PREPARE FOR SUCCESSION

CEO TRANSITION: BUILDING VALUE THROUGH EFFECTIVE COMMUNICATION AND ENGAGEMENT
The top action a CEO can take to build trust is to communicate clearly and transparently (2014 Edelman Trust Barometer, an annual study on global trust and credibility)

-18.5%
The value of a global technology company plunged 18.5% upon the sudden departure of its CEO (Oxford Metrica (2011), Reputation Review)

43%
43% of people trust the CEO as spokesperson of the company (2015 Edelman Trust Barometer, an annual study on global trust and credibility)

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44%
44% of companies have no formal succession plan, and only 17% of directors consider themselves to be “highly effective” in succession planning (Russell Reynolds Associates, CEO Succession Planning)

63%
63% of people refuse to buy products or services from companies they do not trust (2015 Edelman Trust Barometer, an annual study on global trust and credibility)
CEO TRANSITION COMMUNICATION CHALLENGES:

- High potential for leaks, which can be disruptive to the search and decision process
- Intense and rapid media attention
- Immediate scrutiny of motives around the executive’s departure
- Questions about the integrity of the board’s search process
- Implications for investor views on company valuation
- Ongoing speculation about the board’s rationale for transition
- Dual reputation management of outgoing and incoming CEOs
- External perceptions of supposed turmoil during the transition
- Hypersensitive internal and external communications environments
BOARDs MUST WIN SUPPORT FOR THEIR CEO SELECTION

Never before has the board been held so publicly accountable for major corporate decisions. Mainstream media now pays far more attention to boardroom behavior. That has led to greater regulatory scrutiny and increased focus on how businesses are run at the highest level. Thanks to social media, employees have a larger voice and are more trusted and more credible. Workplace issues appear on digital platforms with instant global reach. That is why a board’s clear articulation of the business rationale behind its CEO succession is critical. The board’s choice must be properly and favorably positioned to win support from the company’s stakeholders.

FOCUS ON EMPLOYEES

Over the past six years, employees have been increasingly viewed as a trusted source of company news, easily surpassing the CEO. In fact, according to Edelman’s 2015 Trust Barometer, employees are now the most credible sources of information on a wide variety of topics — including the company’s working conditions, benefits, situation in a time of crisis, business practices and accomplishments by senior leadership. In these categories, employees outranked all other spokespeople, including the CEO, activist consumers, academics and media.

TREATING EMPLOYEES WELL IS AN OPPORTUNITY FOR CEOs TO BUILD TRUST

Companies routinely underperform in ways they can build trust

- Offers high quality products or services: 58% (57%)
- Treats employees well: 33% (57%)
- Listens to customer needs and feedback: 31% (57%)
- Has ethical business practices: 31% (55%)
- Takes responsible actions to address an issue or a crisis: 29% (54%)

Articulating the board’s decision early on, and positioning the board’s choice as fit to lead the organization gives the board an opportunity to build trust for the new CEO — and, more broadly, in the company as a whole. This aligns with a key finding from the Edelman 2015 Trust Barometer: “treating employees well” is one of the most important things a company can do to establish overall credibility.
AUDIENCES TO ENGAGE

CUSTOMERS
Customers are looking for reassurance.

“What is the real reason the CEO is leaving?”

“What does the CEO transition ultimately mean to me and my organization?”

“What will the company’s success end with the current CEO?”

“What will this company continue to provide the products and services I want?”

VENDORS AND PARTNERS
Vendors and partners will want to know that their relationships will continue with as little unnecessary change as possible.

“Will the new CEO continue to see value in our partnership?”

“Will the new CEO adhere to the same standards and values by which we do business?”

EMPLOYEES
Amidst a CEO transition, employees are looking for workplace stability and the potential for improvement.

“How will this affect me?”

“Do I want to stay on board under this new leadership?”

INVESTORS AND ANALYSTS
Investors and analysts want to know the company is headed in the right direction.

“Who is the incoming CEO and what is his or her story?”

“Is an investment in this company now a risky bet?”

MEDIA
Reporters will be looking to put a face on the story, and if you don’t provide it, they will search to find it.

VENDORS AND PARTNERS
Vendors and partners will want to know that their relationships will continue with as little unnecessary change as possible.

“Will the company remain stable?”

“Has the company taken into account shareholders’ interests and adhered to all policies?”

REGULATORS
During a CEO transition, regulators will want to ensure that all relevant policies are adhered to and all required information is disclosed.

C-SUITE & BOARD OF DIRECTORS
“Do I want to stay on board under this new leadership?”

“Investors and analysts want to know the company is headed in the right direction.”

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“Will this company continue to provide the products and services I want?”

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COMMUNICATIONS CAN HELP MITIGATE RISK...

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**THE POTENTIAL IMPACT OF CEO TRANSITION COMMUNICATIONS**

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<thead>
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<th>RISK</th>
<th>COMMUNICATIONS TASK</th>
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<tbody>
<tr>
<td><strong>INVESTORS AND ANALYSTS</strong></td>
<td>If the investment community is not familiar with the CEO-elect, they view the succession as destabilizing, if not negative, and may downgrade the investment outlook.</td>
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<tr>
<td><strong>EMPLOYEES</strong></td>
<td>Lack of trust in corporate leadership and low morale can lead to uncertainty and anxiety among employees and could cause high rates of turnover.</td>
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<td><strong>VENDORS AND PARTNERS</strong></td>
<td>Vendors and partners become concerned about the company’s ability to maintain business as usual as questions mount around the board’s opinion of the new CEO.</td>
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<tr>
<td><strong>REGULATORS</strong></td>
<td>Government regulators question the company’s ability to meet mandatory disclosure requirements, allowing for the potential of increased corporate governance scrutiny.</td>
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<tr>
<td><strong>MEDIA</strong></td>
<td>An unexpected CEO transition will be a catalyst for significant media attention. Scrutiny in the press can become speculative, where outside voices are shaping the company narrative.</td>
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<tr>
<td><strong>CUSTOMERS</strong></td>
<td>Periods of transition can lead to uncertainty among customers about the direction of the company and whether or not it has clear leadership and the ability to continue to produce high-quality products and services. No direct communication indicates to the customer that clients are not important, eroding trust.</td>
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AND IMPACT YOUR BOTTOM LINE

With poor communications, media, analysts and other stakeholders will make assumptions if the company is silent during a CEO transition, opening the company to more public scrutiny and criticism. However with clear and effective communications, much of that public scrutiny can be transformed to greater public trust. A clear articulation of how the board will identify and launch a successor, attached to a well-planned execution strategy, will boost stakeholder confidence and stave off questions with negative implications.

COMMUNICATIONS AROUND CEO TRANSITIONS SETS THE TONE FOR PERFORMANCE

In addition to ensuring a candidate is the best fit for the position, the board is tasked with the job of ensuring that the company and all its stakeholders think the candidate is, too. With this in mind, it is imperative that the board of directors is successful in communicating the process behind the nomination.

This entails careful planning. In the case of orderly transitions, the communications process is often more straightforward – communicating the reason behind the change, the attributes that led the board to its decision on the successor and laying out a clear transition timeline. By contrast, immediate transitions require a combination of careful preparation, dynamic communications and swift action to mitigate the company’s reputational risk.

Oxford Metrica

Oxford Metrica is an independent research and analytics boutique which specializes in strategic reputation issues of concern to senior management, and Edelman’s CEO Transition offering research partner. Its proprietary reputation and value metrics have served corporate boards worldwide, and its databank of critical reputation events is a unique resource offering a variety of benchmarking facilities throughout the CEO Transition process.
Business as a category is decreasing in trust, making the CEO’s voice more important than ever. According to findings from the 2015 Edelman Trust Barometer, there is a historic gap of 11 percentage points between trust in business and in government. Further, the public trusts business to innovate, unite and deliver across borders in a way that government cannot. This gap in trust creates the expectation that businesses will lead the debate for change.

Due to this shift in trust, the CEO must move beyond his or her traditional role to become a Chief Engagement Officer. It’s no longer enough to focus on the business strategy and finances; CEOs must now engage a wide range of audiences to build trust in themselves and their companies. Through the Edelman Trust Barometer, six key areas have been identified where CEOs can take action to build trust in their company:

THINKING ABOUT THE FOLLOWING ACTIONS A CEO CAN TAKE, HOW IMPORTANT IS EACH OF THE FOLLOWING TO BUILDING YOUR TRUST IN THE CEO? (2014 EDELMAN TRUST BAROMETER)

<table>
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<tr>
<th>Action</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Communicates clearly and transparently</td>
<td>82%</td>
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<tr>
<td>Tells the truth, regardless of how complex or unpopular it is</td>
<td>81%</td>
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<tr>
<td>Engages with employees regularly to discuss the state of the business</td>
<td>80%</td>
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<tr>
<td>Is front and center during challenging times (product recalls, lawsuits, etc.)</td>
<td>79%</td>
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<tr>
<td>Is personally involved in supporting local charities and good causes</td>
<td>69%</td>
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<tr>
<td>Has an active media presence</td>
<td>53%</td>
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THE PUBLIC TRUSTS EMPLOYEES

To win employee trust for the successor, boards must act early:
While trust in CEOs has increased 10 percentage points since 2009, the number dropped over the past year; on the other hand, we saw significant gains for trust in employees with an increase of 17 percentage points since 2009 (2015 Edelman Trust Barometer).

As the public’s trust in employees continues to rise, it is more important than ever for boards to court employee support for the new CEO. Winning employee buy-in means assuring employees the company is stable. This is essential because new social platforms give employees ever more opportunity to voice their view – both positive and negative.

NO SINGLE AUTHORITATIVE CHANNEL

Boards are required to take into account how the media landscape is more interconnected than ever before:
Currently, 64% of individuals report online search as the first source they go to for breaking news, while 62% report newspaper and television as their first source of information. Trust in media has also contributed to change in how information circulates and opinions are formed, with 60% of countries report trusting media less. (2015 Edelman Trust Barometer)

INCREASING REGULATION

Companies are forced to comply with increasing government regulation:
SEC regulations along with financial regulation, such as Sarbanes-Oxley and Dodd-Frank, have reframed boards’ responsibility to shareholders and stakeholders, requiring the board to have a clear CEO succession process that reflects the new set of skills that will be needed by the new CEO to successfully drive the company forward.

BOARDS ARE FACING MOUNTING PRESSURE

THE PUBLIC TRUSTS EMPLOYEES

To win employee trust for the successor, boards must act early:
While trust in CEOs has increased 10 percentage points since 2009, the number dropped over the past year; on the other hand, we saw significant gains for trust in employees with an increase of 17 percentage points since 2009 (2015 Edelman Trust Barometer).

As the public’s trust in employees continues to rise, it is more important than ever for boards to court employee support for the new CEO. Winning employee buy-in means assuring employees the company is stable. This is essential because new social platforms give employees ever more opportunity to voice their view – both positive and negative.
Let there be no doubt that selection of a CEO is the most crucial job of a board. Directors must dedicate their time, energy and passion to meeting this great and important leadership responsibility.

"Ram Charan
business consultant and author of The Talent Masters, Owning Up and The Leadership Pipeline
# Communications During the CEO Succession Process

## 1. Preparation & Choice

**Board**

You and the rest of your board of directors review and consider internal and external candidates, narrow the pool and continue to monitor the market and corporate progression to identify an appropriate successor. Then you select the successor.

**Communications**

- **Establish the baseline**: Have a CEO reputation program in place to set the stage for a transition to occur. The program can inform a broader executive visibility program for potential internal candidates.
- **Pressure testing**: Review internal candidates by publicizing major accomplishments as they occur to better acquaint stakeholders with the candidates.

**Employee Engagement**

Pressure test candidates on the short list by giving him or her opportunities to present himself or herself internally. Then measure employee sentiments and reactions. Once the choice is made, start building employee confidence by positioning the new CEO as key to the company’s future.

## 2. Transition Planning

You begin to plan for transition from the current CEO to his or her successor, identifying how the transition will be announced to key stakeholders — especially employees and the financial community — as well as how the succession will actually take place.

**Communications**

- **Lay the foundation**: Build a solid framework for the CEO-elect’s unique narrative, including how his or her strengths support the company’s proposition. This narrative will be pulled through all communications.
- **Develop a playbook**: Develop communications materials to ensure all communicators and executives use the same language around the change and that the transition communications plan is clear and orderly.

**Employee Engagement**

Develop a communications plan and supporting materials to rollout an effective internal narrative. Gauge sentiment to shape the story moving forward.
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<tr>
<th>BOARD</th>
<th>COMMUNICATIONS</th>
<th>EMPLOYEE ENGAGEMENT</th>
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<tr>
<td><strong>3. ANNOUNCEMENT EXECUTION</strong></td>
<td><strong>4. ONGOING CEO POSITIONING</strong></td>
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<td>The current CEO steps down. This phase may include the announcement of the CEO’s successor, the instatement of the new CEO and the plan for the new CEO’s first 100 days.</td>
<td>Begin operational handoff when the succession actually takes place, identifying how the transition from the current CEO to his or her successor will be announced to key stakeholders — especially employees and the financial community — as well as how the succession will actually take place.</td>
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<td><strong>Announce the transition:</strong> Activate communications plan to announce change and prepare the market for the CEO-elect’s new narrative. Proactively manage media and key stakeholder outreach. Manage expectations for first 100-day immersion phase. Assess announcement reception and adjust messaging as needed.</td>
<td><strong>Establish new positioning:</strong> Revisit corporate narrative as appropriate. Design positioning for the new CEO and seek first media profile. Look for opportunities to showcase early wins or progress the new CEO has made.</td>
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<td>On the day of the external announcement, host an internal town hall. Explain why the current CEO is stepping down, how the successor was selected and what this means for employees (new vision, growth opportunities, etc.). Develop supportive messaging to help local communicators get the information out. Create a vehicle for employees to submit questions or concerns. Use it to check their pulse.</td>
<td>Create opportunities for the CEO to engage employees in genuine dialogue. Show a willingness to listen and learn through small, in-person meetings; a CEO blog; a video series or a CEO-centric employee recognition program. Use pulse surveys to make sure the CEO’s strategy is well-understood and resonates with employees. Compare results to pre-announcement surveys to see if the effort is working — or whether the approach needs to be re-evaluated.</td>
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As a member of the board of directors, it is your responsibility to seamlessly plan for, facilitate and communicate a CEO succession. With increased public scrutiny, this process is often encumbered with uncertainty, skepticism and fear; however, when communicated effectively, a CEO change can fortify a company’s bottom line and ensure that all stakeholders are well-aligned with the corporate strategy.

A CEO transition is a rare opportunity to directly improve trust and shareholder value, as it is rare that the board is solely responsible for communicating a decision that drives the financial success of the company. In protecting your board’s decision, you will be ultimately setting up the new CEO to win.

For more information, please contact our CEO Transition Communications Specialists at CEOTransition@edelman.com
http://www.edelmanfincomm.com/