

The Succession Trap

How the C-suite thinks about leadership transitions and why it's wrong

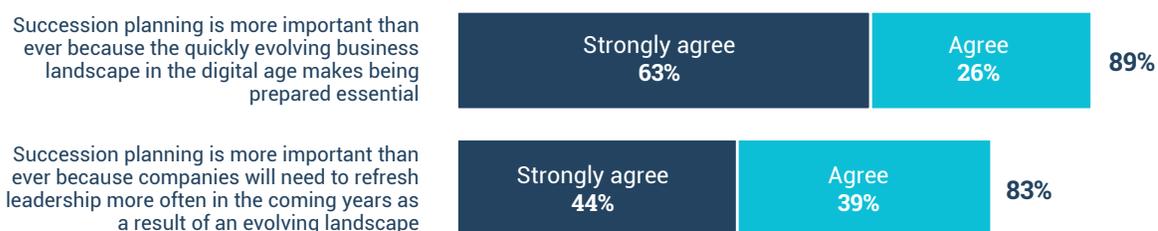
A survey of 160 executives



CEO turnover rates are on the rise – but are companies prepared?

In 2019, over 1,500 CEOs left U.S. businesses, marking the highest turnover rate since executive search firm Challenger, Gray & Christmas began tracking these [departures](#) nearly two decades ago. Among the world's 2,500 largest public companies, CEO turnover is even more common, reaching a record 17.5% in 2018, [according to PwC](#).

The pandemic may have hit pause on such transitions, but it was only a momentary blip. Turnover rates began [rebounding](#) to 2019 levels as early as Q3 2020. In the first few months of 2021, we've seen several high-profile corporate succession announcements, including Jeff Bezos at Amazon, Ken Frazier at Merck and Warren Buffett at Berkshire Hathaway, to name just a few. All signs point to a continued increase. After all, the pandemic accelerated the very forces that prompted the mass exodus of CEOs in the first place: ongoing digital and workplace transformations, heightened cultural and societal pressures, and a rapidly evolving business landscape.



Given this trend, one would think that organizations would be more prepared. That's not the case. In History Factory's survey this year of 160 C-suite executives including 50 CEOs, board chairs and company founders – 57% of respondents say their companies don't have documented plans in place for executive transitions, despite nearly 90% agreeing that in today's unpredictable environment, succession planning is more important than ever.

Why the disconnect? Where are organizations struggling most with leadership transitions? And how can they improve – before it's too late?

Our report answers all this and more. But the primary takeaway is this: Institutional memory matters. And not just when it comes to an outgoing leader's personal legacy.

The importance of transferring institutional knowledge

Hewlett-Packard and Apple were both born in Silicon Valley garages and grew to become synonymous with American technological innovation.

But in the mid-2000s, as the two companies underwent critical leadership transitions, one emerged with its innovative DNA intact. The other did not. And it had everything to do with the ability (or inability) to effectively transfer institutional knowledge – that is, the combination of experiences, processes, data, expertise, values, and information possessed by the whole company – not just the legacy of the person in the corner office.



"My monument to me is coming along nicely."

That legacy at HP was about as epic as can be. After all, for its countless innovative achievements, the company is considered the symbolic founder of Silicon Valley. In the 1990s, however, the company lost its "HP Way." While the founders' personal legacies may have been enshrined in business [books](#) and [historical sites](#), the company's successive leaders fumbled the institutional values and knowledge that made HP great in the first place. As Financial Times reported, this reached its nadir in the mid-2000s with a series of [failed](#) CEOs who, brought in from the outside, failed to "maintain or revive the innovative heartbeat of the company."

Instead, they pursued business combinations and cost-cutting. As one software executive [told](#) The New York Times while reflecting on HP's acquisition of the British software company Autonomy, "It was as if Alan Mulally left Boeing to join Ford as C.E.O., and announced six months later that Ford would be making airplanes."

Apple's transition from Steve Jobs to Tim Cook stands in stark contrast. Not that Jobs didn't take pains to preserve his own personal history with the company. In "Haunted Empire: Apple After Steve Jobs," author Yukari Iwatani Kane caps off a description of Jobs' memorial service — replete with performances by Joan Baez and Yo-Yo Ma — by [noting](#), "Somehow he had transcended death to obsess over the launch of one last product: his own legacy."

The preservation of this legacy, however, didn't come at the expense of effectively transferring Apple's institutional knowledge. In fact, Cook joined Apple's executive team in 1998. When he first started, he eschewed a larger office to sit closer to Jobs on the executive floor. Though he wasn't on the product design side of things like his boss, he ran the company's operations with a level of demand and ambition that matched Jobs' ethos. At the start of his tenure, for instance, Cook [told](#) the procurement team, "I want you to act like we are a \$20 billion company," despite Apple then generating only about \$6 billion in yearly revenues. In his first memo to staff, he doubled down on his commitment to Apple's innovative DNA, encouraging employees "to be confident that Apple is not going to change."

There's a reason why, when asked which succession most closely exemplifies a best-case CEO transition, Apple is far and away the top choice among our survey's respondents.

Which of the following examples most closely exemplifies what you would define as a best-case CEO transition?



In leadership transitions, history matters

Apple's success (and HP's struggle) underscores the importance of preserving and transferring institutional memory – not just an outgoing leader's personal legacy. Our survey reveals that executives recognize the importance of this heritage: 63% say that it is very important to document the history and experience of the company and current leadership for the next leader.

“History is the mother of innovation for any type of company,” a CEO respondent says, while another respondent posits that history “is the most important part of any business plan, and that extends to succession.”



From left, Henry Ford II, Henry Ford, and Edsel Ford, three generations of executive succession.

Our work at History Factory over the past four decades has revealed this same fundamental truth. After [announcing](#) our own transition in 2021, we know that history will inform our continued succession planning in the months to come.

We hope that this report – which draws on data from a comprehensive survey we conducted in February and March 2021 to outline the challenges of leadership transitions and how to successfully prepare for one – will convince you why history should inform yours, too.

Why succession planning is so challenging

Our respondents overwhelmingly agree that the evolving business landscape in the digital age makes succession planning more important than ever. Yet only 43% have a documented plan in place.

Why? Our experience and the survey results indicate four key reasons:

1. An increasingly disruptive, digital and fast-paced business landscape

The digital age, as McKinsey has [written](#), ushered in “massive disruption” and turnover for business leaders. Since 2000, more than half of Fortune 500 companies have been acquired, merged or declared bankruptcy. As we’ve seen with HP, this is particularly challenging in tech, where the pressure to continually innovate can be difficult to [sustain](#) over the long term.



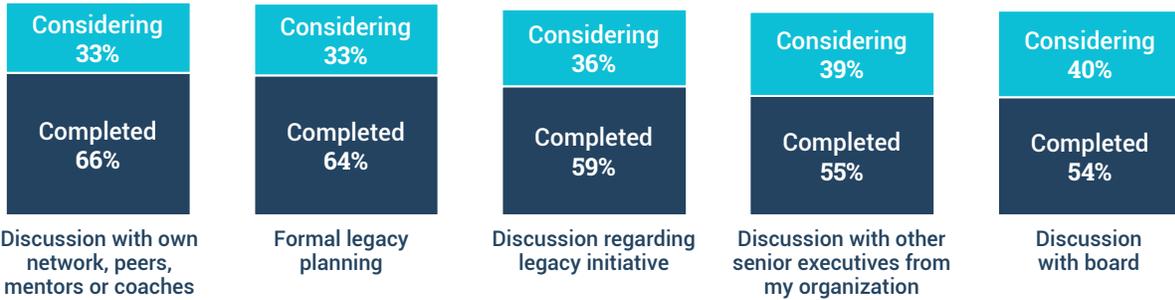
“All in favor?”

Merge the digital age with a challenging economic climate and heightened societal pressure — be it #MeToo or reinvigorated movements for racial justice — and it’s no surprise that many expect turnover to continue apace. Though our survey finds that fewer than 20% of leadership transitions occurred because of crisis response, underperformance or scandal, that number is not insignificant and is likely to increase post-pandemic. In 2019, for instance, The Conference Board [found](#) a record-high number of CEOs who “left their post as a result of an investigation related to their personal misconduct.”

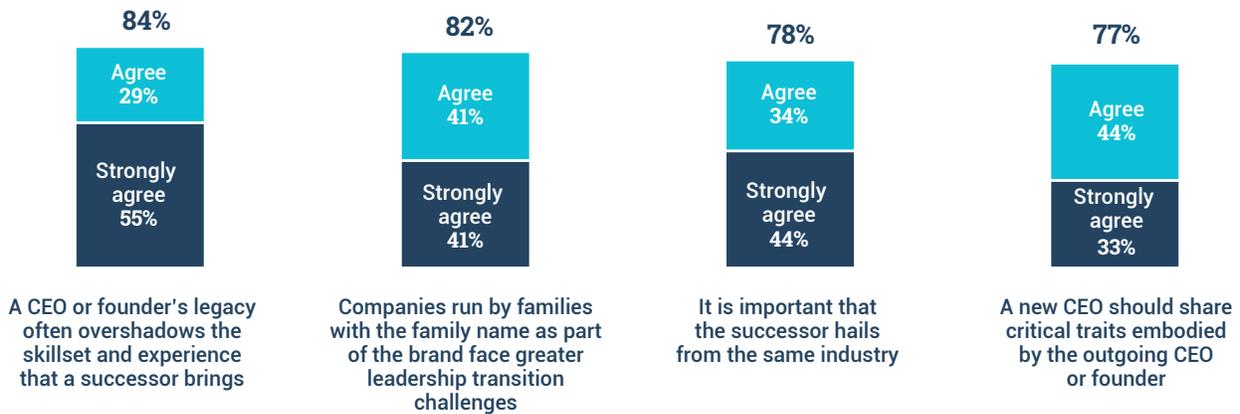
2. Transitions are often viewed through an individual, not organizational, lens

While 57% of respondents say their organizations don’t have documented succession plans, a much greater percentage of executives say that they have taken proactive steps to formally create and reinforce their personal legacies (64% have done so, while 33% are considering it). Meanwhile, 84% of respondents agree (with 55% strongly agreeing) that a CEO or founder’s legacy often overshadows the skillset and experience that a successor brings.

To what extent have you taken proactive steps to create and reinforce your legacy?



Please state your agreement with the following statements regarding succession situations:



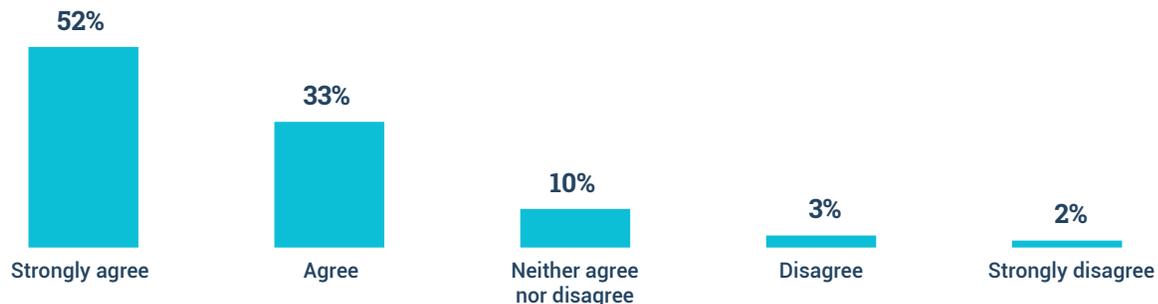
These data points reveal an antiquated approach to succession planning. Given the rapidity of change, which executives clearly understand, a leadership transition – a successful one, anyway – needs to comprise much more than an individual's legacy.

3. Longer predecessor tenure

Part of the reason why transitions are too often viewed through an individual lens stems from predecessors having long tenures. Even if top executives don't last in their jobs for decades as many once did, they still have a median tenure of five years, and [about 20% of them remain in that position for more than 10 years](#). This has significant consequences: 85% of survey respondents agree or strongly agree that the longer the previous CEO is around, the tougher they are to replace.

It follows, then, that respondents – especially CEOs (70%) and those in tech (67%) – strongly agree that a CEO or founder's legacy can lead to transition issues. If the company is family-led or a family's name is part of the brand, that only adds to the pressure placed on a new CEO, according to our respondents.

To what extent do you agree that a longer tenure of an outgoing leader complicates the transition for a successor?



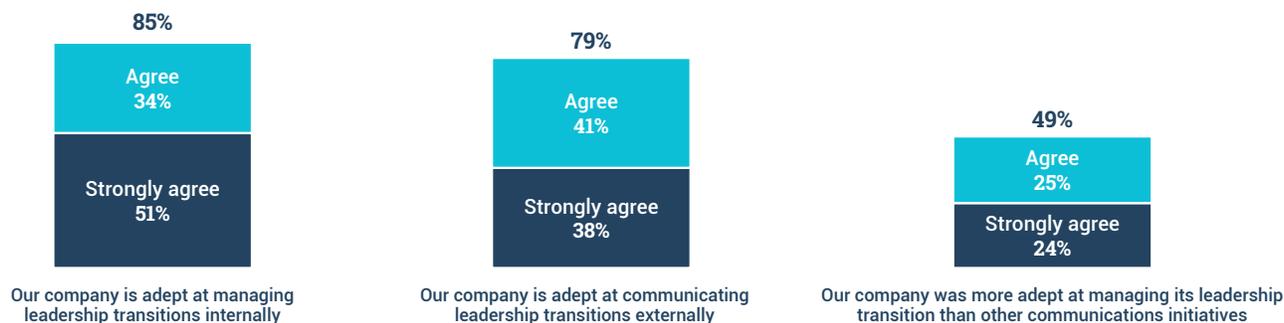
That perceived pressure on CEOs bears out in many oral histories of companies. Top company officers and CEOs have outlined the challenges they faced when filling a predecessor's shoes, particularly when tasked with replacing a company founder. Jeff Immelt has spoken candidly with the [press](#) regarding his 2021 book, "Hot Seat: What I Learned Leading a Great American Company," about the difficulties he faced taking the reins at General Electric from Jack Welch, whose legacy loomed over Immelt's leadership.

4. A lack of strong external communications

Another significant challenge associated with leadership transitions is effectively communicating them to the outside world. While 51% of respondents strongly agree that their company is adept at internal management of leadership transitions, just 38% feel that way about external communications. Additionally, fewer than half say their company is better at managing leadership transitions than other categories of communications initiatives.

What's more, the fact that leadership transitions remain somewhat rare – certainly compared with more common announcements for companies, like product launches and quarterly earnings – means that organizations are less practiced and therefore less adept at communicating them. But that logic also underscores the need for strong, documented plans that emphasize communications for infrequent but hugely consequential company news.

Please state your agreement with the following statements regarding leadership transitions:



Five keys to a successful leadership transition

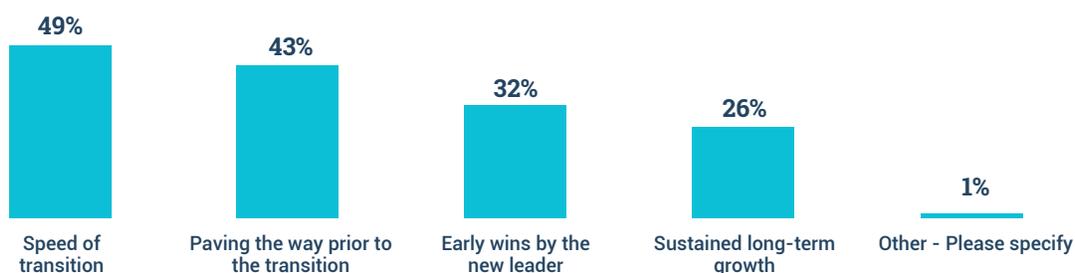
As we've seen, it's more important than ever that companies get their leadership transitions right. The consequences of not doing so can cause damage to customers, employees and shareholders. In 2019, for instance, shares of S&P 500 companies [fell](#) an average of 1.5% in just one day following news of a CEO departure; for companies whose CEOs leave in haste, like at [McDonald's](#), that drop can be significantly worse.

Drawing on our survey of C-suite executives and History Factory's decades' worth of experience working with companies on their institutional histories, we've compiled five best practices toward a successful leadership transition.

1. Understand what makes a transition successful.

When considering what a successful transition looks like, just under half of respondents indicate that a quick transition is a marker of success. The sooner a new leader is onboarded, the sooner they can start executing and providing organizational stability. More than four in 10 select "paving the way prior to the transition" as indicative of success, although that marker is significantly less important among tech industry respondents (18%), who perhaps consider a transition more of a solo endeavor for CEOs.

How would you define leadership transition success?

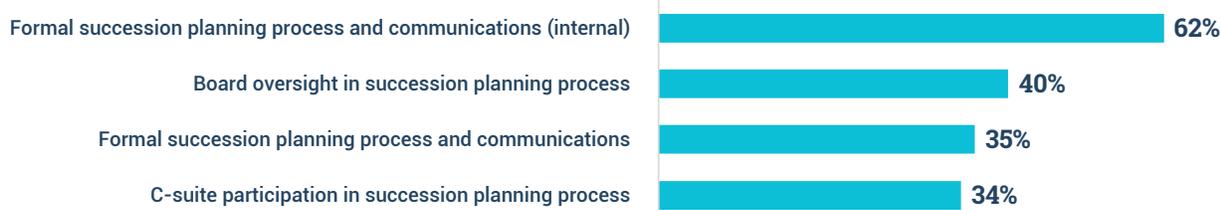


Another 79% of respondents agree (with 44% strongly agreeing) that it is important that the successor hails from the same industry, while 78% agree (with 33% strongly agreeing) that a new CEO should share critical traits embodied by the outgoing CEO or founder. It follows that respondents rate Apple's transition to Cook, a longtime Apple employee with traits similar to Jobs, highest among all provided examples.

2. Make a formal succession plan.

Among factors leading to a successful succession process, a formal succession plan and strong internal communications is, at 62%, far and away the most popular response. It is much more important to respondents than even the second-most popular choice (board oversight of the process, at 40%). Another 35% say that formal succession plans and external communications contribute to successful transitions, while 34% say as much about C-suite participation in the planning process.

Which of the following are contributing factors to a successful C-suite succession process, in your opinion?



3. Focus on communications, both internal and external.

As noted above, internal and external communications are key facets of any successful leadership transition. Yet the wide gap between the number of respondents who prioritize internal over external communications might explain why so many companies are better at communicating transitions within their own walls than to the public. It also suggests an opportunity.

That Apple and Microsoft score best among several other successful transitions that involved high-profile CEOs could help highlight the value of effectively communicating changes. In this instance, respondents appear to be reacting to two specific companies that have worked hard to maintain positive public profiles. They also may be reacting to the highly publicized successes they've seen these companies enjoy since the transition. In any case, while leadership transitions may begin with internal communications, external communications prove just as important — not only during, but long after the transition occurs.

4. Capitalize on your company's history.

Most respondents understand that history has enormous value when it comes to succession planning. "It includes the roadmap to failures, as well as successes," a financial services CFO says.

When viewing a list of hypothetical situations, respondents say executive onboarding is where history and heritage can play the largest role, with 60% calling it very important. But that isn't all. Company history and heritage are considered important by at least 86% of respondents in all the scenarios offered in the survey.

What level of importance does company history or heritage play in the following situations?



The key, as discussed in the report's executive summary, is to avoid concentrating on a founder's personal legacy at the expense of effectively transferring institutional knowledge. Again, many know this. Respondents totaling 90% say that documenting company history is important or very important to the next leader, following the mold of Apple's Jobs, who detailed the company's history in one of his final acts.

5. Learn from successful leadership transitions.

Business leaders should follow the examples of other companies that have not only had successful leadership transitions, but effectively transferred institutional knowledge and history in the process.

USAA

USAA is known for offering banking, insurance, and investment products and services to active-duty members and veterans of the U.S. Armed Forces and their families. The military has a strong influence on the company's ethos, culture and management style. Although the company is nearly a century old, Wayne Peacock, who became CEO in early 2020 after more than 30 years with the company, is USAA's first chief executive without a military background.

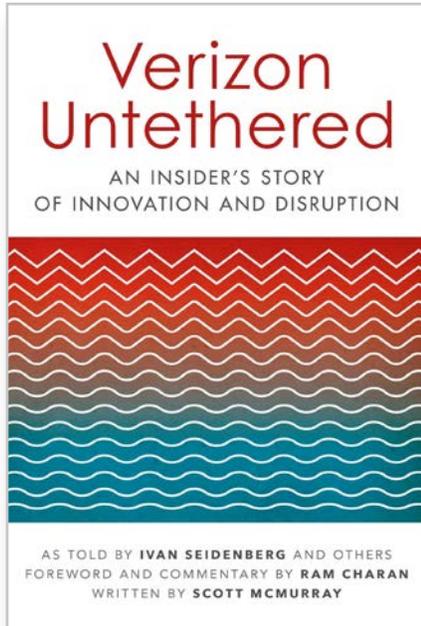


Like many military organizations, USAA has established a playbook for how it captures and deploys institutional memory during a period of leadership transition. When the company begins to execute a succession plan, it conducts oral histories with its leaders and collects materials for USAA's archives. It also produces a monograph that documents the significant milestones, insights and other events from the most recent era of leadership. The approach balances recognition of the individual's personal legacy with the long-term need to capture, preserve and communicate USAA's institutional memory.

Indeed, when Peacock took the helm as the coronavirus pandemic began, he drew from the company's response to previous crises, specifically 9/11 and the Great Recession, as the basis of his playbook for USAA's COVID-19 response.

Verizon

Verizon's leadership has taken a similar approach, which is embodied in former CEO Ivan Seidenberg's approach to writing a book on his experiences.



When Seidenberg began his research, he was struck that the books CEOs wrote disproportionately covered their own individual legacies versus their organizations' institutional memories. As he shared with History Factory, "Most of the books by CEOs that I have read are about the philosophy of the CEO, what they thought was right or wrong. That was less interesting to me than what they accomplished, what they left behind. It literally took dozens of people to create this institutional framework that is Verizon. I wanted to make sure that the word got out, that all of the people who had some part in this were recognized for their contribution."

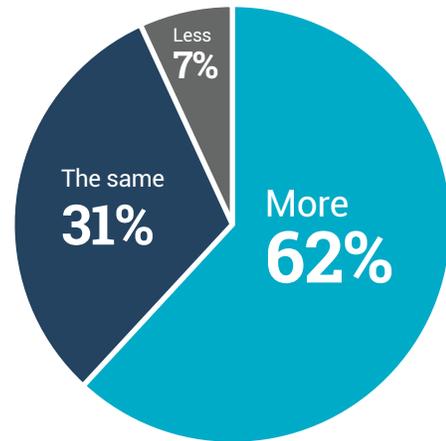
The book project Seidenberg led included interviews with nearly 50 colleagues and essays from noted management consultant Ram Charan. The result was a book that is far more focused on providing a historical record of the company's first decade.

Verizon leaned into institutional memory during its second CEO transition, from Lowell McAdam to Hans Vestberg. McAdam had always wanted to form a company museum. The notion also appealed to Vestberg, who had been CEO of Swedish company Ericsson, known for its formidable use of its history. With the future of the business in mind, the project evolved to encompass a company museum and archives program designed to be scaled on digital platforms. It will be updated and maintained over time to preserve and share with employees, customers, and other stakeholders the history that Verizon continues to make.

More Pressure, Different Perspectives in Tech

Tech industry respondents face more skepticism than other multinationals during times of transition. In our survey, 62% of respondents say so – as do 71% of respondents from the tech industry. Chalk it up to a quickly moving industry and a lot of young companies.

Our survey reveals a handful of other interesting findings that shows how the tech industry has different expectations of succession planning.



84% of tech industry respondents strongly agree that succession planning is more important than ever because of the quickly evolving business landscape. That was 21 percentage points higher than the full survey pool.

Successful leadership planning is defined differently by the tech sector. Just **18% of those respondents** said paving the way prior to the transition was in their definition, compared with 43% overall.

That might help explain another finding: that **67% of tech respondents** compared with 52% overall believe a longer tenure for an outgoing leader complicates a transition for a successor.

Apple moving from Steve Jobs to Tim Cook is the most highly rated transition we asked about, at 38% of overall respondents and 50% of tech respondents. That's an interesting finding, as it runs counter to the pressure on tech companies noted above.

71% of tech respondents, compared with 63% overall, say that documenting the history and experience of the company and current leadership is very important for the next leader.

Conclusion: Creating a Living History

After a brief dip in CEO departures during the pandemic, turnover rates have begun to roar back. They aren't likely to ebb in an ever-evolving business landscape still reeling from the effects of COVID-19.

As our survey report shows, too few companies have documented succession plans in place. Challenges abound, whether they stem from today's disruptive digital age, long leadership tenures, poor communications, or the inability to effectively transfer institutional knowledge. But it's encouraging that many leaders seem to understand what's at stake, what history means, and how history can significantly impact their organizations' livelihoods.

"The good news is that executives are clear-eyed about how the rapid pace of change makes effective succession planning more important — and that passing along institutional knowledge is crucial," said Jason Dressel, President of History Factory. "But for too many companies, that understanding isn't translating to concrete plans, and legacy is too often viewed as an individual, and not an organizational, priority."

■ Legacy is too often viewed as an individual, and not an organizational, priority.

After all, while personal legacy is important, getting stuck revering past leaders doesn't help new leaders move forward. For that, they need a different sort of history: a living history, one that captures the organization's fundamental values, experiences, processes, and information — not to store them away, but to carry them into the future.

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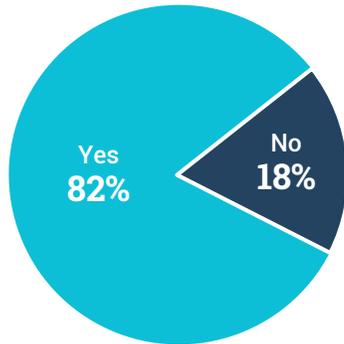
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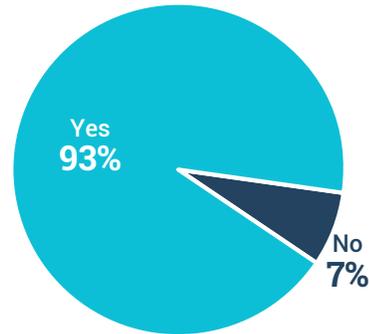
Page 6: Christopher Weyant / The New Yorker Collection / The Cartoon Bank

Full Survey Results

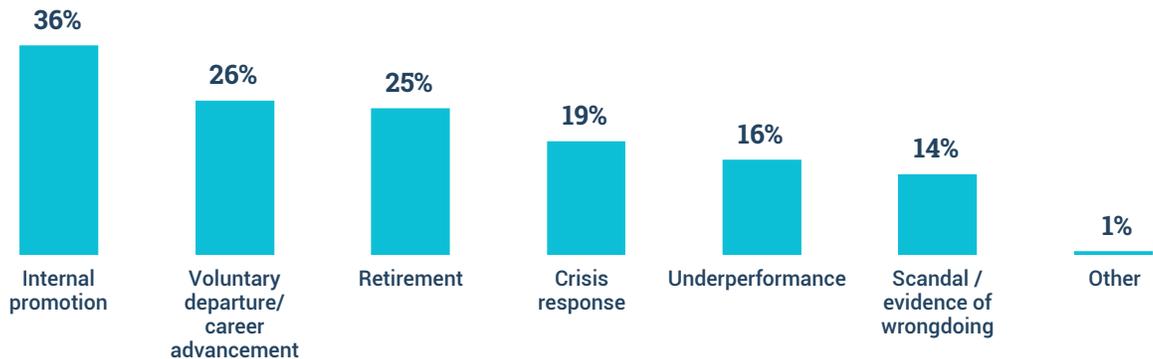
Q1 Has your company experienced a leadership transition during your tenure?



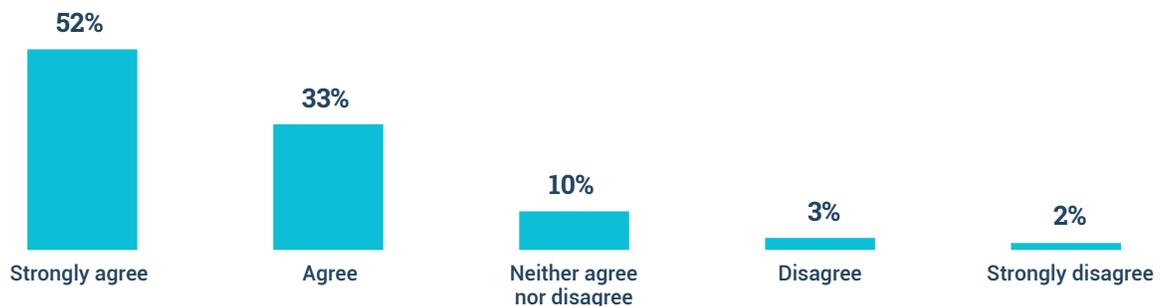
Q2 Have you experienced such a leadership transition at any point over the course of your career?



Q3 Why, based on your experience, have such leadership transitions occurred? Please select all that apply:

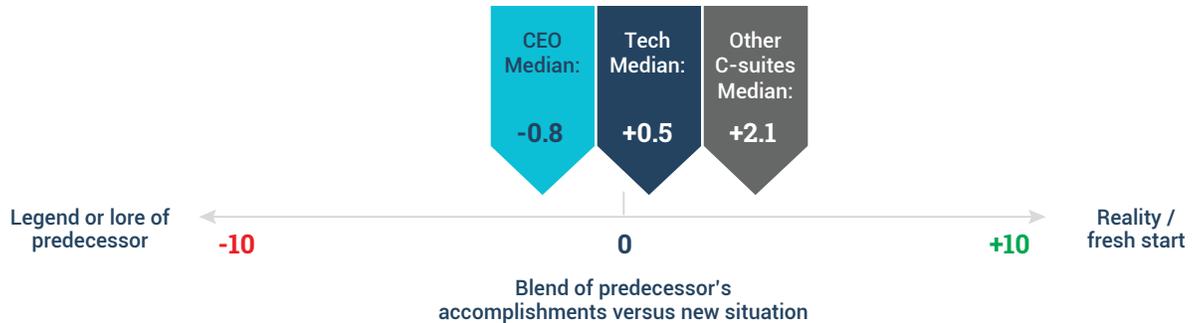


Q4 The median CEO tenure is five years, and approximately 20% of CEOs remain in the position for 10 or more years. To what extent do you agree that a longer tenure of an outgoing leader complicates the transition for a successor?



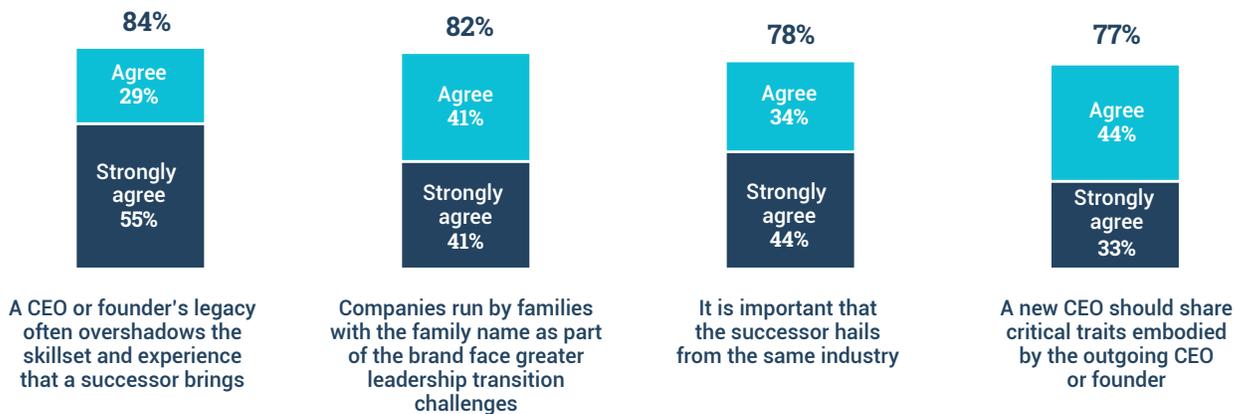
Q5

Based on your own observations, to what degree is an incoming leader measured against the legend or lore of a previous leader (or legend) versus the current reality and his or her own path forward (or new reality)? Please slide along the bar to indicate your opinion.



Q6

Please state your agreement with the following statements regarding succession situations:



Q7

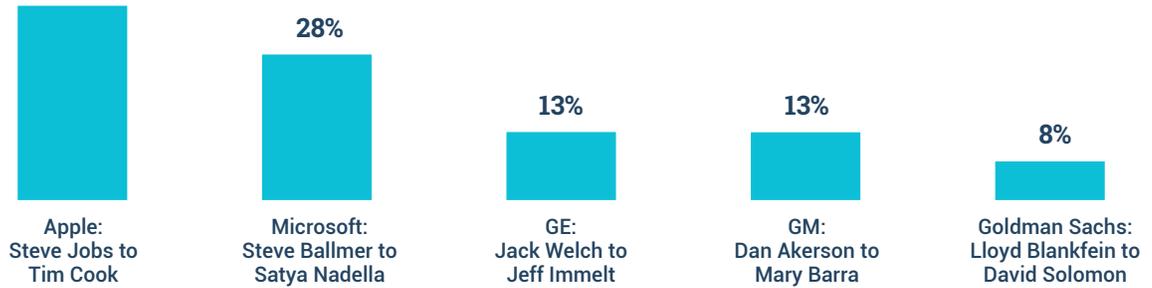
You indicated that you believe a new CEO should share critical traits embodied by the outgoing CEO or founder. Please rank the importance of the following four traits:

Rank Traits

- 1 Management style
- 2 Vision (#1 for CEOs)
- 3 Industry expertise
- 4 Company expertise

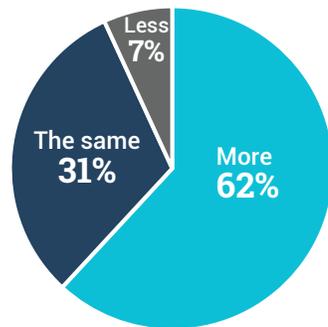
Q8

Which of the following examples most closely exemplifies what you would define as a best-case CEO transition?



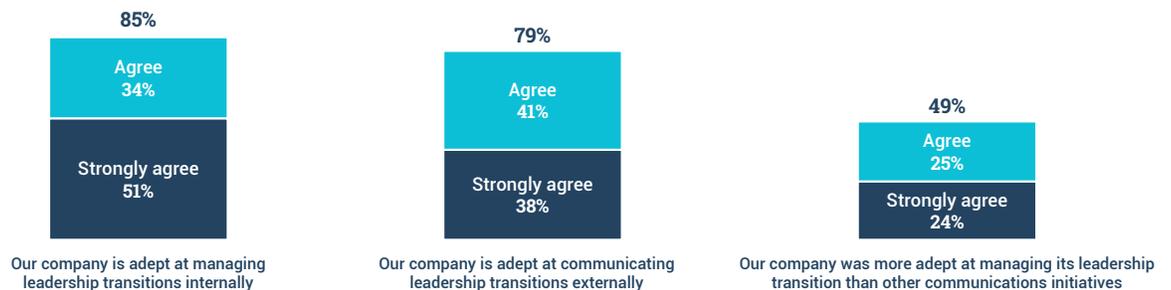
Q9

Think specifically about the technology industry, and market perceptions of what the outgoing CEO founders of companies including Amazon, Apple, Google, Microsoft may “take with them” as they go. Are tech companies susceptible to more, less or the same degree of market skepticism as multinational companies in other industries that undergo these types of leadership transitions?



Q10

Please state your agreement with the following statements regarding leadership transitions:



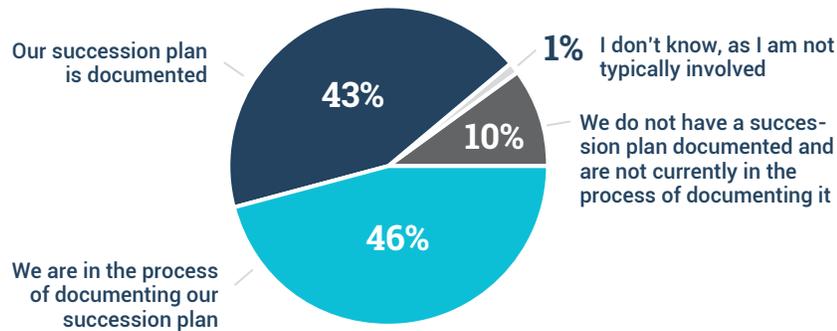
Q11

Which of the following do you consider as vital components of a succession plan? Please select all that apply:



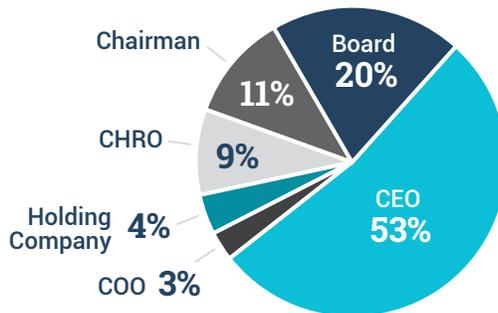
Q12

What is the status of your company's succession planning process in terms of documentation?



Q13

Who has the greatest degree of oversight or leadership when it comes to developing your organization's succession plan?



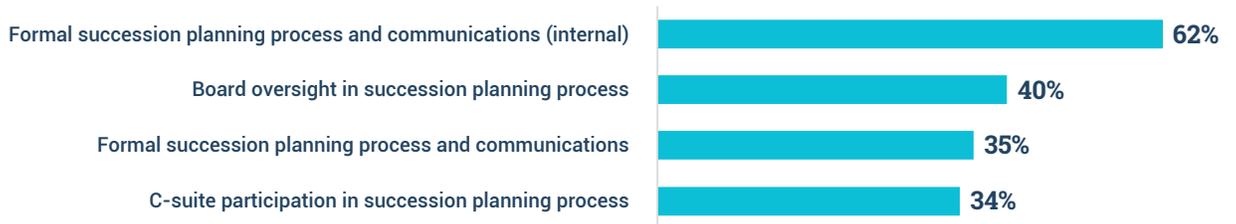
Q14

You indicated that your company does not have a succession plan documented, nor does it plan to develop such a document. Please explain, briefly, how your company currently handles succession planning:

Verbatims
We have succession planning at the Director and VP level, plus at some C-level positions, but not at the CEO and COO positions. These are typically filled by external candidates
It is on a case-by-case basis
We have promoted from within, but this has not been formally agreed upon
We will sell when the founder decides that he wants out
We have brought in various external consultants to recruit and review candidates
We have not had a CEO transition to date, and other candidates have been hired from within

Q15

Which of the following are contributing factors to a successful C-suite succession process, in your opinion?



Q16

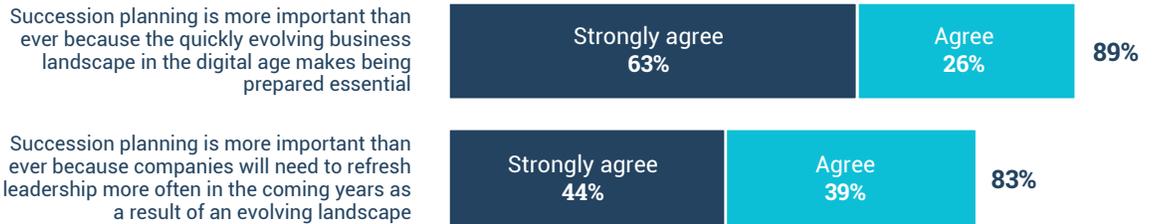
Conversely, what is the single greatest challenge to a successful leadership transition?



Q17 How would you define leadership transition success?



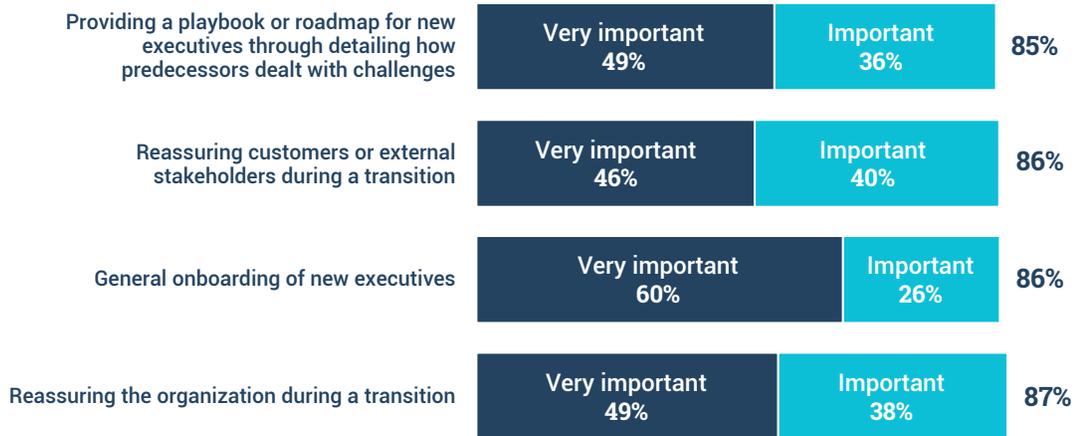
Q18 Please state your agreement with the following statements:



Q19 In your own words, how would you summarize a company leader's track record or accomplishments?

Themes
Actual substantive results that the leader has managed to achieve
Revenue growth, profitability and/or shareholder value
A cataloging of the specific KPIs
Employee satisfaction and talent metrics

Q20 What level of importance does company history or heritage play in the following situations?



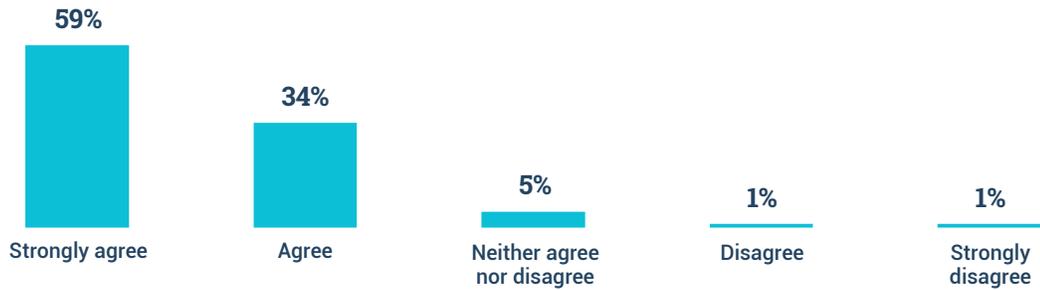
Q21 Briefly, why do you feel that history plays an important role in any of the events described in the previous question? Please feel free to share an example if it is relevant.

Verbatims
It's the most important part of any business plan, and that extends to succession
It includes the road map to failures, as well as successes
History is the mother of innovation for any type of company
History should offer the blueprint for navigating challenges. This is the playbook.
It speaks to the company's culture, and company culture is the go-to tool in reassuring both internal and external stakeholders of transition planning
The company's history will ideally include examples of the mission, vision and values at work, and this is helpful to any onboarding C-suite

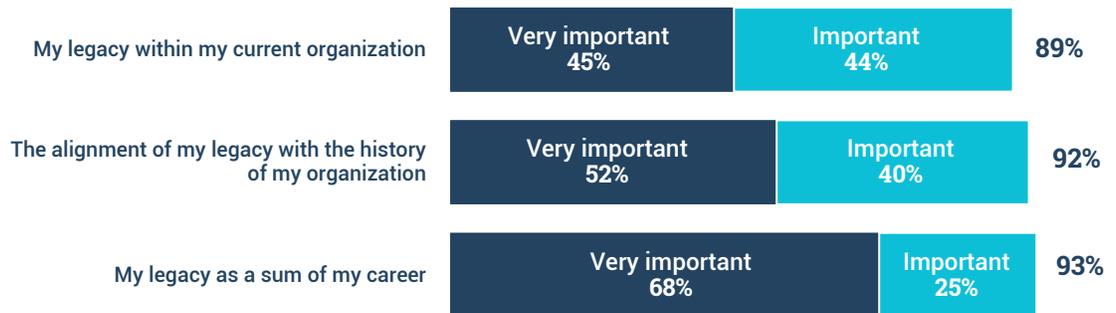
Q22 Briefly, why do you feel that history might not play an important role in one or more of the events described in the previous question? Please feel free to share an example if it is relevant.

Verbatims
Previous examples become dated quickly in this digital age
Each and every transition is unique and nuanced, and therefore not something that history will effectively guide
History is not to be treated as an imperative, but rather as something to improve upon, thus it may not be necessary as a reference point provided that an organization is continually advancing
Unsure/I don't feel this way (majority)

Q23 Please indicate your agreement with the following statement:
The concept of legacy management is something in which I personally believe.



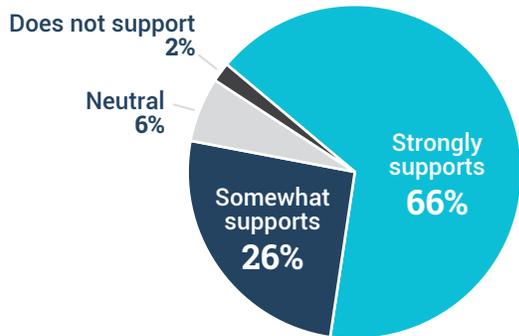
Q24 To what extent are these important to you?



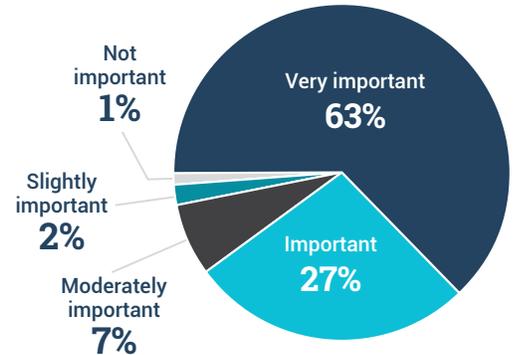
Q25 To what extent have you taken proactive steps to create and reinforce your legacy?



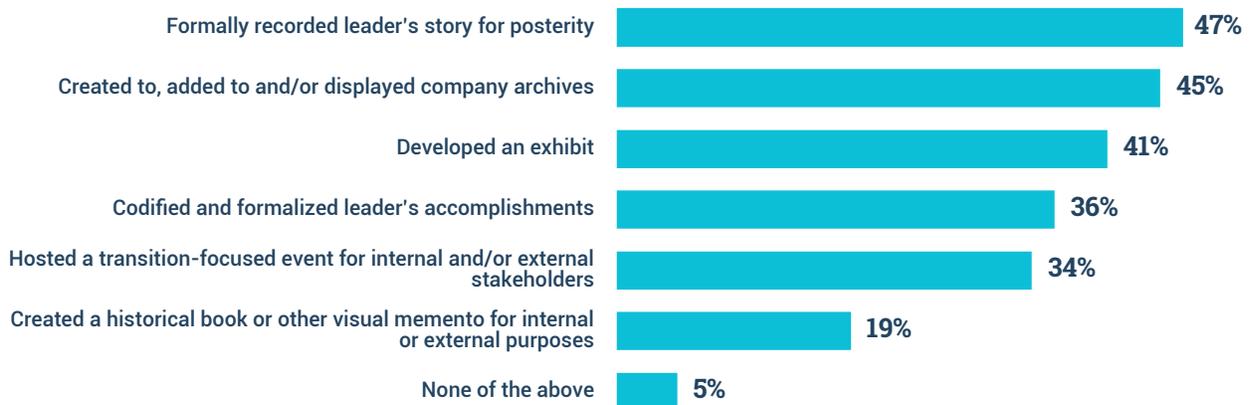
Q26 To what extent does your organization support the pursuit of a defined legacy?



Q27 How important would documenting the history and experience of the company and current leadership be to the next leader?



Q28 Has your company commemorated its history in any of the following ways for leadership transition purposes? Please select all that apply:



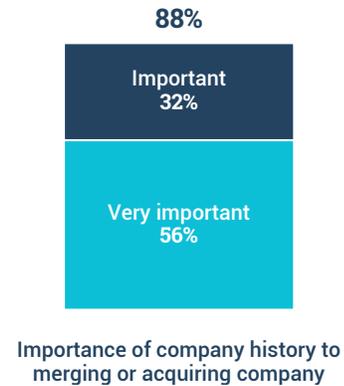
Q29

Let's think about a potential M&A situation. How important is history to your organization in terms of how it presents itself to M&A partners or targets?



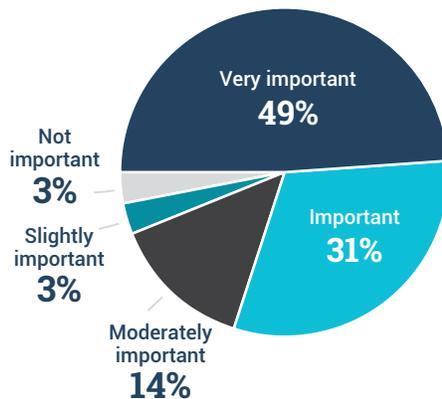
Q30

Now let's think about how your company would be perceived in this potential M&A situation. How important do you think your company's history would be to the entity that is either merging with or acquiring your organization?



Q31

How important do you think your company's history would be in a situation where leadership was transferring from the original founder or founding group to a new leader?



Demographics

Titles

Response	Percent	Number
Chief Executive Officer (CEO), Chairman or Founder	31%	50
Chief Marketing Officer (CMO)	16%	26
Chief Human Resources Officer (CHRO)	16%	25
Chief Operating Officer (COO)	13%	21
Chief Financial Officer (CFO)	13%	20
Chief Communications Officer (CCO)	11%	18
Total	100%	160

Years in role

Response	Percent	Number
Less than 2 years	12%	19
2 to 5 years	37%	59
6 to 10 years	34%	54
More than 10 years	17%	28
Total	100%	160

Industry

Response	Percent	Number
Aerospace and Defense	2%	3
Agribusiness	3%	4
Airlines and Transportation	3%	4
Automotive	5%	8
Consumer Products	11%	19
Consulting	2%	3
Energy	3%	4
Financial Services	11%	18
Healthcare	9%	15
Hospitality	2%	3
Media and Entertainment	4%	7
Real Estate	6%	9
Retail	11%	19
Technology	22%	35
Telecommunication	3%	5
Other	3%	4
Total	100%	160

Number of employees

Response	Percent	Number
1,500 to 4,999	19%	30
5,000 to 9,999	22%	35
10,000 to 49,999	21%	34
50,000 to 99,999	15%	24
100,000 to 499,999	12%	19
500,000+	11%	18
Total	100%	160

Company founding

Response	Percent	Number
15 to 19 years ago	18%	29
20 to 29 years ago	22%	37
30 to 39 years ago	23%	36
40 to 49 years ago	21%	33
50 or more years ago	16%	25
Total	100%	160

Estimated 2020 revenues

Response	Percent	Number
\$500 million to \$999.9 million	25%	40
\$1 billion to \$4.9 billion	22%	35
\$5 billion to \$9.9 billion	19%	31
\$10 billion to 49.9 billion	17%	27
\$50 billion to \$99 billion	11%	18
\$100 billion or more	6%	9
Total	100%	160

Compound annual growth rate (CAGR) over past five years (2015-2020)

Response	Percent	Number
Decrease or flat	1%	2
1% to 3%	3%	4
4% to 6%	13%	21
7% to 9%	23%	37
10% to 12%	32%	51
13% to 15%	14%	23
More than 15%	14%	22
Total	100%	160

Company status

Response	Percent	Number
Public	26%	42
Private	74%	118
Total	100%	160

Founder involvement

Response	Percent	Number
Run by original founders	30%	48
Original founders still involved, but not running company	42%	67
Original founders no longer involved in any way	28%	45
Total	100%	160

METHODOLOGY

Greentarget, a national research, market intelligence and communications firm, conducted this survey in February and March 2021 on behalf of History Factory, which for more than 40 years has shown leading brands and corporations that their heritage isn't just about the past. One hundred and sixty C-suite officers (CEOs, CHROs, CMOs and COOs) based in the United States responded to the survey from companies representing 15 industries.

FOR MORE INFORMATION:

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