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Game of Thrones:
The Delicate Art of Succession Risk Management

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ABSTRACT

This thesis analyzes succession risk management in a selected three firms utilizing case study methodology. The firms presented in this case study are Walmart, General Electric, and the Walt Disney Company. This thesis includes a specific focus on familial succession, and the best way to achieve lasting value in a family corporation while still promoting effective and strategic leadership. Additionally, this thesis presents benchmark criteria for which to measure firms' succession cases. Such criteria were developed by this researcher through intensive literature review. The establishment of such criteria help achieve the goal of this thesis: to ascertain characteristics and fundamental ideologies that are consistent within effective succession planning of familial and non-familial firms, and vice versa. Through the analysis of the three cases previously mentioned against the established benchmark criteria, this researcher found that Walmart, a case of effective succession planning, had present all four criteria of effective planning. The cases of ineffective succession planning, General Electric and the Walt Disney Company, demonstrated less consideration of established criteria which ultimately resulted in poor choices of successors.

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Chapter 1

Introduction

In order to effectively study risk and the management of such risk within businesses, it is necessary to establish the inevitability of risk in a broader sense. Today's world is riddled with risk to all degrees. No longer are the blasé days of assumed peace and absence of threat. Risk is a characteristic of existence, and as seen in recent years, can often appear undetectable until it is too late. Human beings face risk every day, in a myriad of circumstances. Every time a human gets in a car, they risk a potential automobile accident. Every time someone shops online they risk a breach of information. Every time one goes shopping in a public setting, they risk the chance of contracting some viral illness. Risk is present in any conceivable circumstance. That is not to say that all risk is equally present at all times, nor is it unavoidable. In all these circumstances, there exist ways to attempt to reduce potential risk that comes in the action itself. One wears a seatbelt in a car, or browses on private servers, or wears a face mask in public settings. Risk does have an inevitable nature, yes, but this is not to say that it cannot be mitigated.

Risk regarding business can manifest itself in every facet of an entity. Anything that can potentially threaten stable operations or growth of a corporation, moving it from a type of homeostasis of function, can be considered a risk. This can mean risk in a financial sense: risky investments that threaten a corporation's liquidity if they prove to be unsuccessful. This can also be operational: a lack of structure that lead a business open to risks in internal communication and operations. Risk management attempts to act as a type of preemptive planning of the worst.

In a sense, this may seem to be a contradiction in it of itself: a process designed to plan things unable to be planned. However, lack of preparation only increases vulnerability and lack of preparedness, thus showing that management can alleviate the potential losses that result from risks.

Succession of an executive in a corporation shares an inevitability that rivals risk itself. Such is the human condition; executives may appear as untouchable figureheads, but the reality is that there is a ticking time bomb attached to every single CEO that dares not give one a glimpse of when it will go off. As such, as in all risks, the proper planning for the individual who will succeed a CEO is imperative. Succession risk is a broad term that is used to define all the potential negative impacts that can arise from a vacancy in a pivotal role in an organization. This may lie within the filling of the vacancy itself: the time, effort, and energy used to find an executive could have extremely detrimental consequences on the normal operations of a business. It may also lie within the satisfaction to which the role is filled. It is all well and good if a role can be quickly assumed by a successor, but if the successor is an improper fit for the organization, then just as much risk arises as in the case of no successor at all. As defined by Victorian Public Sector Commission, succession risk management is the "strategic implementation of activities and processes designed to decrease the likelihood of lengthy vacancies in critical roles and limiting the impact of vacancies in critical roles when they do occur."[1]. Succession planning should not seek to do the impossible: that is, to predict the lifeline of a current CEO, but should aim to constantly be assessing the climate and culture of an organization to plan for the inevitable passing of the baton.

[1] *Fact Sheets - VPSC*. https://vpsc.vic.gov.au/wp-content/uploads/2015/03/Fact_sheets_all.pdf.

This thesis will seek to analyze how to define effective succession planning as well as its counterpart through a thorough case study on 3 businesses' succession planning. These case studies will aim to demonstrate and highlight the best practices in succession planning, and the practices that can lead to potential devastating outcomes for an organization. In addition, this thesis will highlight succession specifically regarding family businesses, which comes with its own particular set of challenges. A spoiler alert: there is not one clear and cut process for how an organization should choose their next CEO. This thesis will aim to demonstrate the underlying factors behind both effective and ineffective succession planning in different companies, and how these factors can help shape a succession plan that maintains the integrity and stability of the organization in the wake of new leadership.

Chapter 2

Literature Review

In order to successfully analyze the cases that will be presented later in this thesis, it is necessary to establish parameters in which to properly define a corporation as handling their succession planning effectively versus ineffectively. As such, there needs to be benchmarks in which to gauge whether an entity manages succession in a way that seeks to provide the best possible outcome for all stakeholders in the organization.

Strategic Alignment

It is crucial to understand the necessity of having a transparent and articulate succession plan in place in order to truly align current strategy and operations with the pursuit of long-term goals. One of the most important measures within such strategic alignment is the importance of establishing a competent understanding of past, present, and future strategic goals and how these goals have manifested themselves within the operations of the organization. For example, one of the primary characteristics of ineffective succession planning lies in the inability to balance reconcile short- and long-term goals while also considering how goals have been achieved in the past. This is a necessary balancing act that leads to a holistic understanding of the organization as a whole and mitigates the risk of a successor being equipped only to pursue the goals they see in their immediate future.

This understanding and ability to articulate goals requires open lines of communication throughout the organization. In the process of trying to define the strategic goals of the company

in the long term, all stakeholders need to be engaged in the process. Such stakeholders should include the family in the case of familial enterprises, shareholders, employees of all ranks and more. These stakeholders may not necessarily be a first consideration, but all stand to be affected by succession decisions. Isolating succession planning to executives and the board lends the process to failing to aptly analyze the culture and thus failing to articulate what is necessary for any future successor.

This process of strategic planning is not one that should be enacted in the wake of a necessity for a successor. Too often that exposes the company to align a strategy with a short-term approach due to the current climate in place. Instead, this planning should be conducted often, to plan for unexpected vacancies or events that can disrupt business operations. Such planning should be implemented on a schedule that is suited to business activities. Just as firms hold reviews that discuss the successes and downfalls of the firm, especially regarding finances, firms should be holding scheduled reviews of the succession plan. These reviews can allow for an examination of the current plan in place, any notable candidates of interest, changes to corporate strategy that will affect the criteria for a candidate, etc.

With this strategic planning in mind, there is a greater ability to understand what the company needs from a leader to fulfill such a vision. As such, proper professional development and executive training can be unveiled within the company itself. Employing such type of development and fostering internal motivation within a firm help establishes a culture that works to build leaders and give them goals to strive for. As such, the risk of a drain of top talent is mitigated, as employees feel that they have a future to work towards. Emphasizing talent development within higher ranking individuals prepares the company in cases of succession emergencies, as they invest in the training of a multitude of leaders with the capability of

understanding strategic goals and leadership demands tailored to the company. Succession planning also has key competitive advances for a firm, adding a greater emphasis to try and achieve an effective planning process. As will be discussed later in this these, there is a link between the underperforming financially in firms that do not consider all implications of succession. As such, it is a vital tool for companies to truly consider alignment in all focal areas of planning to ensure that their choice of successor has the best opportunity to bring growth to the firm.

Effective succession planning cannot simply be measured by the existence of a plan. The complexity and transparency of a plan is one of the most crucial aspects to understanding if the plan can hold any real value within the naming of a successor. Such a plan needs to address almost any potential stipulation that could arise as a result of new successor. And this cannot simply be and one-off process. Succession planning should be acknowledged and analyzed frequently, to ensure that the plan in place aligns with the current culture, strategy, and structure of a firm. In addition, internal professional development and executive training remains one of the most vital tools a company has at its disposal to mitigate potential risks in the case of a "succession emergency". The process of professional development and potential successor grooming should begin as soon as entry level undergraduate or MBA employees. As such, an emphasis on potential leadership roles is instilled within the newest of all recruits, allowing for a pipeline of potential internal candidates to be created and looked to when the time comes for succession within the firm. Additionally, this instills motivation and greater employee retention by allowing for greater advancement and being transparent about opportunities within the firm.

The alignment between strategic vision, open communication of the vision, and the proactive training of those who have shown promise in carrying out the vision will prove to be invaluable in the complex art of succession planning.

Internal Versus External Candidates

To quantifiably measure whether an internal candidate performs better financially than an external candidate, or vice versa, researchers Fernández-Aráoz, Gregory Nagel, and Carrie Green (2021) sought to analyze how four different hypothetical successors impacted the company they took over: An insider promoted into a firm that was performing financially well, and insider promoted in a firm that was performing poorly, and outsider brought into a firm performing well, and an outsider brought into a firm performing poorly.

Within the analysis of these various successor possibilities, the hypothetical model presented by the researchers offered insightful takeaways, especially regarding the choice between an internal or external candidate. While little difference was found in the performance of an internal successor in a company performing well versus poorly, a huge disparity between performance in an external successor was found. In cases in which a company was performing well, bringing in an external successor resulted in an extreme devaluation in the company. External candidates were much more successful when coming into a company in crisis in a sense, suggesting to researchers that external candidates should only be utilized in the instance that a company needs an extreme shift in culture or organizational structure. The researchers found that external candidates are compensated much higher, perform worse, and have more frequent turnover. In addition, studies have shown that these external candidates were often

chosen as they have served in a CEO position previously. In actuality, researchers Fernández-Aráoz, Nagel, and Green (2021) have shown that these candidates with prior experience in a C-suite position perform more poorly in any subsequent roles they assume. This tendency to exaggerate the experience of an external candidate, along with the excitement shown towards the "newness" of the candidate creates a sort of bias regarding the hiring of external candidates, thus increasing the propensity to find a successor from outside of the firm. Businesses find themselves financially harming themselves with this tendency, as external candidates come with a higher price tag. In addition, undervalued internal talent is often lost as these individuals fail to be rewarded for their time and legacy within the company. This bias towards outsiders negates the chance for firms to identify and develop internal talent that statistically outperforms their external counterpart in most cases.

Through a complex simulation modeled off the structural self-selection model, the researchers were able to model such hypotheticals to predict performance of these 4 hypothetical candidates. In this model, cash-flow return on assets was utilized as the main performance metric for these hypothetical successors, as the metric accounts for the costs of restructuring and reorganization that result in the wake of a new successor. As a result, researchers found that only 39% of external candidates outperformed an internal candidate. Additionally, when tested in comparison to internal candidates, researchers discovered the following: "Our analysis shows that in only 7.2% of instances will an outside CEO hire have a 60% chance of outperforming an insider, and in a mere 2.8% of cases will he or she have a 90% chance of outperforming an insider."[2]

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[2] "Fernández-Aráoz,, Claudio, et al. "The High Cost of Poor Succession Planning." *Harvard Business Review*, 13 Apr. 2021, https://hbr.org/2021/05/the-high-cost-of-poor-succession-planning.

Researchers Fernández-Aráoz, Nagel, and Green pose a pivotal point for companies undergoing succession planning to consider: the bias and assumptions brought into the process of succession planning can stand to undermine the whole process all together. As discussed, businesses seem to rely on the assumption that an external successor will bring a fresh start or change needed to motivate the company into achieving positive growth. However, as shown in the analysis, this assumption more often than not fails to manifest in an organization. Not all changes in leadership call for a paradigm shift in culture that usually follows external leaders. The failure to train, consider, and elect internal leaders leaves the company with an extremely dangerous risk: the risk of a lost opportunity.

The Roles of the Board, CEO, and Human Resources Team

One of the most instrumental and deliberately avoided aspects of succession planning lies in the politics of negotiating such a plan. There exists a very human component to the whole process: asking a leader to plan for their own replacement, in a sense. It can be, in the simplest terms, awkward: to acknowledge that there will come a time in which a company leader will no longer hold their current role, that they are always wearing an intangible and ever-changing expiration date. Because of the vulnerability that surfaces with such an acknowledgement, often the conversation itself is circumvented, put off, postponed until necessary. Which, as previously discovered and analyzed, will be too late. Having no plan is a plan in it of itself- and one that without a doubt, stands to bring risk upon the firm.

Noel Tichy, former management consultant and researcher, suggests in his book *Succession: Mastering the Make-Or-Break Process of Leadership Transition* that the navigation

of such politics must be a holistic process within an organization.[3] Because of the potentially contentious aspects that lie within succession planning by its very nature, the acknowledgement and preemptive planning of a successor should be almost immediate. The minute a new successor steps in, they should already be planning who will be next to take their place. This is not a responsibility that can fall solely to the CEO; in fact, it should not fall only on the CEO, as there may exist, however subconsciously, an innate conflict of interest in the choosing of who will be their replacement. That is where the necessity for holistic organizational involvement comes into the succession planning of a corporation. In order to confront and resolve any political issues, the creation of a pipeline between the CEO, the board of directors and the human resources team stands to strengthen the succession process through a collaborative effort in choosing the next successor. Each of these three pieces to the succession puzzle holds an extremely vital role in the planning process of succession. As such, isolation of these entities hinders the possibility of each's power to advance the process. A huge aspect of this lies within the communication between all three entities. Tichy explains that because of the sensitive politics of the case, a lack of communication may result in feelings of exclusion and secrecy between other branches.[4] For example, when meetings concerning succession are held only by the board of directors and discovered by the current CEO, they may believe they are being compromised and pushed out by their own organization. As such, collaboration should not be a suggestion, but a necessity.

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[3] Tichy, Noel M. *Succession: Mastering the Make or Break Process of Leadership Transition*. Portfolio/Penguin, 2014.

[4] Tichy, Noel M. *Succession: Mastering the Make or Break Process of Leadership Transition*. Portfolio/Penguin, 2014.

As separate entities, each hold a specific role within the succession process itself. CEOs, upon their own designation, should quickly set into motion a plan for their replacement. The argument lies that if the CEO comes to the board with a plan to spearhead the process, they are more likely to have a greater role in designing the architecture of succession. Leadership development and internal executive training regularly promoted by the current CEO will also allow for the CEO to have intimate opportunities in which they can identify and evaluate candidates with high potential.

As for the role of human resources, this is often, as Tichy has seen in his various roles as a consultant for different companies, an undervalued entity within succession. Much of this is to do with the very nature of human resources itself, which sometimes is seen by firms as an almost separate, second-rank entity that exists secluded from the rest of the organization. However, the human resources department, especially the CHRO, serves a vital function in the checks and balances of the succession planning process. To achieve this, there needs to be a clear structural alignment between human resources, executives, and the board. As stated previously, this entity cannot exist in isolation. By ensuring that the human resources team is engaged in and understanding of the strategic vision of the firm, they are better suited to the process of compiling and managing candidates that can fit into this vision. Without allowing HR to be involved in these important discussions of the goals of the company, they are forced to measure candidates with vague, quantitative metrics, that do little but judge candidates by simple numbers of lengths of experience. Moving into a human resources model that is not simply retroactive but proactive enables HR to partner with the CEO rather than act as an assistant. In addition, having a human resources team that is strategically aligned with the company can allow for better internal talent management and development. They will be able to identify and recruit

individuals who align with such a vision and will therefore minimize the propensity or even necessity of seeking external candidates to fill the CEO role.

The board of directors holds a vital, though sometimes difficult, position within the collaborative process of succession planning. It often seems there is a stereotypically contentious role between the CEO and the board: the board viewed as a calculating, judgmental force that can threaten the security of the CEO at any moment, and the CEO a powerful and self-serving individual that does not yield to the views of the board. This stereotype can often manifest itself within the succession process, with the two working almost as opposing entities despite having a similar goal in most cases. Much of this results in the checks and balances of it all. If a board becomes too dominant in the process, they stand to lose the insights of the CEO and HR department. However, if they become lax in their role, then the shareholders lose their advocate in the succession process. In most cases, succession planning does fall in the hands of the board. Much of the time the board fails to realize and therefore act on the pivotal position they hold in the process. Structuring the board in a way that does not comprise it of solely one type of director (i.e., not having majority executives or majority nonexecutives) allows for a diversity of thought and priority to manifest itself in the actions of the board. Assumptive bias or groupthink that can appear as a result of similar backgrounds is also mitigated through such diversity. In addition, this diversity will not allow for complacency when it comes to holding the CEO accountable within the process.

As is the contentious nature of the political landscape of succession management, the importance of an entity that ensures the CEO's contributions and decisions are not self-serving is invaluable. Succession planning needs to be confronted immediately and head on by the board, in addition to the other branches. Pushing it aside or giving it weak attention will only increase

the uncomfortable nature of the conversation. Getting it out of the way swiftly and ensuring that the current CEO is in understanding of the essential nature of succession planning allows for an almost forced acceptance of the importance across the whole streamline of the planning process. In addition, in dealing with the question of internal vs. external candidates, an argument lies that the board should hold the role of benchmarking such candidates. While the human resources team and the CEO can focus on internal leadership training, the board can oversee such candidates and carefully analyze them in comparison to potential external choices for a successor. And as stated for both the CEO and HR entities, the process of succession planning needs to be an ongoing engagement, as opposed to a box to check off a to do list once a year. It should be a process that is evolving at any given moment, and the board holds a crucial role in ensuring that the nature of such a process does not exist as a kind of formality. Finally, the board needs to develop relationships with top candidates inside the firm and provide the necessary coaching of such candidates to ensure that they are adept to fulfill the role. Maintaining a close and intimate relationship is imperative in finding a successor, as it sets that company up to an established positive relationship between the CEO and the board, which is crucial to the success of carrying out the strategic vision.

The alignment of these three entities: the CEO, the human resources team, and the board of directors, proves to be one of the most transformative tools within the succession process. These entities can simply not exist within isolation or contention to one another, given the fact that each contributes invaluably to the execution of a successful process. Aligning these three units with the strategic vision of the organization will best help result in a candidate that is able to carry out such a vision.

Family Businesses and Succession

There is a distinction in the role that succession serves within a traditional organization versus in a company with familial roots. As already established, the question of succession poses an often political quandary and intrinsically selfish question of preservation and personal priorities. This becomes increasingly magnified in cases of family businesses. The personal legacy attached to a family business often perpetuates a tendency for succession to merely be a question of inheritance: passing down the business from one generation to the next. Because of this tendency to promote interfamilial succession, often these businesses will fail to effectively plan for the implementation of such a transition. As discussed by scholars Mihaylov and Zurbruegg, "Family businesses not only require having a succession plan in place but also an understanding of their wider operating risks as younger generations prepare to take over".[5] Such a notion indicates the lack of progressiveness that often can stem from succession within family business. Because of this tendency to focus solely on the preservation of the family names, there fails to be a consideration for the current climate in which the company exists. The necessity for family businesses to consider strategy in the context of a new generation is imperative within the succession process. While the founding principles and beliefs of the business may always serve as undermining visions in which the strategy is to take shape, the climate in which these beliefs manifest is not steadfast, but ever changing. As such, the processes which have been discussed

[5] Mihaylov, George, and Ralf Zurbruegg. "The Relationship between Financial Risk Management and Succession Planning in Family Businesses." *International Journal of Managerial Finance*, Emerald Publishing Limited, 27 July 2020, https://www.emerald.com/insight/content/doi/10.1108/IJMF-12-2019-0466/full/html.

previously within this paper: the necessity for relevant and modern goal planning, careful grooming, and a holistic recruitment of potential candidates from any and every possible area.

There is often a lack of formality or official succession planning that comes in family business, a clear and definitive risk that plagues this sector of business. In a study collected by PricewaterhouseCoopers in 2021, data shows that of the family businesses surveyed, only about 34% had "a robust, documented and communicated succession plan in place."[6] The phenomenon proves interesting- the lack of a plan due to the nature of the business. There may seem to be less of a need for such structure amidst a group of people related by blood. Vague notions of passing down the family business to the next generation may seem to be enough of a plan. However, time and time again, this has proved inadequate, and often leads to a failure in longevity: "Only 30 percent of family businesses in America will pass the reins to the next generation, although close to 70 percent would like to keep the business in the family" Tichy (2014) p. 393.

Within a family business, a unique beast and potential risk comes in the perception of nepotism in the firm by nonfamilial employees. Whether or not nepotism truly exists is not necessarily the problem to solve. Instead, importance lies in the understanding the attitude nonfamilial individuals hold toward the family they are employed by. This is a complex issue that often times jars with the interests of the owning family themselves: "the ability to choose a family successor and provide employment opportunities for family members is often a primary aim of family business owners."[7]As such, the culture and the internal reputation need to be

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[6] PricewaterhouseCoopers. "2021 US Family Business Survey." *PwC*, https://www.pwc.com/us/en/services/trust-solutions/private-company-services/library/family-business-survey.html.

[7] Tabor, Will, and James Vardaman. "The Key to Successful Succession Planning for Family Businesses." *Harvard Business Review*, 29 Aug. 2022, https://hbr.org/2020/05/the-key-to-successful-succession-planning-for-family-businesses.

considered more heavily than in traditional succession plans. Gauging the temperature of employees must be an element of consideration before proposing a next generation family successor. A variety of elements that are similar to those that exist in traditional business succession can help ease potential worry of employees. It proves valuable for any potential family successor to show experience and knowledge of the field and the business, as so to provide credentials necessary for the role. As recommended by business experts, outside experience for potential successors of the next generation allows for greater demonstration of the capability a candidate has for a role, outside just their family name. It also serves as a vehicle in which to prove to internal employees that they possess the expertise that any non-family outsider can contribute to the role.

Scorecard Evaluation

In order to effectively analyze and compare the effectiveness of a company's succession planning, this author has created a scorecard that evaluates firms on a variety of measures pertaining to their succession plan.

1. Family Business Candidate Resume

In the case of family business succession, in which a family member is to assume some executive role (chairmen, CEO, etc.), an evaluation of their preparedness aside from simple family membership can be found in analyzing the "resume" of the successor. This may seem a given; however, in such a case of a familial successor, a resume often serves as a justification, or defense for the choice in the face of nepotism claims. In a survey conducted by National

Association of Corporate Directors (2016), it was found that family-owned businesses tend to place less of an emphasis on the vital practice of talent development:

> The second defining difference between company types is the emphasis family business boards place on executive talent management and development. Out of all the private company types surveyed this year, only employee-owned companies placed greater emphasis on this issue than respondents from family businesses. Naturally, for all firms, long-term success is ultimately dependent on how well management fulfills strategic objectives, which are, in turn, dependent on the strength of the company's talent pipeline.[8]

As discussed previously, there seems to exist a kind of certainty in the inevitability of family business succession. Less emphasis is placed on the grooming of proper talent in potential candidates, as a candidate is usually already assumed by name alone. This is one of the largest vulnerabilities in which a family business can open their plan to risk. Despite any certainty that may be in play based on familial ties, it still proves necessary for future successors to present a large portfolio of experience and expertise, as any other candidate would. Such experience not only serves value from a cultural perspective (i.e., allowing employees internally to feel secure in the knowledge they are led by the best possible candidate) but helps achieve higher performance for the firm itself. In fact, research conducted by Morris, Williams, Allen, and Avila (1997) shows that 25% of failed transitions of power in family business occur because the heir to the title is unprepared to take on the role.[9] Such a situation can be avoided by ensuring that a future

[8] "The Family Business Board, Volume 2." *Home*, National Association of Corporate Directors, https://www.nacdonline.org/insights/publications.cfm?ItemNumber=25149.
[9] Morris, M., Williams, R., Allen, J., & Avila, R. (1997). Correlates of success in family business transitions. *Journal of Business Venturing*, *12*(5) 385-401. htt- ps://doi.org/10.1016/S0883-9026(97)00010-4

successor is exposed to firm wide experience, from the bottom up. This will help them gain a holistic understanding of operations and management, as well as the inner workings of the strategy amidst all sectors of the firm. In addition, education serves as a vital tool in which a future successor can demonstrate preparedness and expertise. Being able to show a family business candidate obtained an MBA, or some other designation of educational accomplishment, only stands to further justify the family member as well suited and qualified to take on an executive role.

In cases in which a family member is to serve as a director on the board, this same evaluation applies. A solid and expansive resume is just as vital for a director to obtain. In the NACD survey, family businesses cemented this: "Just over half (51 percent) of family business respondents agree that their board would benefit from more industry expertise, and almost half (49 percent) of respondents indicate that industry experience is the most valuable type of experience a director candidate can bring to the table."[10] Industry expertise, internally and externally, proves invaluable to a family business, as such experience can allow for innovative thinking and industry knowledge that may be harder to come due to the like-minded thinking that arises from a traditional family business.

With such knowledge in mind, this researcher makes the argument that a family member best serves as a director on the board, as opposed to a C-level executive. Ivan Lansberg argues the imperative nature of familial influence on the board of a family-owned business, saying "enhancing the capacity of family company boards with independent and family directors capable of collaborating effectively to add value for both shareholders and senior management

[10] "The Family Business Board, Volume 2." *Home*, National Association of Corporate Directors, https://www.nacdonline.org/insights/publications.cfm?ItemNumber=25149.

has become a strategic imperative."[11] The capacity in which a family member serves as a director serves to benefit both the operational agenda of the business, as well as the desire to ensure foundational values are considered in the more watershed decisions that come to the board. An established strong family presence on the board also helps mitigate the argument of nepotism, as the CEO often serves as the figurehead for the organization. The CEO being a non-familial member implies the welcome and open attitude to all candidates, and the value the family places on non-family employees.

2. Candidate Selection and Firm Experience

Just as talent development is vital in family businesses, so is it in the case of non-family business enterprises. The candidate selection process is an extremely crucial aspect to succession planning as it provides a route in which the company will seek to fill any future vacancy. As such, a firm can be evaluated on its' propensity for talent development and how it allows for a diverse selection of candidates to be considered and groomed for the role.

In the case of internal candidates, it is necessary to evaluate the time that they spent in key areas of the firm and the experience they have garnered in those roles. An ideal internal candidate would have held a variety of different roles throughout their time, proving their knowledge of organizational mechanisms and company culture. The length of time an internal candidate has spent at the company should be a primary factor in their consideration for any role. If the distinction or choice lies in the question of an internal versus external candidate, it only

[11] Lansberg , Ivan. "Why Your Family Business Needs Family Members on the Board." *Harvard Business Review*, 22 Sept. 2022, https://hbr.org/2022/09/why-your-family-business-needs-family-members-on-the-board.

makes sense that an internal candidate boasts internal knowledge and background that they could bring to the table. For example, in each of the three cases being examined in this thesis, all potential internal candidates being considered for CEO had at least 10 years of internal firm experience and held at least 2 different upper management roles.

Additionally, such internal candidates that show promising attributes of a potential leader should be given the reinforcement necessary to keep their motivation for the firm. Reinforcement and rewarding of success allow these potential leaders to strive for greater, knowing the potential they have in the firm. It is also necessary to gauge the temperature and goals of internal employees to assure that problems are addressed before it is too late: "…you must make sure that high-potential employees have enough options that they don't grow restless—royal heirs can be expected to show patience in waiting for the throne, but corporate heirs have many other opportunities. Frequent checks throughout the year can reveal potential problems before they flare up."[12] Leadership development and grooming should be a team effort, in which the goals of both the executive team and the candidate are considered.

3. Strategic Alignment within Succession Planning

One of the most important aspects of succession planning in a business, family or not, is the necessity for strategic alignment and forward thinking. A succession plan cannot simply hold a name, or list of names, of who will take over, but thoroughly consider the strategic implications of such a succession and how a successor will align with and even contribute to the broader

[12] Conger, Jay A, and Robert M Fulmer . "Developing Your Leadership Pipeline." *Harvard Business Review*, 1 Aug. 2014, https://hbr.org/2003/12/developing-your-leadership-pipeline.

vision of the company. The existence of such a strategic alignment and formalization of company values can help further define effective succession planning.

In the case of family businesses, this strategic alignment is especially imperative from a generational lens. Oftentimes, there exists a more traditional, steadfast strategy behind family businesses that stands to be more inflexible than as seen in non-family businesses. As such, it is vital that the incoming generation of family members understands the relevant challenges facing the business in the current age that they are to lead in. It is necessary to engage the entire family in conversations about the core values of the corporation and allow the next generation to contribute their beliefs on the future direction of the corporation. These conversations serve best when they are formalized. In research conducted by PwC (2021), 58% of families that had values for the corporation in a written form saw growth in the company. Such conversations are imperative to the success of the business and allow for adaptation in the wake of new societal and technological advances. In addition, it is important that there exists a vision for both short- and long-term firm goals. Family businesses tend to prioritize and focus on long term sustainability of the corporation, with less effort devoted to achieving short term goals. For example, in the previously mentioned survey from PwC, 82% of respondents said that "Protect[ing] the business as the most important family asset" was the top priority for long term company goals.[13] Because of the personal connection to the business, there is often a greater emphasis placed on what is necessary to sustain the corporation for years to come, with less focus on how to achieve growth in the short term. Both are necessary to achieve a holistic plan

[13] PricewaterhouseCoopers. "2021 US Family Business Survey." *PwC*, https://www.pwc.com/us/en/services/trust-solutions/private-company-services/library/family-business-survey.html.

for succession, as they will inform the necessary strategies for the corporation and thus the characteristics needed in a leader to carry out such strategies.

The strategic alignment, specifically the focus on both long- and short-term goals prove just as necessary in non-familial organizations. The importance of understanding all goals of a corporation to best align a candidate with such goals cannot be understated. This goal setting and alignment should be included in any type of modeling for future organizational succession: "It is…necessary to devise a future competency model that describes the characteristics of individuals who will be aligned with organizational strategies and objectives for the long term."[14] Just as a leader must communicate how they plan to achieve such goals and visions, a company first must be able to communicate exactly what they expect from a future leader in the organization, and how such a transition of power will impact organizational activity. In the following, Deloitte makes a case for the necessity of goal planning within the succession plan:

> It's common for leaders to think of succession planning in terms of the organizational chart — which people will replace which people. But it's just as important to think of an organization's operating structure and how it may change over time. What are the functional activities that must happen today? How will they be different tomorrow as the business grows? Will your customer base, suppliers, or product mix experience significant change? Only then can you turn to the question of which people will carry out those functions.[15]

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[14] Rothwell, W. J. (2002). Putting success into your succession planning. *The Journal of Business Strategy, 23*(3), 32-37. doi:https://doi.org/10.1108/eb040249

[15] *Business Succession Planning Collection - Deloitte US*. https://www2.deloitte.com/content/dam/Deloitte/us/Documents/deloitte-private/us-dges-business-succession-planning-collection.pdf.

Oftentimes companies with failed succession blame a difference in the firm goals versus those of the executive. By proactively aligning the goals of all areas of the company and ensuring that there is specific planning for both short-term and long-term goals, there is less of a chance for a clash when it comes to executing vital strategies, and more of a preparation for how such execution will impact day to day operations.

4. Stock Price throughout Tenure of CEO

One area in which a company's execution of succession can be evaluated in a more concrete way comes from analyzing stock price changes in the period after a transition to power. This can be done through the understanding of stock valuation throughout the tenure of the executive (when said executive first took office to when they stepped down/were dismissed). An analysis of stock valuation throughout the tenure is a proven way in which to objectively evaluate the performance of a CEO: "The long-term performance of a company's stock may be the ultimate test of a CEO's talents."[16]

It is necessary to state the understanding in the complexity and nuances of a stock price. Financial performance, as reflected in the stock price in public organizations, is impacted by a myriad of internal and external forces. In no circumstance can an increase or decrease in stock price be attributed to only one individual. This is especially important to consider in context: if a new CEO's firm share price falls in congruence with the S&P 500 Index falling, said new CEO cannot be held responsible for more macroeconomic circumstances. However, for the case of analysis in this paper, stock price will serve as a general representation of performance for an

[16] "The Art and Science of Measuring CEO Performance." *Knowledge at Wharton*, Knowledge at Wharton, https://knowledge.wharton.upenn.edu/podcast/knowledge-at-wharton-podcast/the-art-and-science-of-measuring-ceo-performance/.

executive in order to understand the general financial growth or decline within their tenure. These stock valuations will be presented relative to the S&P 500 Index, to properly gauge the state of the market: “The key advantage of using the S&P 500 as a benchmark is the wide market breadth of the large-cap companies included in the index. The index can provide a broad view of the economic health of the U.S.”[17] With this benchmark in place, such a criterium will allow for an understanding of the long-term financial growth, or lack thereof, during the tenure of an executive.

[17] Beers, Brian. “Why Do Investors Use the S&P 500 as a Benchmark?” *Investopedia*, Investopedia, 13 Sept. 2022, https://www.investopedia.com/ask/answers/041315/what-are-pros-and-cons-using-sp-500-benchmark.asp#:~:text=Advantages%20of%20Using%20the%20S%26P,economic%20health%20of%20the%20U.

Chapter 3

Case Study

With the research goals of defining and analyzing effective versus ineffective succession risk management in corporations in mind, this researcher has chosen to utilize case studies of three different businesses: one deemed as an example of successful succession planning and two deemed as poor. Case studies, as defined by Zaidah Zainal, "explore and investigate contemporary real-life phenomenon through detailed contextual analysis of a limited number of events or conditions, and their relationships." [18]As pertinent to the topic at hand, there is a limitation of the qualitative statistical research able to be done. As such, this researcher believes that the case study method allows for overarching themes to be discovered, and conclusions to be drawn on what can particularly constitute effective versus ineffective succession planning.

I. Cases of Effective Succession Risk Management

Walmart

Walmart Inc., formerly known as Wal-Mart Stores Inc., officially started in October 1969 by Sam Walton, the owner and cofounder of the business. Since then, the company has emerged to become the top company on the Fortune 500 list with revenue of $572.75 billion in 2022.[19]

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[18] Zainal, Z. "Case Study As a Research Method". *Jurnal Kemanusiaan*, vol. 5, no. 1, Apr. 2017, https://jurnalkemanusiaan.utm.my/index.php/kemanusiaan/article/view/165.
[19] Ozbun, T. "Global Revenue of Walmart 2023." *Statista*, 20 Mar. 2023, https://www.statista.com/statistics/555334/total-revenue-of-walmart-worldwide/.

The company serves as a global retailer and operates in subsidiaries internationally. The current Chief Executive Officer of Walmart is Doug McMillion, having served in the role since 2014. McMillion is the 5th CEO in Walmart's history, with Walton having held the title initially.

Walmart presents an interesting perspective to tackling the question of effective succession planning. First, an important element to consider is Walmart as a family business. Since the company's beginnings in 1969, Sam Walton has made a clear priority to keep the Walton family central to the company, ensuring that they are fully integrated with and in the affairs of the organization. Upon his death, Walton left 80% of his stock in Walmart to his heirs, leaving them owning almost half of the company's stock as a result.[20] However, a clear precedent and choice was made by Walton when it came time to choose his successor to the dynasty. It is important to note that succession planning was a priority for Walton:

> "[Walton] groomed a new leadership team comprising the next generation of Waltons and a group of professional managers that would ensure the survival of his original vision. The new team's personality and leadership style were different from his. But Walton was confident they would remain loyal to his core business philosophy."[21]

Walton was able to comprise a professional team that considered a wide range of talent and channeled his pursuit of a successor around their alignment to business strategy as a whole, not simply a replication of his personal management style. As such, Walton allowed himself to have

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[20] "Walton Family." *Forbes*, Forbes Magazine, https://www.forbes.com/profile/walton-1/?sh=4d1319c66f3f.
[21] Vedpuriswar, A. V. Wal-Mart in 2004 - Managing Succession Planning. Hyderabad, Andhra Pradesh: IBS Center for Management Research, 2005. Alexander Street. 18 Feb. 2023 <https://search.alexanderstreet.com/view/work/bibliographic_entity%7Cbibliographic_details%7C2778098>.

a wide range of options internally. As is the case in most family businesses, there were 3 basic routes of candidates in which Walton could explore: a family member, an inside nonfamilial candidate, or an outside candidate. Walton was reluctant on an outside candidate, considering the lack of knowledge in the specific nature and business strategy of Walmart they may hold. So, the choice boiled down, essentially, to a blood relative taking over, or an internal candidate that possessed the capabilities of a future successor. Here in lies where Sam Walton established the precedent and model that would guide the framework of all Walmart's succession plans in the future. Walton gave the role of CEO to the former CFO and COO David Glass, and elected his eldest son, Rob, as chairmen to the board. This established the relationship the Walton family would hold within the business in the years that followed: the family would not be involved heavily in day-to-day operations or management, but instead would hold a more watchful eye on the corporation through the board of directors.

The decision established the ideology and tactic that would define the succession of future leaders to follow. Walton chose David Glass because of his demonstrated of expertise of the retail industry. Glass also possessed a desire to not keep the company stagnant in its success, but to move into new branches that could increase exposure and growth. He focused on increasing computerization and technological advances and helped launch Supercenters and international developments. At the end of his tenure, Glass had grown annual revenues from $16 billion in 1988 to $165 billion in 2000, a 931% increase.[22] Glass also helped maintain the precedent established by Walton, asking Lee Scott, the executive vice president of logistics, to

[22] Fordham, Evie. "How Former Walmart Exec David Glass Transformed the Retail Giant." *Fox Business*, Fox Business, 19 Jan. 2020, https://www.foxbusiness.com/money/david-glass-walmart-kansas-city-royals-dies.

take over as head of merchandise and sales. Glass allowed for this role to serve as a sort of judgment period in which Scott could prove himself capable of serving the company as the next CEO.

This type of internal development remained the status quo in succession choice at Walmart. Grooming of high management individuals continued, allowing for proper experience to be gained by future successors. All the while, the Walton family maintained oversight with control of the board of directors. When Doug McMillon took over as Chief Executive Officer in 2014, the succession practice of hiring a well-established internal candidate continued. McMillon had held a variety of roles in key areas of the firm, beginning as a distribution associate and moving to General Manager of various merchandising areas, before stepping into the role of CEO at Sam's Club and finally leading Walmart's international division. With this experience, McMillon was able to gain valuable and holistic experience in almost every facet of the firm, an asset that the Walton family has found to be invaluable for any potential successor. McMillon spoke on the challenges presented to him by the board largely composed of the Waltons before he assumed the role of CEO: "...it seemed clear that the board wanted me to have the mindset that I might be in the job for a while. They said: "The company needs to go through quite a bit of change. So don't just run it. Don't just maintain it. Get it prepared for the future.""[23] The desire for an executive who aims for success in the modern age, who seeks to adapt the company for the current climate shows the progressive decision of the Walton family to embrace modernity and allow their executives to truly lead, without fear of so called "foundational" values of the family to keep the company rooted in an obsolete era.

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[23] Ignatius, Adi. "An inside Look at the Ups and Downs of Walmart's Journey." *Harvard Business Review*, 21 Feb. 2017, https://hbr.org/2017/03/we-need-people-to-lean-into-the-future.

II. Cases of Ineffective Succession Risk Management

General Electric

It is difficult to consider the study of succession planning without considering the case of General Electric; or, more specifically Jack Welch and his obsessive tendencies with the practice. General Electric was incorporated in 1892 and is now one of the largest technological industrial conglomerates in the world. The company considered succession planning one of the top managerial focal points early on, and established practices that justified such a belief:

> "The managers of GE'S various businesses were encouraged to identify potential candidates and fulfill their development needs and transform them into efficient leaders ready to take up top jobs at the company. As part of CEO succession planning GE shifted its key candidates from one business to another to enable them to gain experience across all its businesses." [24]

When Jack Welch was named CEO in 1981, the company underwent an extreme structural change, under the guidance of a brand-new management style. Welch was hired internally as the youngest CEO in GE's history at 45. Prior to his selection, he had held a variety of roles in various departments of the company. In his harsh and radical restructuring of GE, Welch let go of a fourth of the workforce of the company and focused on decentralized operations. [25]

When Welch took over as CEO in 1981, succession planning became a much more analytical procedure and employed top management teams in the process of developing leaders.

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[24] Gupta, Vivek, and A Neela Radhika. "Succession Planning at Ge." *The Case Centre*, https://www.thecasecentre.org/products/view?id=20206.
[25] Gupta, Vivek, and A Neela Radhika. "Succession Planning at Ge." *The Case Centre*, https://www.thecasecentre.org/products/view?id=20206.

Various control focused talent review systems were implemented by Welch, including "the forced ranking of employees, and the "4Es" of *energy*, *energize*, *edge*, and *execution* that leaders were expected to demonstrate)"[26]. Along with these extremely technical talent processes, a variety of retreats and performance reviews were held, with executives and HR chiefs in attendance, committed to identifying and selecting prospective future leaders.

When it came to the pursuit of finding Welch's successor, or the next CEO of GE, Welch focused all his efforts on the grooming and selection process:

> From 1994 onwards, all the key decisions made by GE with regard to the careers of potential CEO candidates were done with 'succession' in mind. According to GE sources, during this period, all the candidates were put through a rigorous testing process; they were put into various jobs across GE's businesses, and were closely monitored by top management for their ability to face those challenges and in order to identify their development needs.[27]

Having already established a rigorous control system in which to analyze individuals that showed potential, Welch was able to narrow down the search to three candidates: Jim McNerney, Bob Nardelli, and Jeff Immelt. And so began the dramatic and contentious competition to the top. One of the initial red flags to Welch's process manifested itself in the dog-eat-dog nature of it all. Eventually, Welch approached all three candidates and asked if they would leave GE if they were not chosen as CEO. He felt that the candidates not chosen should not feel an obligation

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[26] Krishnamoorthy, Raghu. "GE's Culture Challenge after Welch and Immelt." *Harvard Business Review*, 30 Aug. 2021, https://hbr.org/2015/01/ges-culture-challenge-after-welch-and-immelt.
[27] Gupta, Vivek, and A Neela Radhika. "Succession Planning at Ge." *The Case Centre*, https://www.thecasecentre.org/products/view?id=20206.

to stay at the company, when they possessed the skills to become a CEO elsewhere. In addition, he felt that it was impossible for a CEO to succeed while working alongside those that competed for the role. Immelt was eventually chosen by Welch and took over the role of CEO in September 2001.

It became clear very soon into Immelt's reign that he held different strategic and managerial goals for General Electric than his illustrious predecessor, Jack Welch. Immelt was primarily focused on the long-term strategies and goals for the company, often sacrificing any short-term successes in pursuit of such goals. He took risky bets within the entertainment industry and R&D because of a belief in their growth and the potential for these areas to contribute to future success for General Electric. He also seemed to lack any real direction about GE Capital, refusing to sell the mammoth liability which eventually resulted in the company's downfall in the 2008 banking crisis, resulting in near bankruptcy for the corporation.[28]

There lies an argument that the external circumstances surrounding Immelt's reign were the major contribution to his downfall, that there is no planning that could have been undertaken to prepare for the risks of the world in which he had to manage GE in. The reality of the situation must be acknowledged, yes. Such outside phenomena as 9/11 (which took place 5 days after Immelt became CEO), the Enron scandals, or, eventually, the 2008 banking crisis were not at the top of mind as potential risks in the organization during the succession planning process. However, Immelt allowed General Electric to be left vulnerable in such events because of his lack of clear vision or strategy. Author William Cohan discusses this in his book "Power Failure: The Rise and Fall of an American Icon", suggesting that Immelt never was able to hold a clear

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[28] Egan, Matt. "How Decades of Bad Decisions Broke Ge." *CNNMoney*, Cable News Network, https://money.cnn.com/2017/11/20/investing/general-electric-immelt-what-went-wrong/index.html.

vision for General Electric in a post-Welsh era.[29] Welch's choice for Immelt as successor seemed to be heavily focused on firm loyalty and accomplishments, and general charisma as a leader. However, this criterium lacked any true consideration of how Immelt planned to act in a changing cultural and societal landscape, and how such plans would be executed. Additionally, it is vital to note the disproportionate power Welch had in the naming of his successor versus the other key entities, such as the board. In fact, when the time came to name successor, many of the board members expressed disapproval at the future successor, Immelt: "Some board members warned Mr. Welch against Mr. Immelt, arguing that the more accomplished Jim McNerney would be the better choice. But Mr. Welch had made up his mind. And he was used to getting his way."[30] Such an event portrays the heavy hand Welch had throughout the succession plan, and the lack of input considered by other major executive branches in the naming of Immelt as the new CEO of General Electric.

Disney

The Walt Disney Company was founded by Walt Disney and his brother Roy in 1923, and has grown to one of the largest media conglomerates in history, with revenues in the trillions and an empire of various entertainment services, television channels, film deals, and more. However, the company has faced a variety of huge challenges which have undermined its growth

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[29] Cohan, William D. *Power Failure: The Rise and Fall of an American Icon*. Portfolio/Penguin, an Imprint of Penguin Random House LLC, 2022.
[30] Cohan, William D. "How One of the Country's Most Storied C.E.O.S Destroyed His Legacy." *The New York Times*, The New York Times, 21 Nov. 2022, https://www.nytimes.com/2022/11/21/opinion/jack-welch-ge-jeff-immelt.html.

and potential, especially regarding succession. The issue has come to a head and manifested itself primarily in the unstructured tenure of the current CEO, Robert Iger.

Succession problems are not a new issue for the corporation. Michael Eisner became Chief Executive Officer of Disney in 1984 and achieved much success in his almost 20-year tenure at Disney, "transform[ing] it from a film and theme park company with $1.8 billion in enterprise value into a global media empire valued at $80 billion."[31] However, one of the greatest failures of Eisner in his role was the lack of attention and recognition for the need of a succession plan. When shareholders expressed concern about Eisner and the board's lack of a plan for succession, Eisner informed them that "..he has placed the name of an individual who would replace him in a sealed envelope that only would be opened in the event of an emergency, said a source close to the board."[32]At the time of his departure, Eisner's tenure had been by far the longest of any of the other CEOs comprising the Dow Jones industrial average.[33] There was a reluctant nature to succession planning, and it seemed the only situation that considered the idea of a successor was one that took place in a state of emergency. The failure to plan properly did not solely lie as a responsibility of Eisner. Through most of his tenure as CEO, the board was unwavering in its support to Eisner, despite failing financial performance and the CEO's inability to express to them a formulated and clear succession plan.

Robert Iger was announced as the new CEO of Disney in 2005. Prior to assuming this role, Iger had established himself in the industry, as well as in Disney in general. He held a

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[31] "Bio." *Michael D. Eisner*, http://www.michaeleisner.com/bio.
[32] Bates, James, and Richard Verrier. "Disney Is Plagued by Lack of Succession Plan." *Los Angeles Times*, Los Angeles Times, 8 Dec. 2003, https://www.latimes.com/archives/la-xpm-2003-dec-08-fi-eisner8-story.html.
[33] Bates, James, and Richard Verrier. "Disney Is Plagued by Lack of Succession Plan." *Los Angeles Times*, Los Angeles Times, 8 Dec. 2003, https://www.latimes.com/archives/la-xpm-2003-dec-08-fi-eisner8-story.html.

variety of executive roles for ABC Inc. and served as the president of Walt Disney International and the COO of Walt Disney Inc. before being named CEO. The question of competence and ability was not a factor in the succession of Iger, and there seemed to be all the characteristics of a strong and successful succession into power. And the success that followed Iger's stepping into the role serves as proof that Iger was an excellent choice of successor. Much of Iger's legacy is attributed to his growth of company assets and the acquisitions he secured throughout his first tenure at Disney: "Iger spent nearly $87 billion to buy Pixar, LucasFilm, Marvel and most of 21st Century Fox's entertainment assets."[34] These risky pursuits to grow the business paid off, literally, for Walt Disney. When Iger came into his role of CEO, Disney had a $50 billion dollar market capitalization. Upon his first "retirement" in 2020, this had grown to 5 times that, $250 billion.[35] These expansions into new markets let Disney inherit much more intellectual property, thus multiplying its assets and Iger can be credited with much of this intellectual growth. During his tenure, Iger helped Disney acquire Marvel, Pixar, Fox Entertainment, Hulu, and LucusFilm, all extremely lucrative ventures that have helped amount to the wide breadth of capital owned by the Walt Disney Company.

After Iger's departure as CEO in January 2020, Bob Chapek was named as successor, while Iger stayed on to act as executive chairmen. Here lied an immediate red flag: this structure in which the former CEO fell into a more "oversight" role as a way of "transitioning the power" immediately called to question the confidence the company had in Chapek in the first place.

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[34] Lang, Brent. "Bob Iger's Second Act: The Risks and Rewards of Returning as Disney's CEO." *Variety*, Variety, 22 Nov. 2022, https://variety.com/2022/film/news/bob-iger-returning-disney-ceo-risks-rewards-1235439893/.
[35] Cohan, Peter. "52% Below Peak, How Bob Iger Can Boost Walt Disney Stock." *Forbes*, Forbes Magazine, 25 Nov. 2022, https://www.forbes.com/sites/petercohan/2022/11/24/52-below-peak-how-bob-iger-can-boost-walt-disney-stock/?sh=34fa9ba2660a.

Moreover, when the pandemic hit in March 2020, Chapek found himself at a loss, 2 months into the job. He had just begun to learn the ins and outs of the massive corporation and was confronted with one of the largest external threats seen in the company's history. Iger, already in a position to provide guidance and holding a plethora of knowledge regarding the corporation, stepped in. After two more years of financial, political, and organizational blunders from Chapek, Disney announced his dismissal in November 2022, and reinstated Bob Iger as CEO.

Much of the problem within the succession case at Disney lies in the lack of any clear, deliberate timeline or procedure. In his time at Disney, Iger has made 4 plans to retire, all of which were eventually postponed. This lack of clarity of when Iger's tenure would end, and who was in the running to take over is eerily similar to that of Eisner. When Iger did officially step down, he simply transitioned into a new role of chairman. Such a move evokes clear political problems in the case of succession. For a successor to truly be able to gain the necessary trust from shareholders and employees alike, there needs to be a clear trust shown in them by the corporation. Keeping on the individual who once succeeded tremendously at the position almost suggests that there is someone waiting in the wings to take over, just in case. In addition, the timeline for Chapek's transition moved at an extremely slow pace. Jeffrey A. Sonnenfeld at the Yale School of Management commented on this process: "He [Chapek] had a very slow taking-charge process that didn't serve him well. The timetable is usually eight months for an insider…But Iger was still there, so this process was slow."[36] Chapek had to jump through hurdles to truly act as chief executive, unable to make any key strategic decisions because of the

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[36] James, Meg. "Behind the Stunning Exit of Disney CEO Bob Chapek." *Los Angeles Times*, Los Angeles Times, 22 Nov. 2022, https://www.latimes.com/entertainment-arts/business/story/2022-11-21/bob-chapek-disney-ouster-bog-iger.

red tape that seemed to exist around his role in general. There was an inherent issue in the lack of full confidence placed in Chapek, and thus the choice for him to take over.

Chapter 4

Analysis

This section will focus on analyzing the cases presented in reference to the scorecard presented previously in this thesis to determine how these firms achieved effective or ineffective succession in comparison to such established benchmarks.

1. Family Business Resume

In the case of scoring the family business discussed in this thesis Walmart, on the established criteria of a family candidate having a diverse resume, Walmart earns a “high” score. To start, with regards to its familial roots and the legacy of the Walton family, the company has established a steady and successful history holding roles on the board of directors for the corporation. The family has effectively established and maintained a presence that has served to perpetuate family legacy while also making room for a diversity of thought and necessary change through the generations. Since the time of his founding of the business, Walton felt that it was vital that the board included necessary professionals in the field along with his own family. He recognized the necessity to channel such diversity and expertise in order to achieve lasting success. In addition, family members that have served on the board have proven themselves qualified to be among such professionals, boasting impressive resumes with internal and external experience. Currently, two family members sit on the board: S. “Rob” Walton, son of Sam Walton, and Steuart Walton, grandson of Sam Walton. Rob Walton received degrees from both

University of Arkansas and Columbia Law School. He has served a variety of roles internally, including senior vice president, corporate secretary, general counsel, vice chairmen, and chairmen of the board. He also was a partner at the Conner & Winters law firm.[37] Steuart Walton received degrees from University of Colorado Boulder and Georgetown Law and has co-founded two businesses: Game Composites and the Runway Group. He also has held internal roles on the Mergers and Acquisitions team for Walmart.[38]These resumes both boast impressive educational prowess and career experience. Such experience has shaped their understanding of the industry, thus proving them capable to serve within their role as director on the board.

2. Candidate Selection and Firm Experience

Walmart demonstrates effective succession planning in their choice in CEO candidates throughout the history of the organization. With familial influence being primarily isolated in director roles, the CEO position has been filled by internal candidates that demonstrated competency in the internal management and strategic goals at large in the duration of their tenure. These CEOs have been exposed to a variety of positions within Walmart, allowing them to best gauge the workings of such a large corporation and effectively understand the specific culture and values of Walmart employees across all ranks. As was the case when founder Sam Walton set standards for his successor as CEO, all subsequent CEOs following Walton had at least 10 years of experience internally and held at least two senior management roles in the firm.

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[37] "S. Robson 'Rob' Walton." *Corporate*, https://corporate.walmart.com/our-story/leadership/board-of-directors/rob-walton/.

[38] "Steuart Walton." *Walton Family Foundation*, https://www.waltonfamilyfoundation.org/about-us/steuart-walton.

Such competency has proven vital throughout the CEOs tenures, allowing them to transition more quickly and confidently to the position at large and negating any chance of an awkward adjustment period.

When considering General Electric in regard to the established scorecard, there was an inherent issue with the candidate selection process. As opposed to fostering an equal and balanced relationship between the board, Human Resources team, and current CEO, as shown to be effective in finding a successor that can best fulfill the holistic needs of the corporation, the grooming instead essentially began and ended with Welch. The reliance on one individual to spearhead the whole process created clear political quandaries. It is only human that in the case of trying to appease one individual that there will be an inherent conflict of interest. As discussed, this structure of such succession planning was too heavily focused on the characteristics and personalities of such candidates. That is not to say that this is not a vital element of choosing the best successor; however, the issue lies in the oversight that occurred in every other area of analyzing potential candidates. Regarding firm experience, General Electric did consider candidates that demonstrated internal firm experience. All three final candidates McNerney, Nardelli, and Immelt spent at least 10 years with the firm, serving in a variety of upper management positions. In this regard, General Electric did well in selecting candidates with appropriate internal backgrounds and experience. However, the nature of the candidate selection undermined the consideration of experience, as the process of selection did not truly consider these backgrounds at the forefront of the succession race.

In the case of Walt Disney, both successors discussed met the established criteria for internal experience. Robert Iger served specifically for Disney for 10 years, and in that time held roles as both president of Walt Disney International and Chief Operating Officer of Walt Disney

Inc. Robert Chapek served for Disney for 27 years before being named CEO in 2020. In his time at Disney, he held two executive roles: President of Consumer Products and Chairman of Walt Disney Parks and Resorts. While this did qualify under the established benchmark of duration of firm experience, it is important to consider how these roles led to his lack of success during his time as CEO. This will be discussed in the following section “Strategic Alignment”. There was not a huge consideration to talent development or grooming throughout Iger’s tenure, considering the astronomical success he experienced in his time as CEO. His tenure seemed to be boundless: with the four retirement plans announced and then taken back by Iger, his existence as the CEO seemed almost perpetual. The perpetuity of Iger seemed to remain a constant strain on the effectiveness of Chapek’s reign. This timeline of transition becomes even more “messy” when considering the choice of rehiring Iger to his former title and to dismiss Chapek. Such a move shows the inability for Disney to completely sever ties with Iger. The reliance on the CEO by the board of directors is stubborn and does not support active succession planning and diverse candidate selection. This attachment to a CEO by the board at Disney is not a new phenomenon. In fact, as previously mentioned, this became one of the many criticisms that plagued Disney throughout Eisner’s tenure. While Disney demonstrated a consideration for internal firm experience in its choice of CEOs, they failed to truly develop diverse candidate selection or an effective transition process.

3. Strategic Alignment

Regarding the strategic alignment of succession planning at Walmart, the company has adopted an attitude that has served them well with each incoming successor: openness and

eagerness for modernity and forward thinking. Walmart has escaped any political quandaries that often arise between the board and the CEO, especially in family-controlled businesses, by placing confidence and jurisdiction in the strategic vision of the CEO. This confidence is not unwarranted: the board has ensured time and time again that their successor is rooted in knowledge of Walmart and possesses the necessary leadership qualities to take over such a large position. Additionally, the Walton family themselves have shown interest in both immediate and long-term goals for the corporation. They have not simply strived the maintain and achieve long term sustainability of the family name but sought out CEOs who possessed a vision for immediate change within their current generation.

In scoring the strategic alignment of the succession plan at General Electric, it is clear that there was an oversight throughout the process in ensuring that both the short- and long-term goals of the firm were considered. There were no strategic goals compiled by General Electric to present to candidates, and as such there was an extreme lack of focus on potential plans or visions any potential candidate had after taking office. After Immelt took office, this became apparent in the extreme decisions he made in pursuit of long term financial or capital gain with little attention or care for the problems it presented in the short term. The coupling of the cutthroat candidate selection and grooming process along with the lack of attention to strategic alignment contributed to an overconfidence in Immelt as successor and a failure to consider how his vision and expertise could be detrimental to the organization as a whole.

The strategic alignment of the succession plan at Disney was missing a variety of key factors. There was a new landscape in which Chapek was operating, and no consideration to whether he possessed such capability to carry out the undertaking of things like streaming services. Additionally, the prior roles Chapek held at Disney also prove to be an important

consideration for the lack of success experienced in his tenure. Chapek previously served as the Head of Disney Parks, allowing him to be uniquely qualified in the running and operation of physical parks and attractions. When the pandemic hit and the parks were forced to close, it became clear that there was a lack of understanding in much of the other areas of Disney's operations and management. The singularity in knowledge and understanding of strategy served to jeopardize the decisions and strategy created by Chapek in his reign. Yes, there was no real way of expecting that a worldwide pandemic would reach the scale of closing all operations of parks across the world. But perhaps there lies the exact point: while the pandemic itself may have been a risk that could not have been mitigated or planned for, the hiring of a successor with holistic knowledge of all internal operations and dealings was something Disney had the capability to do, and thus mitigate the risk that came as a result.

4. Stock Price throughout CEO Tenure

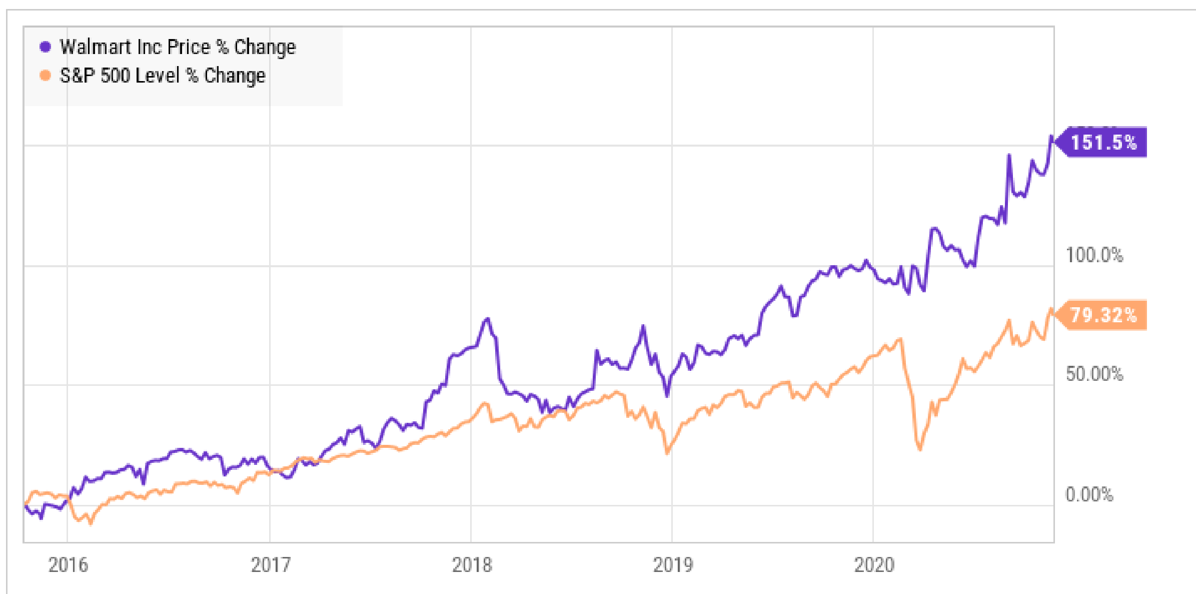

Figure 1: Walmart Stock Price Percent Change against S&P 500 (2016-2020)[39]

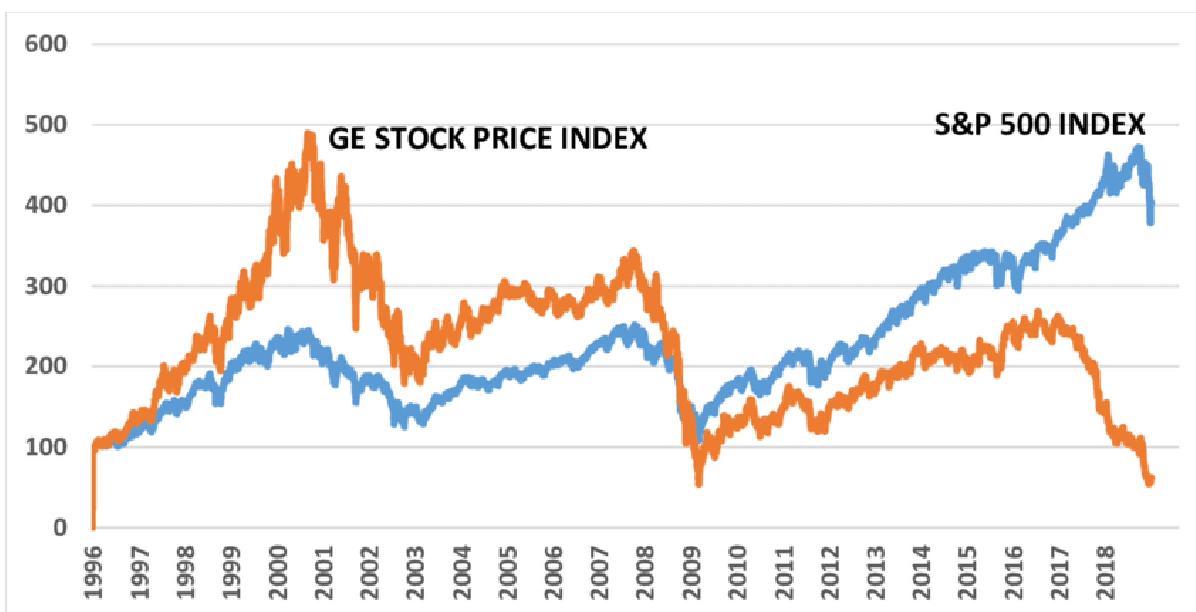

Figure 2: GE Stock Price Index against S&P 500 (1996-2018)[40]

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[39] Bowman, Jeremy. "Walmart Stock Performance Has Doubled That of the S&P 500 since Doing This One Thing." *The Motley Fool*, The Motley Fool, 24 Nov. 2020, https://www.fool.com/investing/2020/11/24/walmart-stock-performance-has-doubled-the-sp-500/.

[40] *GE Stock Price vs. S&P500 Index, 1996-2018 (Year 1996 = 100)*. Research Gate , https://www.researchgate.net/figure/GE-Stock-Price-vs-S-P500-Index-1996-2018-Year-1996-100_fig1_332550530.

Figure 3: Disney Stock Price Index against S&P 500 (2006-2022)[41]

When considering the stock valuation as a benchmark in which evaluate effective succession planning, Walmart demonstrates impressive metrics. Figure 1 shows Walmart's stock price percent change compared to the S&P 500 from the time period of 2016-2020. With Doug McMillon having taken over as CEO in 2014, this provides a general glimpse of financial performance in his tenure thus far. As indicated in the chart, Walmart has achieved mainly increasing stock price percent change since 2016, at a higher rate than that of the benchmark S&P 500. Such increasing growth helps put into perspective the financial success thus far at the firm as led by McMillon. Primarily, any decreases to stock price percent change are primarily consistent with that of the S&P 500, highlighting that the company has yet to experience radical isolated financial distress under McMillon. This is an impressive feat and a testament to the

[41] Buckley, Thomas. "Disney Says Bob Iger Will Return as CEO, Succeeding Bob Chapek (DIS)." *Bloomberg.com*, Bloomberg, 21 Nov. 2022, https://www.bloomberg.com/news/articles/2022-11-21/disney-says-bob-iger-will-return-as-ceo-succeeding-bob-chapek.

choice of McMillon as successor. Once again, while it is impossible to contribute this growth solely to the CEO, it is important to recognize the role that McMillion played in such growth and his ability, as a leader, to achieve positive share change throughout his tenure to this point.

When considering General Electric's financial performance as evaluated by stock price index shown in Figure 2, it is apparent to see the steady and continuing decline in the performance after Immelt took office in 2001. It must be noted once again the contextual circumstances that contribute to such a performance: as a whole, there was a decrease in stock price in the market during the years of 2001-2002 that came as a result of the 9/11 terrorist attacks and various accounting scandals like Enron that took place during this time. However, this context only applies so far. As shown by the graph, GE's stock price plummeted from a much higher initial value than that of the S&P 500 and never managed to successfully recover. As discussed, much of this can be attributed to the poor practices and decisions executed by Immelt, especially regarding GE Capital. Contextual evidence can only stand as a defense to a certain point, and it is clear the Immelt was unsuccessful in managing to regain financial growth as reflected in the plundering stock price for the rest of his tenure as CEO.

Disney's stock price from the time of Iger's first year as CEO 2005, to the end of Chapek's tenure in 2022, is presented in Figure 3, and makes a strong case for the effect the executive choice had on the firm's financial performance. As noted in the graph and previously, Iger achieved enormous success as CEO of Disney, managing to continually outperform the S&P 500 benchmark and achieve a generally increasing stock price throughout his tenure. When the time came for Chapek to take over in January 2020, there was an immediate plummet in stock price, as consistent with the S&P 500. It must be noted that this is consistent with the market reactions to the COVID-19 pandemic, and circumstantially aligns with the beginning Chapek's

time as CEO. Disney managed to gradually increase stock price over the rest of the course of the year, but as noted by the arrow in the graph, started to lose steam amidst a growing number of strategic and technological concerns in 2021. Must of the concerns stemmed from a primary source: poor decision making by Chapek. Despite the general rising price of the benchmark S&P 500, Disney share price continued to decline significantly for the rest of Chapek's tenure. Such a decline demonstrates the clear failure in the naming Chapek as successor, and perhaps even illustrates why Disney would seek out Iger to serve as CEO again: to try and improve financial performance and reinstate Disney stock to its former glory.

Chapter 5

Limitations and Further Research Recommendations

It is important to acknowledge the limitations of this thesis and the impacts of such limitations on the ability to draw conclusions. To begin, the case study method only reviewed three companies, all Fortune 500 public corporations. As such, there are many similarities in the organizational structure and management style of such corporations. The limit to only a small selection of companies means that conclusions and results are not generalizable. While these companies fit amidst the framework of succession planning, it is possible that other corporations have followed similar practices to the companies labeled effective or ineffective and achieved success or failure. In addition, there is a limitation of the amount of information available to the public. Companies are not required to publicly disclose succession plans, thus hindering the ability to see the exact structure and framework of such plans for the researcher.

In the case of further research recommendations, this researcher believes that an increase in the scope of the companies analyzed against the benchmarks established would prove beneficial in the pursuit of garnering more general conclusions. This scope could potentially include a variety of different firms, familial or non-familial. Increasing the sample of this study will also allow for a more conclusive for some of the recommendations proposed by this researcher, such as whether a family member serves best as a C-level executive or on the board. Data limitations hindered the ability for this researcher to analyze corporations other than Walmart that considered a family member to act as CEO. Further research could seek to engage a large sample of companies to support claims made throughout the thesis.

Chapter 6

Conclusion

Risk is inherent in nature. There is no ability to prepare for or avoid every single risk that could potentially affect an organization. Such is the case in the risks that arise from the extremely delicate practice of planning for and eventually choosing successors in a firm. Succession planning and the circumstances around it share a common connection to risk in that both are intrinsically and indisputably human. To plan an end, to predict the unpredictable circumstances that may arise throughout an executive's tenure may prove more challenging because of the humanity it is rooted in. However, succession, and thus the need to prepare for it, is inevitable; a fact that cannot be said for most other areas of business. As such, this thesis explored how the past can help inform the future, whether learning from the mistakes of history or aiming to mimic similar practices that achieved favorable results.

This thesis established a set of characteristics that were evident within effective succession planning of both familial and non-familial enterprises. First, the careful development of internal talent and the consideration of the experience candidates had in relevant firm roles helped ensure candidates were qualified and confidence could be placed in their knowledge of their industry and their company. The strategic alignment of all pertinent parties within succession planning and the necessity of establishing short- and long-term goals for a future successor ensures a streamlined understanding of what is expected of the successor and how decisions can be made with such goals in mind. Finally, the stock valuation throughout the

tenure of an executive, benchmarked with that of the S&P 500, helps provide a tangible metric to evaluate the financial performance of the said executive.

Within the three companies presented for case study, Walmart, General Electric, and the Walt Disney Company, the presence, or lack thereof, of established effective succession planning criteria was analyzed and discussed. Such an analysis demonstrated that in cases where such criteria were considered in the succession plan resulted in favorable outcomes for the firm. This was also found to be true in the opposite case. A lack of consideration or planning for succession often led a failure in the choice of successor and a tarnished reputation regarding the ability for the company to choose an impactful and decisive leader. While contextual circumstances were considered in each case, these studies allowed for real life scenarios to analyze the effective of ineffective execution of a succession plan.

In the introduction of this thesis, this author disclosed a truth in succession risk management and succession planning: there is not one exact plan that companies can adopt in to attain favorable results. However, as demonstrated, there are underlying factors that appear consistent to plans that succeed and plan that do not. While risk is inherent, unpreparedness is not, and thus must be mitigated in any possible circumstance. A company in its achievements and failures cannot be boiled down to one individual. But the role of chief executive officer holds massive weight, and as such, the process of filling such a role must be aligned in a matter that reflects the gravity of the job and the effects it can stand to bring on the legacy of the company.

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- Fostered internal and external relationships throughout the firm with various employees and clientele
- Earned Digital and Human Centered Design Badges after completing necessary internal training
- Managed and researched 16 specific client deliverables in a timely and effective manner in order to achieve client retention and engagement success

CNH Industrial **New Holland, PA**
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- Launched North American social sites, developed creative content, and monitored performance insights
- Conducted industry research using customer and website insights and analyzed data to determine effectiveness of CNH's landing page
- Collaborated with FPT Head of North America to create general company presentation for training new dealers
- Created 3 Step Network Development plan to streamline customer service and presented it to FPT Head of Network Development for implementation

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- Organized inclusion education for executive members through participation in multiple leadership workshops

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