

## Institute of Corporate Directors

### Podcast Topic: **Be It Resolved: Be It Resolved: The Board's Role is to Appoint and Dis-appoint the CEO.**

#### **Rahul Bhardwaj (0:06 - 1:07)**

Welcome to Be It Resolved Season 2, where bold ideas meet courageous leadership. I'm Rahul Bhardwaj, President and CEO of the Institute of Corporate Directors in Canada. Each episode explores the issues that influence directors, governance, and decision-making in the boardroom.

Today I have with me Jeff Hauswirth, who's a board advisor and senior executive search leader with deep experience supporting boards and leadership teams in Canada and internationally. He's currently on a number of boards, including Habitat for Humanity Canada and Fitzrovia. And Jeff's had a number of leadership roles at Ferguson Partners and Spencer Stewart, where he led the CEO and board practices.

He's also advised organizations on executive leadership, succession, and governance, and over the course of his career has led more than 150 CEO successions and search engagements globally. Welcome Jeff.

#### **Jeff Hauswirth (1:07 - 1:09)**

Great to be here. Thank you very much.

#### **Rahul Bhardwaj (1:09 - 2:06)**

Today's resolution is Be It Resolved. The board's role is to appoint and dis-appoint the CEO. Can I ask our listeners, which way would you vote?

And let's see what you think at the end of our conversation today. Jeff, you'll get to vote on this a little later. Today's conversation, we're going to be talking about CEO succession.

It's one of the most significant responsibilities of a board, and frankly, one of the most complex. Even with careful planning and strong selection processes, leadership transitions can present unexpected challenges. In this episode, we're going to explore why C-suite transitions sometimes fall short, what boards may overlook in CEO appointments, and how directors can support leadership success while knowing when to intervene.

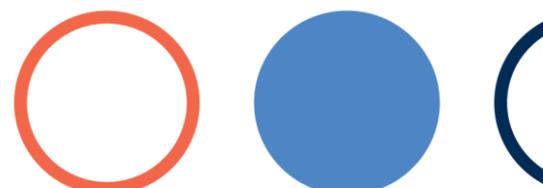
Let's get started. Jeff, what happens if a board gets CEO succession wrong?

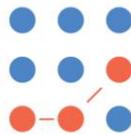
#### **Jeff Hauswirth (2:07 - 2:56)**

A lot of things. Primarily, if you look at the research, failed CEO successions have resulted in a trillion dollars of market value loss. The consequence, and when you think about that, had it been done properly, it would be a trillion of market capital creation.

What's the delta between the two? So, it's significant. And if you look at the statistics, between 38 to 50% of newly appointed CEOs are not viewed as a success after 18 months.

So big number. Big number. And an unacceptable number.





There are a number of reasons why that is the way it is. And as you stated, it is a very complex process. There are so many nuances and potholes in how the different variables interact with one another.

### **Rahul Bhardwaj (2:57 - 3:20)**

Jeff, you said this was really important and can erode a lot of shareholder value. And clearly that's in a public company context, and for that matter, a commercial context. This is going to burn through a lot of people if they're on not-for-profits or in crown corporations.

It's going to eat up a lot of time. It's going to send companies off strategy. But I know you've got a couple of examples, like HP and Starbucks, that really stuck out in your mind.

### **Jeff Hauswirth (3:21 - 4:26)**

Those are two great examples. And when you think about HP, they recruited an executive from SAP, which is a purely software play. And as it turned out, that individual was fired from SAP when he joined HP.

And HP is a printer PC company, completely hardware. He tried to change HP from a hardware company to a software company but did not garner the support internally. And he was viewed as a walking dead.

It eliminated 50% of the market value of HP, 50%. Think if you're an institutional shareholder under those circumstances. The other one is Starbucks, the founder.

And when you look at failures, the failure rate of hiring a first-time CEO into a founder organization is two to three times higher than if you're not doing that. There were three CEOs in four years at Starbucks. And what the board did was they enabled the founder to be in all the board meetings, which is for lack of a better term, the kiss of death.

### **Rahul Bhardwaj (4:26 - 4:56)**

It's really hard for us from the outside to know what the board was looking at and the information they had at the time. I think the takeaway is not to second guess it, but as to say, if you don't get it right, there's a real downside on it. I know you've got some thoughts about what happens if you get it wrong, but let's talk a little bit about some of the reasons a board might not get it right.

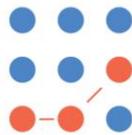
And then we can talk about how we can remedy some of those that I know you're a big believer in the importance of cultural alignment.

### **Jeff Hauswirth (4:57 - 5:39)**

The cultural alignment is the single largest contributor to either CEO success or CEO failure. And you're asking the board to assess a prospective CEO as to whether or not they will be a good cultural fit. And culture is very hard to measure.

You can measure technical skills, but culture is the unwritten rules of how things get done. And you're asking a group of people who may never have been a CEO before, have maybe never been part of a search committee to make what arguably is the most important decision





for a board. It's actually, in some respects, unfair to put someone in that position who's not qualified.

That is sort of number one reason in terms of failure. The other one is the composition of the search committee.

**Rahul Bhardwaj (5:39 - 6:09)**

So, let's talk about culture a little bit. This is really important because boards on the one hand have oversight of culture, strategy, and risk. But if you're going to take that into the context of CEO search, you have to have a good idea of what that culture really is, not just what you think it might be.

And then you have to make that leap to be able to assess somebody's past performance and how they did that. And is that going to be a right fit for this and where you want the culture to go? How do you mitigate that?

**Jeff Hauswirth (6:09 - 7:27)**

There are cultural tools, but the challenge there is what culture means to you and what it means to me. The nomenclature, the starting point may be not solid. The question is, is the culture the organization embodies today, is it the culture that they need in the future to achieve their objectives?

So then they need to bring someone in who's not representative of the current culture, but is representative of what the target culture is going to be. I would just say it is very, very, very hard. There's a science to it, but there is a bit of an art to it.

And I would tell you when it comes to interviewing prospective candidates, some interview extremely well and that has no bearing on their ability to excel in the role. Many people are poor interviewers. In fact, when you're interviewing someone, what the prospective candidate is not saying is almost more important than what they say.

That's a much harder interview to conduct. We like who we like. We have biases for someone who's like us.

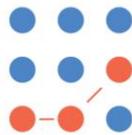
And so out of the starting gate, you've already got built-in biases and your lens is fixed. You somehow have to step out of yourself and be objective as a human being can possibly be in those situations.

**Rahul Bhardwaj (7:27 - 7:55)**

That leads us into a number of conversations. First of all, I think we should put on the table too, that there's some people that just really interview well and you want to get behind that. But you put on the table that there could be some unconscious bias.

And we know from all of the work we've been doing this in years, that you mitigate that by making sure that you've got a diverse perspective of people who are making this decisions. On this case, it points right at the composition of the search committee. Tell us a little bit more about that.





**Jeff Hauswirth (7:56 - 8:49)**

When I'm dealing with boards and it's CEO succession and we're putting together the search committee, it's almost a little bit like jury selection. Someone who's on that committee has to have been involved in a successful CEO search before. Experience really counts.

It really counts, but it has to have been a successful outcome. There should be ideally a former CEO on that search committee, but not a recently transitioned out CEO, because that could be a problem too, because they still want to hold on to the tiller. And then you have two or three other people who are very, very diverse, but it also leads into the team dynamic of a search committee.

And if you have someone who's dominant and others acquiesce, you're only really getting one voice. The chemistry of that committee is critical. And you'd frankly don't understand what the chemistry of that committee is like until you start.

**Rahul Bhardwaj (8:50 - 9:25)**

I'm hearing a couple of things. First of all, directors and boards really need to have a handle on the culture of the organization and be able to make the assessment of the candidate against that as a filter, then there's a process point. And I think I heard you say you pretty well want about five people and not a lot more on that committee.

And it's really important that you've got folks who've got some experience in successful searches before, or at least some battle scars that they've learned from, but I want you to talk a little bit more about the chair of an executive search committee.

**Jeff Hauswirth (9:25 - 10:14)**

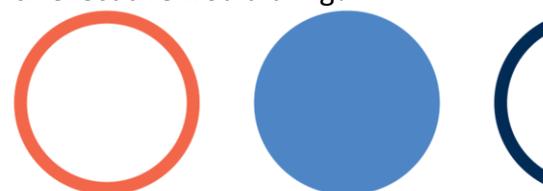
Whether there's a chair of the board or the chair of the search committee, after the comparison I make is a conductor of an orchestra or a chair and neither has an instrument, their role is to bring the most and the best out of the other committee members, you can define an organization better by what questions are asked than what answers are given. Being a steward, being a shepherd, not being dominant, making sure everybody's voice is heard is really important. And ego is in check.

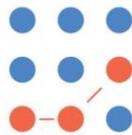
And all I would say is that committee has to be, their sole goal is to be a catalyst and an advocate for the success of the organization, but also for the success of the CEO, because we talk about the role of the board in success, but sometimes what gets a little lost is the role of the CEO themselves.

**Rahul Bhardwaj (10:15 - 10:49)**

The imagery of a conductor is a great one. At our most recent ICD conference in Edmondson, we actually went to a session with a symphony and a conductor and with the directors on stage and it was really illustrative and people understood the special sauce that it takes to be able to let everybody play their part in this. So really important, but there's another role in this as well.

And that's of the search executive. Can you explain a little bit to those who might not know the type of value add in this particular case, a CEO search that a search executive would bring?





**Jeff Hauswirth (10:50 - 12:13)**

First of all, experience and not having just been involved in a search firm in successful CEO searches or succession, but failures as well, because as we all know, we learn more from failures than from successes, I would tell you there's a little bit of imbalance of power because the search firm has done this over, over and over and I've seen everything. This newly constituted search committee is newly constituted search committee. And so the search firm is there to be a catalyst, to make sure the search committee puts forward the best possible candidate, not if someone would say, well, we've got three or four candidates and any of them could do the job.

Wrong answer. Who's the one who can do the best job? So I've been in boardrooms around the world where they wanted to appoint this particular candidate.

And I knew that that was not the best solution. And I had to move the committee over to the ideal solution. And at the end of the day, it was the right outcome.

So, a search firm has to have a point of view, has to have a voice, has to take chances, needs to take risks, has to go down on their sword for what they believe in. That's a good search practitioner. Someone who just is answering the questions and taking orders is not optimal.

All right. So, you need that objectivity, help the committee see the forest through the trees. Correct.

You need to have the courage to say what may not be popular or what they may not want to hear.

**Rahul Bhardwaj (12:14 - 12:29)**

Right. So, this is not a DIY, do it yourself project. Good.

I think most boards understand that, but it's always good to be clear about that. You've had a successful CEO search, but that's not the end of it, is it? This isn't part of the journey.

It's the beginning. The beginning of what?

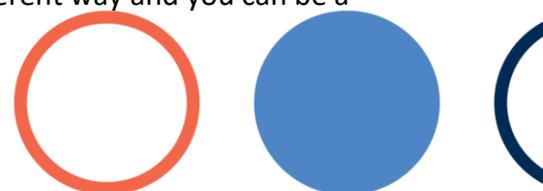
**Jeff Hauswirth (12:30 - 13:50)**

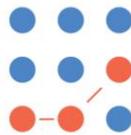
My view is the onboarding process is as important as the candidate you choose. So having a rigorous onboarding process. I've had situations where CEOs have shown up on Monday and there was no one there to greet them.

And it was just very, very haphazard, but companies are getting better at it. So what happens is there's a formal onboarding process. Meetings are set up.

The relationship between the chair, if it's a public company and the CEO is critical. That chair usually has a 12 to 18 month stewardship. They are helping the new CEO understand the unwritten language.

How are things done? You can have been a massively successful CEO at company A that gets things done a certain way. And in company B, they get done a different way and you can be a huge failure.





So it is taking one success from another doesn't mean it travels. Being a buffer for the board and understanding all the dynamics, I would say to you the role of a chair in a newly appointed CEO situation. I don't want to say it's a full-time job, but it is for two years.

It's extensive. And I would also observe that the dynamic between those two can significantly influence the success of that CEO. That's not a job someone takes lightly on the chair.

**Rahul Bhardwaj (13:51 - 14:06)**

And this is a really delicate relationship. You don't want to get into management space, but you want to have oversight, but this is the type of personal relationship that really ripples through the organization and all the stakeholders while people are reading the signals here. Really important process.

**Jeff Hauswirth (14:07 - 14:52)**

Correct. I used to do a lot of work with Sir Graham Day, who we all know, and he was just a brilliant chair. What I observed with Sir Graham, he, with the CEO was obviously a coach, a stewardship and so forth.

But the denominator was constructive tension. So that's like describing error. It's so hard to describe how you do that.

It requires someone who has such a, they know when to be, have a light touch. And maybe slightly heavier touch, but they, they can read the signals around them. It's like watching a ballet or watching Roger Federer play tennis.

It's elegant. It's a beautiful thing to see. And you don't see it often enough.

**Rahul Bhardwaj (14:52 - 15:08)**

A high degree of self-awareness required. Correct. Absolutely.

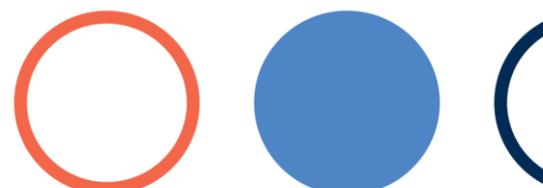
We've talked now about the appoint. Let's talk a little bit about the disappoint. Let's get into a little bit about when is the time to intervene, perhaps course correct, or even replace the CEO?

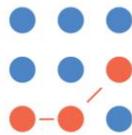
**Jeff Hauswirth (15:09 - 16:12)**

It's a great question. Also, and it comes down to the nature of a human being too. We don't like making tough decisions.

And so quite often the failure of that CEO goes further than it should have. So some obvious things are market share decline, looking at the peer group and that organization is underperforming all the time, the two other ones I find are really more subtle is the CEO becomes defensive and becomes less transparent. I've seen that time and time again.

Therefore, the board is not getting the information they need in which to make informed decisions. Which is where you can imagine is a very uncomfortable position because you have a fiduciary responsibility that you can't actually live up to because you're not getting all the information. I remember Jack Welch had a quote.





I still think of it to this day. He said, there was never a decision he wished he had taken longer to make as it related to exiting non-performing CEOs. I think there's human nature in there.

There's human nature in all of this.

**Rahul Bhardwaj (16:13 - 16:31)**

Not an easy decision, but a necessary one if you're going to act in the best interest of the corporation. Let's talk a little bit about tenure because it seemed a generation ago, a long tenure for a CEO was something everybody looked forward to and somewhat expected in some corners of the world, they still do, getting shorter.

**Jeff Hauswirth (16:32 - 18:02)**

The S&P 1500 last year, the average tenure of a CEO was five years. The year before that, it was 6.3 years. The anomaly are in financial service in the United States.

It's 11 years. And in healthcare, it's 12.3 years, I believe. And I'm not sure why that is different.

And then I was thinking of Jamie Dimon. I think he's been in that role for a long time. And, you know, when you think about it, if the organization's in good shape and the industry's in good shape, and let's say you come from outside the industry, it's going to take you a year to understand the landscape, and then it's going to take you two years to execute.

I don't think five years is long enough. To make your mark. To make your mark and to live with the results, right?

We talked about this before. So what are some alternatives to that and why? And I'm not sure this is the right answer, but if you look at Germany, most companies have two boards, right?

A management board and then an oversight board that oversees the management board, but then I thought with Volkswagen, that didn't work out very well. But then the Nordics have a very similar structure and some of the Nordic organizations are the most successful companies in the world and box way above their weight class. I guess where I come out is there's always one throat to choke but is the just far too complex now to have just one person having responsibility and ownership for the outcome.

I think that was okay in the past. I think there's time for maybe a new model.

**Rahul Bhardwaj (18:03 - 18:29)**

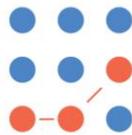
We did start this part of the conversation by saying the CEO tenure seems to be getting shorter, accelerated in a digital environment. Strategies are under different types of threats now than they ever have been. And here we are walking into the AI world.

And I've got an idea that you might have some thoughts on how AI might impact CEO tenure and perhaps CEO succession.

**Jeff Hauswirth (18:30 - 19:28)**

I think boards need to be careful not to try solving yesterday's problems. AI used to be a nice to have on a CEO spec, and now it's a competency that is a must have. I hosted an event with





a number of directors, and it was around the complexity of a board in these times.

And within five minutes, it went to AI and the board directors felt unequipped to be able to fulfill their fiduciary responsibilities because they didn't understand enough of what the AI tools can do. The point is there's an age component here too. I'm curious. I think that the average age of a CEO will start to get younger because they are more technically affluent and therefore the role of the board becomes even more important because you're going to have a less tenured CEO. I don't know if anyone has the answer for AI, but those who do when I talk to them, it's increased their productivity by 25 to 30%.

**Rahul Bhardwaj (19:28 - 19:41)**

So younger, potentially less experienced executives, but more experienced perhaps than AI. That doesn't reduce the risk of the CEO succession process. It just enhances it.

It's going up.

**Jeff Hauswirth (19:42 - 20:03)**

Correct. And when you think role, as someone moves along in their career, they're moving along because of their technical expertise and that once they hit a certain wall, it becomes more around personal character, values, judgment, and so forth. If you're catching someone who's just crossing that bridge, that has implications.

**Rahul Bhardwaj (20:04 - 20:16)**

Absolutely. Jeff, thanks so much for joining us today. Now, you know, we have a resolution on the table.

Be it Resolved: The Board's Role is to Appoint and Disappoint the CEO. Which way would you vote?

**Jeff Hauswirth (20:17 - 20:28)**

I think there's only one answer to that question, isn't it? Of course, it's the role of the board.

It's the most important role of the board. And regrettably, it doesn't always work like that.

**Rahul Bhardwaj (20:28 - 20:39)**

Thanks so much for coming today. Your perspective on succession and accountability is really going to help a lot of directors navigate these expectations as they advance. So thanks.

It's been great to have you here today.

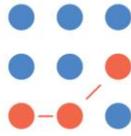
**Jeff Hauswirth (20:39 - 20:40)**

Thanks for having me.

**Rahul Bhardwaj (20:40 - 21:02)**

And to our listeners, I hope you enjoyed today's episode of Be It Resolved and that you've deepened your boardroom insights to stay ahead of emerging trends. If you found today's discussion thought-provoking, I encourage you to subscribe and leave a review on your preferred podcast platform. From the Institute of Corporate Directors in Canada, I'm Rahul Bhardwaj.





Until next time.

