inside CEO



successors) now find it difficult to get the exposure they need, and are sometimes ill-prepared to effectively interact with their boards if selected to be the next CEO.

The task of hiring a CEO is difficult, and, unfortunately, the literature is equivocal when it comes to the personal attributes of high-performing CEOs. The hero-like figure and select personality traits that were popular criteria decades ago have been the subject of much research, but consistent findings have not emerged. All that can be said is that there is no one-size-fits-all set of criteria; there is no “silver bullet.” In part, this is because the optimal set of attributes depends on the circumstances (e.g., the industry, its outlook, the company’s prior performance, and the reason and timing for the CEO succession event). Thus, choosing a new CEO is also difficult because it requires boards to figure out the right kind of CEO for the particular circumstances their company is facing at the specific time of the succession event, and, more importantly, for the direction the company intends to take. As if that were not challenging enough, boards that have the good fortune of having determined what the company needs are then faced with the prospect of finding the sort of CEO they have identified as optimal.

As the foregoing makes clear, finding a new CEO is challenging at the best of times. But with the demographic shifts that are on the horizon, it is likely going to become even more difficult in the future. Chavez (2011, p. 15) establishes that “66% of the nearly 78 million Baby Boomers are employed in a full-time capacity, primarily holding executive, leadership, or management roles within their organization” and that every day for the 20 years following January 1<sup>st</sup>, 2011, approximately 10,000 of them will be retiring. She in fact warns that “a leadership deficit is looming, with 40% of the workforce – that is 40% of the knowledge, talent, leadership and vision we depend on –

set to retire". With a shrinking pool of experienced CEOs willing and able to continue working, boards might have to consider making compromises. This might include appointing individuals to the position of CEO who have no prior experience in the role.

Despite the instinctive comfort and established record associated with recruiting an experienced CEO (Booz & Company, 2010; Booz & Company, 2012; Stephenson & Beaudin, 2008), boards might be overlooking the next great CEO simply because he or she lacks previous CEO experience. In fact, the appointment of insider candidates (typically although not exclusively FTCs) for the largest 2,500 companies in the world has dropped from 86% in 2007 (Booz & Company, 2012, p. 16) to a low of 71% in 2012 (Booz & Company, 2013, p. 7). This decline in appointing insiders (or FTCs) is significant enough that it cannot be ignored, nor can it be inferred that all outsiders appointed are experienced CEOs. While we know what is happening - a decline in FTC appointments despite a shrinking pool of experienced CEO - we do not know why this decline is taking place. It therefore becomes imperative to understand the obstacles, challenges, and opportunities associated with recruiting a FTC in order to better face the inevitable increase of the coming years.

The circumstances leading to a CEO succession event are numerous, and can have an impact on which candidate will be selected. Friedman & Olk (1995) summarize four sets of circumstances. In the first two scenarios, the outgoing CEO participates in selecting and preparing his or her successor. In the first—the "crown heir" scenario—the succession is planned in advance and the successor is hired and designated openly by the board as the next CEO. Usually, this successor is named president and/or COO. Recent research, however, shows that this category of CEO successor delivers the worst post-

succession performance (Citrin & Ogden, 2010). Citrin and Ogden (2010) explain this poor performance by pointing to the fact that “crown heirs” have to prove that they are worthy of the CEO role before they have ultimate control of the business, and while the outgoing CEO sits between them and the board, an assertion similarly supported by Dalton and Dalton (2007, p. 7).

In the second scenario—the “horse race”—potential internal successors are also known, prepared, and groomed, but will ultimately have to convince the board that they should be selected. The case of Jack Welch’s succession at General Electric, where Jeffrey Immelt was ultimately appointed, is often mentioned as an example of this scenario (Dalton & Dalton, 2007b). The “horse race” scenario is of great interest since most, if not all, internal potential successors are FTCs, meaning the board will pick the winner based strictly on the personal characteristics of each candidate—it will not necessarily compare them with outside, tenured candidates. However, as will be described below, there are considerable and documented risks in naming a FTC for a larger organization.

The third scenario, called the “coup d’état,” involves dismissing and replacing the CEO without giving him or her notice. This scenario occurs when a board decides that a CEO replacement is necessary, but the CEO is powerful and charismatic and as such, will only be removed through a *fait accompli*. This scenario almost always involves a director stepping in as interim CEO, as the disruption of power and authority caused by the unexpected change does not permit the board to engage in a proper succession process. The interim CEO therefore becomes a transition CEO, and as such, this scenario is not as pertinent for this dissertation.

The fourth and final scenario—the “comprehensive search”—is of higher interest for this research as it consistently yields data permitting the study of three categories of characteristics: process, situational, and personal. The rationale for organizing characteristics along these three categories as well as the process involved in a comprehensive search are described in detail in the following pages.

As described above, Friedman & Olk (1995) provide a useful summary of the circumstances leading to CEO succession, but those circumstances are dynamic and can morph into one another rapidly. For example, a board can be under the impression that it has secured its “crown heir” only to see him/her leave the organization before transitioning to the CEO role. The “crown heir” or winner of the “horse race” can also rapidly fail in their new CEO role, resulting either in a “coup d'état” from the board as was recently seen at Blackberry in 2013 when director John Chen replaced CEO Thorsten Heins or in a “comprehensive search”. The consequence of this dynamic reality is that CEO succession planning is typically a running agenda topic for boards, albeit with an uneven level of readiness. The Spencer Stuart Governance Survey on CEO succession planning shows that “65% of survey respondents said their companies have CEO succession plans for both emergency transition needs as well as a long-term planned succession” (Spencer Stuart Board Services Practice, 2013, p. 31). Otherwise explained, the Friedman & Olk framework does not describe the current reality in sufficient detail nor with enough distinctions as virtually all CEO succession events involve a comprehensive search. Both “crown heir” and “horse race” scenarios frequently involve a comprehensive search if for no other reason than to protect the board. In addition, while the “coup d'état” scenario often involves a board

member stepping forward temporarily, it is almost always followed by a “comprehensive search”. Therefore the best way to understand why FTCs are and are not being appointed is to look at comprehensive searches.

The research proposed herein is intended to be relevant to both researchers and practitioners. Researchers will find interest in combining the selection process, personal characteristics, and situational characteristics to better understand key parameters a board should refer to when assessing a FTC candidate. Validating these characteristics with directors of public companies will also help determine whether what we think we know is actually used in practice. Directors will find useful information about the characteristics they *actually* use in selecting a FTC versus the criteria the literature suggests they *should* use.

Our findings are intended to lead to improvements in the selection process, and to reveal how executives—and specifically FTCs—could be better prepared for the top job. The fundamental research question is therefore as follows:

*What influence do the search process, the organization's relative situation, and the candidates' personal characteristics have on directors' willingness to appoint a first-time CEO?*

As vast as it is, the literature on CEO succession does not yet provide a satisfactory or consistent answer to this question. Nevertheless, it does provide some hints to those willing to make inferences. Thus, in the pages that follow, the literature deemed to be pertinent to our research question will be reviewed, and three guiding propositions will be put forward.

This review will be divided into four sections. In the first, literature about the process that boards use in selecting their next CEO will be examined. In the second, some situational characteristics impacting the ideal personal characteristics of a new CEO candidate will be outlined. In the third section, the existing literature pertaining to the personal characteristics of high-performing leaders and CEOs will be reviewed. Finally, the findings of the first three sections will be combined to arrive at three guiding propositions regarding the process, situational characteristics, and personal characteristics influencing a director's willingness to appoint a FTC.

As will become apparent, in the absence of a specific theory or hypothesis to be tested, these three guiding propositions will be used to organize both the literature review and the investigation. The data that emerge from this investigation will be dissected and studied through content analysis of transcribed interviews held with directors who have recently undergone a CEO succession process (Myers, 2009, p. 108). The expectation is that new insights will emerge with respect to the forces that influence the appointment of a FTC.

## **Chapter 2: Literature Review**

### **Introduction**

In this chapter, the investigator unearths the factors that influence a director when he or she is considering a FTC candidate. This is done by exploring the academic literature, selected leadership and management books written by authors involved in the governance field, and related marketing literature made available by global corporate leaders in the executive search industry. To facilitate reading, and to remain consistent in the research investigation and analysis being developed, the literature review is organized in three categories of characteristics: process, situational, and personal.

The rationale behind structuring the characteristics along these three categories – process, situational & personal – stems from countless CEO succession literature structured around candidate personal and company situational characteristics (e.g.: Bommer & Ellstrand, 1996; Beatty & Zajac, 1987; Borokhovich, Parrino, & Trapani, 1996; Cannella & Shen, 2001; Shen & Cannella, 2002; Zhang & Rajagopalan, 2006; Carroll & Griffith, 2008; Dalton & Kesner, 1983) and more limited although emerging literature about executive succession process characteristics (Handler, 1990; Handler, 1992; Dyck, Mauws, Starke, & Mischke, 2002).

### **On the CEO Selection Process**

Business historian Bruce Buchan (1995) traces the concept of a “board of directors,” or “board of control,” back to 18<sup>th</sup>-century England. Small-business owners decided to unite and merge their activities to increase their bargaining power and reduce operating costs. The purpose of the elected board was to form a smaller group of shareholders who would keep an eye on, and control the activities of, the newly formed

company, since holding a meeting with all shareholders to make decisions proved impractical. As time passed and shareholders aged, the board also became responsible for selecting younger and more energetic leaders to manage the corporation's activities. These new leaders were initially selected from within the ranks of the corporation's shareholders, but increasingly came to be selected from outside, as well.

Three centuries later, public corporations have grown tremendously in terms of revenue, shareholders, employees, markets served, regulatory frameworks, interdependency with various production sectors, and operating locations, thereby multiplying the complexity of issues and scenarios directors have to keep abreast of in order to protect the shareholders' best interests. Directors are responsible, for instance, for overseeing strategy, assessing and managing risks, and protecting the interests of the corporation's different stakeholders (Dalton & Dalton, 2007a; Nicholson & Newton, 2010). The board is also responsible for developing and monitoring managers—particularly the CEO.

Selecting the CEO is one of the most important responsibilities of a board (Atkins, 2001; Child, 1972; Ciampa, 2005; Kesner & Sebor, 1994; Zajac & Westphal, 1996). While CEO succession has become a permanent priority for board directors, the actual process of selecting a corporation's next CEO is becoming more systematic for public companies facing media scrutiny. Detailed descriptions of a CEO search process can be found both in academic literature (Khurana, 2002, p. 91) and on websites of international search firms (e.g., [www.spencerstuart.com](http://www.spencerstuart.com), [www.kornferry.com](http://www.kornferry.com), [www.egonzehnder.com](http://www.egonzehnder.com), [www.heidrick.com](http://www.heidrick.com)).



Upon triggering a CEO succession event, whether planned or unplanned, most public-company boards will form a search committee led by the chairman of the board or the chairman of the human-resources committee. It will be composed of a smaller group of directors, typically four to seven (Khurana, 2002, p. 94), and its mandate will be to bring to the board a recommendation as to the best CEO candidate who is available and interested, or as to who the top CEO candidates are for the position.

Once nominated, the selection committee will initially seek the assistance of an outside adviser to assist in the process. Occasionally, the adviser will be the corporation's external legal or financial counsel, an organizational development consultant specializing in CEO succession, or the corporation's management consulting organization. But more often than not, an executive search firm experienced with CEO succession will be called upon to assist the board in selecting the next CEO. While there are hundreds of small and medium-sized search firms around the world claiming to have thorough experience in the process of CEO selection, four global leaders split the lion's share of public-company CEO executive searches (Khurana, 2002, p. 121).

Spencer Stuart's "gold standard" search process (Spencer Stuart International, 2011) is indicative of what happens in most CEO comprehensive searches<sup>1</sup>. Although the processes are similar in other global firms (Egon Zehnder International, 2012; Korn Ferry, 2013; Russell Reynolds Associates, 2013; Robertson, 2008), minor differences appear in the form of psychometric testing being added to the process in some firms and the steps being called different names. The initial step in this process is for the executive search consultants to meet with the selection committee to receive, challenge, and agree upon the key selection criteria and critical competencies that will be expected of the next

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<sup>1</sup> The researcher was a partner with Spencer Stuart International until March 2012.

CEO. Executive search firm Egon Zehnder refers to this step as “pinpointing your needs” (Egon Zehnder International, 2012), and explains how the richness of the exchanges lead to the mutual commitment between the firm and the client.

The agreed-upon criteria are anchored on the main mission that will be given to the new CEO, according to the organization’s strategic plan at that moment. The new CEO’s mission could be, for example, to oversee the implementation of a significant cost-reduction program through rationalization of the operational footprint, or to generate significant growth through mergers and acquisitions or the opening of new markets. Whatever the case, once the executive search consultants have established an acceptable list of criteria and critical competencies, they validate them with other stakeholders in the corporation, including key executives, other directors, and, in some cases, influential institutional investors.

The result of these initial two steps in the process is a document that the consultants produce called the “position and candidate specification” (the “spec”) in the case of Spencer Stuart, and the “Position Brief” in other firms. The spec is then circulated once more through the board and approved for the consultants to use for the search. The initial stage of writing the spec is extremely important. Neglecting to invest in this exercise has been identified as a potential fatal mistake for a successful search (Horton, 1996).

While a FTC candidate has no influence on the design of the spec, the stage is already being set, as directors and the executive search consultants working with them will already have determined a de facto openness (or lack thereof) to considering FTC candidates. While previous public-company CEO experience is often a firm requirement

for candidates to apply, it is sometimes instead referred to as a “strong asset,” and is therefore not required per se. At a strict minimum, however, a successful track record managing a full profit and loss (P&L) of similar or greater size and scope is the experiential requirement.

With the spec approved, the executive search consultants then turn to the market and develop a target list of companies—companies in a similar industry that have faced similar challenges and have successfully accomplished similar objectives to those of the client company. The target list of companies is then reviewed by the selection committee and amended as deemed appropriate. Companies whose practices are admired and respected by directors on the selection committee are kept on the list, and companies that should not be approached are removed.

Once the spec and target list of companies are approved, the executive search consultants engage in third-party sourcing (TPS) calls and meetings. TPS consists of consultants reaching out to recently retired executives, directors, and professional partners of a targeted company and sharing the spec with them, asking them if they know of any candidates that might be qualified for the role. The executive search consultants record every comment from every third-party source about every potential CEO candidate in the firm's database, and continue TPS activities until they feel that they have isolated the top candidates for the position. This comes when no new ideas, no new names, are obtained from TPS activities. Typically, from all suggested potential candidates, between 10 and 30 names are mentioned more than three times by third-party sources. These individuals are put on the “long list” of potential candidates, and are

considered the primary candidates for the position, as the market has pre-validated their capacity to succeed in the role.

The implication for FTCs is obvious at this stage. Individuals who have not been CEOs are less likely to be known by third parties and, even if they are known, third parties may not mention them precisely because they are inexperienced. A FTC candidate who is not known by the search firm, directors, or any respected thought leaders and influencers in a given industry will simply not be mentioned through the TPS exercise, and therefore will not get on the list. Clearly, being known is no synonym for being a competent CEO candidate. However, if a candidate is not known, it is generally assumed that he or she cannot possibly have the stellar track record the company is looking for in its next CEO. The implication, beyond the fact that FTC candidates should attempt to make themselves known to directors, is that it is important for search firms to assess the board's willingness to consider, and eventually appoint, FTCs. If the board is open to it, the search firm should communicate that willingness to third parties in order to prompt ideas and suggestions that might not otherwise have come to mind.

Once the long list is prepared, it is reviewed with the search committee. Any long-listed candidate that the search committee judges to be unsatisfactory is crossed off the list. With an amended and approved long list at hand, the executive search consultants then move from the *science* portion of their work to the *art* portion of their work: they call pre-validated, long-listed potential candidates on the list and discuss their future, their aspirations, their current frustrations, and, ultimately, the search at hand for a new CEO of the client company. Rakesh Khurana explains that “once one realizes how much is at stake for both search firms and candidates in this process, it becomes apparent

how essential the finely honed interpersonal and diplomatic skills of the search consultants are to its successful conclusion” (Khurana, 2002, p. 144).

For FTC candidates who have made it to this point, getting the call from the search consultant is both flattering and nerve-racking, as they immediately understand that they have a chance to be considered and make an impression, good or bad, upon a key influencer in the process. Most FTC candidates accept moving forward in the process and confirm their interest. In some cases, however, FTC candidates decide that the timing of the call is not appropriate and would distract them from delivering on their current commitments.

The discussions described above lead to meeting the potential candidates who have shown an interest in being considered for the role. Based on the investigator's experience with 67 President and/or CEO searches for which the Board was the client, no two CEO succession processes will provide exactly the same number of candidates. However, a long list can consist of as few as 15 candidates, and as many as 50 or more. The executive search firm will approach roughly 50% of the long-listed candidates, and will interview 25–50% of those contacted. Typically, then, of the 20 long-listed candidates, the search firm will approach 10 and interview five. Again, these numbers are approximations and are used to illustrate how a candidate pipeline typically evolves: they cannot be taken as a standard, average or otherwise statistically significant numbers.

The executive search consultants then meet with the interested candidates and interview them specifically against the spec. The purpose is for the consultants to be convinced through specific examples that the candidate has successfully accomplished similar missions to those that will be assigned to the new CEO, and in a similar context.

Spencer Stuart calls this a “competency-based interview,” while Egon Zehnder (Egon Zehnder International, 2012) refers to it as “focusing on the how.” Whatever the label, this consists of searching for experiences and past behaviours that are in direct support of the organization’s future goals and aspirations. Competency-based interviewing is suggested as a methodology to steer away from the charismatic CEO candidates and focus on resolving operational requirements and competency gaps rather than trying to impress media and banking analysts whose comments can influence stock performance in the short term (Cohn & Khurana, 2003; Khurana, 2003).

At this stage, a FTC candidate must impress the executive search consultant through the interview. He or she must provide the consultant with examples and experiences proving that his or her skills and characteristics are equal, if not superior, to those of the other candidates being considered, whether he or she has public-company experience or not.

Following the interviews, the candidates are force-ranked according to their performance against the specific competency-based criteria, and the executive search consultants report back to the search committee. The top two to five candidates are then identified, and are scheduled to meet with the search committee. These finalists have made it to the “short list” of candidates. The relationship and sense of trust and confidence between a search committee and its executive search consultant(s) cannot be overstated: The discussion leading to the short list of candidates will have a major impact on whether a FTC candidate is interviewed or not, and, to be convincing, the executive search consultant has to be convinced first, and trusted by its client’s board thereafter.

The interview with the selection committee is a critical stage for FTC candidates: It gives them a chance to convince the ultimate decision-maker that they are better suited and more qualified than other (possibly more experienced) candidates. Khurana warns of the possible impact of a candidate's charisma at this stage of the process in particular. He refers to "social matching" (Khurana, 2002, p. 105) as the mechanism pushing the search committee to filter the candidates to the perceived better one in just a few hours' worth of interviewing, and therefore without sufficient or reliable information to make such an important and impactful decision. This "oversimplification of complex information into manageable and distinguishing assessments" is also pointed to as "cognitive simplification" (Pissaris, Weinstein, & Stephan, 2010). Still, a FTC candidate has just as much of a chance as an experienced CEO candidate to make a good impression at this stage in the process and charisma in itself, through its positive impact on the collective cohesion in a context of crisis, is not necessarily a negative (Waldman, Ramirez, House, & Puranam, 2001).

The interviews usually result in one to three candidates rising above the rest of the group, and the finalists are then interviewed one-on-one a second time by the chairman of the board over an extended period of time and in a more informal context: dinner over several hours, for example. Clearly, the chairman can decide to accept the recommendations from the search committee or not. He or she can act as a last risk-management backstop, in particular when it comes to appointing a FTC or any other candidate who might be perceived as non-traditional. The chairman then decides on an ultimate finalist who the selection committee presents to the larger board for approval. Of particular importance at this stage is the "instinct of self-preservation" (Khurana, 2002, p.

189) that most boards suffer from when selecting a new CEO: the temptation to focus on what analysts and the media will think about their selection in the short term, rather than on the long-term potential impact of choosing the right candidate to execute the strategy. Upon approving the selection, the executive search consultants obtain detailed formal references for the candidate and engage in compensation negotiations with the finalist. Ultimately, the head of the human-resources committee and the chairman present the selected candidate with a formal offer, and the candidate is signed on as the new CEO of the corporation.

From a process standpoint, there are several factors that could influence, negatively or positively, the likelihood of a FTC being appointed. There are five of these factors for which the director could have a direct impact. First, the spec designed by the search committee and the executive search consultant will or will not make previous public-company CEO experience a selection criterion. A director making previous CEO experience “a nice to have” instead of “a must” at this stage opens the door for FTC candidates to formally apply and be considered for the role.

Second, the FTC candidate will either be well-known, little known, or barely known to third-party sources, and this will determine whether he or she makes it to the long list. In many instances, directors will act as sources and therefore recommend potential candidates for the search, including FTC candidates or not.

Third, the relationship between the executive search consultant and the search committee may be such that the search committee will accept the recommendation from the executive search consultant that a FTC candidate be short-listed. In particular, a



chairman or the head of the selection committee may influence other members of the committee to trust or not trust such recommendations from the executive search firm.

Fourth, the FTC candidate will need to outperform the other short-listed candidates. An interviewing director has a significant influence on how the interview is conducted, both in its content and in the tone of the conversation. More importantly, the directors are the ones who decide whether the FTC candidate has done enough to move on to the next step of the process.

Finally, the chairman and the board will decide whether to accept the recommendation from the search committee that a FTC be selected as a finalist. At that stage, formal references and salary negotiations are the same for a FTC as they would be with an experienced CEO, as the board is compromised: the leverage permitting them to offer lower compensation on the basis that the candidate is a FTC is eliminated.

### **On Situational Characteristics**

The situation an organization finds itself in at the time of a CEO succession event can also impact whether directors will consider FTC candidates. In some cases, it may be that directors are averse to hiring a FTC because they feel the current situation demands an experienced CEO. In this regard, situational characteristics can be organized into three groups: the organization and its board's characteristics and structure; the organization's industry and its competitive position within that industry; and the circumstances that led to that CEO succession event.

Multiple models can be found in the literature to correlate situational circumstances characteristics to future firm performance and the characteristics of the CEO ultimately selected and of the board. For example Friedman (Friedman, 1986)

develops hypotheses to measure the relationship between succession systems characteristics such as the existence of a succession planning function and the timing of the CEO succession event, and firm performance. Shen and Canella (2002) also use characteristics such as firm size and diversification, governance structure, pre-succession performance and relate them to CEO characteristics in order to assess performance consequences. Pre-succession performance and organizational size are also situation characteristics used in correlation with personal characteristics to measure impact on market performance post-succession in different contexts (Davidson, Worrell, & Cheng, 1990; Guthrie & Olian, 1991). Tushman and Rosenkopf (1996) as a last example allege that "simple CEO succession is positively associated with subsequent performance when context is stable, but significantly more negatively associated with subsequent performance in turbulent context" (p.939). These models and examples therefore provide a strong list of possible situational characteristics for consideration.

Public companies and industries come in different sizes, with different geographical coverage, different levels of complexity, and different organizational structures. The larger and more complex an organization (General Electric, for example), the higher the chances of a board requiring either tested hands or a long-prepared insider at the helm of the ship (Dalton & Dalton, 2007b). Moreover, the larger the organization, the higher the number of internal profit-and-loss business units for a FTC candidate to lead in preparation for the future larger CEO role. Larger and more complex companies also typically come with board directors who have more diversified industry and geographical backgrounds. Combined with the lesser number of inside directors mentioned, the result is that more independent directors sit on the board. Research has

shown that the more independent directors there are on a board, the higher the chances that successors from outside the industry will be considered and picked in a CEO succession event (Davidson, Nemec, & Worrell, 2002; Borokhovich, Parrino, & Trapani, 1996).

The implications for an internal FTC candidate are contradictory in their consequences. A FTC candidate from within a large organization might have more opportunities to lead a profit-and-loss business unit, but, at the same time, he or she is less likely to be selected for the top role, as the organization is so large that the candidate has less exposure to the board. So while such individuals are being groomed for the position of CEO, chances are that they will become CEO of a company other than the one that is grooming them.

Also of interest is that the higher the industry growth rate, the lower the age of the CEO (Datta & Rajagopalan, 1998). This is consistent with what can be observed when comparing high-technology companies to mature industries such as pulp and paper, for example. The decreasing average age of CEOs is also noted as a generalized reality across industries (Citrin & Ogden, 2010; Dalton & Dalton, 2007b). Although untested, the presumptions advanced to explain this include the fact that technology plays a more important role than ever before in most industries: being technologically savvy is moving up ahead of tenure on the priority scale (MacDougall & Limonchik, 2009). Additionally, more and more baby boomers are retiring and leaving the top jobs to their younger colleagues. Consequently, it would seem that FTC candidates, typically younger than their more experienced peers, stand a higher chance of being selected for technology-driven companies.

When the performance of a firm is decreasing, the organization tends to adhere to familiar practices, a tendency known as strategic inertia (Bommer & Ellstrand, 1996). Generally, this results in more of the same behaviour, which has caused poor performance in the first place. This vicious cycle continues to lead to poorer performance. Changes in executive leadership have been linked in large part to poor performance and/or significant environmental changes for the firm concerned (Cao, Maruping, & Takeuchi, 2006; Datta & Guthrie, 1994; Friedman & Singh, 1989; Osborn, Jauch, Martin, & Glueck, 1981; Schwartz & Menon, 1985; White, Smith, & Barnett, 1997). Others more precisely link CEO succession to missed expectations (Puffer & Weintrop, 1991), the board's allegiances and values, the availability of alternate candidates, and the power of the incumbent CEO (Dalton & Kesner, 1985; Fredrickson, Hambrick, & Baumrin, 1988). More specifically, the literature claims that "unanticipated successions are associated with a greater likelihood of former-CEO successors than when successions are anticipated" (Davidson, Shenghui, Worrell, & Rowe, 2006, p. 93), which directly impacts FTC candidates' likelihood of being considered.

In summary, there are at least four situational characteristics that may influence, positively or negatively, a director's willingness to appoint a FTC candidate. The first is the size of the organization and the complexity of its operational structure. The second is the composition of its board, both in international representation and in terms of the number of independent directors sitting on the board. The third is the industry in which the company is operating, and, more precisely, the importance of technology in the strategy of the company. The fourth is the circumstances, including company performance that led to the CEO succession event.

### **On the Candidates' Personal Characteristics**

A candidate's personal characteristics can be divided into two categories. The first consists of objective personal characteristics, or characteristics that can be assessed without having met a candidate in person. Examples of objective characteristics include education, functional expertise and experience, age, and whether the candidate is internal or external to the company or the industry. The second category consists of subjective characteristics, or characteristics that can only be assessed if the candidate has been met in person by a board director or past colleagues. Examples of subjective personal characteristics include personality traits, perceived energy level, charisma, intelligence, and political sensitivity.

The CEO succession literature has much to say when it comes to objective characteristics, at least in terms of correlating them to future performance. Whether or not such performance attributions influence a board when it is making a selection decision is an interesting question, but one without a definitive answer. Shen and Canella (2002) in developing a model for the performance consequences of CEO succession identify the candidate being an insider or outsider to the company and industry experience as two characteristics that would be deemed objective. Similarly Zhang and Rajagopalan (2003) build a model which includes the candidate being internal or external to the company and internal or external to the industry as two objective personal characteristics. Further literature built in part or in whole on the theory of upper echelons initially developed by Hambrick and Mason (1984) use their model to identify additional objective personal characteristics including age, functional background, education,

financial position, socioeconomic roots and other career experiences (Chaganti & Sambharya, 1987; Herrmann & Datta, 2002; Carroll & Griffith, 2008; Datta & Rajagopalan, 1996).

In terms of academic credentials, a university undergraduate education can be described as the baseline, or the minimum requirement for a CEO candidate (Spencer Stuart Board Services Practice, 2010; Spencer Stuart Canada Board Services Practice, 2009). A master's degree or a doctoral-level degree is usually listed as "a strong asset," but not a formal prerequisite. Business professionals whose experience dates back half a century might remember a time when having an MBA was rare and a sign of academic elitism. But with more than 150,000 MBA graduates per year in the United States alone (Number Of, 2010), it is no longer a distinguishing factor for a candidate for the top job. More importantly, in his book *Executive Intelligence*, Justin Menkes points to academic intelligence and academic success as having replaced earlier IQ testing to calibrate and assess candidates in terms of critical thinking. Menkes also explains that academic intelligence and success are based on skills that are not the same as those required to be very successful in business (Menkes, 2005, pp. 137-138). It can therefore be inferred that a university undergraduate degree is nothing more and nothing less than "a ticket to the game," and that an MBA is an asset, but one that is no longer a game-changer. The implication for a CEO candidate is that one cannot have studied too much, but one can have not studied enough.

After education comes the functional experience (finance, operations, marketing, etc.) of a candidate. Spencer Stuart found in its study of public companies in Canada that, short of having a candidate with previous CEO experience, the preferred background for

a CEO succession candidate is a strong and successful track record managing a full profit-and-loss business unit (a product line, a region or country), which entails managing everything from sales to marketing, from operations to finance, from human resources to IT and the supply chain (Spencer Stuart Canada Board Services Practice, 2009).

Moreover, in every case, experience as CEO of another public company was largely preferred (Dalton & Dalton, 2007b; Khurana, 2002, p. 106). A more recent study by Spencer Stuart shows, however, that functional background also matters: "CEOs with finance backgrounds delivered significantly higher [total shareholder return] results than those with either operations or sales/marketing backgrounds" (MacDougall & Limonchik, 2009, p. 7). In fact, CEOs with financial backgrounds delivered almost twice the average total shareholder return (TSR), those with an operational background delivered about a third of the average TSR, and CEOs with a sales/marketing background delivered, on the whole, a negative TSR. While the study, which encompasses all Canadian public companies with revenues above \$500 million, is interesting, we cannot draw definitive conclusions, as financial executives are typically selected when a firm is challenged (making it easier to show higher returns as a percentage of the starting point), whereas operations executives are almost always only promoted to the top role when the business is in stable condition.

Nonetheless, the functional background of a CEO candidate is an objective characteristic that cannot be ignored, and the implications for a FTC candidate are significant, in particular as decisions made early in one's career sometimes have a limiting impact on future opportunities. For example, a young executive can easily be imagined starting his or her career in accounting and finance and moving on at one point

to sales and marketing. But going about it the other way is impossible, as there are professional and educational requirements for one to act as an accountant. Moreover, when an executive is facing two opportunities—one to remain functionally focused for a large unit, the other to take on a first P&L, but for a smaller unit—the long-term consequences of that choice can be significant, but unknown or unacknowledged to the executive at that moment.

Another objective characteristic is whether the CEO candidate is an insider or outsider to the company or to the industry, a topic that has fuelled a large portion of the CEO succession literature. This objective characteristic is of important significance as insiders are typically FTCs and outsiders often experienced CEOs. However, we could not ascertain that insiders were FTCs in all cases, or that outsiders were experienced CEOs in all cases, and therefore the decision was made to maintain the insider/outsider characteristic as a standalone personal characteristic.

The reason for positive reactions to outside successors lies in claims that outsiders have a positive impact on a firm's performance (Guthrie & Datta, 1998, p. 110; Lambertides, 2009) as they are less committed to strategy status quo (Pitcher, Chreim, & Kisfalvi, 2000) and do not have commitments or moral obligations to internal executives when coming in (Helmich, 1975). This explains, in part, why poor firm performance is more likely to lead to an outside successor being selected (Dalton & Kesner, 1985; White, Smith, & Barnett, 1997). When attempting to quantify and define what "poor performance" definition applies to these conclusions, the literature shows that outside successors are mainly selected in firms that have mid-range performance relative to their peer group rather than reasonable or very poor performance (Dalton & Kesner, 1985).



Outsider succession also causes increased management turnover within the firm, as an outsider is more likely to fire an underperforming subordinate than an insider successor who was a recent colleague to this subordinate, and because the outsider succession creates more disruption than an insider succession would (Friedman & Saul, 1991). Furthermore, institutional investors are favourably predisposed to recruiting an outside CEO, but only to a financially healthy firm (Lubatkin, Chung, Rogers, & Owers, 1989). Smaller firms—small being defined as leaner organizational structures serving fewer geographies, with fewer profit-and-loss business units—are twice as likely to select an outside successor than an inside one (Dalton & Kesner, 1983).

Another school of thought claims that insider succession is generally more profitable for the shareholder than outsider succession, precisely because of the averted power diffusion and turbulence created by an outsider taking the helm (Rhim, Peluchette, & Song, 2006) although other claims suggest that the diffusion of authority occurs in either insider or outsider case (Miller, 1993). The larger the organization, the more likely it is that an internal successor will be chosen (White, Smith, & Barnett, 1997; Kets De Vries, 1988). However, larger failing companies seem to prefer outside replacements (Schwartz & Menon, 1985). Outside directors and incumbent CEO power are linked to the likelihood of a designated internal heir being promoted, as well as to a lower level of internal heir candidates exiting the firm (Cannella & Shen, 2001). Moreover, an important distinction shows that an internal follower of the departed CEO is less likely to initiate a strategy change than one who was jockeying for the position (Cao, Maruping, & Takeuchi, 2006). Therefore, while an outsider is more likely to effect change, significant change agendas are assuredly best handled by tenured CEOs who have made the

mistakes and good decisions that result in experience and battle scars. On the other hand, CEO succession is more likely to occur when a firm is underperforming, and, by definition, an internal CEO successor will have been part of that underperforming team, and will thus be unlikely to credibly drive the necessary change agenda.

More recent studies bring additional distinctions to the debate. For example, there is a claim (Citrin & Ogden, 2010) that insiders and outsiders essentially performed the same between 2004 and 2008 in U.S. public companies, and that top performance was driven by directors-turned-CEOs (CEOs chosen from the slate of independent directors already sitting on the board). Moreover, the worst performers are isolated in a group called “insider-outsiders”—candidates brought in to fill a role reporting to the CEO, usually the COO role, but with the immediate and publicly communicated designation as heir to the CEO (Citrin & Ogden, 2010). Unfortunately for insider-outsiders, they are put in a position where they have to demonstrate great leadership without having the ultimate authority, a recipe for disaster if there ever was one. The implications for a FTC candidate can be somewhat frustrating. Being an insider to a company that is not performing well can seemingly prevent one from being considered for the CEO role, and being an outsider to a CEO succession of a well-performing company also seems like an underwhelming opportunity as such a company will typically select from within.

Industry experience is also an important objective characteristic of a CEO candidate. Its importance lies in the transferable business contacts, transferable technical knowledge, and understanding of the entire value chain of an industry—where the levers for value creation are hidden, and how to manoeuvre them. Research shows that recruiting against specific industry characteristics and looking instead at the CEO's

industry, functional, and organizational background yields better performance (Datta, Guthrie, & Rajagopalan, 2002). Spencer Stuart found that industry experience was described as a significant asset for a CEO candidate, but was considered a must on less than 20% of the searches examined (Spencer Stuart Canada Board Services Practice, 2009). The reason behind this is that most boards feel they know their industry fairly well and cannot think of more than a handful of potentially qualified and culturally fitting candidates from their competitors. They therefore prefer to immediately set out to have the candidate pool expanded and give themselves a chance to be exposed to the “best athletes”—the candidates with tremendous track records but without industry experience.

This is indicative of a more general finding that many of the criteria selected by boards aren't important:

These include candidates' ages, where they went to college or grad school, what degrees they earned, whether they needed to relocate or commute to take the job, or whether they began their career at a blue-chip company. Boards should ignore those variables; they simply don't correlate with performance. (Citrin & Ogden, 2010, p. 30)

In fact, Ogden and Neff stated 10 years ago that “consulting experience and MBAs are out; youth is in” (Ogden & Neff, 2001, p. 30). But when discarding age as a non-predictor of positive performance, a board cannot ignore the possible consequences of selecting an older candidate: How is energy level impacted? How long can the candidate be expected to be in the role before retiring? Nor can a board ignore the consequences of selecting a younger candidate: “The younger a CEO replacement is, the more probable that the firm will lose its stable of successors” (Dalton & Dalton, 2007a,

p. 7). In Canada, the debate is simplified on the surface, as the Charter of Rights does not allow age, gender, religion, sexual orientation, and several other characteristics as formal or official selection criteria. This obviously does not mean that these criteria are not addressed under other designations such as “credibility” or “fit with current management team.” Other traits, though, can have a meaningful impact.

Subjective characteristics bring a different set of challenges. The usual suspects, found on almost every CEO job specification that executive search firms use to recruit a public-company CEO, include communication skills, strong (inspirational) leadership skills, financial acumen, personal integrity, the ability to handle pressure, a strategic perspective, operational passion, seasoned judgment, personal impact and savvy, and being a strong team builder (Muschewske, 2008). Another recent exploratory study about how CEOs perceive their own characteristics adds to this list achievement orientation, a humanistic approach, inclusivity, learning and self-awareness, and a positive outlook (Wood & Vilkinas, 2007). But these are traits and skills that should describe every leader, at every level. The question for boards is not who could be a leader for the company, but who could be an extraordinary leader for the company.

In recent years, Collins (2005), Citrin (2007), and Menkes (2005) have each developed fascinating leadership theories based on studies of extraordinary successes and failures—leaders who were extraordinary, and leaders who drove their businesses into the ground. They each point to similar subjective characteristics, which can be summarized as follows. First, extraordinary leaders have raw capacity: talent, intelligence (critical thinking), and skills, recognizable through an acute sense of priority management and individual performance. Second, they have demonstrated a capacity to

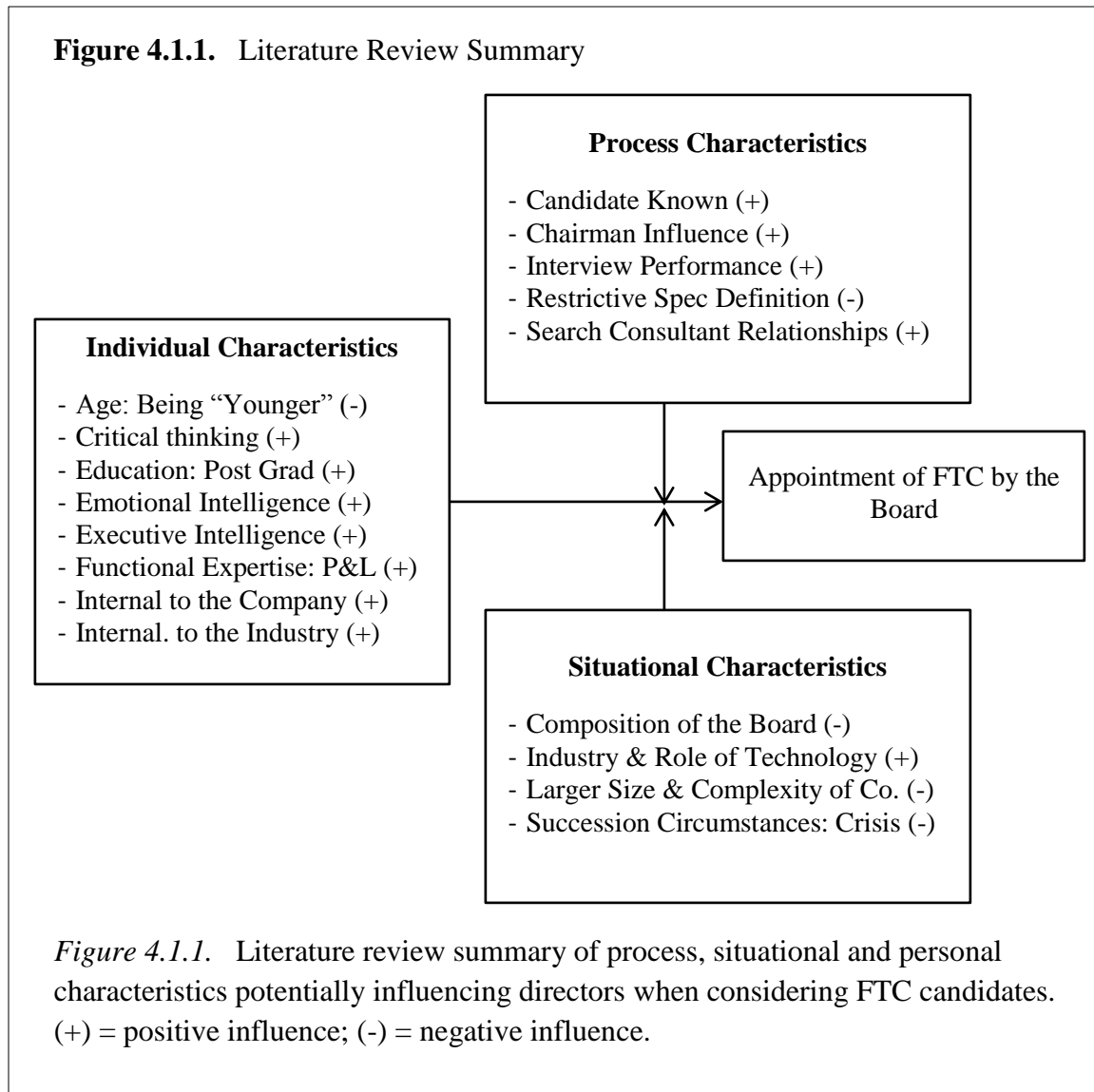
succeed through others by anticipating, recognizing, and managing emotional reactions. For example, they built strong teams that continue to succeed after the leader has gone on to other challenges. Third and finally, they have a strong capacity for introspection and humility: they are not seeking the limelight, they recognize their own mistakes, and they have a fierce resolve to reach goals, which, notably, comes before their personal ego. Against these interesting theories about subjective characteristics, some research claims that the new CEO is likely to be similar to members of the dominant coalition in the management team (White, Smith, & Barnett, 1997)—in other words, that the board will focus on fit with the current management, rather than on the mission to be accomplished, in determining selection criteria. For better or for worse, more powerful boards are more likely to influence CEO characteristics to resemble their own profile (Zajac & Westphal, 1996), which again prompts questions about whether a board will set the personal characteristics selection criteria as a function of the mission, or as a function of who sits on the board.

In summary, there are at least five objective and three subjective personal characteristics that may influence, positively or negatively, the likelihood of a FTC being appointed. The first objective characteristic is educational credentials. The second is functional experience. The third objective characteristic considers whether a candidate is internal or external to the company, while the fourth is about whether the candidate is internal or external to the industry. The fifth and last objective personal characteristic is age. The first subjective personal characteristic is raw intelligence: critical thinking and the potential to individually perform. The second is emotional intelligence: the capacity to perform through others by understanding how they react emotionally. The third is

what Menkes refers to as “executive intelligence”: the capacity for introspection, self-adjustment, and humility, along with fierce resolve and tenacity. Besides Zajac & Westphal (1996) asserting that more powerful boards are more likely to select a CEO who resembles them, we have not come across any research that addresses how important each of these characteristics is in the mind of a director considering a FTC candidate and, more importantly, how these characteristics rank against previous CEO experience in the director’s mind.

### **Guiding Propositions**

The process, situational, and personal characteristics were identified from the literature as potentially influencing a director’s willingness to appoint a FTC are summarized in Figure 4.1.1.



Ensuing these identified characteristics being organized in three categories, general “guiding propositions” are suggested to structure the interview protocol and data analysis. Again, despite being called “propositions”, the purpose they serve is merely one of literary and organizational guideline within a qualitative and exploratory theory-creating research project, rather than the more commonly associated quantitative theory-testing purpose met in research literature.

*GUIDING PROPOSITION 1(GP1): Directors' willingness to appoint a FTC will be influenced by the process through which the CEO is being appointed. Some process characteristics will influence directors more than others.*

GP1 addresses the “how” in CEO selection. The objective is to verify whether there are elements in the actual process that influence (more or less, positively or negatively) a director’s willingness to appoint a FTC.

*GUIDING PROPOSITION 2(GP2): Directors' willingness to appoint a FTC will be influenced by the organization's current situation. Some situational characteristics will influence directors more than others.*

GP2 addresses the “when” in CEO selection. More precisely, the purpose is to determine which situational characteristics—for example, the performance of the organization, or a situational characteristic that would normally call for more tested hands (Bommer & Ellstrand, 1996)—influence (more or less, positively or negatively) a director’s willingness to appoint a FTC.

*GUIDING PROPOSITION 3 (GP3): Directors' willingness to appoint a FTC will be influenced by the relative importance they attach to previous CEO experience versus other personal characteristics. Some personal characteristics will influence directors more than others.*

GP3 addresses the “what and whom” in the selection process. The purpose is to understand how previous CEO experience compares to a FTC candidate’s personal characteristics, and which of these personal characteristics influence (more or less, positively or negatively) a director’s willingness to appoint a FTC.



### **Chapter 3: Methodology**

#### **Introduction**

In an effort to explore the guiding propositions put forward in the preceding chapter, a descriptive, cross-sectional design (de Vaus, 2001) was employed involving 27 semi-structured qualitative interviews with directors who had recently experienced a CEO succession.

This methodology was utilized for several reasons. First, the theoretical framework behind CEO selection is constantly evolving (Dalton & Dalton, 2007b; Kesner & Sehora, 1994; Zajac & Westphal, 1996), and as such, is exploratory in nature. The data collected through in-depth interviews is based on directors' opinions and representations rather than readily quantifiable information: "At the root of in-depth interviewing is an interest in understanding the lived experience of other people and the meaning they make of that experience" (Seidman, 2006, p. 9). Therefore, the methodology required the capacity to figuratively get into directors' heads, to unearth each director's perceptions and opinions, and, when possible, to prompt them to extract and clarify specific nuances.

#### **Participant Recruitment**

Boards tend to be secretive (Dalton & Dalton, 2007b). Therefore, gathering data about the discussions leading to a new CEO being selected, and how process, situational, and personal characteristics influence a director's willingness to appoint a CEO, is challenging in and of itself. Convincing a board to expose itself to possible sensitive findings is both unlikely and highly problematic, unless the investigator is a recognized participant in the governance field and proposes a near-anonymous participation to

directors. The investigator was a partner with Spencer Stuart International until March 2012, at which point he took on a senior executive role with another organization not involved in executive search. Spencer Stuart International, through its association with the Institute of Corporate Directors, keeps an exhaustive database of all director nominations across Canada. For this reason, the firm has up-to-date knowledge of the majority of Canadian corporate directors' experience and backgrounds. Moreover, directors sitting on boards that have experienced a CEO succession event in the past five to 10 years were already identified within the firm's database. This was used to identify 122 TSX-listed companies that have undergone a change in CEO in the past five years. The debate about what should be an adequate number of participants in qualitative research can pull a researcher in many directions, but the investigator aimed to conduct 25 to 30 interviews, as "25 [participants are] adequate for smaller [qualitative research] projects" (Charmaz, 2006, p. 114). Since each CEO succession process is typically managed through a board-nominated selection committee consisting of an average of four to seven members (Khurana, 2002), and anticipating an approximate response ratio of two negatives to one positive, the investigator initially identified 75 board directors from the targeted companies for which Spencer Stuart had valid and current email and telephone coordinates.

Managing researcher bias was critical for validity purposes. For this reason, participants were divided into two categories: those who had worked with the investigator or Spencer Stuart on a specific CEO succession assignment, and those who had not. The purpose of the diversified sampling is to optimize the richness of data gathered and "fill in and refine the storyline of the core categories and the proposed

relationships between categories” (Easterby-Smith, Thorpe, & Jackson, 2008, p. 180). In this regard, beyond whether they were known by Spencer Stuart, the investigator took into account gender, industry specialty, and participant geographical location when selecting the 75 initial participants.

The researcher first reached out to 11 potential participants while still employed by executive search firm Spencer Stuart and living in Montreal. Eight agreed to be interviewed (including participants for two pilot interviews that are not included in the total of 27 participants). After changing employers and industries and moving to Toronto, the researcher contacted an additional 20 potential participants, only three of whom agreed to be interviewed. Time constraints did not permit the researcher to analyze the reasons for which the acceptance ratio dropped so dramatically. That said, the instinctive and most plausible cause could be that, with the researcher no longer an active participant in the governance field, participants might have felt less inclined to “open up” to a perceived outsider of the elite directors’ circles, or might have seen little to be gained in speaking with the researcher.

In response to this problematic development, the researcher reached out to a new group of Montreal-based potential participants, since he was a “better-known quantity” in that professional circle. Contact was thus made with 32 potential participants, 21 of whom agreed to be interviewed, bringing the total number of participants to 29, including the two pilot interviewees. The immediate consequence of this alteration of plans was that the majority of participants (21 of 27) were Quebec-based, with the balance (six) located in the Greater Toronto Area. Alleviating the risk of bias based on an established relationship between the researcher (or Spencer Stuart) and participants, the desired mix

of “known to Spencer Stuart” and “not known” was achieved, with 15 (55%) falling in the former category and 12 (45%) in the latter. Independent-samples t-tests were conducted to compare means between “known” and “unknown” participants for each of the three categories and two types of answers (answers when speaking of *any candidate* versus answers when speaking of *FTC candidate*), the results of which can be found in Appendix A. The results show no significant differences between the responses of the two groups.

The average age of the participants was 58 and 11 of 27 (40.7%) were under the age of 60 relative to the TSX 60 directors 36% being under 60 (Davies Ward Phillips Vineberg LLP, 2013, p. 11). They had participated, as directors, in CEO succession events an average of 3.3 times. Also of significance, eight of the 27 participants (29.6%) were women, a proportion that constitutes almost twice the level (15%) of women currently or recently serving as directors on Canadian public company boards (Globe Editorial, 2013) and 18.4% for the TSX 60 directors (Davies Ward Phillips Vineberg LLP, 2013, p. 14). Diversity of industry experience was also achieved, as can be observed in Table 3.1, below. Moreover, the participant sample shows a relatively even distribution among industries.

Table 3.1

*Average Director Age and Number of CEO Succession Events per Industry*

Industry	n	Age (M)	Number of CEO Succession Events as Director			
			M	Mdn	Min	Max
Consumer Goods	6	57.0	3.8	4	2	5
Financial Services	4	68.5	3.3	3.5	1	5
Industrial	8	55.5	3.4	3.5	2	5
Services	4	53.8	2.8	2.5	1	5
Technology & Telecom	5	57.8	3	2	1	5
Total	27	57.9	3.3	3	1	5

Regarding the question that was posed to participants about how many CEO succession events they had participated in as a director of a Canadian public company, the researcher captured “five or more” as the highest number, which is shown as “5” in Table 3.1. Only one participant declared that he had participated in “certainly more than five,” but he was undecided as to whether all of them were for Canadian public companies or not. The researcher agreed with the participant that “certainly” there were five that met the criteria for the research. Thus, the maximum shown in Table 3.1 is five for all industries.

### **Participant Contact and Selection**

An initial personal telephone contact with the targeted participants was made to assess their interest in participating in this research, and to initiate the scheduling of the in-person interview. The telephone conversation script is provided in Appendix B, although a number of questions from participants took the conversation on different paths. With verbal interest confirmed and initial scheduling options for the interview agreed upon, a follow-up email (Appendix C) was sent to each participant describing the

guidelines for the interview and the unattributed nature of the research material collected, and clarifying the need for the interview to be recorded. Finally, the email included the consent form (Appendix D) that each participant was required to sign before the interview was conducted.

### **Interview Design**

Because the interviewer had little experience with research-based interviewing techniques and methodology, two trial interviews were conducted with directors who had recently participated in a CEO succession event. The purpose of the trial interviews was to refine the interview protocol and clarify the dynamics of the research process and requirements. Although the 27 main participants were interviewed in both Toronto and Montreal, for practical and economic reasons, the participants selected for the trial interviews were based in Montreal, where the researcher was located at that time. The face-to-face interviews were recorded using two distinct digital recording devices to mitigate the risks of one of the recording devices failing—which occurred twice—and to allow immediate reproduction of the content for archiving purposes. The academic literature suggests that recording the interviews provides four significant advantages over the main alternative: only taking notes. The advantages are: 1) the ability to listen repetitively to what was missed, 2) the opportunity to note ideas and thoughts during the interview without permanently missing what was said, 3) the opportunity to listen again to tones and pauses and interpret their meaning, and finally 4) the chance to be one's own self-critic in terms of interviewing style and effectiveness. (Partington, 2002, p. 144)

Each interview was digitally reproduced, encrypted, and saved on a password-protected hard disk locked up in the researcher's house. As an additional precaution, one

other copy of the encrypted recordings was kept on a memory device in a separate locked room at the researcher's professional offices. The above logistical and technical procedures proved to be practical and efficient and were used throughout the research.

The interview protocol is shown in Appendix E (Qualitative Interview). It includes the introductory statement disclosing the researcher's association with Spencer Stuart for the initial interviews conducted, a demographic data section to account for participants' age, gender, and professional experience, and initial interview questions along with supplemental probing questions to ensure the richness of data being obtained. Participant interviews lasted between 38 and 74 minutes. The interviews were conducted in unobtrusive environments where neither the researcher nor the participants were likely to be interrupted. The majority were held in private rooms at the University Club of Montreal, where specific instructions were given to the staff and a sign was placed on the room door to ensure no interruptions. In all cases, the researcher ensured that water and coffee were available to the participants and researcher. (This proved to be judicious in one of the two trial interviews, as the participant had a health issue making his throat sore, and therefore required the drinks to keep the interview flowing without interruption.)

### **Data Analysis**

After each interview was completed, a professional transcription company experienced with academic requirements transcribed it. The two trial interviews were sent to, and transcribed by, two different companies to compare process, cost, and turnaround time. Although it was slightly more expensive, the researcher selected the firm Landmark Associates, Inc. ([www.thelai.com](http://www.thelai.com)) for two reasons. First, professionalism

and experience with transcribing academic interviews was prominent in the needs-analysis conversation between the researcher and the project manager at the start of the process. Second, the confidential nature of the data exchanges, including specific encryption of each file and secure access to the organization's website for downloading, was better aligned with the guaranteed confidentiality that the researcher had offered to the participants.

Upon receiving the transcribed interviews, the researcher cleaned up the data to prepare for analysis, as "normal spoken language is full of hesitations, repetitions, false starts, re-starts, changes of grammatical construction in mid-utterance, non-standard forms, compressions and elisions" (Lemke, 1998, p. 3). Content analysis was performed on the resulting transcripts, keeping in mind that qualitative content analysis goes beyond merely counting words or extracting objective content from texts to examine meanings, themes and patterns that may be manifest or latent in a particular text. It allows researchers to understand social reality in a subjective but scientific manner. (Zhang & Wildemuth, *Content Analysis*, 2011, p. 1)

Content analysis was therefore used to make sense of the transcribed interviews by "[classifying] textual material" and "reducing it to more relevant, manageable bits of data" (Weber, 1990, p. 5), allowing the researcher to "make valid inferences from [the] text" (Weber, 1990, p. 9). The transcribed interviews were coded along the 17 characteristics identified in Chapter 2 (Literature Review) and the three categories specific to the guiding propositions. As a result, the analysis process permitted a conceptualization of the key criteria influencing a director's willingness to appoint a FTC or not (Easterby-Smith, Thorpe, & Jackson, 2008, p. 178).



To be clear, the investigation was questioning *whether* (and, when possible, *to what extent*) process, situational, or personal characteristics influence directors' willingness to appoint a FTC, rather than more pointedly examining *how* each characteristic independently influences them. The researcher therefore did not code or analyze the entire body of the transcript, but, rather, attempted to uncover only those data that related to the specific guiding propositions under study. The transcript was therefore coded with questions such as the following acting as conceptual parameters:

*What characteristics are found in the data?*

*Which ones are more or less significant from a quantitative perspective?*

*What is the qualitative significance of each characteristic?*

*Does it vary across participants?*

*What do participants say about FTC characteristics?*

*Does it vary across participants, industries, or genders?*

This distinction impacted the analysis process at several levels. The two trial interviews showed that the semi-structured interview format allowed each participant to cover a wide range of characteristics, issues, and material in completely different order and sequence. While the interview schedule was meant to sequentially drive the conversation from the broader CEO succession process down to specific FTC characteristics through the four larger open-ended questions listed in the interview protocol, the two participants constantly moved back and forth between the four main questions. This made for rich material and an engaging and free-flowing exchange. The researcher's role was to make sure that all probes and larger questions were answered. In light of the test interviews, the sampling unit was defined as each of the 27 interviews

(Neuendorf, 2002, p. 71; Weber, 1990, p. 22). The categories were defined broadly (“Process,” “Situational,” and “Personal”), and each category was broken down into specific codes (Weber, 1990, p. 23). The Codebook used can be found in Appendix F. Reliability was assessed by having the researcher code the trial interviews twice to determine stability (Weber, 1990, p. 17).

The ATLAS.ti qualitative-analysis software was selected to code the transcript for several reasons. First, the software is widely used and often cited in the literature as being an efficient and reliable content-analysis program. More importantly, the software license came with the option of practical and live online training by the vendor, which limited risks related to the researcher’s lack of experience, and enabled the researcher to build a stronger coding and analysis foundation from the outset.

While there was never any intention to test the guiding propositions identified herein using statistical tests, descriptive statistics are reported in the next chapter in tables and bar graphs as an initial indication of the characteristics that participants mentioned most frequently (Neuendorf, 2002, p. 172). Further statistical analyses are also conducted against participant groupings (by gender, age, industry, and experience) to test for differences in results. Finally, an analysis of variance was used to test for differences in responses among the various groupings.

### **Comparisons with Grounded Theory**

The methodology used has some commonalities with grounded theory, but should not be seen as such. Barney Glaser and Anselm Strauss were the first to define and describe grounded theory. In their seminal book, *The Discovery of Grounded Theory: Strategies for Qualitative Research* (1967), they described “a research methodology that

aimed at systematically deriving theories of human behaviour from empirical data” (Myers, 2009, p. 107). The two central features of grounded theory are its “development of theory out of data and an iterative or recursive approach in which data collection and analysis proceed in tandem, repeatedly referring back to each other” (Bryman, Teevan, & Bell, 2009, p. 252). The process involves a systematic approach and formal steps that must be followed in order to ensure the validity of the theory emerging as the final output. Specifically, an initial research question is asked, followed by theoretical sampling to identify relevant people or incidents. Data collection then follows—typically through interviews, when human subjects are the source—and the transcribed data is then coded. There is “constant movement backwards and forwards among the first four steps so that early coding suggests a need for new data, which results in a need to theoretically sample, and so on” (Bryman, Teevan, & Bell, 2009, p. 255). Categories, or crucial concepts emerging from the data, are then generated and eventually saturated when no further insights are produced. Relationships between categories, and ensuing hypotheses about possible connections between categories, are then identified by the researcher, and further theoretical sampling, data collection, and category saturation takes place to test the hypotheses, the result of which eventually yields a theory to be tested in other settings for validity.

As outlined above, the process is fairly rigid and systematic. The commonalities between the methodology used for this research and grounded theory are clearly limited to the initial steps in the process, from declaring a research question until the coding stage to develop categories. However, there are significant differences between the methodology employed and grounded theory.

Contrary to grounded theory's requirement that one start out without preconceived ideas and presuppositions (Myers, 2009, p. 108), the researcher had already identified themes and CEO characteristics from existing literature, and specifically looked for those characteristics in the data collected in order to validate which of them, if any, influence a director in considering a FTC. Consequently, while the data was coded looking for those characteristics, the coding was not "open coding" per se—that is, the codes themselves were not emerging from the data as a way to summarize it (Myers, 2009, p. 110). Nor did the researcher code the entire corpus—instead, he looked for bits and pieces that related to the research question. The researcher also did not evolve the methodology to the stages of category saturation through "axial coding" and theory emergence through "theoretical coding." So while there are commonalities between the methodology used and grounded theory, there are also significant differences, since the "true potential of grounded theory is only realized if researchers use the method to progress from coding to theory generation" (Myers, 2009, p. 107). The research therefore contributed to the development of theory through validation of existing concepts, albeit with particular focus on FTC candidates, but the outcome is not pure theory generation, as grounded theory would imply.

### **Limitations and Risks**

There were several possible limitations to the methodology used. First, the researcher was, until March 2012, an active participant in the CEO succession corporate scene in Canada, and therefore conducted the interviews with a practitioner style, and with possible preconceived ideas, both of which might influence a participant's responses. We believe that this risk was partly alleviated by the possibility that a

participant recognizing the researcher as a recently active participant in the CEO selection field might have felt more comfortable in providing more depth, more insight, and more thoughtful answers. Second, the interpretive nature of the coding exercise in particular required intellectual rigor and restraint on the researcher's part. Third, participant recruitment along the segmentation proposed proved to be more difficult than expected and the researcher, in order to complete the research in a reasonable time frame and at a reasonable cost, had to interview more participants from Quebec versus the rest of Canada. Finally, content analysis comes with validity and reliability challenges due to its interpretive nature (Easterby-Smith, Thorpe, & Jackson, 2008).

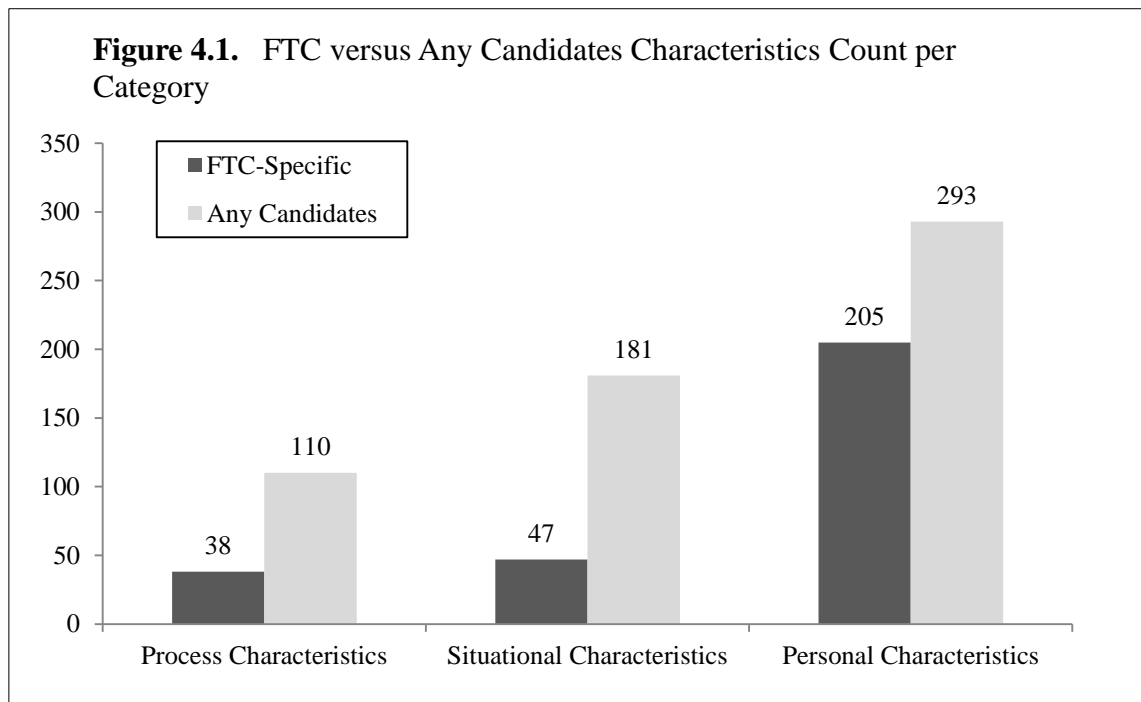
## Chapter 4: Results

### Introduction

The results of the investigation are reported below. In the first section, descriptive statistics are provided for the entire sample. In the second section, the sample is stratified along several dimensions and an analysis of variance is used to assess whether there are significant response differences among any of the resulting groups. In the final section of this chapter, the support, or lack thereof, for each of the three guiding propositions is assessed.

### Descriptive Statistics – General

The 27 participants mentioned CEO selection characteristics a total of 874 times, for an average of 32.4 mentions per participant. Figure 4.1 provides the characteristics count per category (process, situational, and personal) for any candidates versus for FTC candidates.



As outlined in the interview protocol, participants were asked to describe a recent CEO succession event in which they participated. Follow-up questions were asked to prompt them to identify characteristics that had played a role in the selection of their next CEO. Those characteristics are accounted for in the “Any Candidates” row in Figure 4.1, and in further tables. Once a participant concluded his or her description of the most recent CEO succession event in which he or she had participated, the researcher narrowed the focus of the interview to FTC candidates to gain specific and additional insights into characteristics influencing directors when considering FTC candidates. Those additional characteristics mentioned are accounted for in the “FTC-Specific” row in Figure 4.1, and in further tables.

Figure 4.1 shows that personal characteristics accounted for 498 (57%) of the 874 characteristics mentioned. Situational characteristics followed with 228 (26%) of the characteristics count, and process characteristics came third with 148 (17%). In total, characteristics specific to FTC candidates accounted for 290 (33%) of the 874 counts, and mentions applicable to any candidates accounted for 584 (67%).

As Figure 4.1 shows, the personal characteristics count is not only highest in absolute count per category, but also outranks the other two categories in terms of FTC-specific characteristics. More specifically, FTC-specific personal characteristics account for 205 (71%) of the 290 FTC-specific characteristics count, whereas FTC-specific situational characteristics account for 47 (16%), and FTC-specific process characteristics account for 38 (13%).

The 874 characteristic counts were initially aligned to 20 individual characteristics codes, including the 17 identified in the literature review and one

additional code for each of the three categories: “other process characteristics,” “other situational characteristics,” and “other personal characteristics.” An analysis of each of the “other” characteristics (Appendix G) enabled the extraction of one additional situational characteristic (“board preparedness for a CEO succession event”) and one additional personal characteristic (“integrity or perception of integrity of the candidate”).

Table 4.1 shows the individual characteristic counts for this study. Each characteristic is preceded by a category identifier for ease of identification in further tables: “PRO” for process characteristics, “SIT” for situational characteristics, and “PER” for personal characteristics. The two newly extracted characteristics, or characteristics not initially identified in the literature review, are identified by an asterisk (\*).

Reading Table 4.1 can be intricate, as it contains much data. Reading the data relative to the process characteristic “Candidate Known,” we can see that the characteristic was mentioned a total of 12 times, six (50%) for each of “Any Candidates” and “FTC-Specific.” Table 4.1 also shows that five (19%) of the 27 participants mentioned the characteristic “Candidate Known” as applicable to “Any Candidates,” while four of the 27 (15%) mentioned it as applicable specifically for FTC candidates. The relative importance of each characteristic is significant. Each characteristic was mentioned an average of 39.7 times. (The median is 31.5 and the standard deviation on the characteristics count data set is 25.9). Table 4.1 shows that four characteristics are mentioned more than 66 times each or one standard deviation above the average. They are a) functional expertise (n = 109), b) emotional intelligence (n = 82), c) internal/external to the company (n = 80), and d) the succession circumstances (n = 75).



Table 4.1 also shows three characteristics that have a count less than 14, or more than one standard deviation below the average. These are educational credentials (n = 13), other process characteristics (n = 13), and the candidate being known to third-party sources (n = 12).

Table 4.1

Characteristic	Any Candidates			FTC-Specific			Total
	Counts	% of Tot	% of N	Counts	% of Tot	% of N	
Pro - Candidate Known	6	50%	19%	6	50%	15%	12
Pro - Chairman Influence	32	73%	63%	12	27%	37%	44
Pro - Interview Performance	15	79%	37%	4	21%	11%	19
Pro - Restrictive Spec Definition	26	81%	63%	6	19%	15%	32
Pro - Search Consultant Relationship	24	86%	44%	4	14%	11%	28
Pro - Other Process Characteristics	7	54%	15%	6	46%	11%	13
Sit - Composition Of The Board	43	91%	81%	4	9%	15%	47
Sit - Industry & Role Of Technology	16	80%	37%	4	20%	15%	20
Sit - Size & Complexity Of Cie	25	58%	56%	18	42%	52%	43
Sit - Succession Circumstances	63	84%	96%	12	16%	41%	75
*Sit - Board Preparedness (for CEO succession)	23	85%	56%	4	15%	15%	27
Sit - Other Situational Characteristics	11	69%	37%	5	31%	11%	16
Per - Age	9	37%	26%	15	63%	44%	24
Per - Critical Thinking	23	53%	67%	20	47%	41%	43
Per - Educational Credentials	6	46%	15%	7	54%	26%	13
Per - Emotional Intelligence	53	65%	85%	29	35%	67%	82
Per - Executive Intelligence	22	59%	48%	15	41%	41%	37
Per - Functional Expertise	62	57%	85%	47	43%	96%	109
Per - Int/Ext To The Company	53	66%	70%	27	34%	56%	80
Per - Int/Ext To The Industry	36	72%	74%	14	28%	37%	50
*Per - Integrity (or perception of)	15	52%	41%	14	48%	37%	29
Per - Other Personal Characteristics	14	45%	37%	17	55%	41%	31
Total	584			290			874
Min	6			4			12
Max	63			47			109
Mean	26.5			13.2			39.7
Median	23			12			31.5

*Note.* Pro = Process characteristics category; Sit = Situational characteristics category; Per = Personal characteristics category; N = Number of participants (27); Tot = Total number of counts for a specific characteristic; \* = Characteristic extracted from the data and that was not initially identified through the literature review.

A more complete view of each characteristic's influence on directors when they are considering a FTC candidate can be obtained by examining each characteristic's count relative to the total count (e.g., functional expertise represents 109, or 12.5%, of the 874 total mentions), and comparing that with the proportion of FTC-specific counts relative to the total count for that same characteristic (e.g., the functional expertise FTC-specific count is 47, or 43.1%, of the 109 total functional expertise counts). The result is a weighted FTC-specific count percentage, and is shown in Figure 4.2.

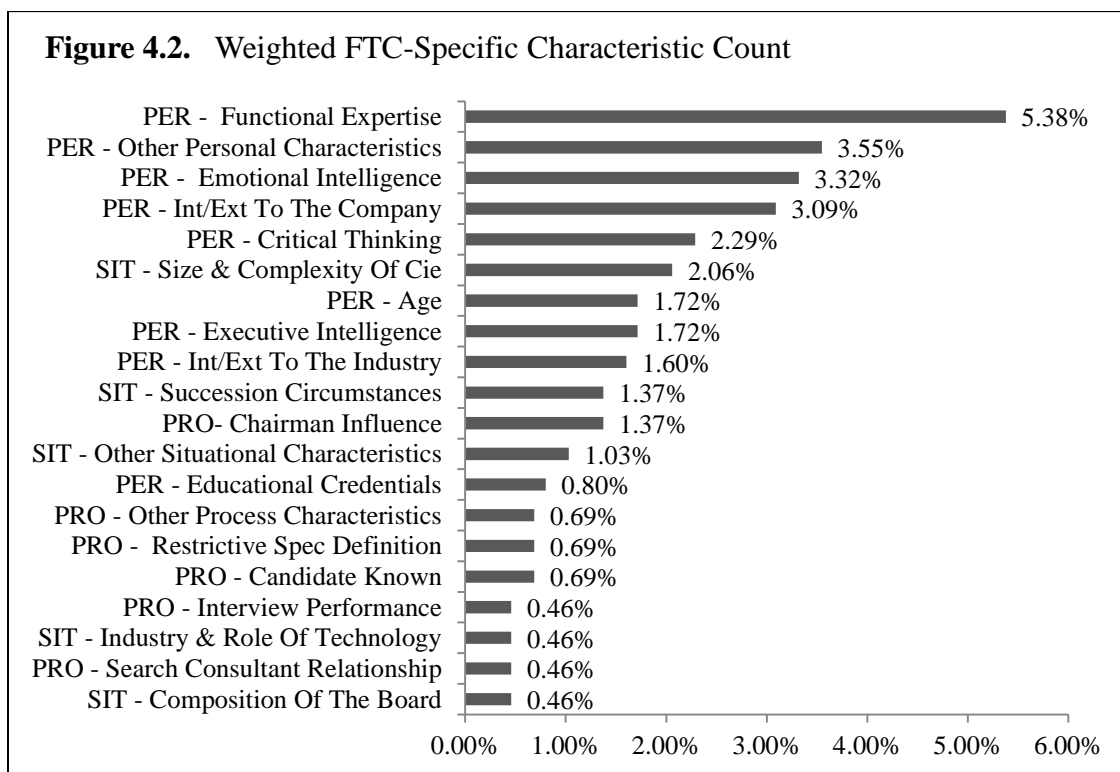


Figure 4.2 shows 10 characteristics scoring above the mean of 1.51%, three of which also scored beyond one standard deviation (1.21%) above the average: functional expertise (5.38%), emotional intelligence (3.32%), and the candidate being internal or external to the company (3.09%). All three are personal characteristics. While this is statistically interesting, caution needs to be applied against interpreting the volume of

comments as being indicative of the importance of a particular characteristic, as participants might have at times circled around familiar ones, repeating them until they thought of others.

### **Group Comparisons**

In this section, descriptive statistics are applied using the data shown in Table 4.1 to provide information about possible group discrepancies.

Table 4.2

*Data Means Per Participant*

	G	Age	In	CO	Ex	KU	Process			Situational			Personal			Tot
							A	FTC	T	A	FTC	T	A	FTC	T	
P1	M	60+	Fin	Q	1-3	K	13	0	13	22	2	24	24	12	36	73
P2	M	60+	Fin	Q	4+	K	10	1	11	9	1	10	17	3	20	41
P3	F	60+	Fin	Q	4+	U	5	1	6	7	1	8	14	6	20	34
P4	M	60+	Ind	Q	1-3	U	1	0	1	4	2	6	4	25	29	36
P5	F	59-	Ind	Q	4+	K	3	1	4	12	5	17	7	11	18	39
P6	M	59-	Tec	Q	4+	U	6	8	14	3	3	6	3	14	17	37
P7	M	59-	Ser	C	4+	K	8	2	10	4	4	8	19	9	28	46
P8	M	60+	Ind	C	1-3	K	1	5	6	10	5	15	18	6	24	45
P9	M	59-	Ind	C	4+	K	5	3	8	8	1	9	11	4	15	32
P10	M	59-	Tec	C	4+	K	0	0	0	6	1	7	11	5	16	23
P11	F	59-	Ser	Q	1-3	U	1	3	4	3	3	6	14	9	23	33
P12	F	60+	Tec	Q	1-3	U	3	0	3	5	3	8	14	3	17	28
P13	M	60+	Ind	C	4+	K	9	1	10	8	2	10	7	3	14	34
P14	M	60+	CG	Q	4+	K	1	1	2	5	0	5	13	6	13	20
P15	M	59-	CG	Q	4+	U	5	1	6	6	0	6	13	5	18	30
P16	F	59-	Tec	Q	1-3	U	0	1	1	2	0	2	10	7	17	20
P17	M	60+	Fin	Q	1-3	K	7	0	7	2	1	3	8	4	12	22
P18	M	59-	Ind	Q	1-3	U	4	1	5	5	2	7	7	8	15	27
P19	M	59-	Ser	Q	1-3	K	4	0	4	3	1	4	9	6	15	23
P20	M	59-	CG	Q	1-3	U	3	0	3	6	1	7	18	8	26	36
P21	F	59-	Ser	Q	1-3	K	1	0	1	5	1	6	3	7	10	17
P22	F	60+	Tec	Q	1-3	U	2	3	5	8	3	11	14	6	20	36
P23	M	59-	CG	Q	4+	U	5	0	5	13	0	13	8	3	11	29
P24	M	60+	CG	Q	1-3	K	0	2	2	2	0	2	3	14	17	21
P25	F	59-	Ind	Q	4+	K	2	3	5	11	2	13	10	9	19	37
P26	M	59-	Ind	Q	1-3	U	8	0	8	7	2	9	12	8	20	37
P27	M	59-	CG	Q	4+	K	3	1	4	5	1	6	4	4	8	18
Totals							110	38	148	181	47	228	295	205	498	874
Means							4.1	1.4	5.5	6.7	1.7	8.4	10.9	7.6	18.4	32.4

*Note.* G = Gender; In = Participant industry specialty; CO = Cultural origin; Ex = Number of CEO succession event experience as a director; KU = Known or unknown to the investigator or Spencer Stuart; A = Number of counts for Any participant; FTC = Number of counts specific to FTC candidates; T = Total counts for the category; P1 = Participant 1; M = Male, F = Female; Fin = Financial industry; Ind = Industrial; Tec = technology & telecom industry; Ser = Services industry; CG = Consumer goods industry; Q = Quebec; C = English Canada.

Further testing of the data is achieved using either independent samples t-tests when only 2 groups are involved (Gender, Age and Experience) or analysis of variance (ANOVA) with industry expertise as it is involving 5 groups. The objective is to “examine the differences between group means” (Foster, Barkus, & Yavorsky, 2006, p. 7), and, in particular for this research, to determine whether the gender, age, industry specialty, and CEO succession experience means are representative of the data set for our 27 participants along the categories. The results of the t-tests and ANOVAs are found in each group sub-section below.

**Participant Gender Comparisons.** Analyzing the data through gender lenses shows that, on average, female directors were 56 years old, and had participated in three CEO successions, whereas male directors were 59 years old, and had participated in 3.4 CEO succession events. As experience with CEO succession events drove the sampling frame for this research, the latter number is more an indication of participant experience than a revealing fact about the study.

Figure 4.3 shows a discrepancy between the responses of male and female participants in terms of the relative importance of each category of characteristic.

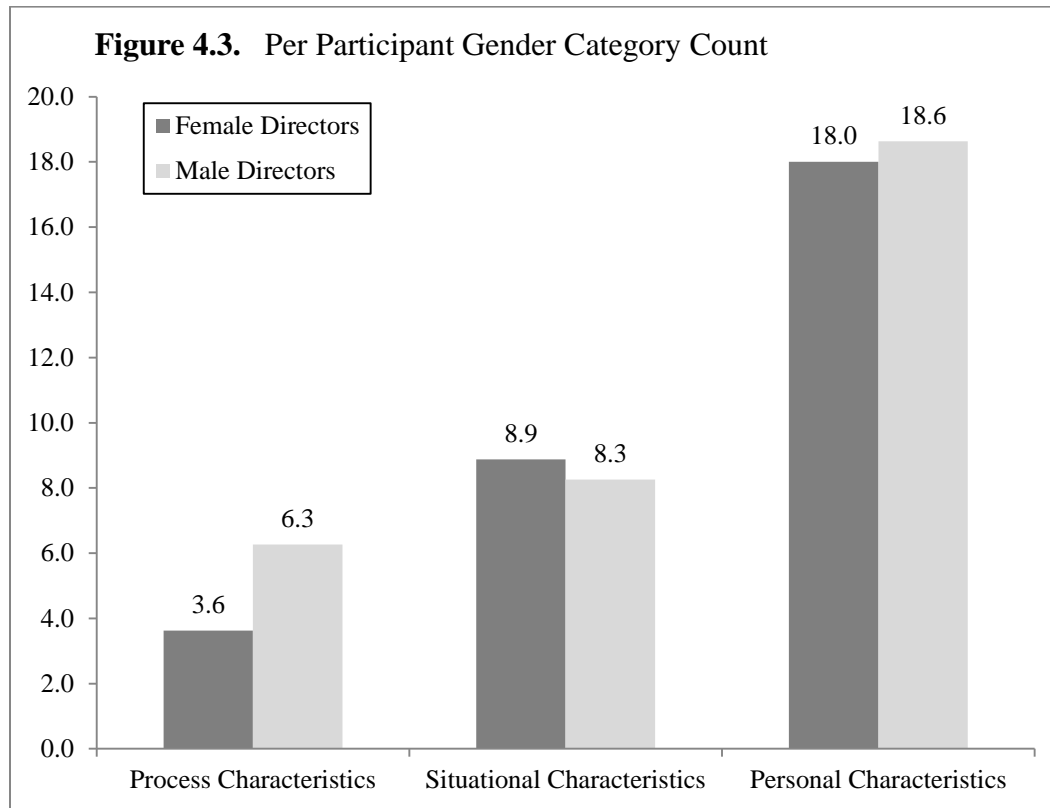


Figure 4.3 shows that female directors appear to be relatively less concerned with process characteristics and slightly more sensitive to situational characteristics than their male counterparts: process characteristics were mentioned 3.6 times on average by female directors versus 6.3 times by male directors; situational characteristics were mentioned 8.9 times by female directors versus 8.3 times by male directors; and personal characteristics were mentioned 18 times on average by female directors versus 18.6 times by male directors.

Testing for statistical significance in the perceived differences shown in Figure 4.3 can be achieved by comparing the means for each characteristic sub-category with gender as the independent variable. Independent-samples t-tests were conducted, the results of which are shown in Tables 4.3 and Table 4.4.

Table 4.3

*Results Comparisons Based on Gender*

Candidate Category	n	M	SD	SEM
Process Count for Any				
Male	19	4.89	3.619	0.83
Female	8	2.13	1.553	0.549
Process Count for FTC				
Male	19	1.37	2.06	0.473
Female	8	1.5	1.309	0.463
Situational Count for Any				
Male	19	6.74	4.653	1.067
Female	8	6.63	3.583	1.267
Situational Count for FTC				
Male	19	1.53	1.349	0.309
Female	8	2.25	1.581	0.559
Personal Count for Any				
Male	19	11	6.037	1.385
Female	8	10.75	4.097	1.449
Personal Count for FTC				
Male	19	7.74	5.425	1.245
Female	8	7.25	2.435	0.861

*Note.* N = Subsample size; M = Mean; SD = Standard deviation; SEM = Standard error mean.

Table 4.3 shows a significant difference (25%+) in means of process characteristics based on gender when pertaining to *Any* candidates, but not when pertaining to FTC candidates. The results also show a significant difference in means of situational characteristics when considering FTC candidates, but not *Any* candidates. Finally there seems to be no significant differences in means pertaining to personal characteristics. Table 4.4 sheds further light on the statistical significance of the observed differences in means exposed above.



Table 4.4

*Independent-Samples Tests Based on Gender*

Candidate Category	Levene's Test for EV		t-test for Equality of Means					95% CI of the Difference	
	F	Sig.	t	df	Sig. (2-t)	MD	STD	Lower	Upper
Process Count for Any									
EVA	4.58	0.04	2.067	25	0.049	2.77	1.34	0.01	5.529
EVNA			<b>2.783</b>	24.93	<b>0.01</b>	2.77	1	0.719	4.82
Process Count for FTC									
EVA	0.23	0.64	-0.17	25	0.869	-0.13	0.79	-1.764	1.501
EVNA			-0.2	20.53	0.844	-0.13	0.66	-1.509	1.246
Situational Count for Any									
EVA	0.04	0.84	0.061	25	0.952	0.112	1.85	-3.69	3.914
EVNA			0.068	17.11	0.947	0.112	1.66	-3.382	3.605
Situational Count for FTC									
EVA	0.39	0.54	-1.21	25	0.237	-0.72	0.6	-1.954	0.507
EVNA			-1.13	11.53	0.28	-0.72	0.64	-2.122	0.675
Personal Count for Any									
EVA	1.47	0.24	0.107	25	0.916	0.25	2.34	-4.578	5.078
EVNA			0.125	19.36	0.902	0.25	2	-3.939	4.439
Personal Count for FTC									
EVA	2.06	0.16	0.242	25	0.811	0.487	2.02	-3.662	4.636
EVNA			0.322	24.77	0.75	0.487	1.51	-2.631	3.605

*Note.* EV = Equality of variance; CI = Confidence interval; EVA = Equal variances assumed; EVNA = Equal variances not assumed

Table 4.4 shows that for process characteristics mentioned for *Any* candidates, there is a statistically meaningful difference in the results between male (M=4.89, SD=3.62) and female (M=2.13, SD=1.55) directors;  $t(25)=2.78$ ,  $p=0.01$ , but that otherwise the p values are all above 0.05 and as such the null hypothesis is not rejected:

there are no statistically meaningful difference between male and female directors results.

**Industry Specialty Comparisons.** Analyzing the data from an industry expertise perspective also provides additional insight. The reader will recall that Table 3.1 (p.38) reports the average age of directors and the average number of CEO succession events that directors have participated in per industry expertise. Figure 4.4 shows the distribution of characteristics count per category and per industry.

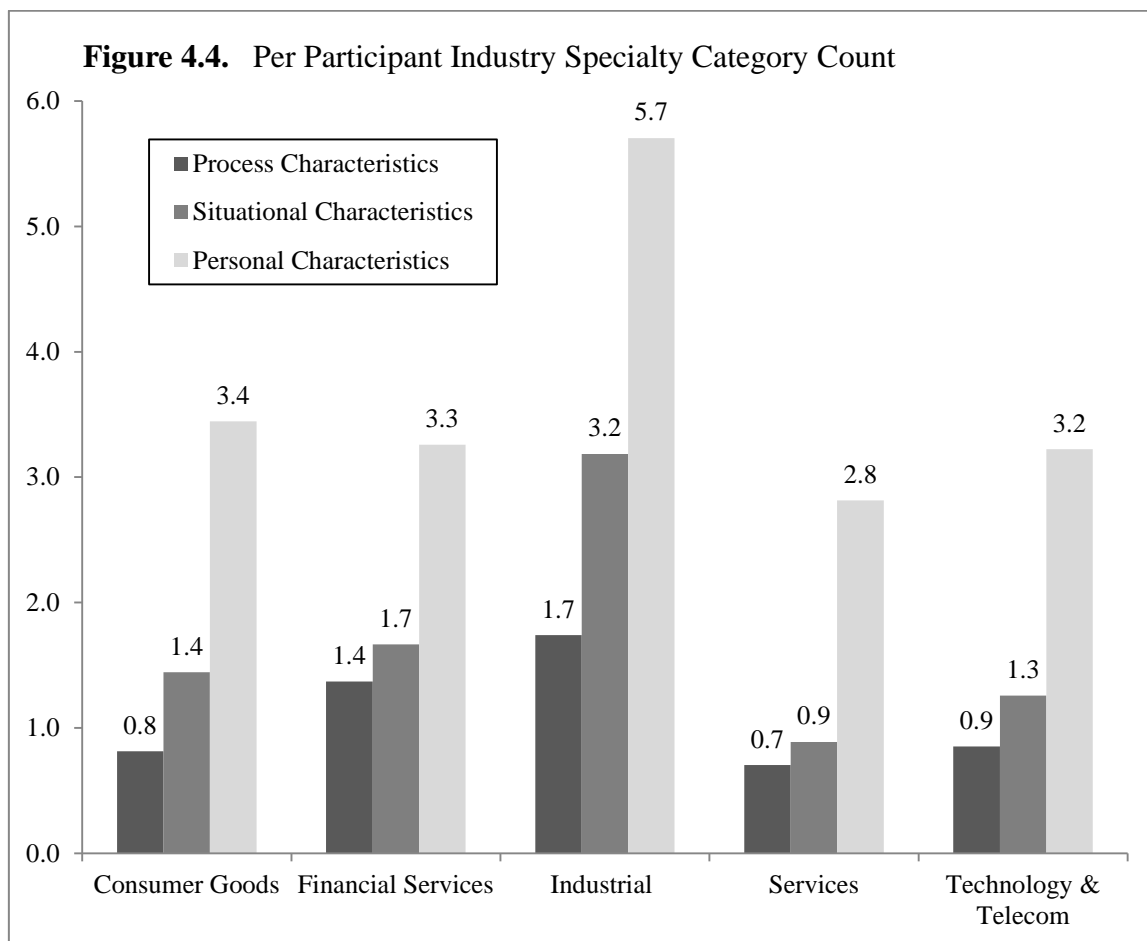


Figure 4.4 shows that the relative significance of characteristics influencing directors when they are selecting their next CEO is consistent across industry sectors:

personal characteristics first, situational characteristics second, and process characteristics third.

Considering there are 5 groups to compare, testing can be achieved by running an ANOVA test on each category to determine whether different results are obtained depending on directors' industry specialty. Results are shown in Table 4.5.

Table 4.5

*ANOVA Results Comparisons Based on Industry Specialty*

Candidate Category	DF	F	Pr > F
Process Characteristics for Any	4	1.715	0.183
Process Characteristics for FTC	4	0.800	0.538
Situational Characteristics for Any	4	1.588	0.213
Situational Characteristics for FTC	4	3.443	<b>0.025</b>
Personal Characteristics for Any	4	0.371	0.827
Personal Characteristics for FTC	4	2.220	<b>0.100</b>

*Note:* DF = Degrees of freedom; F = F ratio; Pr = Probability corresponding to the F value. Significance is established if Pr < 0.05.

Table 4.5 shows that results differ when comparing FTC-specific situational characteristics based on industry specialty (Pr = 0.025). Comparing FTC-specific personal characteristics based on industry specialty also shows a low probability score (Pr = 0.100).

**Participant Age Comparisons.** Participants were between 43 and 82 years old, with an average participant age of 57.9 and a median age of 57. In order to analyze the impact of participant age on characteristics' influence, the data set was arbitrarily split into two groups: participants who were 59 or younger at the time of the interview (11 participants, or 41%) and participants who were 60 or older at the time of the interview (16

participants, or 59%). Figure 4.5 shows the distribution of each category of characteristics along the age groups described above.

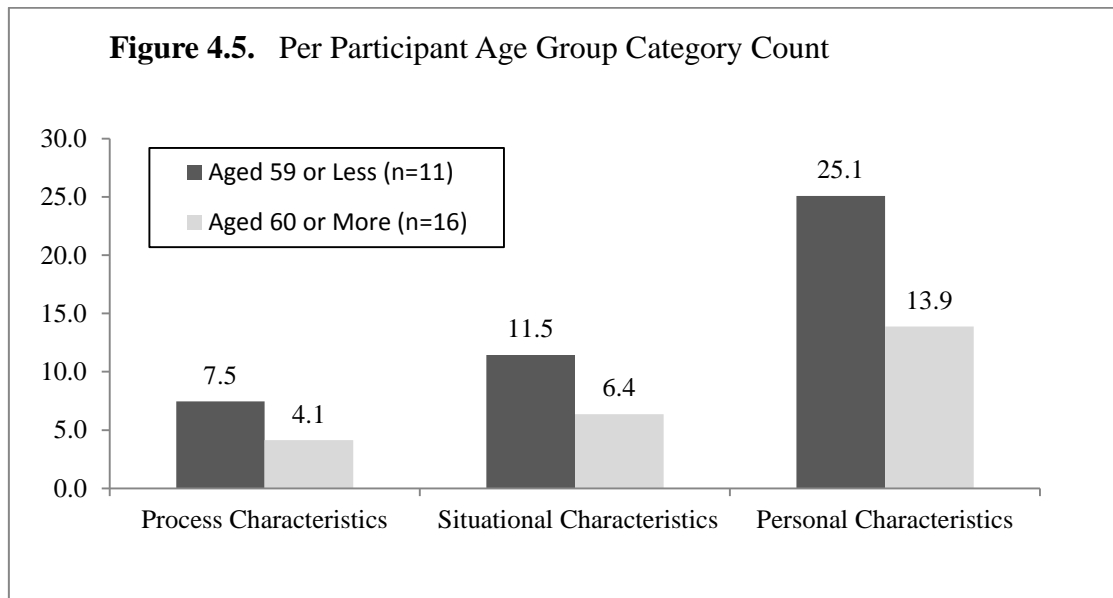


Figure 4.5 shows that the age of the participants had little noticeable impact on the distribution of characteristics count per category, with personal characteristics leading the charge in both age groups, and with situational characteristics and process characteristics following. Interestingly, younger participants had a lot more to say overall, with a per-participant count nearly double that of their older peers. Once again, descriptive statistics are not sufficient to definitively characterize our data set along participant age delineation so an independent-samples t-tests were conducted, the results of which are shown in Tables 4.6 and Table 4.7.

Table 4.6

*Results Comparisons Based on Age*

Candidate Category	n	M	SD	SEM
Process Count for Any				
60+	11	<b>4.73</b>	4.41	1.33
59-	16	<b>3.63</b>	2.5	0.63
Process Count for FTC				
60+	11	1.27	1.56	0.47
59-	16	1.5	2.07	0.52
Situational Count for Any				
60+	11	7.45	5.52	1.66
59-	16	6.19	3.31	0.83
Situational Count for FTC				
60+	11	1.82	1.47	0.44
59-	16	1.69	1.45	0.36
Personal Count for Any				
60+	11	<b>12.4</b>	6.35	1.91
59-	16	<b>9.94</b>	4.71	1.18
Personal Count for FTC				
60+	11	8	6.69	2.02
59-	16	7.31	2.85	0.71

*Note.* N = Subsample size; M = Mean; SD = Standard deviation; SEM = Standard error mean.

Table 4.6 shows a significant difference (25%+) in means of process characteristics based on age when pertaining to *Any* candidates, but not when pertaining to FTC candidates. The results also show a significant difference in means of personal characteristics when considering *Any* candidates, but not FTC candidates. Finally there seems to be no significant differences in means pertaining to situational characteristics. Table 4.7 again sheds further light on the statistical significance of the observed differences in means.

Table 4.7

*Independent-Samples Tests Based on Age*

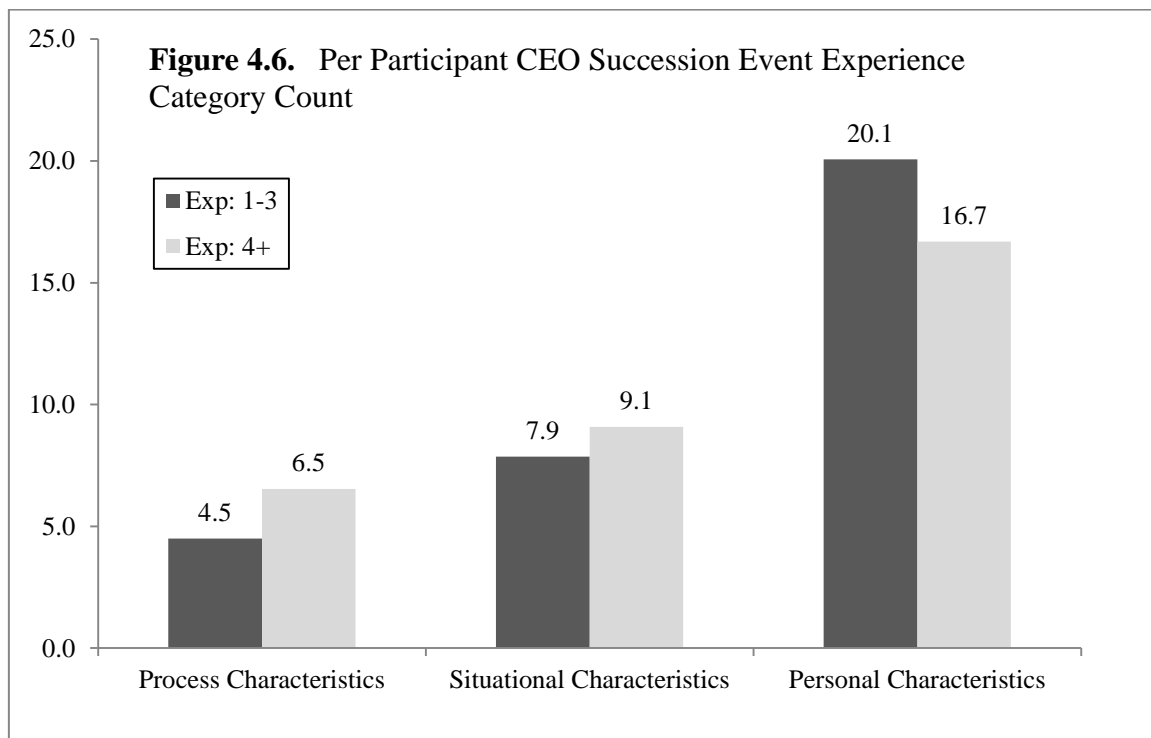
Candidate Category	Levene's Test for EV		t-test for Equality of Means						
	F	Sig.	t	df	Sig. (2-t)	MD	STD	95% CI of the Difference	
								Lower	Upper
Process Count for Any									
EVA	6.46	0.02	0.829	25	0.415	1.102	1.33	-1.635	3.84
EVNA			0.751	14.44	0.465	1.102	1.47	-2.038	4.242
Process Count for FTC									
EVA	0.39	0.54	-0.31	25	0.76	-0.23	0.74	-1.742	1.288
EVNA			-0.33	24.72	0.747	-0.23	0.7	-1.665	1.21
Situational Count for Any									
EVA	0.84	0.37	0.747	25	0.462	1.267	1.7	-2.227	4.762
EVNA			0.682	14.95	0.506	1.267	1.86	-2.696	5.23
Situational Count for FTC									
EVA	0.02	0.9	0.229	25	0.821	0.131	0.57	-1.045	1.306
EVNA			0.228	21.42	0.822	0.131	0.57	-1.058	1.32
Personal Count for Any									
EVA	1.28	0.27	1.142	25	0.264	2.426	2.12	-1.949	6.801
EVNA			1.08	17.36	0.295	2.426	2.25	-2.306	7.158
Personal Count for FTC									
EVA	5.3	0.03	0.368	25	0.716	0.688	1.87	-3.162	4.537
EVNA			0.321	12.51	0.753	0.688	2.14	-3.954	5.329

*Note.* EV = Equality of variance; CI = Confidence interval; EVA = Equal variances assumed; EVNA = Equal variances not assumed

Table 4.7 shows that the p values all being above 0.05, the null hypothesis is not rejected in any of the categories based on age: there are no statistically meaningful differences in results between directors aged 60 and above or 59 and under.

**Participant Experience Comparisons.** Participants were categorized along their experience with CEO succession events, and the data set was thus split into two groups:

participants who had participated in one to three CEO succession events (14 participants), and participants who had participated in four or more CEO succession events (13 participants). Figure 4.6 shows that for both experience categories, personal characteristics have the most impact on CEO selection, followed by situational and process characteristics.



Once more, variances can be observed through descriptive statistics. Notably, more experienced participants mentioned process and situational characteristics more often than their less experienced peers, but the latter mentioned personal characteristics more often than their more experienced peers. Altogether, these results do not yield sufficient differentials to draw definitive conclusions. Once more, based on the fact that there are 2 groups, independent-samples t-tests were conducted, the results of which are shown in Tables 4.8 and 4.9.

Table 4.8

*Results Comparisons Based on Participant Experience*

Candidate Category	n	M	SD	SEM
Process Count for Any				
1-3	14	3.43	3.673	0.982
4+	13	4.77	3.004	0.833
Process Count for FTC				
1-3	14	1.07	1.592	0.425
4+	13	1.77	2.088	0.579
Situational Count for Any				
1-3	14	6	5.189	1.387
4+	13	7.46	3.099	0.859
Situational Count for FTC				
1-3	14	1.86	1.351	0.361
4+	13	1.62	1.557	0.432
Personal Count for Any				
1-3	14	11.29	6.207	1.659
4+	13	10.54	4.737	1.314
Personal Count for FTC				
1-3	14	8.79	5.466	1.461
4+	13	6.31	3.449	0.957

*Note.* N = Subsample size; M = Mean; SD = Standard deviation; SEM = Standard error mean.

Table 4.8 shows a significant difference (25%+) in means of process characteristics based on director experience when pertaining to both *Any* and FTC candidates. The results also show a significant difference in means of personal characteristics when considering FTC candidates, but not *Any* candidates. Finally there seems to be no significant differences in means pertaining to situational characteristics. Table 4.9 shows the t-test results to assess statistical significance of the observed differences in means.



Table 4.9

*Independent-Samples Tests Based on Experience*

Candidate Category	Levene's Test for EV		t-test for Equality of Means						
	F	Sig.	t	df	Sig. (2-t)	MD	STD	95% CI of the Difference	
								Lower	Upper
Process Count for Any									
EVA	0.25	0.62	-1.03	25	0.311	-1.34	1.3	-4.013	1.332
EVNA			-1.04	24.63	0.308	-1.34	1.29	-3.995	1.313
Process Count for FTC									
EVA	0.07	0.79	-0.98	25	0.336	-0.7	0.71	-2.163	0.767
EVNA			-0.97	22.42	0.342	-0.7	0.72	-2.186	0.791
Situational Count for Any									
EVA	0.45	0.51	-0.88	25	0.387	-1.46	1.66	-4.884	1.96
EVNA			-0.9	21.47	0.38	-1.46	1.63	-4.85	1.927
Situational Count for FTC									
EVA	0.35	0.56	0.432	25	0.669	0.242	0.56	-0.911	1.394
EVNA			0.43	23.87	0.671	0.242	0.56	-0.92	1.404
Personal Count for Any									
EVA	1.14	0.3	0.35	25	0.73	0.747	2.14	-3.655	5.15
EVNA			0.353	24.14	0.727	0.747	2.12	-3.619	5.113
Personal Count for FTC									
EVA	0.44	0.52	1.396	25	0.175	2.478	1.78	-1.178	6.134
EVNA			1.419	22.13	0.17	2.478	1.75	-1.142	6.098

*Note.* EV = Equality of variance; CI = Confidence interval; EVA = Equal variances assumed; EVNA = Equal variances not assumed

Table 4.9 shows that the p values all being above 0.05, the null hypothesis is not rejected in any of the categories based on director experience: there are no statistically meaningful differences in results between directors having experiences d 1 to 3, or 4 or more CEO succession events.

## **Guiding Propositions**

### **Guiding Proposition 1 – Process Characteristics' Influence.**

*GP1: Directors' willingness to appoint a FTC will be influenced by the process through which the CEO is being appointed. Some process characteristics will influence directors more than others.*

Process characteristics were the least mentioned by participants—148 (17%) of the 874 mentions—and of those 148 counts, 38 (26%) were specific to FTC candidates. The fact that participants mentioned process characteristics 148 times clearly supports GP1. Table 4.10 provides a process characteristics count and sample quotes extracted from the data to assist the reader in understanding the meaning of each one.

Table 4.10

*Process Characteristics Count and Sample Quotes*

Characteristic	Any Candidates			FTC-Specific			Total	Sample Quote
	Counts	% of Tot	% of N	Counts	% of Tot	% of N		
Candidate Known	6	50%	19%	6	50%	15%	12	<p>“the outgoing president who had recruited him and worked very closely with him suggested X as a candidate”</p> <p>“then with the two finalists the chair would do most of the questioning; it became a question of chemistry with him”</p> <p>“they would need to go through our assessment process. Our interviews are subjective”</p> <p>“we were very specific with the professional requirements, the experience and expertise we needed candidates to bring to the table”</p> <p>“the consultants did what they had to do, a global search, and came up with an original list of candidates, many unexpected ones”</p> <p>“there was too much interference, involvement from the current CEO, and we eventually had to take him out of the process”</p>
Chairman Influence	32	73%	63%	12	27%	37%	44	
Interview Performance	15	79%	37%	4	21%	11%	19	
Restrictive Spec Definition	26	81%	63%	6	19%	15%	32	
Search Consultant Relationship	24	86%	44%	4	14%	11%	28	
Other Process Characteristics	7	54%	15%	6	46%	11%	13	
Sum	110			38			148	
Minimum	6			4			12	
Maximum	32			12			44	
Mean	18.3			6.3			24.7	
Median	19.5			6			23.5	

*Note.* N = Number of participants (27); Tot = Total number of counts for a specific characteristic.

Table 4.10 shows that process characteristics were mentioned an average of 24.7 times. This can be compared to the total data set average of 39.7. From an absolute descriptive statistics perspective, one could be tempted to establish that process characteristics have less influence on directors selecting their next CEO than situational and personal characteristics. However, frequency in this research project might not translate into significance automatically. Instead, it could simply demonstrate what characteristics are the “flavour of the day” in governance circles discussions at this point in time. Still, at a more granular level, FTC-specific process characteristics were mentioned an average of 6.3 times, versus an average of 13.2 mentions for the overall data set for FTC-specific characteristics.

Looking more closely at each process characteristic, we find that five of the six process characteristics have a count below 50% of the average FTC-specific characteristic count of 13.2, and therefore appear to have a very limited influence on directors' willingness to appoint a FTC: candidate known (six counts), interview performance (four counts), a restrictive job specification definition (six counts), the organization's relationship with the search consultant (four counts), and other process characteristics (six counts). On the other hand, chairman influence, with a count of 12, seems to be the process characteristic influencing directors the most when they are considering FTC candidates—although it does not, at 1.37%, score above the average weighted characteristics score of 1.51%, as shown in Figure 4.2 (p.47).

**Guiding Proposition 2 – Situational Characteristics' Influence.**

*GP2: Directors' willingness to appoint a FTC will be influenced by the organization's current situation. Some situational characteristics will influence directors more than others.*

Situational characteristics were the second most mentioned by participants—228 (26%) of the 874 mentions—but of those 228 counts, only 47 (21%) were specific to FTC candidates, the lesser proportion of the three categories. We can therefore assert that while situational characteristics (26% of total count) play a larger role than process characteristics (17% of total count) when directors are selecting their next CEO, when it comes time to consider a FTC candidate, situational characteristics play a lesser role than process characteristics: FTC-specific situational characteristics account for 21% of the total situational characteristics count, whereas FTC-specific process characteristics account for 26% of the total process characteristics count.

Again, analyzing each situational characteristic is required to provide an accurate answer to GP2. Table 4.11 provides a situational characteristics count and sample quotes extracted from the data to assist the reader in understanding the meaning of each one.

Table 4.11

*Situational Characteristics Count and Sample Quotes*

Characteristic	Any Candidates			FTC-Specific			Total	Sample Quote
	Counts	% of Tot	% of N	Counts	% of Tot	% of N		
Composition Of the Board	43	91%	81%	4	9%	15%	47	“we had a fairly big and experienced board, people who had seen this before and who could react promptly”
Industry & Role of Technology	16	80%	37%	4	20%	15%	20	“you have to have a CEO who is intimately familiar with how incredibly fast the changes in technology are affecting our business”
Size & Complexity Of Co.	25	58%	56%	18	42%	52%	43	“what mattered was the size of the budget, the total number of people they managed in the past”
Succession Circumstances	63	84%	96%	12	16%	41%	75	“the incumbent had been in the seat for 15 years and she just decided to pack her bags and leave suddenly”
*Board Preparedness	23	85%	56%	4	15%	15%	27	“we had a very robust talent management and talent identification program internally so we just executed on the plan”
Other Situational Characteristics	11	69%	37%	5	31%	11%	16	“the culture remained very entrepreneurial despite our success, it limited our options”
Sum	181			47			228	
Minimum	11			4			16	
Maximum	63			18			75	
Mean	30.2			7.8			38	
Median	24			4.5			35	

*Note.* N = Number of participants (27); Tot = Total number of counts for a specific characteristic.

Table 12 shows that situational characteristics were mentioned an average of 38 times versus the total data set average of 39.7. This suggests that process characteristics as a whole do influence directors when selecting their next CEO. More pointedly to GP2, FTC-specific situational characteristics were mentioned an average of 7.8 times, versus an average of 13.2 mentions for the overall data set for FTC-specific characteristics. Examining each situational characteristic more closely, we find that four of the six situational characteristics have a count below 50% of the average FTC-specific characteristic count of 13.2, and therefore appear to have a very limited influence on directors' willingness to appoint a FTC: composition of the board (four counts), industry and role of technology (four counts), board preparedness (four counts), and other situational characteristics (five counts). However, succession circumstances, with a count of 12, is a situational characteristic that does seem to have more influence on directors when they are considering FTC candidates—although it does not, at 1.37%, score above the weighted characteristics average of 1.51%, as shown in Figure 4.2 (p.51). More significantly, size and complexity of the company, with a count of 18, stands above the average FTC-specific characteristics count of 13.2, and Figure 4.2 (p.51) confirms that with a weighted percentage count of 2.06%, it is the situational characteristic that appears to influence directors the most when considering a FTC candidate.

**Guiding Proposition 3 – Personal Characteristics' Influence.**

*GP3: Directors' willingness to appoint a FTC will be influenced by the relative importance they attach to previous CEO experience versus other characteristics. Some personal characteristics will influence directors more than others.*

Personal characteristics were the most mentioned by participants—498 (57%) of 874 total counts—and of those 498 personal characteristics counts, 205 (41%) were specific to FTC candidates, the highest proportion of the three categories. We can therefore assert that personal characteristics not only play the most significant role when directors are selecting their next CEO, but also have the most influence on directors when they are considering FTC candidates. As before, analyzing each personal characteristic is required to provide an accurate answer to GP3. Table 13 provides a personal characteristics count and sample quotes extracted from the data to assist the reader in understanding the meaning of each one.



Table 4.12

*Personal Characteristics Count and Sample Quotes*

Characteristic	Any Candidates			FTC-Specific			Total	Sample Quote
	Counts	% of Tot	% of N	Counts	% of Tot	% of N		
Age	9	0.37	26%	15	0.63	44%	24	"you are probably looking for someone who is at least in their mid-forties"
Critical Thinking	23	0.53	67%	20	0.47	41%	43	"great judgment and intelligence; I'd put that one first"
Educational Credentials	6	0.46	15%	7	0.54	26%	13	"if the guy has a bachelor's degree, you look closer at what he has done versus if he has a Harvard MBA"
Emotional Intelligence	53	0.65	85%	29	0.35	67%	82	"a people person, who listens, with natural leadership over others"
Executive Intelligence	22	0.59	48%	15	0.41	41%	37	"and more than anything else, someone who has demonstrated both courage and humility"
Functional Expertise	62	0.57	85%	47	0.43	96%	109	"we wanted someone who had run a P&L, a similar size division or business"
Int./Ext. to the Company	53	0.66	70%	27	0.34	56%	80	"the key for us was that internal candidates be assessed through the same lenses as external candidates"
Int./Ext. to the Industry	36	0.72	74%	14	0.28	37%	50	"focusing on personality is more important when you are looking for someone outside the industry"
*Integrity (or Perception of)	15	0.52	41%	14	0.48	37%	29	"it became a given that we would look for someone with unquestionable moral fibre with high integrity"
Other Personal Characteristics	14	0.45	37%	17	0.55	41%	31	"we ended up checking with our major clients what they thought of him"
Sum	293			205			498	
Minimum	6			7			13	
Maximum	62			47			109	
Mean	29.3			20.5			49.8	
Median	22.5			16			40	

*Note.* N = Number of participants (27); Tot = Total number of counts for a specific characteristic.

Table 13 shows that personal characteristics were mentioned an average of 49.8 times, versus the total data set average of 39.7. This supports our earlier assertion to the effect that personal characteristics, as a whole, influence directors the most when selecting their next CEO. More specifically to GP3, FTC-specific personal characteristics were mentioned an average of 21 times, versus an average of 13.2 mentions for the overall data set for FTC-specific characteristics. We can therefore confirm that GP3 is supported by the data.

Examining each personal characteristic more closely, we find that only one of the 10 personal characteristics has a count below the average FTC-specific characteristics count of 13.2, and therefore has a lesser influence on directors' willingness to appoint a FTC: educational credentials (seven counts).

This leaves nine personal characteristics with a count above the average of 13.2. The standard deviation for the FTC-specific characteristics count being 11, the data presents six personal characteristics with a count above the average of 13.2 but within one standard deviation: age (15 counts), critical thinking (20 counts), executive intelligence (15 counts), the candidate being internal or external to the industry (14 counts), integrity (14 counts), and other personal characteristics (17 counts, noting that none of these characteristics surpasses a count of six, as shown in Appendix F). This leaves three characteristics that present a count above one standard deviation of the average: the candidate being internal or external to the company (27 counts), emotional intelligence (29 counts), and functional expertise (47 counts). Figure 4.2 (p.51) confirms that with weighted percentage scores of 3.09% (internal or external to the company), 3.32% (emotional intelligence), and 5.38% (functional expertise), these three personal

characteristics, of all individual characteristics, appear to influence directors the most when considering a FTC candidate.

### **Summary**

Descriptive statistical results unequivocally support the three guiding propositions put forth in Chapter 2. With statistical significance is established at  $P < 0.05$  for t-tests and ANOVA, testing of participant grouping differences reveal only two noteworthy statistical results. Table 8 (p.49) showed that for process characteristics mentioned for *Any* candidates, there is a statistically meaningful difference in the results between male ( $M=4.89$ ,  $SD=3.62$ ) and female ( $M=2.13$ ,  $SD=1.55$ ) directors;  $t(25)=2.78$ ,  $p=0.01$ . Similarly, Table 10 (p.58) showed that results differ when comparing FTC-specific situational characteristics based on industry specialty ( $Pr = 0.025$ ).

Process characteristics accounted for 148 (17%) of the 874 overall mentions, and FTC-specific process characteristics accounted for 38 (26%) of the 148 total process characteristics mentioned. While these results are not sufficient to conclude a precise level of influence of process characteristics, they are sufficient to infer with confidence that 1) process characteristics do play a role when a director is considering a FTC candidate, and 2) process characteristics may play a relatively lesser role than situational and personal characteristics.

Situational characteristics accounted for 228 (26%) of the 874 overall mentions, and FTC-specific situational characteristics accounted for 47 (21%) of the 228 total situational characteristics mentioned. We can infer, again, that situational characteristics play an unquestionable role in influencing directors when they are selecting a new CEO, whether the candidate has previous CEO experience or is a FTC candidate.

Personal characteristics accounted for 498 (57%) of the 874 overall mentions, and FTC-specific personal characteristics accounted for 205 (41%) of the 498 total personal characteristics mentioned. We can infer that personal characteristics influence directors the most when considering CEO candidates, both for experienced and FTC candidates. However, there were no statistically significant differences observed for personal characteristics based on the different group comparisons tested.

## Chapter 5: Discussion

### Introduction

As revealed in the previous chapter, from a descriptive statistics standpoint, the three guiding propositions put forth in Chapter 2 are supported: all individual characteristics, when discussing FTC candidates, are mentioned by multiple participants when describing a recent CEO succession event they participated in as a corporate director. Personal characteristics in particular, both as a category and when characteristics are considered individually, seem to play a preponderant role in influencing directors when they are considering FTC candidates. Situational characteristics appear to play a lesser role and process characteristics an even more limited role in influencing directors when considering a FTC candidate.

In this chapter, the researcher will provide further interpretation of the results by delving into the interviews, and will measure the support of each individual characteristic – and of the guiding propositions by default - against the current knowledge and literature. When appropriate, the researcher will suggest *propositions for future research (PFFR)* stemming from the findings. Situating the findings in the existing literature about CEO succession is a delicate exercise as the literature is not focused - or even partially based - on the analysis of FTC candidates' characteristics and their influence on directors making the selection. In fact, Kesner & Sebor (1994) expressed the state of our knowledge about executive succession nearly thirty years ago in terms that would still be accurate today: "When it comes to executive succession, there is little that we know conclusively, much that we do not know because of mixed results, and even more that we have not yet studied." (Kesner & Sebor, 1994, p. 327). The exploratory nature of this

research is therefore underlined once more: situating the findings within existing literature should be seen as added context to understand the research topic, nothing more, nothing less. Other limitations, implications, and future research direction will be discussed hereafter.

### **Guiding Proposition 1 – The Influence of Process Characteristics**

**Chairman Influence.** The executive search industry CEO succession literature clearly identifies the chairman's interviewing of final candidates as a critical stage of the process (Egon Zehnder International, 2012; Spencer Stuart International, 2011). That final decision by the chairman is rendered even more significant due to the "instinct of self-preservation" (Khurana, 2002, p. 189) pushing boards to focus on short-term perception rather than long-term potential. The data in this research shows that when directors are considering FTC candidates, chairman influence plays a significant role but for different, or perhaps additional reasons. Due to the mentorship and coaching that the chairman is expected to provide a CEO who is in that seat for the first time, directors seem to bow to the required chemistry between the two.

This might be explained indirectly in the broader governance literature about chairman influence over the selection of a CEO. It explains that directors know they are part of an elite group (Khurana, 2002, p. 83), and, as such, prefer to shy away from conflict with the chairman in order to "hold on to their board seat" (Saporito & Winum, 2012, p. 74). In essence, this could mean that what the chairman wants, the directors want. Obviously the participants' explanation for this is different (no participant mentioned wanting to remain on the board as a reason why the chairman's influence was critical when selecting the CEO).

The data adds a more prescribed dimension to the chairman's influence when it comes to FTC candidates. Of the 10 participants who mentioned chairman influence as a characteristic to be considered when facing a FTC candidate, seven explained, in one way or another, that while it is ultimately the board's responsibility to select the CEO, the chairman typically plays a mentorship role to the selected candidate if he or she is a FTC, at least initially, in order to help the candidate get acquainted with the unique requirements of the role. From that perspective, those seven participants explained that "it is only fair that the final decision, especially when a FTC candidate is the finalist, be based on chemistry with the chairman and [have that] be the ultimate deciding factor" (Participant 19, interview, November 20, 2012). Going further, two participants explained that chairman influence—or, more specifically, chairman chemistry with the finalist FTC candidate—is important enough that in the event that the board feels strongly about selecting a particular FTC candidate, "if chemistry with the chairman is not adequate, it can be suggested that the chairman resign and be replaced with another director whose relationship with the selected FTC candidate is more adequate and promising" (Participant 5, interview, May 28, 2012).

In conclusion, the findings in this research support the broader CEO succession literature. However the transcripts reveal that chairman influence is the most mentioned process characteristic when considering a FTC candidate because the chairman will likely be playing a mentoring role to the new CEO. The unspoken but logical literature-based argument that a director will also be careful if and when opposing the chairman's view also fits the participants' expressed opinions. Looking forward, the significant

influence a Chairman seems to have on the final selection of a CEO could be more formally measured:

*PFFR1: When finalists are FTC candidates, the final decision will lie in the hands of the Chairman rather than the full Board.*

**Restrictive Spec Definition.** The participants in this research expanded the “restrictive spec definition” to the pre-search preparation of internal candidates long before a CEO succession event. The characteristic therefore became an important influencer of directors when considering FTC candidates, as internal candidates, by definition, have not been CEOs before.

Executive search firms describe the initial discussions they have with boards as a foundation for the ultimate success of the search, and a step that results in a precise job description for the sought-after CEO, agreed upon by all board members (Egon Zehnder International, 2012; MacDougall & Limonchik, 2009; Spencer Stuart International, 2011). The academic literature also suggests that taking the time to determine a precise role definition is a critical step that prevents mistakes down the road (Horton, 1996). In this research, “restrictive spec definition” refers to whether or not the job description requires that candidates have previous CEO experience to be considered and defining the characteristic that way was largely based on the researcher’s experience recruiting public company CEOs using the Spencer Stuart Gold Standard methodology (Spencer Stuart International, 2011) .

The data supports the executive search literature and shows all six participants who mentioned this characteristic suggesting that a non-restrictive spec definition is a key process characteristic when it relates specifically to FTC candidates. They explained



that CEO succession as a process starts long before any urgent need arises, and that the job description itself is written in part to help guide internal candidates (none of whom, by definition, have previous CEO experience) towards clear leadership development goals and purposes. One participant, for example, explained how “in our company, we have a CEO profile established along 12 dimensions, used both to assess the incumbent and to determine who internally should be considered” and “all internal candidates are measured and developed along the dimensions pre-established for that role” (Participant 6, interview, May 28, 2012). Another participant also cited how the board had for years established what the requirements were for a CEO successor, and how that job description enabled the company to find an extraordinary candidate, which “was very much a function of us all having clearly set what the targets were for the selection criteria and then finding a candidate who just aced it” (Participant 10, interview, November 21, 2012). One can therefore conclude that the data supports the literature in the case of this specific process characteristic.

One enlightening comment came from a participant who sits on several public company boards. The participant, when prompted to describe further how the board defines the position spec, stated that in his view, “most CEO position specs are written as if the board was attempting to win a public company governance competition.” He also said, however, that

while lots of efforts, consulting fees and board time are spent on this document, it seems to quickly be set aside when a real and urgent need arises to replace the CEO, with the chairman and inner sanctum of the search committee leading the

search with more input stemming from instinct and personal network than from a rigorous process. (Participant 18, interview, November 20, 2012)

This comment, albeit coming from only one participant, cannot be taken too lightly. Two other participants seem to point in the same direction. In a first instance, the interview was flowing quite naturally and pleasantly and permitted the researcher to ask more pointed questions, which the participant seemed only too happy to answer. Towards the end of the interview, however, the participant seemed to feel quite uneasy about everything he had shared, in particular when describing how the job description is more of a public requirement and had limited influence over the outcome in the succession event he had described. He asked numerous times that his identity not be shared through this dissertation. The participant even went so far as to pull out the confidentiality agreement signed at the start of the interview to review it and make sure that he was protected.

In a second instance, and while not resulting in an additional count for the restrictive spec definition, another participant provided the researcher with a governance-perfect story of a recent CEO succession process that might have been deserving of an award. However, the researcher was very familiar with that specific CEO replacement (having played outside counsel to one of the finalist candidates), and was able to ask a couple of additional probing questions, in response to which the participant told a much more complete story about the events that had unfolded. Had the researcher not been aware of multiple details of those specific circumstances, the results of the content analysis methodology applied for this participant interview might have been different, at least for this participant, as the story told would have sounded governance-perfect but not

entirely representative of what unfolded in that succession event. These findings support the literature's view of boards' "reluctance-to-engage" (Saporito & Winum, 2012, p. 41; Zhang & Rajagopalan, 2006) in what they otherwise continuously describe as their most important responsibility (Atkins, 2001; Child, 1972; Ciampa, 2005; Kesner & Sebor, 1994; Zajac & Westphal, 1996).

The restrictive spec definition as a characteristic plays an important role when it comes to the board's consideration of a FTC candidate, especially when established long before the need arises and when used as a developmental blueprint for internal candidates, and supports the executive search literature. More importantly, and in support of more contemporary CEO succession literature, several candidates spoke openly about their frustration with boards spending time and money to design a valuable job description for the CEO, only to fall back on instincts and personal networks when a need for a new CEO actually arises.

Practice-relevant future research could also further investigate the Restrictive Spec findings by testing whether or not, when a Board invests in developing and defining a specific profile for its future CEO, it ends up with a candidate fitting this profile closely or not:

*PFFR2: The more preparation and planning by a Board, the more a selected CEO profile will match this pre-defined Spec drafted by the Board.*

The above proposition for future research would not only shed light on the actual impact of Board Preparedness but would also test the dissent and frustration expressed by several participants to this research about some Boards actually not fully leveraging the CEO succession planning efforts when an actual event arises.

**Candidate Known.** Participants brought up the “candidate known” characteristic as an important one for FTC candidates, suggesting that if FTC candidates are exposed to the board through board presentations, the board will be in a position to consider the validity of their candidacy for the CEO role before a CEO succession event takes place.

The “candidate known” characteristic, as described in the literature review, refers to third-party sources recommending a candidate when called by the search firm, which is a standard tactic used by search firms when developing a pool of candidates (Egon Zehnder International, 2012; Spencer Stuart International, 2011). The interesting part of the descriptive statistics in this case is that “candidate known” is one of three individual characteristics that were mentioned as often, or more often, for FTC candidates than for any candidates (the other two are personal characteristics: age and educational credentials.)

Analyzing the transcripts shows that in all six cases of FTC-specific mentions for “candidate known,” participants referred to internal candidates who came to present to the board, and how that resulted in the board getting to know them better than any external candidates. In fact, participants suggested that the executive search consultant, when initially interviewing board members to develop the position specification, will typically ask directors if they know any internal or external candidates that might fit the role. The data speaks to the popular phrase, “a devil you know is better than a devil you don’t.” and supports the risk-adverse “instinct of self-preservation” (Khurana, 2002, p. 189) described earlier. Participants explained that from a risk-management perspective, it is better to work with a candidate whose strengths and weaknesses are known in more depth than to risk recruiting an external candidate not previously known to the board:

“On the boards I sit on I really want to see the VPs. I want to see how they present their project. ... [I want to see] how they work within their organization, whether they have a good team, a strong team” (Participant 11, interview, November 2, 2012).

An interesting additional insight lies in the fact that in two of the six instances mentioned above, the participants specifically stated that, had the internal candidate not been known outside of the CEO search process through multiple presentations to the board over time, that person would not have even been considered, let alone have won the race to the top job:

[The search consultants] reported back to the human resources committee on the internal candidate. It was a very harsh assessment; it stated that he had no leadership and that he was not ready. We, as a board, had seen him in action many times. We invited him back for an interview along with the other internal candidate and we ultimately gave him the job. (Participant 27, interview, November 30, 2012)

This is a rare example of a board moving past the “social matching” (Khurana, 2002, p. 105) and “cognitive simplification” (Pissaris, Weinstein, & Stephan, 2010) that often lead to external or lesser known but otherwise charismatic candidates getting the CEO job based on a few hours of interaction with a board.

In summary, when discussing FTC candidates, participants mentioned the “candidate known” characteristic in terms of how internal candidates’ exposure to directors through numerous board presentations had an impact on the ultimate selection. Whether deliberate or not (since directors get to know these future FTC candidates through board presentations rather than through formal CEO selection interviews), the

format of these conversations and presentations also supports the search industry competency based assessment methodology (Egon Zehnder International, 2012; Spencer Stuart International, 2011).

Whether or not the Board engages in formal CEO succession planning might or might not have an impact on their selecting an internal candidate (by definition a FTC):

*PFFR3: Exposure of internal candidates to directors is positively related to the likelihood of an internal FTC being appointed.*

**Search Consultant Relationship.** Directors seemingly feel that a search firm will impact the outcome of a CEO search process only when looking outside of the organization, whereas if the board thinks the solution is within the ranks of the organization (a FTC, by definition), that characteristic seems to play a far lesser role. The interviews add colour to, and confirm, this view:

[The board's search committee] had come in initially strongly favouring this internal candidate and wondering why we were bothering with a search. So [a trusting relationship between the executive search firm and the chairman] played a huge role in this particular selection, because once we were exposed to the calibre of candidate that [the search firm was] able to put on the table, we said, "Mr. Chairman, I hate to admit it, but you've blown the internal candidate right out of the water." (Participant 10, interview, November 21, 2012)

Another perspective from only one participant speaks to the fact that the executive search consultant is in a unique position to express an opposing view to the board or chairman when a FTC candidate is being considered: "I think the selection of the outside consultant is critical, because the outside consultant has to be brave enough to

argue against the person employing them or contracting with them” (Participant 11, interview, November 2, 2012). The fact that the participant mentioned the required trust when speaking specifically of FTC candidates is of interest, and perhaps points to a higher sense of risk-management when a board is considering someone who has no previous CEO experience, in support once more of the literature’s view that boards tend to be risk-adverse (Khurana, 2002).

On the whole, the interviews showed that the board’s search consultant relationship seems to play a much larger role when the board is considering external candidates than when it is considering an internal (FTC) candidate. The results seem to indicate that Boards tend to engage with executive search consultants when they feel a need to look outside of the company, which in turn should result in external to the company candidates being selected:

*PF4: Executive search consultant’s involvement results in increased external CEO appointment: either FTCs internal to the industry or experienced CEOs external to the industry.*

**Interview Performance.** Interview performance seems to have less influence on directors when they are considering a FTC candidate who is internal to the company, as they feel they have gotten to know the internal candidates through prior board presentations by the executive team. This finding fits the executive search literature’s competency-based interviewing methodology (Egon Zehnder International, 2012; Spencer Stuart International, 2011) by definition, and also lines up with Khurana’s view of “social-matching” (Khurana, 2002, p. 105) as a risk avoided. One participant

expressed how important the interview process is for her when it comes to considering any candidates:

For me the key moment is the interview, the second in particular as I like to have more than one. The second is less structured and I like to be more of a spectator than the driver of it. It gives me time to assess my notes versus my feelings towards the candidate; it is where my judgement comes full circle. (Participant 28, interview, November 30, 2012)

The transcripts show, however, that two of the four mentions of interview performance as a FTC-specific characteristic speak to it negatively influencing the director:

He knew how to interview well. He made sure that he got his point across regardless of the questions that were being asked, and to me, I just didn't get a sense of that ability to truly run the business. I found him very analytical, and being very analytical doesn't always make for the best CEO. It often makes for a very, very good COO, but not necessarily the best CEO. (Participant 9, interview, November 13, 2012)

The little volume of data provides few additional clues as to why interview performance plays such a small role when it comes to FTC candidates. One possibility is that for a FTC candidate, directors feel that the interview should be a formality and that the candidate assessment should be almost completed by then (in particular if the candidate is internal to the company and therefore a known quantity for the board). Interview performance thus had less influence on directors considering an internal FTC candidate, as they seemed to feel they had gotten to know the candidate through board



presentations in the past, and that the interview was therefore a less significant influencer on their decision.

**Other Process Characteristics.** Participants mentioned other process characteristics (that were not one of the five identified by the researcher as possibly influencing directors) 13 times. When it comes to process characteristics, the board's rigor in the CEO succession planning and process is the most significant influencer on whether FTC candidates will be considered: Being thoroughly prepared, the board will have already considered, if not groomed, internal candidates who are, by definition, FTCs. One participant, for example, described the internal CEO candidate-generation process as follows:

“The board's human resources committee, along with management, put in place a CEO candidate identification process along with specific development mechanisms along the skills required to become CEO. We thus had a CEO candidate generation machine” (Participant 8, interview, June 19, 2012).

Another participant spoke to the board's commitment to the process and the importance she attached to rigor in preparing for CEO succession:

“If upon joining the board the Chairman was unable to speak to a thorough CEO succession process or at the very least a commitment to put one in place, I would just refuse to join” (Participant 5, interview, May 28, 2012).

“Rigor in the CEO succession process” thus emerged as a process characteristic that plays a role in influencing a board when considering a FTC candidate, a logical outcome considering that internal candidates are FTCs by definition.

**Conclusion.** Process characteristics undoubtedly play an important role in influencing directors when considering FTC candidates. Chairman influence is significant in that the board feels that the chair will play a critical mentoring role with a FTC specifically, and should therefore be allowed an important say in the selection. The restrictive spec definition influences directors in particular in the preparation of internal candidates, serving as a road map for leadership development towards the CEO responsibilities. Similarly, participants mentioned the “candidate known” characteristic in the context of senior executives in the company (who are FTCs by definition) presenting to the board and therefore having a pre-established validity or level of preparedness in the directors’ eyes. The relationship between the board and the executive search consultant plays a lesser role when it comes to FTCs if the board is primarily interested in internal candidates. Interview performance also plays a lesser role in that situation, as internal candidates, the main source of FTC candidates, are individuals that the board typically already knows. Finally, the board’s rigor in the CEO selection process is another influential characteristic when it comes to considering FTCs, as it translates into internal candidates being known and prepared by the board.

### **Guiding Proposition 2 – The Influence of Situational Characteristics**

**Size and Complexity of the Company.** The size and complexity of the organization influence directors when they are considering a FTC candidate, but a better way to express this characteristic’s influence would be to say that regardless of whether a candidate has previous CEO experience, he or she needs to have a demonstrated track record with an organization of a similar size, with similar resources, and of similar geographical complexity.

The literature links the size and complexity of the organization to CEO experience being a more definitive requirement when directors are selecting their next CEO (Dalton & Dalton, 2007b). The interviews present more precise distinctions in this regard, suggesting that the requirement has less to do with the actual function of a CEO, and more to do with the transferability of expertise:

It is transferability of expertise that counts: in my mind, the same selection criteria apply for experienced CEOs and for FTCs as you describe them. Are the candidates strong and capable, do they have potential to grow the business and on and on. But then, I have to determine if the candidates are playing in the same league as our company. You might have run a corner store extremely well as the CEO there, but you are nowhere near qualified to run GE. So there are properties to the organization that will influence me, and size of the organization is one of them. Global ramifications, the regulatory environment of the company, the nature of the workforce are other complicating factors that will favor a candidate versus another before CEO experience kicks in as a criterion. (Participant 14, interview, November 9, 2012)

Another participant puts it in even simpler terms:

“[Before we look at CEO experience] the candidate has to be in the same kind of environment, which means [he or she] is managing [similar size] teams with [similar] resources” (Participant 30, interview, November 30, 2012).

The implication for FTC candidates is one of credibility (and therefore selection probability) at the onset of a selection process. If a director assesses a candidate's career and experience to have been obtained in a similar size & complex organization, the FTC

candidate starts with better chances of getting selected. The literature's claim that "the larger and more complex an organization, the higher the chances of a board requiring either tested hands or a long-prepared insider at the helm" (Dalton & Dalton, 2007b) is supported insofar as the FTC candidate is an insider to the company rather than an external candidate. Dissecting Dalton and Dalton's assertion claiming that "the larger and more complex an organization, the higher the chances of a board requiring either tested hands or a long-prepared insider at the helm" (Dalton & Dalton, 2007b) could be accomplished by more specifically defining the proposition:

*PPF5: The larger and more complex an organization, the more likely an insider FTC to be appointed unless the company is in crisis, in which case an external experienced CEO will be appointed.*

**Succession Circumstances.** Succession circumstances—in particular, whether an organization is in crisis or not—play an important role in determining who will be selected as the next CEO, and for the most part disfavour FTC candidates if in crisis, according to both the literature and to participants in this research. The literature links poor performance to changes in leadership (Cao, Maruping, & Takeuchi, 2006; Datta & Guthrie, 1994; Friedman & Singh, 1989; Osborn, Jauch, Martin, & Glueck, 1981; Schwartz & Menon, 1985; White, Smith, & Barnett, 1997) and to a higher likelihood that an external candidate will be chosen (Dalton & Kesner, 1985; White, Smith, & Barnett, 1997), both of which are either directly or indirectly supported by our findings:

The place was a mess, okay? You needed someone who'd been through crisis before and you needed someone with depth [in terms of previous CEO

experience]. You needed someone who would, inspire everybody—the clients, the staff, the banks, the board, everybody. (Participant 3, interview, May 1, 2012)

The expressed need in this case is inspiration and instant credibility, and the quote also supports Khurana's claim that "the process by which boards hire a new CEO is often directed at finding a charismatic leader and then tailoring the job to his skills" (Khurana, 2002, p. 208), although not directed specifically at a context of crisis.

Another participant explained more specifically how a context of crisis eclipses other considerations or selection criteria:

Suppose the organization is not having any problems or issues, then the board will try to pick the candidate who best understands the business and who is the best leader of teams and people, independently of their having been CEO prior: those would be my two main criteria in a context of continuity. But if there is a crisis, then you need the best leader who is best equipped [through previous CEO experience] to deal with the root cause of this crisis, period. (Participant 6, interview, May 28, 2012)

A third participant implied that only an experienced CEO can communicate effectively in times of crisis:

It is clear that if the succession event occurs in a difficult period for the organization, let's take RIM as an example, I would want an experienced CEO, someone who knows how to communicate internally and externally, and exactly what messages to communicate when. (Participant 8, interview, June 19, 2012)

More pointedly, a fourth participant spoke to the fact that an experienced CEO is required in times of crisis in order to communicate effectively with the markets:

I might say first that if it's a crisis situation I would probably prefer an experienced CEO. If I'm in a crisis situation as a public company listed on the stock exchange, I will most likely prefer an experienced CEO dealing with stock exchanges. (Participant 13, interview, November 9, 2012)

For another participant, context or the succession circumstances as a selection criterion when it comes to considering FTCs is difficult to describe due to the considerable number of factors at play:

It depends on the organization's short term and long term challenges. Is it in a crisis situation? In that case, perhaps we would take someone who is more immediately prepared to deal with the present situation, even if not presenting the best long term potential. But then again, it depends on so many other factors ... Your question is very difficult to respond to in a hypothetical discussion; I would have to have a full picture to answer with more certainty. (Participant 25, interview, November 29, 2012)

Finally, for one participant, context is everything and he boils it down to personal characteristics as a minimum set of criteria, due to the always-changing context:

Well, to me actually, the minimum would be personal requirements because the rest is contextual. And again, that's the hardest part for a board to grapple with, but I think it's the absolute truth: great leaders come in different shapes and sizes, and I've had the good fortune in my career to work with a number of very effective leaders, but very different people. All of them were effective in certain circumstances, and not so effective in other circumstances, so context again is everything in my view. (Participant 29, interview, November 30, 2012).

The implications of succession circumstances for FTC candidates are numerous. In a planned succession event for a company doing reasonably well, being a FTC candidate does not impact the candidate's chances of being selected and. In a crisis environment, being a FTC candidate negatively impacts the candidate's chances of being selected.

**Industry and Role of Technology.** The literature correlates organizations' growth rate to CEO age (Datta & Rajagopalan, 1998), and also recognizes the declining average age of public company CEOs (Citrin & Ogden, 2010; Dalton & Dalton, 2007b). The researcher inferred that the importance technology plays in today's business environment is a possible root cause of these two sets of research results, and that FTCs, who are generally younger than candidates who have previous CEO experience, would fare better in technology-driven companies. One participant seemed to confirm the inference made by the researcher:

Age, depending on whether it is a high-tech or highly innovative company will naturally play a role only because the newer generations have a level of ease with technology that gives them an edge when determining where the company and industry's needs are going. (Participant 11, interview, November 2, 2012)

This unequivocally supports MacDougall and Limonchik (2009) in their claim that "being technologically savvy is moving up ahead of tenure on the priority scale". Another participant explained that CEO succession decisions are made differently in technology-driven environments:

In companies that are linked to a high-technology driven industry, boards make decisions on a different basis. The decision to change the CEO is directly linked

to the company changing strategies, even if the incumbent did extremely well with the previous direction. (Participant 8, interview, June 19, 2012)

In other words, the high-tech industry moves so fast that a successful CEO today might not be the right one tomorrow and boards will favour a candidate who brings the right vision, at the expense of an incumbent who is currently very successful. Another participant shared this point of view:

[The industry evolves so fast that] no one knows where the business will be in five or ten years. We therefore need a candidate who has a great technological vision, and whether he or she is internal or external to the company, whether he or she is a FTC candidate as you say, is far less important than their vision of the future of the company and industry. (Participant 25, interview, November 29, 2012)

In conclusion, “industry and role of technology” proved to be a situational characteristic associated with growth companies, and, in turn, with age, as participants associated younger candidates with “ease” towards all things technological. The researcher’s inference that younger CEO candidates are more likely to be FTCs was not tested, but the transcripts show that directors in technology-driven organizations feel that different circumstances (other than poor performance) can lead to CEO succession events, the main one being a change in strategy. The vision required to lead those high-growth organizations therefore precedes previous CEO experience as a characteristic influencing directors when selecting their next CEO. Furthermore, all findings in this study as well as existing literature point in the same but not formally tested direction when it comes to high growth technology driven companies:



*PFFR6: Technology driven and high growth organizations will be positively related to selecting a FTC candidate who demonstrate a more insightful vision than an experienced CEO.*

**Composition of the Board.** The composition of the board was not supported as a characteristic negatively influencing director when considering a FTC candidate as is claimed in the literature. The literature claims that larger companies typically have more geographically diversified boards and more independent directors, who tend to be more likely to pick CEO successors from outside the industry (Davidson, Nemec, & Worrell, 2002). Moreover the literature claims that more powerful boards tend to pick CEO characteristics resembling their own during a CEO succession event (Zajac & Westphal, 1996).

For FTC candidates, this should mean that even strong internal candidates will be competing with more experienced CEOs from outside the company and the industry, lowering their chances of getting the job.

The transcripts do not speak to the board's composition having this negative impact specifically for FTC candidates. Rather, of the four mentions of this characteristic that were specific to FTC candidates, three described how a diversified board can play a more robust mentorship role for a FTC candidate: "We've been about a year now with a new [FTC]: he uses the board very effectively, and we've encouraged him to use us individually as mentors" (Participant 15, interview, November 13, 2012).

A possible explanation for the weak support of this characteristic (both in the descriptive statistics and in the transcripts) is that directors do not actively think about board composition relative to their selection of external, experienced CEOs, and,

consequently, the impact it will have on their consideration of FTC candidates. Much like research analyzing company results relative to CEO functional experience X years after being selected, board composition is perhaps not a determinant selection criterion that would have come up in this type of research protocol, but rather a cause-and-effect analysis to be studied after the fact.

**Board Preparedness for CEO Succession.** Board preparedness was not identified in the literature as a situational characteristic influencing directors when selecting their next CEO at the onset of this project. However, when specifically asked about FTC candidates, four participants identified the fact that a board having a detailed, well-prepared succession plan is a favourable influencer towards internal FTC candidates. One participant gave a more detailed description of what being well prepared means:

The first step is for a board to determine the strategic orientation for the organization, with management contributing but the board owns the ultimate strategic direction ... Management then prepares plans to support the strategy over a three to five year horizon. With the strategy and the approved three to five year plan approved by the board, the board determines what management style is most likely to drive the plan to ultimate success, and an ideal CEO profile is put together by the board. [The board then ensures] through the human resources committee that there is a solid talent development plan in place, and built along three time-driven [axes]: the emergency timeline for which we identify a couple of candidates who will not be considered for the longer term CEO role. The emergency candidates are prepared for and deemed capable to provide management continuity along the plan for a period of six to twelve months,

giving the board the time it needs to get organized and find the right CEO for the longer run. The second timeline consists of identifying internal candidates who can be ready in a three to five year horizon. Those internal candidates are aggressively developed internally along the talent management strategy and they are given new responsibilities every 12 to 24 months. Finally, we identify 15 high potential candidates whom we feel can be developed to become CEO in five to ten years. Putting this list and talent development plan [in place] is the first task we ask a newly appointed CEO [to] complete with the board. (Participant 8, interview, June 19, 2012)

Besides preparing the organization for different scenarios, this level of preparedness also supports a director's fiduciary responsibilities towards shareholders. The benefits of this exercise being clear, the fact that descriptive statistics offer weak support for this best practice is confirmed by management psychologists at RHR International: "Yet, in our research, we uncovered a palpable ambivalence toward CEO succession planning, a reluctance-to-engage syndrome that has created a serious chasm between the *actual* practice of succession planning and what *best* practice ought to be" (Saporito & Winum, 2012, p. 41). This reluctance has important implications, which are discussed below.

The impact of board preparedness for FTC candidates is critical as that preparation, by definition, comes in the form of a controlled, planned, rigorous assessment of internal candidates (FTC candidates by definition) and an established board awareness of an internal FTC candidate's strengths and shortcomings should the FTC candidate be selected. Lack of preparation puts the internal FTC candidate on

almost equal footing with the outside CEO experienced candidate and the risk of the board being influenced by the external candidate's charisma (Khurana, 2002) are increased. Lack of board preparedness therefore negatively influences a FTC candidate's chances of being selected as much as the board being prepared positively influence the FTC candidate's chances of being selected. On the flip side of this conclusion, increased board preparedness, which is associated with a deep analysis and preparation of internal (FTC) candidates also shapes the management team as a more homogeneous group as all considered senior leaders are being developed towards a clear ideal CEO profile. In this case, the literature's claim that a new CEO is "likely to be similar to members of the dominant coalition in the management team" (White, Smith, & Barnett, 1997) is supported.

**Other Situational Characteristics.** Participants mentioned additional situational characteristics not initially identified by the researcher. For example, one participant described the strength (or weakness) of internal management as a situational characteristic that would strongly influence his or her consideration of a FTC candidate: I think that the depth of talent on the management team, whether they might have been able to carry a less-experienced CEO made a difference. Although there was one individual [who was strong enough to do so], the rest of the team was very, very light and not surprisingly, given the scale of the company's operations, we chose an experienced CEO instead. (Participant 10, interview, November 21, 2012)

The same participant also explained how the growth objectives that the board has established for the company can have an impact on whether a FTC candidate will be considered:

In order to double the company's sales in five years, you basically have to get a solid 25 percent per year growth, after a one-year incubation period for the new CEO. That's pretty tough to ask of a first-time CEO, as opposed to a seasoned CEO that can say, "Oh yeah, well, here's [a] circumstance where I got 30 percent growth and was able to do that again for a couple of years." It just would be too much to ask someone who is in the seat for the first time. (Participant 10, interview, November 21, 2012)

**Conclusion.** It is clear that situational characteristics also play a role in influencing directors when they are selecting a new CEO. The size and complexity of the company, for instance, have a significant influence on whether directors will consider a FTC candidate, although the interviews reveal that a director's consideration will have less to do with actual CEO experience, and more to do with expertise transferability in all of its shapes and forms: geographical dispersion, total employee count, legal and jurisdictional complexities, etc.

Succession circumstances, which many participants referred to as "context," were almost always mentioned when describing crises or sudden CEO succession events. Most participants felt that crises reshape the selection priorities and favour experienced CEO candidates versus FTC candidates, a conclusion supported by the literature.

The industry and role of technology can influence a director to consider a FTC candidate insofar as the director considers vision to be a characteristic that exceeds previous CEO experience in importance in those typically fast-growing organizations.

Participant mentions of the composition of the board suggested that it can provide a diversity of mentors for a FTC, but did not otherwise provide evidence of support for

the literature. The suggestion that larger companies come with more diversified boards and higher numbers of independent directors, who are more likely to consider out-of-industry CEO candidates and as such less likely to consider FTCs, was contradicted. A new situational characteristic emerged from the interviews: Board preparedness was mentioned as a characteristic favouring internal FTC candidates, for obvious reasons. Although several participants mentioned board preparedness, the statistical support for this characteristic was weak, and the management literature supports that weakness, stating that while directors know how important CEO succession is, they prove to be unwilling to engage in the necessary preparations for it.

Finally, a number of other situational characteristics were mentioned, including the strength of the management team and the growth objectives set by the board, both of which can influence a director when considering a FTC candidate.

### **Guiding Proposition 3 – The Influence of Personal Characteristics**

**Functional Expertise.** Functional expertise, besides being the most mentioned individual characteristic (overall, and when considering FTC-specific candidates), proves to have significant influence on directors when considering a FTC candidate. This research supports the recent executive literature's view that short of the historically preferred requirement of having previous CEO experience (Dalton & Dalton, 2007b; Khurana, 2002, p. 106), directors will require a strong track record running a profit-and-loss (P&L) business unit (Egon Zehnder International, 2012; Spencer Stuart Canada Board Services Practice, 2009). Needless to say, this P&L track record can be a strong asset supporting a FTC candidate's chances in a director's mind:

A vice-president, or a senior vice-president, someone in any case who had a P&L responsibility: did they grow their business? Were they able to grow the business within a certain model, then take a step back to reassess the strategy and grow it again some more? The real question is, does previous CEO experience guarantee that the person has achieved these growth objectives? (Participant 7, interview, May 28, 2012)

Another participant shared this view:

Typically, if a board is willing to contemplate someone who has not been a CEO beforehand, they do want someone who has run a P&L, so someone who has maybe run a business unit, but—someone who understands what it's like to run a P&L with full functional responsibilities. That's usually a prerequisite if the person has not had prior CEO experience. (Participant 9, interview, November 13, 2012)

Several participants gave further details on the functional requirements, without calling it strictly P&L. These participants emphasized the diversity of functional experiences the FTC candidate must bring to the table to be considered:

We had pretty well made up our minds in advance that this had to be somebody who was either division president or the equivalent, with a broad range of responsibilities, as opposed to the Senior VP of sales, who might give us the sales aspect of it but could hardly spell Six Sigma. (Participant 10, interview, November 21, 2012)

Another participant made the distinction between internal facing functions and external ones:

Typically you want an A-type personality. It does not really matter what sector they come from, but they have to demonstrate that they can drive an organization, and typically driving means [driving] the internal organization and the external organization, the external organization being the marketing, sales, the strategy, [and] the internal organization being finance, human resources and operations. (Participant 12, interview, November 2, 2012)

Yet another participant spoke to the credibility of the FTC candidate selected: You have to have strength in at least a couple of the key areas you'll be responsible for. So that would be, you know, operations, sales and marketing, finance, human resources and in some companies legal would really matter a lot. So you have strength in at least some of the issues so you're not always counting on somebody else. You have to show that you have some knowledge. (Participant 15, interview, November 13, 2012)

When asked what advice she would give to a young executive aspiring to one day become CEO of a public company, a participant responded with the following:

Get out of your comfort zone, trust yourself. [Have] the ability and the willingness to go towards new challenges, to get different jobs, to be exposed to different parts of the organization, maybe different divisions, and perhaps different locations also, depending on the nature of the operations. (Participant 20, interview, November 20, 2012)

Several participants mentioned that they are in favour of FTCs because they are never entirely ready, they are not overconfident, and they need to prove themselves:



I always said that I prefer to give the job to someone who is almost ready, someone who will need to prove themselves, than to someone who has been ready for too long, who might have a different level and type of energy.

(Participant 21, interview, November 20, 2012)

The organization's strategy is also a consideration that is put ahead of previous CEO experience:

We do not want someone who has been in staff roles all of his or her career, we want someone who has also run operations. Also, if for example the board believes that the strategy will make international expansion a major pillar of the growth, we will make sure we get someone who has lived outside of Canada, or led a business [that] had international operations. We would not want to do what the United States did and elect a new leader of the free world who has never stepped outside of the US like George W. Bush, with the results we know.

(Participant 8, interview, June 19, 2012)

On a slightly divergent note, despite the literature's claim that "CEOs with finance backgrounds delivered significantly higher results" (MacDougall & Limonchik, 2009, p. 7), several participants voiced their discomfort with FTC candidates presenting an exclusively financial background: "You want ... your CEO to know the business, to be an operator. You don't want a financial engineer because that's temporary, a short-term answer" (Participant 26, interview, November 29, 2012). Another participant said, "That is why CFOs do not make good CEOs. CFOs do two things: they control expenses and they do fusions and acquisitions. But being CEO is not about what you are buying; it

is about what you have and how you run it” (Participant 27, interview, November 30, 2012).

One exception, as already described when analyzing succession circumstances, is in a time of crisis:

For me it is very important that someone understands operations. Unless there is a major crisis, and you will tell me that we should not pick leaders from one crisis to the next, but unless there is a major crisis, I need a CEO who understands how to run operations, how to run a business. (Participant 6, interview, May 28, 2012)

More precisely, the board seems to have shareholders' and debt holders' interests at heart:

I think what would change my opinion is a crisis with the street or crisis in the financial markets in general, with debt-holders, shareholders very nervous because of that crisis. [In that case,] I need somebody who has a solid reputation previously with the street, someone who does not need to build a reputation, to build a rapport because they already have it; they already have credibility, so that the company can move beyond that crisis quickly. (Participant 11, interview, November 2, 2012)

In support of Khurana's description of the “instinct of self-preservation” (Khurana, 2002, p. 189), one participant described the risk associated with selecting a FTC candidate:

Having been CEO before is not necessary ... Well, I guess it depends on the company, on the candidates available and more to the point, on the risk tolerance of the board. It is typically better to have a FTC candidate than a diva, but there is

also a perceived risk associated with that choice. (Participant 24, interview, November 29, 2012)

However, another participant explained that the risk can also lie on the side of selecting the candidate with CEO experience:

“To me, it often becomes a [matter of] weighing the benefits of experience, versus the [risk] that somebody with experience may be more close-minded and may lean on their experience more than thinking openly and creatively” (Participant 29, interview, November 30, 2012).

In conclusion, having a P&L management experience in a similar environment is now the “ticket to the game” as suggested in the literature. Without P&L experience, it becomes difficult for a FTC candidate to be perceived by directors as a viable and credible future CEO. The self-evident in practice but untested in academia requirement to be considered for a CEO role should be investigated and confirmed:

*PFFR7: FTC appointments will be positively related to P&L management experience.*

**Emotional Intelligence.** Emotional intelligence is described in its simplest form as the ability to succeed through others. For example Menkes cites Jack Welsh describing a CEO's most important responsibility as the “identification and development of star executives within his organization” (Menkes, 2005, p. 57). Citrin & Neff also cite Jim Collins in a most succinct but telling description of the importance of leading through others: “first who, then what” (Citrin & Neff, 2005, p. 80). Two-thirds of the participants in this research mentioned emotional intelligence as a characteristic that significantly influences their opinion of FTC candidates.

Although the participants described emotional intelligence in many different ways, the literature is unequivocally supported both statistically and qualitatively: Emotional intelligence is one of the most important criteria influencing directors when they are considering a FTC candidate. For some participants, emotional intelligence is about building personal connections with as many employees and clients as possible:

He knew, I'd say, 50 percent of the staff and all their brothers by their first names. He was very involved with clients and we did check with them, and he was much respected: when we asked them who we should consider, his name kept coming up. (Participant 3, interview, May 1, 2012)

Others associate this characteristic with the employees feeling that their CEO has their best interests at heart, as a priority even over his or her own:

For me it is a very important element. I would check his references and try to understand whether clearly his past teams respect him to this day, whether they miss him, whether they still like him, did they enjoy working for him and did [he] make them feel that they [were] much more important, along with the project, than he is to himself. (Participant 6, interview, May 28, 2012)

One participant made an even more poignant case and expressed very clear expectations:

Are people comfortable speaking with him, is he a good listener, can they disagree and can he change his mind, do they feel they are alone in their corner or does the CEO make them feel like they are in it together? A good CEO is someone who can have big, big problems and then his administrative assistant walks [into] his office with a relatively small problem, and he listens, and he

helps resolve [his assistant's] problem. If he cannot do that, he will not be a good CEO. (Participant 6, interview, May 28, 2012)

Some participants referred to the candidate's ability to mobilize:

His or her ability to mobilize is very important; you want someone who has a vision but who will not need to impose it, who accepts being challenged and changing his or her mind. The reason is simple: you can change your CEO, but you cannot change the whole executive team reporting to him all at once.

(Participant 22, interview, November 29, 2012)

In other cases, participants added the caveat that the CEO's ability to recognize the necessity to change some executives on the team is a rare but important skill:

You see his ability to quickly build credibility and lead a team, but you also need to see the ability to replace some of them if necessary. A lot of new CEOs, perhaps FTCs in particular, seem unable to change key members of their team.

But the better ones can; that is a very important quality. (Participant 27, interview, November 30, 2012)

Emotional intelligence is mentioned as a key characteristic required of any candidate, but more particularly of FTC candidates, as is supported by the management literature's view. Simply put, FTC candidates are not given the free pass that experienced CEOs might be in a director's mind, and their emotional intelligence will therefore be tested and assessed with more intensity and focus. Directors' tendency towards a more stringent requirement for emotional intelligence when considering a FTC candidate can be tested in the future:

*PFFR8: Emotional intelligence or the ability to succeed through a team will be more formally measured and assessed for FTC candidates versus experienced CEO candidates.*

**Internal or External to the Company.** The data suggests that directors more often than not associated the phrase “FTC candidates” with candidates who are internal to the company, which in itself outlines the importance of this characteristic for this research.

As discussed in Chapter 2, whether the candidate is internal or external to the company has generated a significant portion of the CEO succession literature. The existing research, however, almost exclusively addresses the subsequent performance of an internal or external candidate, whereas this research project’s interest lies upstream of performance, at the selection stage of the process. Specifically, the literature suggests that outsiders are more likely to be selected when a company is performing poorly (Dalton & Dalton, 2007b; White, Smith, & Barnett, 1997), they have a positive impact on performance as they are less committed to strategy status quo (Pitcher, Chreim, & Kisfalvi, 2000), they are more likely to fire an underperforming subordinate and as such create more disruption than an insider (Friedman & Olk, 1995). Naturally, the majority of internal candidates would be FTC candidates and the literature suggests that an internal follower of the departed CEO is less likely to initiate a strategy change than one who was jockeying for the position (Cao, Maruping, & Takeuchi, 2006).

Considering the existing level of attention to the topic, it is not surprising that this personal characteristic was among the most mentioned by participants when discussing FTC specifically. However, the reason behind this seems to have more to do with Khurana’s assertion that boards are risk adverse (Khurana, 2002) than anything else.

Otherwise said, and at the risk of stating the obvious, one reason for which a director would favour an internal candidate is that an internal candidate would be familiar with the company, and already aware of its processes and objectives. One participant described an internal candidate's appeal by saying, "He knew the company, and inside and out. This guy had started his career here" (Participant 3, interview, May 1, 2012).

Several participants discussed the expectation for a board to prepare internal candidates:

"Very shortly after the new CEO has been named, we identify those who have potential to be CEO in the future from within our ranks. Not only do we identify them, we also immediately set out to prepare them" (Participant 5, interview, May 28, 2012).

In fact, some participants identified lack of internal preparation as outright failure: "I don't believe at all in recruiting an experienced CEO externally; having to do that is simple and pure failure for a board" (Participant 27, interview, November 30, 2012). Nevertheless, one can understand how difficult it might be for a board when dissention sets it:

Upon getting this surprise resignation, the board launched into a formal CEO succession process and we had a number of very difficult debates because several on the board felt that we should [recruit] an experienced CEO on the outside while two or three of us felt very strongly that this would be a terrible mistake, that we had the right candidates inside. (Participant 27, interview, November 30, 2012)

Some participants brought up more nuanced positions:

We looked very hard internally and made a first very important decision when we agreed that there were at least a couple of qualified internal candidates. We therefore decided not only to not look outside, but also to communicate internally that we would not look outside. (Participant 6, interview, May 28, 2012)

More pointedly, the participant stated that

After having the debate, some still thought that it might be best to look outside but I voiced a little more loudly than usual that to go outside, we must have serious doubts that there were any internal candidates qualified. Otherwise, it would be best for all to go with the internal options. Everyone rallied at this point. (Participant 6, interview, May 28, 2012)

Another recurring theme in the interviews speaks of risks with both internal and external candidates. One participant, for instance, outlined some of the risks associated with hiring internally:

And, it was a very, very good discussion because we felt that on the professional side, the candidate preferred by the committee was a very good candidate, but we felt that the person was lacking experience in that type of position. Plus, some people thought that because this candidate was from the inside, the transition to a CEO position would be more difficult because two of his immediate peers would end up reporting to him. (Participant 13, interview, November 9, 2012)

Another participant mentioned the risks associated with hiring an external candidate:



If there is somebody coming from the inside, you have seen the individual at work. You have seen them exposed to others. And I mean there could be some fall-outs, you know, but there certainly would be fall-outs with the external candidate. A devil you know is better than a devil you don't as they say.

(Participant 20, interview, November 20, 2012)

Ultimately, the fail-proof test for internal candidates, who are FTCs by definition, seems to be best described by one participant:

The best test for an internal candidate is to take references with his peers, and you have access to that directly and immediately. The right type of person will have support from his peers even before he is considered for the role. (Participant 21, interview, November 20, 2012)

In conclusion, whether a FTC candidate is internal or external to the company plays an important role in influencing directors when it comes time to select a new CEO. In fact, this research suggests that in a director's mind, a FTC worthy of consideration is almost always, if not exclusively, an internal candidate.

**Critical Thinking.** Critical thinking has been defined many ways: raw capacity, raw potential, intelligence, intellectual quotient, analytical capacity, etc. Menkes is very forthcoming when it comes to the importance of critical thinking, or raw intelligence, to predict managerial performance: "In fact, even the crude application of IQ tests, which were not even designed to measure business intelligence, remains among the most accurate means of predicting managerial success. Research has shown that administering a twelve-minute IQ test can predict job performance nearly as well as the best two-hour

job interview; so obviously, IQ tests measure something important.” (Menkes, 2005, p. XXII).

Our data agrees with the literature. Most participants viewed intelligence as a necessary attribute, in particular for FTC candidates:

We did interview him and asked him ‘Okay, if you take over, where would you start fixing this?’ And, I mean, he went on for an hour and we said, *wow*. We should have done this long ago” (Participant 3, interview, May 1, 2012). Another participant said, “This person needs to have a compartmentalized mind; he [or she] needs to be able to face a very significant number of very complex problems at the same time (Participant 6, interview, May 28, 2012).

Yet another participant explained that a candidate’s early professional life is often a good indicator of his or her critical thinking skills:

For me the best background is one where the candidate started his career with five to six years in a highly respected consulting firm like McKinsey because that demonstrates one thing for sure: they graduated top of their class, they are very strong analytically and therefore they are better equipped to understand and solve problems, and that is what a CEO does. (Participant 27, interview, November 30, 2012).

In addition, some viewed critical thinking as a safety net for the organization:

You may hire a CEO right now at a point where their life is perfect, but you never know if in three weeks you’ll get into a crisis. So whether or not you’re in a crisis when you search for a new CEO, ... you need to make sure that this new CEO

will be able to face a crisis. That's why being alert, being quick, being bright for me is important. (Participant 13, interview, November 9, 2012)

However, some participants suggested that analytical minds are not always ideal for the CEO position: "I found him very analytical, and being very analytical doesn't always make for the best CEO. It often makes for a very, very good COO, but not necessarily the best CEO, which requires the human side of things" (Participant 9, interview, November 13, 2012).

The implication of critical thinking or a board's assessment of a FTC candidate's intelligence is ambiguous. Obviously, no director would be interested in selecting a non-intelligent candidate for the CEO role, whether FTC or not. For a FTC candidate specifically, critical thinking is perceived as a strong requirement, but some directors appear to equate a high degree of raw intelligence with a lack of emotional intelligence, as a possible over-reliance on one's own skills and therefore with an inability to bring the management team along on the journey. A FTC candidate therefore needs to show a balanced leadership style, combining critical thinking and emotional intelligence.

**Executive Intelligence.** Executive intelligence (Menkes, 2005) is a characteristic that stems from contemporary management literature, as described in Chapter 2. The concept of a CEO who on top of critical thinking and emotional intelligence brings self-introspection, humility and an obsessive resolve to reach his or her goals, and does not desire the limelight, is supported by Khurana's view of boards' "Irrational quest for charismatic CEOs" (Khurana, 2002).

Several participants communicated a portion of what is considered to be included in the concept of executive intelligence, such as an obsessive focus on achieving goals:

But if you're looking at growing a business, what you do need is someone who's got incredible commitment and enthusiasm and energy, someone who sleeps even less than you do (Participant 16, interview, November 20, 2012).

When asked, "What would ultimately make you choose the FTC candidate over the experienced CEO if that experience was the only differentiator perceived?" another participant responded, "The humility that comes with someone being CEO for the first time" (Participant 21, interview, November 20, 2012). The same participant went on to explain that

the most dangerous executives, CEOs included, are those who think they have arrived, those who lack the self-introspection to realize that one needs to continuously question oneself, those who lack the humility and then the candour to make themselves vulnerable to their board by asking questions. I have no problem with out-of-this world ambition, [but] I hate those who are demanding to their teams beyond what reality can afford. (Participant 21, interview, November 20, 2012)

Another participant explained why executive intelligence is important, especially for a FTC candidate:

Resilience as a leader, but also openness. And as I mentioned, I spend a good deal of my time [in] the executive coaching world, and I coach currently a well-known CEO in Canada, who is exactly what you described, the up and comer who has been put in the position for the first time. He is a good example of somebody who is demonstrating that strength of character, but at the same time, the recognition of the things he needs to learn. (Participant 29, interview, November 30, 2012)

A further participant shared the following similar sentiment: “Amongst the CEO succession events I have participated in, the ones [that] showed the best results were those where we picked FTC candidates because both the board and the CEOs approached the business with a higher level of humility” (Participant 22, interview, November 29, 2012). Finally, some participants expressed the negation of executive intelligence as what is not desirable in a candidate:

Somebody on the negative side of it, somebody who doesn't understand that even if you're the boss, you're not the end of it all. The people who think that if they are a CEO, the buck [stops] here, and forget that they've got a board. They've got shareholders, and I've met such people. They kind of think that it's their kingdom type of thing. That would be a no-go for me. (Participant 30, interview, November 30, 2012)

In conclusion, while the exact words “executive intelligence” have not yet reached all directors' agendas when discussing CEO succession in a board meeting, the concept is described in part or in whole as a sought-after characteristic, especially when considering a FTC candidate. Our findings therefore support the literature insofar as the concept itself can be described and accepted as a partial representation of Menkes' fuller description.

**Age.** The literature review identified several implications of age as a characteristic for a FTC candidate, including the fact that age is a non-factor for predicting performance (Citrin & Ogden, 2010, p. 30) and the risk of losing other potential future internal CEO candidates if a younger candidate is selected (Dalton & Dalton, 2007a, p. 7). The data speaks to these implications in different terms.

One participant, for example, spoke of the fact that an executive selected at a later stage in his or her career will likely remain in the role for fewer years than a younger candidate would:

Age certainly factors in. While they want someone with experience, they want to know that there is runway as well, so typically looking for a minimum of five years, sometimes ten years, so if you bring in someone who is 60 to the table, is that going to work? (Participant 9, interview, November 13, 2012)

Another participant related age to the energy level required to be successful in the CEO role: "What you do need is someone who is able to be basically living the business 24 hours a day. And often the tried-and-true executive who is 60 won't be able to keep up" (Participant 16, interview, November 20, 2012).

Some participants also made distinctions based on industry:

Maybe not in technology, because you've got a lot of technical-savvy people at a younger age, but there's no substitute for experience, either, so if you're talking about a tech company, then yes, you couldn't present an older person there. You would need to focus more on the 40-year-old or the 40-to-45-year old, but if you're talking about pretty large public companies, you want some of those scars and someone with more experience. (Participant 9, interview, November 13, 2012)

Presuming a faster growth rate in technology companies, this quote supports Datta and Rajagopalan (1998) in their assertion that the higher the industry growth rate, the lower the age.

In other cases, participants suggested that age is not the factor in and of itself: “I think age [is only a factor] because age is part of experience and so someone in their late 40s, 50s, has probably dealt with things in their career that someone in their 30s has yet to be fully exposed to” (Participant 11, interview, November 2, 2012).

As with other characteristics, how the market will respond remains a concern for some directors: “You have to be careful with age, in a public company in particular because you are telling the market something if you are recruiting a particularly young or old candidate” (Participant 19, interview, November 20, 2012). Others are even more prescriptive with the ideal age bracket for a FTC candidate: “My anchor is around 50 years-old: 45 to 55 is the best time in someone’s life to be CEO for the first time” (Participant 27, interview, November 30, 2012).

Finally, one participant described the risk of selecting too young and inexperienced a candidate:

I’ve been tempted very often to go for the younger, wilder card, riskier approach, but with lots of promise. And I am that kind of person, very pink glasses type of guy, but, I’m not always winning on those companies. (Participant 30, interview, November 30, 2012)

This research therefore shows that when considering FTC candidates, directors will be seeking someone who is old enough to be credible but has a longer runway than an experienced CEO as the trade-off for having less experience.

**Internal or External to the Industry.** The data reveals that for a FTC candidate who is not internal to the company, being internal to the industry is important, as there is no time for the candidate to learn both the CEO role and the industry.

The academic literature and the Canadian executive search marketing literature address the issue of whether a candidate is internal or external to the industry differently. While the academic literature shows that matching industry experience yields better performance (Datta, Guthrie, & Rajagopalan, 2002), Spencer Stuart claims that matching industry was only required in 20% of its recent Canada-based searches due to the small candidate pool (Spencer Stuart Canada Board Services Practice, 2009).

One participant explained the importance of industry knowledge:

If you are a bakery shop - if you are a Weston - I'm not sure you want to hire a guy from the pharmaceutical business to run your business. I think you would want to hire somebody who understands the grocery business, who understands that element of the world, because I think [the CEO] can hit the ground running. There is no learning curve and [that] becomes even more critical ... if it is a public company versus a private company. (Participant 26, interview, November 29, 2012)

Another participant was even more categorical:

CEO experience is not important at all. For the FTC candidate to know the industry, that is important, and necessary to be a good strategic thinker and operator. It would take exceptional circumstances for me to consider an industry outsider to be CEO, and an outright impossibility if that person was a FTC. (Participant 27, interview, November 30, 2012)

In summary, participants suggested that learning the CEO role is enough of a challenge for a FTC, and that having to learn the industry on top of it would significantly limit the chances of success.



**Integrity (or the Perception of).** Integrity was not one of the original nine personal characteristics listed in the literature review, as it was initially bundled within the “executive intelligence” and “emotional intelligence” characteristics. More importantly, the literature speaks to integrity in its most literal sense: the candidate demonstrating a high level of integrity in making decisions and running the business. There were a number of mentions by participants that could not adequately fit within these two broader subjective characteristics, and were therefore added to the “other personal characteristics” category. Their number was sufficient (29 in total, with 14 specific to FTCs) for the researcher to extract “integrity” as its own characteristic from that pool.

What is interesting about the fact that “integrity” emerged from the interviews as an influential characteristic is that participants also signalled *perception of integrity* as a possible alternative:

For me, one criterion that boards do not speak about much is the integrity or perception of integrity associated with the FTC candidate. ... This is a criterion in 2012 that is a must for the board to consider openly, and the board must dig as deep as necessary to feel reassured on that front. (Participant 22, interview, November 29, 2012)

The other aspect of integrity that participants mentioned relates to a FTC candidate showing early signs of his or her capacity to put the organization's (or a team's) best interests before his or her own. One participant described how, when a candidate was asked about his desire to stay if he did not get the CEO role, the candidate explained that he would leave in any case in 18 months:

I have my internal successor ready and if I do not go, he will leave the organization. I will stay and support the CEO you select if it is not me, but only for 18 months after which I will leave my seat for my successor. (Participant 27, interview, November 30, 2012)

That candidate ultimately got the CEO job, in part because of the integrity he showed towards the organization, the board, and his team. The perception of integrity, therefore, along with integrity in its purer form, could lift a FTC candidate above an experienced CEO in a director's selection process.

**Educational Credentials.** The literature suggested that educational credentials would prove to be a "ticket to the game" (Spencer Stuart Canada Board Services Practice, 2009; Spencer Stuart Board Services Practice, 2010) and that while a FTC candidate would not be found to have studied too much, he or she could be found to have studied not enough. The interviews reflected just that.

One participant stated bluntly that of all personal characteristics, "the academic background is the one that plays the lesser role" (Participant 7, interview, May 28, 2012). When asked what the minimum requirements are for a FTC candidate in terms of personal characteristics, another participant said, "Education, surely. We don't have much of a choice these days. Candidates have to get down into that hole and then come back up again to join the work force" (Participant 25, interview, November 29, 2012). Finally, a participant shared what in his view was the ideal educational background for two internal FTC candidates: "They both had the right profile: engineering and an MBA" (Participant 28, interview, November 30, 2012).

The implication of educational credentials for a FTC candidate is that it does not play a defining role in influencing directors, neither positively or negatively. With a few directors however, educational credentials signifies a higher degree of intelligence and of self-discipline, which in turn plays a positive role in influencing a director when considering that FTC candidate.

**Other Personal Characteristics.** Numerous other personal characteristics were mentioned in the specific context of a FTC candidate being considered. Several participants mentioned being bilingual or bi-cultural as an important characteristic for a business operating in part in the province of Quebec:

When we met with the executive search consultant, we told him that we needed someone as comfortable with cowboys from Western Canada as they were with French-Canadians. That can sound a bit particular but that is the reality of our operations in Canada. (Participant 28, interview, November 30, 2012)

Several others mentioned gender in one form or another, but mainly in support of female FTC candidates being considered:

I have discovered that generally women who apply are more qualified than the men [and simply] haven't yet had quite as many opportunities to grow within. So at the CEO level [women are not applying or being considered] as often yet but it is coming. At the senior executive level within companies, I have been looking for women on purpose because mostly I get them overqualified for a number of years. (Participant 15, interview, November 13, 2012)

Finally, ambition was mentioned numerous times as a characteristic that makes a FTC candidate appealing:

Another criterion is that we want a [candidate] to be a little bit hungry to do something. So if there were a few candidates on the list that had already been there, made their money, and they just wanted to continue or make more money, I would personally prefer [someone] who was still a bit hungry to build something for a company, for [him or herself] as well. (Participant 18, interview, November 20, 2012)

Additional personal characteristics mentioned more marginally include creativity, being a family member of an important shareholder, and availability at the time of the succession event.

**Conclusion.** Personal characteristics accounted for the highest number of counts, both overall and for FTC-specific mentions. Several participants mentioned that having experience managing a full P&L is the “functional experience” of choice today, with the notable exception of times of crisis, in which case prior CEO experience is preferred, to reassure both internally and externally. Whether the FTC candidate’s functional background fits the organization’s strategy also precedes CEO experience in terms of importance. One mitigating factor for these findings comes with risk management, in the sense that the board must consider the message it sends to the market when picking either a FTC candidate or an experienced CEO.

Emotional intelligence, or the ability to lead through others, was also found to be in support of the literature, although participants described it in many ways: the ability to relate well to others, the ability to engage and inspire, and the ability to convince one’s team that the team’s interests take priority over one’s own.

The data on whether a candidate is more appealing if he or she is internal or external to the company supported the literature less conclusively, and participants, while in support of developing internal candidates, found themselves at odds with colleague board members who preferred to look outside in many cases.

Critical thinking was mostly described as a sought-after quality, mainly based on the problem-solving results stemming from strong analytical skills. However, it was also associated in some cases with poor emotional intelligence, and was therefore pointed out as a characteristic to assess carefully.

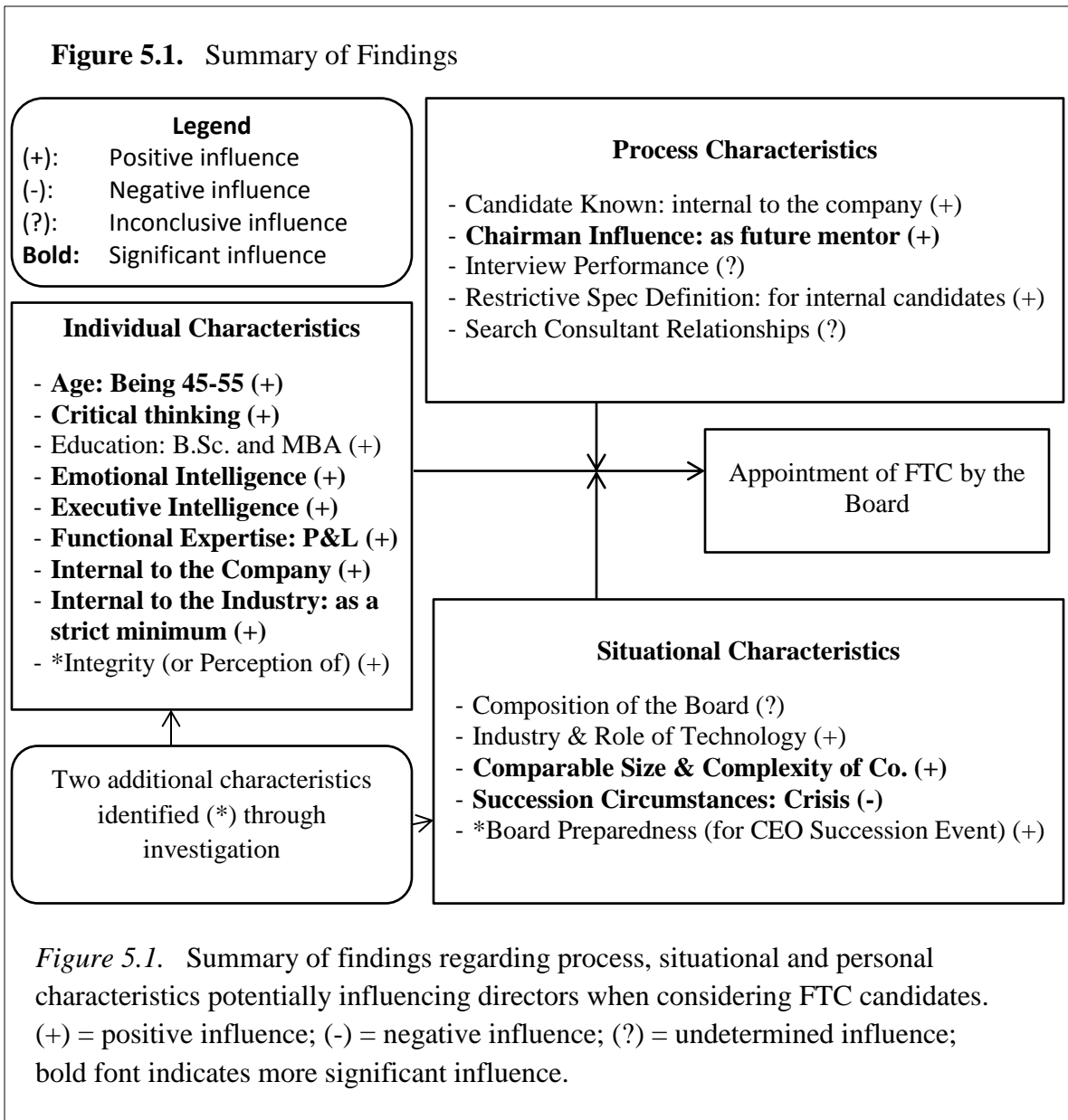
Executive intelligence, or a combination of humility and an obsessive desire to reach one's goals, was mentioned in fragments more often than as a whole, although some participants expressed the broader view, always in the context of this characteristic having a strong positive influence on directors when considering a FTC.

Age was determined to be a characteristic influencing directors, but as a representation of experience and credibility, with the ideal range for FTC candidates being 45–55 years old (old enough to bring credible experience, but young enough to provide continuity and a longer runway).

Being internal to the industry was determined to be a minimum requirement for a FTC candidate, as learning both the CEO role and the industry would prove too much at once in a director's view.

The influence of educational credentials proved to be perfectly aligned with the literature—they are considered a requirement to enter the race, but not to win it. Integrity, or at least the perception of it, was mentioned often enough (and by enough participants) to be extracted from the “other personal characteristics” category. The other

personal characteristics that were mentioned less often include gender, bilingualism, ambition, creativity, and family ties to major shareholders. A summary of the findings can be found in Figure 5.1.



As stated above, the nature of this investigation being exploratory, further research will be needed to confirm the influences suggested in Figure 5.1.

### **Limitations and Direction for Future Research**

As has been pointed out in several instances above, there are many limitations with this study. First, the research design itself was challenged in the early stages of the researcher contacting potential participants after leaving executive search firm Spencer Stuart. The result of this change of career in the middle of the data-acquisition stage of the research was that it became extremely difficult to obtain participant consent to partake in the research. The researcher therefore had to over-index with Quebec-based participants, and, as a result, 21 of 27 participants (78%) are from one of the three geographical regions of Canada initially identified as a diversification criterion for the participant pool. The other six (22%) are from Ontario, and none are from Western Canada. The results obtained are thus representative of Quebec-based directors rather than pan-Canadian directors. It should be pointed out, however, that in multiple instances, it was clear that directors were describing non-Quebec-based companies when discussing recent succession events.

Second, in a number of instances, the fact that the researcher was recently an active player in the governance field led to participants adjusting their answers somewhat when questioned further, or when they realized that the researcher was aware of non-public information. The question therefore is: how many other participants told only a partial story in order to describe a governance-perfect but inaccurate process? As stated before, boards do tend to be secretive (Dalton & Dalton, 2007b). Thus, even when interviewed by a perceived insider to the governance field, it is possible that directors might only ever surrender incomplete information when discussing how they select a

CEO. This possibility sheds realistic doubt on the accuracy of this research project's results.

Additionally, the governance literature, the statistical results, and the qualitative analysis results show the importance and impact of a chairman's influence on other directors, and on the possible selection of a FTC candidate. One must therefore question how the chairman's own personal characteristics might influence the selection process. The researcher also did not at any point ask participants to elaborate on the possible chairman and CEO combined role, or on other situational characteristics common in several Canadian public companies, such as the presence of a significant shareholder on the board. Understanding that a majority of the current CEO succession literature is based on U.S. based companies and noting the significant difference between the number of companies who have a combined Chairman and CEO role in the U.S. (58%) versus Canada (15%) according to the Spencer Stuart's latest Canadian Board Index (Spencer Stuart Board Services Practice, 2012), a further limitation appears in what is meant by "Chairman influence" in Canada versus in the U.S.

Furthermore, the majority of the academic literature stemming from U.S.-based scholars uses Fortune 500 companies or, at the very least, U.S. listed public companies as a basis for its research. In fact, of the 102 references cited in this study, 37 consists of fundamental (analysing raw data) peer-reviewed academic research projects, of which 31 consist of exclusively U.S. public companies. The results of those research projects need to be taken with a grain of salt when applied to Canadian listed public companies, as the governance landscape comes with a number of distinctions, as does the typical candidate pool when recruiting a new CEO.



Finally, the exploratory nature of this project is such that even though a sturdy content-analysis software package was used and reliable statistical analysis was applied to the data, the fact remains that each quote was identified and coded through the researcher's eyes and sense-making abilities. In other words, objective methods applied to subjective data do not make for objective results. To that end, a further limitation stems from the fact that the data was not coded by a second rater to test for reliability. Neuendorf (2002) notes that "given that a goal of content analysis is to identify and record relative objectivity (or at least intersubjective) characteristics of a message, reliability is paramount" (p.141). This is due in part to a lack of time and resources from the researcher's standpoint, but more importantly also due to the very confidential nature of the information shared by participants which as such could not be coded by a second rater without breaching the Confidentiality Agreement signed by both participants and researcher. This lack on inter-coder reliability is however significantly alleviated by the exploratory nature of the research itself. Potter and Levine-Donnerstein (1999) explain that for latent content, as in this and other qualitative and exploratory research projects, the coders must provide "subjective interpretations based on their own mental schema" (p.266) which in itself highlights the highly interpretative nature of the coding and the significance and impact of the coder's experience with the topic itself.

Future results can be obtained in many ways. First and as described above, research of Canadian public companies (as opposed to American companies) would clarify the knowledge and theory as applicable to the Canadian governance landscape. Any and all of the fundamental research described in the cited references in this study could be rerun with Canadian (or any other nation) public companies as the source of

data to measure differences based on variations in the governance framework. Access to elites will remain an obstacle in the way of CEO succession research progression—future researchers might gain by associating themselves with renowned governance organizations to break the apparent “code of silence.” For example, a survey-based conjoint analysis of process, situational, and personal characteristics when considering a FTC candidate (administered, for example, through the Institute of Corporate Directors) might provide the necessary safe haven for directors to remain anonymous while telling the true story of how they select CEOs. Furthermore, and although not the topic of this research, understanding how best to prepare FTC candidates in the future would help candidates and directors alike, leading to higher chances of success when selecting the next CEO. This project could be used as a stepping stone for such further research.

The eight propositions for future research outlined above would, in the investigator's view, add to the theory testing body of knowledge about CEO succession and contribute both to academia and practitioner's better understanding of the forces at play when faced with such an important corporate and governance event.

## Chapter 6: Conclusions

This research offers implications for both theory and practice, separately and conjointly. The analytical framework used to design this research involved literature from academia, from governance management literature, and from CEO succession practitioners, including executive search firms, management consulting firms, and leadership succession industrial psychology consultants. The investigator's recent involvement in the governance field as an executive search consultant recruiting CEOs in Canada served as a foundation connecting the different stages involved in recruiting a new CEO. It also offered perspectives on the topics offered by the literature, resulting in the three guiding propositions tested herein. Although the descriptive statistics applied to the content analysis data add a level of validity to this analytical framework by requiring that every individual characteristic be mentioned by two participants or more—confirming unequivocal support for all three guiding propositions—there is no shying away from the exploratory nature of the research design itself when taking a closer look at the transcripts.

The implications for theory of this study's findings about process characteristics are significant and numerous. Because gaining access to elites is difficult (Nicholson & Newton, 2010), and due to the shroud of secrecy surrounding boards' proceedings in general, and CEO succession discussions in particular, all characteristics were chosen on the basis of practitioner or management literature rather than previous academic research. As a result, and until academically valid research on CEO succession processes is made available, research on process characteristics such as those identified in this study will remain exploratory in nature. Obviously, there is a "chicken and the egg" reality to

developing theory and knowledge on CEO succession processes, as academia would need access to elites who are not quite ready to provide it—as was experienced by the investigator.

Provided that the findings are supported by future research, the implications for practice are more readily identifiable. First, chairman influence stands out as the most impactful process characteristic when a board is considering a FTC candidate, for several reasons. Participants shared that the chairman would ultimately be the one charged with mentoring the FTC candidate selected, and as such, the chairman's chemistry with the candidate, or influence when selecting the candidate, was naturally paramount to other directors' preferences. However, the literature suggests that directors will naturally avoid conflict or strongly opposing their chairman in order to protect their directorship (Khurana, 2002). This implies that chairmen themselves need to be extremely careful in wielding the power they hold, both directly and indirectly, less they influence a selection process to a point where they are the only ones standing behind the finalist candidate. Due to that influence, this research suggests that Chairmen make it an imperative requirement - albeit perhaps self-imposed – to educate themselves about CEO succession planning, processes, best practices and know pitfalls. Moreover, having determined that in more circumstances what the Chairman wants the Board wants, it becomes the Chairman's responsibility to elevate the level of board preparedness for CEO succession events, independently of the circumstances leading to that event. This includes readiness to face an immediate unplanned event, the development of mid and long term internal candidates and a constant scanning of external potential candidates for benchmarking purposes (Swain & Turpin, 2005). To that end, directors can help by ensuring they are

ask abundant questions to the Chairman before joining a board in order to signal the importance they attach to this important governance activity.

Furthermore, the “restrictive spec definition” results show that prior CEO experience as a firm prerequisite is losing ground to having P&L leadership experience. However, participant responses (and retractions) show that directors might be providing “governance-perfect” answers when speaking to researchers or the general public, but that a different story might be unfolding in the boardroom when they are selecting their next CEO. In fact, while CEO succession has been described as the most important responsibility for a board, it seems that boards are often unwilling to engage in succession planning (Saporito & Winum, 2012). This is, at the very least, disturbing. It is much like when a patient refuses to take the doctor’s prescribed medication. Directors must reflect and decide whether or not it is their fiduciary responsibility to engage in CEO succession planning activities. The answer is obvious, so perhaps the question lies not with the director, but with the chairman. This would support the “board preparedness” process characteristic that emerged from the interviews, which calls for the development of internal candidates, who are FTCs by definition, long before a succession event occurs.

A further implication lies with Chairman selection/appointment which, considering the influence a Chairman has on CEO succession becomes of paramount importance. While there is increasing interest, at least from governance practitioners in this area, there certainly is room for further investigation about the process of selecting a company’s next Chairman and the ensuing consequences. Obviously an additional

consideration that can considerably muddy the CEO succession water is the combined Chairman and CEO roles in a number of public companies.

Executive search firms also share in the responsibility of a thorough process that includes both internal and external candidates. At the very least, search firms need to train their consultants and educate them with more than internally generated opinions typically assembled in marketing materials. CEO succession as a topic is complex and laced with uncertainties as this study and past research has demonstrated: the least a search firm could do is provide their professionals with an unbiased but rigorous training about what is factually known about CEO succession. Of equal importance is the need for search firms to self-govern in a manner that reflects the rigor and standards they recommend to their clients. To that end management consulting firm McKinsey & Cie and executive search firm Egon Zehnder lead the way with internal management standards that require consultants to improve their skills and results constantly lest they be exited from the firm (the "up or out" management system). This is strictly self-imposed as contrary to other liberal professions like accounting and law, executive search does not benefit from an overarching governance body with coercive powers such as the Bar: an attorney who does not meet clear and specific standards can be expelled from the Bar association. In the search industry, clients would be horrified to find out that a consultant assigned to their important mandate was fired by several other clients in the recent past due to poor service and results: senior management of such firms are the ones to blame for reputation-damaging practices, and they hold the key to raising standards within their firm.

The implications related to situational characteristics from a theory and practice standpoint converge. Directors favourably consider FTC candidates, although more narrowly defined as internal FTC candidates, except in times of crisis. It is times of crisis, in fact, that provoke the convergence. Theory suggests that the “instinct of self-preservation” (Khurana, 2002, p. 189) influences directors towards the perceived safer option in general, and in times of crisis in particular. In practice, a board caught off guard with an unplanned succession event will likely pick the “charismatic CEO” (Khurana, 2002) at the expense of a valid and ready internal FTC candidate. Besides the financial implications typically associated with a highly reputable and established CEO candidate relative to a FTC candidate, the board runs the risk of losing its better medium- and long-term internal potential successors if it selects an external candidate. Again, boards might benefit from having a high level of preparedness in terms of succession planning, including a designated emergency internal candidate to hold the fort until a longer-term solution is identified.

Finally, the implications for theory about personal characteristics are numerous, but one must tread carefully as the vast majority of the existing literature on personal CEO characteristics is based on companies in the U.S., where governance standards and requirements are slightly different than those in Canada. This, in itself, is a first implication for theory. The Canadian governance reputation is stronger internationally than it has ever been, since Canadian banks emerged mostly unscathed from the 2008 financial meltdown. Too little academic literature specific to Canadian public companies and CEO succession events is available. While governance knowledge is finding central depositories in the form of the Institute of Corporate Directors and the Institut de

Gouvernance des Sociétés Publiques et Parapubliques, survey results cannot be assumed to replace scientifically valid research.

Implications for practice include the fact that P&L management experience for an organization of a similar size and complexity seems to be considered the new minimum requirement for a CEO succession applicant in Canada. The vast majority of FTC candidates who are likely to be considered are internal candidates who are between the ages of 45 and 55 years old and have a demonstrated track record leading teams in growing divisions of that company after having obtained their MBA or another post-graduate degree. The path to the top is thus fairly obvious, and both directors and FTC candidates should respond as though they have been served their marching orders as discussed previously. Directors should prepare for CEO succession with three timelines in mind: they should have an emergency candidate ready to step in within days of a sudden succession event, candidates that can be developed over a two-to-five-year period, and high-potential candidates that can be sent to complete their MBAs and further developed over an eight-to-15-year period.

Candidates interested in attaining the top position in an organization should obtain and study information regarding internal leadership development in a company they work for or intend to join. Unless they find significant clues leading them to believe that the organization has a well-honed, detailed, and rigorous leadership development plan, they should accept that there is little chance they will be considered for the CEO seat within that organization in the near- or long-term. It becomes therefore at least a shared responsibility for the candidates wishing to attain a P&L role to seek out and obtain cross-functional assignments as well as multiple geographical markets experience



when possible. Provided they perform well in role, this broader set of tool and personal attributes should lead to increased chances of being considered when the opportunity comes.

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## Appendix A

### Independent Sample T-Tests for Participants Being Known or Unknown to the Investigator or Spencer Stuart

Table A1

*Results Comparisons Based on Participant Being Known or Unknown*

Candidate Category	n	M	SD	SEM
Process Count for Any				
Known	15	4,47	4,051	1,046
Unknown	12	3,58	2,353	,679
Process Count for FTC				
Known	15	1,33	1,447	,374
Unknown	12	1,50	2,316	,669
Situational Count for Any				
Known	15	7,47	5,111	1,320
Unknown	12	5,75	2,927	,845
Situational Count for FTC				
Known	15	1,80	1,612	,416
Unknown	12	1,67	1,231	,355
Personal Count for Any				
Known	15	10,93	6,239	1,611
Unknown	12	10,92	4,562	1,317
Personal Count for FTC				
Known	15	6,87	3,420	,883
Unknown	12	8,50	5,962	1,721

*Note.* N = Subsample size; M = Mean; SD = Standard deviation; SEM = Standard error mean.

Table A2

*Independent-Samples Tests Based on the Participant Being Known or Unknown*

Candidate Category	Levene's Test for EV		t-test for Equality of Means						
	F	Sig.	t	df	Sig. (2-t)	MD	STD	95% CI of the Difference	
								Lower	Upper
Process Count for Any									
EVA	4,496	,044	,669	25	,510	,883	1,321	-1,836	3,603
EVNA			,708	23,077	,486	,883	1,247	-1,696	3,463
Process Count for FTC									
EVA	,935	,343							
EVA			-,229	25	,821	-,167	,728	-1,666	1,333
EVNA	2,142	,156	-,218	17,599	,830	-,167	,766	-1,778	1,445
Situational Count for Any									
EVA	,285	,598	1,033	25	,311	1,717	1,661	-1,705	5,138
EVNA			1,095	22,928	,285	1,717	1,567	-1,526	4,959
Situational Count for FTC									
EVA	0.35	0.56	,236	25	,815	,133	,564	-1,029	1,295
EVNA			,244	24,965	,810	,133	,547	-,994	1,261
Personal Count for Any									
EVA	,807	,378	,008	25	,994	,017	2,155	-4,421	4,455
EVNA			,008	24,843	,994	,017	2,081	-4,270	4,303
Personal Count for FTC									
EVA	,587	,451	-,895	25	,379	1,633	1,824	-5,391	2,124
EVNA			-,844	16,647	,410	1,633	1,934	-5,721	2,454

*Note.* EV = Equality of variance; CI = Confidence interval; EVA = Equal variances assumed; EVNA = Equal variances not assumed



**Appendix B****Participant Recruitment Telephone Contact Script**

(Name of the participant),

I am a doctoral student with Athabasca University and the purpose of my call is to solicit 90 minutes of your time for an academic interview about CEO succession. This would be done via an in-person interview and would be conducted at a location where we can both be focused and undisturbed (e.g., a private room at X private club in the participant's hometown). The interview would consist of open questions about the CEO succession events you have experienced and would be recorded. However, no company or CEO candidates would need to be named, your contribution would remain anonymous, and your comments would be aggregated with other comments in the dissertation so that you, and companies or candidates you refer to, cannot be identified. I plan to be in (city) in (month); is there a time that would fit your schedule?

*Note preferred dates and times:* \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

In order to go ahead with the interview and research, I will require your formal consent to record and use the material from our discussion. I will confirm the date and time via email shortly and will also attach the consent form for your review. I look forward to meeting you in person and engaging in this interesting conversation.

## Appendix C

### Participant Recruitment Email Confirmation Script

(Name of the participant),

As discussed on the phone yesterday, I am inviting you to participate in my doctoral research project about CEO Succession.

This will be done via an in-person interview, which will last approximately 90 minutes and will be conducted in English at a location where we can both be focused and undisturbed (e.g., a private room at X private club). The interview will consist of open questions about the CEO succession events you have experienced and will be recorded. However, no company or CEO candidates will need to be named, your contribution will remain anonymous, and your comments will be aggregated with other comments in the dissertation so that you, and companies or candidates you refer to, cannot be identified. In order to go ahead with the interview and research, I will require your formal consent to record and use the material from our discussion. The attached Consent Form is for your review and signing at the onset of our meeting.

Thank you for your interest and contribution to research about this important topic. I look forward to seeing you in person soon. In that regard, I can suggest the following times for our meeting:

- Date & Time (for 90 minutes)
- Date & Time (for 90 minutes)

Kind regards,

Pascal Bécotte

Athabasca University

## Appendix D

### Interview Consent Form

*Research interview being conducted by Pascal Bécotte as a doctoral candidate with Athabasca University.*

---

I, \_\_\_\_\_ (participant's name), understand that I am being asked to participate in an interview that forms part of Pascal Bécotte's required research in the above-noted Athabasca University Doctoral in Business Administration program. I understand that Pascal Bécotte is a Partner with Spencer Stuart International, a firm involved in director and CEO recruitment globally. It is my understanding that this interview will cover the following subjects or topics:

- . CEO Succession
- . CEO Candidate Selection

I have been given some general information about this project and the types of questions I can expect to answer. I understand that the interview will be conducted at a place and time that is convenient to me, and that it will take approximately 90 minutes of my time.

I understand that my participation in this project is completely voluntary and that I am free to decline to participate, without consequence, at any time prior to, or at any point during, the interview. I understand that, with my permission, this interview may be audio (or video) recorded and that any information I provide during the interview will be kept confidential, used only for the purposes of completing this research, and will not be used in any way that can identify me. All interview notes, tapes, or electronic records will be

kept in a secure environment. The raw data will be offered to me no later than four months after the completion of the course assignment. If I decline it, it will be destroyed by the Investigator. I will also be provided with a copy of the student assignment at my request.

I understand that the results from this interview will be used exclusively in the below-named student's Athabasca University research and none of the information I provide will be published, in any form, in any journals or conference proceedings.

I also understand that there are no risks involved in participating in this activity, beyond those risks experienced in everyday life.

I have read the information above. By signing below and returning this form, I am consenting to participate in this project via a face-to-face interview as designed by the below-named Athabasca University student.

Participant name (please print): \_\_\_\_\_

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

Please keep a copy of this consent form for your records. If you have other questions concerning your participation in this project, please contact me at:

**Student name:** Pascal Bécotte

**Telephone number:** 514-531-3377

**Email address:** pbecotte@hotmail.com

or my **Athabasca University Research Supervisor** at:

Course instructor/tutor name: Michael Mauws  
Telephone number: 1-866-514-6182  
Email address: mmauws@athabascau.ca

or the **Athabasca University DBA Program Director** at:

Coordinator name: Kay Devine  
Telephone number: 780-418-7534  
Email address: kayd@athabascau.ca

Thank you for agreeing to participate in my project.

**Appendix E****Interview Protocol****Qualitative Interview****Interview ID Number:** \_\_\_\_\_**Demographic/interview information**

Name of the participant: \_\_\_\_\_

Gender: \_\_\_\_\_

Age: \_\_\_\_\_

Primary Industry Expertise: \_\_\_\_\_

Location of the interview: \_\_\_\_\_

Date of the interview: \_\_\_\_\_

Number of CEO succession events experienced as a director: \_\_\_\_\_

Main industry in which those CEO succession events occurred: \_\_\_\_\_

\_\_\_\_\_

**Introductory statement**

My name is Pascal Bécotte. I am a doctoral student with Athabasca University, and this research is conducted as part of the requirements for my doctoral thesis. The research is about CEO succession. I will be looking for your opinion on CEO succession process, situational, and personal characteristics, and how they influence the selection of CEO candidates. You were selected because of your experience serving on public company boards. Your participation is voluntary. Your opinions and answers will remain confidential at all times. You will be neither recognized nor recognizable if the findings of this research are published, as your opinions and answers will be both unattributed and

aggregated with others. (*Obtain copyright agreement signature.*) Do you have any questions before we start? Can I have your permission to record the interview? (*Start the interview and start recording if the answer is positive.*)

**Question 1:** Think about a recent selection process and described how it unfolded.

Probing questions:

Probe 1a: Can you identify chronological steps that were followed?

Probe 1b: Were there different roles played by different members of the board?

Probe 1c: Who led the process and why?

Probe 1d: What was your involvement?

Probe 1e: Did you involve external consultants to assist the board?

Probe 1f: What were your instructions to the external consultants?

Probe 1g: Were you satisfied with the overall process and outcome?

**Question 2:** Tell me about the company circumstances at the onset of the CEO succession event.

Probing questions:

Probe 2a: Was the succession event planned in advance or sudden? How did that impact the overall process?

Probe 2b: How would you describe the company performance relative to industry peers at the onset of the CEO succession event? How did that impact the overall process?

Probe 2c: How would you describe the industry within which the company operates? How did that impact the overall process?

Probe 2d: How would you describe the company culture? How did that impact the overall process?

Probe 2e: How would you describe the board composition and its functioning? How did that impact the overall process?

**Question 3:** Describe the personal characteristics you are looking for when looking for a high-performing CEO.

Probing questions:

Probe 3a: Was the selection committee in agreement on the characteristics sought after?

Probe 3b: What were the consultants' recommendations in terms of candidate characteristics?

Probe 3c: How would you rank these characteristics, from the most to the least important?

Probe 3d: Are there characteristics that you would consider "an absolute must"? Why?

Probe 3e: How important is previous CEO experience?

**Question 4:** Please describe the circumstances and characteristics that would lead you to consider a FTC candidate.

Probing questions:

Probe 4a: Are there process particulars that would influence you positively or negatively in appointing a FTC? Why?

Probe 4b: Are there company circumstances that would influence you positively or negatively in appointing a FTC? Why?



Probe 4c: Are there candidate characteristics that would influence you positively or negatively in appointing a FTC? Why?

**Closing statement**

Thank you for your participation. If you are interested in obtaining a copy of the thesis once it is completed, please share an email address that can be used. (*Note the email address below.*)

Email: \_\_\_\_\_

## Appendix F

### Codebook – Characteristics Analysis

**Unit of Data Collection:** Each individual interview describing one or more CEO succession events by one director.

**Interview/Director ID:** Fill in the interview's ID number as indicated on the Interview Schedule and Interview ID list.

**Director Name and Description:** Brief but discriminating description of the director whose interview is being coded (e.g.: "Pascal Bécotte, Business Services board experience, based in Quebec").

#### Coding Structure

Characteristics applying to all CEO candidates:      1X-Descriptor

Characteristics applying to FTC candidates:          2X-Descriptor

Process characteristics:                                      X1-Descriptor

Situational characteristics:                                  X2-Descriptor

Personal characteristics:                                    X3-Descriptor

#### Characteristics Descriptors

##### Process Characteristics

Restrictive Spec Definition

Candidate Known

Search Consultant Relationship

Interview Performance

Chairman Recommendation

Other Process Characteristic

Situational Characteristics

Size & Complexity of Co.

Composition of the Board

Industry & Role of Technology

Succession Circumstances

Other Situational Characteristic

Personal Characteristics:

Educational Credentials

Functional Expertise

Int./Ext. to the Company

Int./Ext. to the Industry

Age

Critical Thinking

Emotional Intelligence

Executive Intelligence

Other Personal Characteristic

## Appendix G

## "Other" Characteristics Breakdown

Table G1

*Other Process Characteristics Breakdown*

Other Process Characteristics	FTC-Specific	Any Candidates	Total
Absence of a Process	0	1	1
Governance versus Candidate Focus	1	2	3
360 Degree Feedback on Candidates	0	1	1
Continuous Process (versus Event Driven)	0	1	1
Incumbent "Refuses to Play"	0	2	2
Rigor in the Process	5	0	5
Total	6	7	13

Table G2

*Other Situational Characteristics Breakdown*

Other Situational Characteristics	FTC-Specific	Any Candidates	Total
Family Controlled Board	0	1	1
Internal Successor Power	0	1	1
Incumbent Input	0	2	2
Initial Selection a Mistake	0	1	1
Combined Chairman-CEO Role	0	1	1
Board Courage (to Force Change)	1	3	4
<b>Board Preparedness (for CEO Succession)</b>	<b>4</b>	<b>23</b>	<b>27</b>
Organizational Culture	2	2	4
Depth of Talent Supporting Internal FTC	1	0	1
Change in Strategy	1	0	1
Total	9	34	43

Table G3

*Other Personal Characteristics Breakdown*

Other Personal Characteristics	FTC-Specific	Any Candidates	Total
Personality/Creativity	2	4	6
Family of Important Shareholder	0	1	1
<b>Integrity (or Perception of)</b>	<b>15</b>	<b>14</b>	<b>29</b>
Gender	4	2	6
Language/Diversity	3	6	9
Availability	0	1	1
Ambition/A Chance to Prove Themselves	6	2	8
Total	29	31	60

**Appendix H****Athabasca University Research Ethics Approval****MEMORANDUM**

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**DATE:** March 29, 2012

**TO:** Mr. Pascal Bécotte

**COPY:** Dr. Michael Mauws (Project Supervisor)

Ms. Janice Green, Secretary, Athabasca University Research Ethics Board

Dr. Simon Nuttgens, Chair, Athabasca University Research Ethics Board

**FROM:** Dr. Mihail Cocosila, Faculty of Business Research Ethics Review Committee

**SUBJECT:** Ethics Proposal # FB-12-06B: *The Path to the Top - An Exploratory Investigation into Process, Situational and Personal Characteristics Influencing Directors' Willingness to Appoint a First Time CEO*

*I am pleased to advise that the above-noted project has been awarded **APPROVAL** on ethical grounds. This approval of your application will be reported to the Athabasca University Research Ethics Board (REB) at their next monthly meeting. There are, however, several minor revisions requested to this application prior to filing and reporting to the Athabasca University REB. Please make these changes and resubmit the application before starting the research.*

***The approval for the study “as presented” is valid for a period of one year from the date of this memo. If required, an extension must be sought in writing prior to the expiry of the existing approval. A Final Report is to be submitted when the research project is completed. The reporting form can be found online at <http://www.athabascau.ca/research/ethics/>.***

*As implementation of the proposal progresses, if you need to make any significant changes or modifications, please forward this information immediately to the CIM Research Ethics Review Committee via [mihailc@athabascau.ca](mailto:mihailc@athabascau.ca) for further review. We wish you all the best with your research. If you have any questions, please do not hesitate to contact me.*

Best wishes for your timely completion of this very interesting research project.

Best regards,

Mihail Cocosila, PhD

Associate Professor

Chair, Research Ethics Review Committee

Faculty of Business

Athabasca University

E-mail: [mihailc@athabascau.ca](mailto:mihailc@athabascau.ca)