INTRODUCING A NEW CEO

IROs must be close to the transition process, hone the right messages, and control the external conversation to keep investors on board.

By Margo Vanover Porter

WORRIED ABOUT INVESTOR JITTERS DURING YOUR COMPANY'S MANAGEMENT TRANSITION? YOU CAN REST EASY IF YOU COMMUNICATE THE CORRECT MESSAGE, SAYS DAVID CALUSDIAN, EXECUTIVE VICE PRESIDENT AND PARTNER, SHARON MERRILL ASSOCIATES. >>

"You can assuage investor fears by assuring shareholders the company picked the right person with the right qualifications and there is bench strength to help the new CEO or CFO with the transition," he insists.

"IROs need to figure out what message they want to get across to the investment community. Do they want to communicate stability? Change in strategy? What should investors take away? Because when they hear a new CEO is coming in, it's not just about the resume. It's about what this means to the future of the company."

Geralyn DeBusk, president, Halliburton Investor Relations & Communications, underscores the need for proactively developing a communication plan that deals with succession. "I can't stress enough how important it is to be prepared," she emphasizes. "IROs need to be strategic in their thinking and look ahead with a contingency plan in place."

When communicating about the management succession, she recommends that IROs focus on the strengths the new CEO brings to the company. "What are his or her capabilities?" she asks. "You need to alleviate investor fears before they start by explaining why the company is in capable hands."

When Joe Shaulson was named the new CEO of Metabolix in December 2013, Lynne Brum, vice president, corporate communications, engineered a multistep process to quickly introduce the new executive to the Wall Street community, including analysts and current investors. After announcing the changeover via press release, she geared up to prep Shaulson for a previously scheduled speaking slot at the Needham Growth Conference January 14.

"We made a decision to go forward with that speaking slot and use it as an opportunity to visit investors in New York City," she says. "Our new CEO introduced himself, talked about why he came to the company, and explained the attributes of our company that positioned it for success. Our chief scientific officer, who gave the bulk of the presentation, walked through our market opportunities and product portfolio."

With some advance planning, Brum made arrangements to record Shaulson's first public speaking opportunity. "Not only was he speaking to investors in the room, but we had it captured on a webcast, giving existing shareholders the opportunity to hear his initial views about the company," she explains. "We received good feedback from that introduction."

Messaging is Key

Both internal and external IR experts agree that the message the IRO chooses to communicate depends largely on the transition specifics. For example, did the former CEO retire? Become incapacitated? Die? Find another job? Get pushed out the door?

Calusdian cites this scenario: Suppose your company knows your CEO is approaching retirement and has lined up a team of internal candidates who could succeed him or her. In this case, your job is to showcase the breadth of the management team throughout the year.

He believes you can accomplish this by ensuring that management team members make presentations at an investor day, conference calls, and other opportunities so the investment community feels comfortable with your company's considerable bench strength.

"It's a lot different if all of a sudden the company decides it needs to make a CEO change," he remarks. "Then it's the job of the IRO to communicate how the company will look going forward. Does the board of directors want a change in the direction of the company or is it merely a change in leadership and [board members] want to maintain the strategy?"

The IRO's communication should clearly indicate the board's thinking, he says. "If it is a change in strategy, you need to begin to communicate the vision of the new CEO. If it is purely a change in person, not strategy, reiterating the company strategy within the press release announcing the new CEO and maybe having the incoming CEO comment on that strategy will demonstrate a sense of stability for investors."

Calusdian has worked with companies that were so focused on succession planning that they had press releases written and ready to pull off the shelf if something unexpected should happen. "They knew who the incoming management was going to be because it was somebody internal, and they had press releases ready to go."

In the case of illness, IROs need to practice diplomacy, suggests DeBusk. "You have to keep in mind the individual's right to privacy," she says. "Hopefully, the company has an executive in the wings who can step in on an interim basis or permanently. Ideally, if the CEO becomes ill, the executive vice president isn't a complete unknown to investors."

If the company needs to bring in an outside executive, communicating his or her credentials as soon as practical to investors goes a long way to alleviating any angst on the Street. "The biggest concerns we see from investors and analysts are situations where there is a lack of information," she says. "The best way to fight rumors is to put the correct information out there."

Her company, which is celebrating its 24th year, recently helped Commercial Metals Co. execute a smooth CEO transition. DeBusk explains that CMC initially hired Joe Alvarado in 2010 as the chief operating officer to work alongside the company's CEO until the CEO's retirement in 2012.

"Coming in as the COO allowed shareholders and analysts to build a relationship with Joe before he became the president and CEO," she says. "They gained a comfort level with his experience and capabilities. Honestly,

by the time the retirement of the former CEO was announced, the Street already had a good feeling about the transition and knew the company was in good hands."

During the same timeframe, CMC also brought in a new chief financial officer, Barbara Smith, to replace the retiring CFO. Although an external hire, Smith possessed a strong industry background and already knew many investors in the company.

"Her deep industry experience and capabilities, coupled with the fact that she didn't waste any time in getting out to meet with shareholders and analysts, helped make for a very smooth transition as the reins were passed to her from the former CFO," DeBusk says.

Advice From the Pros

During a management succession, the IRO assumes a couple of roles, one of which is to be a strategic advisor within the company, according to DeBusk. "You need to be part of the internal team that effects the smooth transition for the new executive into the corporation and that helps build the bridge between the CEO and the investment community to alleviate any concerns investors may have regarding the change. If you follow a logical process and you communicate the transition fully and completely, they shouldn't have concerns."

Other advice from IROs includes:

Prepare your new CEO or CFO for expected questions. "Don't let the executive be blindsided by questions from analysts and investors," cautions DeBusk. "If you are charged with the IR responsibility, you know what questions investors will ask. It's your responsibility to prepare the executive to respond to those questions. When an executive can respond with confidence, that goes a long way in alleviating concerns."

When Shaulson assumed the top post at Metabolix, Brum provided background on investors and analysts prior to his meet-and-greet with them so he knew what to expect. "Tapping into a database of previous conversations can be helpful," she suggests.

Don't procrastinate. If you wait too long to announce news, word inevitably leaks out. "Rumors will start swirling in the investment community ahead of your company's press release and people's imaginations can be much worse than reality," DeBusk says.

"We've all seen in the news when a company hasn't handled a particular situation very well. Put yourself in the place of the investor. If you own stock in a company, how would you want a corporate development of that magnitude to be communicated to you? You would want as much information as possible and as soon as possible."

Plan an early face-to-face with analysts. After only weeks on the job, Shaulson met with company analysts and asked for their feedback, Brum reports. "He got to hear the Wall Street analysts' impression of the company, the opportunities and challenges we face, and what is happening in our competitive space with our peer-group companies. He walked away having had a productive session with each analyst."

Brum believes the meetings were extremely valuable because they gave Shaulson neutral time to get to know the analysts, begin establishing a rapport with them, and gather information to effectively articulate the vision and business strategy for the company.

Keep your new executive on solid ground. In the early days, surround your CEO or CFO with executives who know the ins and outs of your company and can fill in as needed during investor relations meetings, Brum says. These key executives, who are already known to the investor base, can provide historical perspectives or the deep dives on the company as well as product details.

Craft the press release with care. The qualifications that you highlight in a press release will indicate to investors what the company is thinking, says Calusdian. For example, if you highlight that the new CEO is a turnaround expert versus a CEO with extensive experience in acquisitions, you are sending two very different signals.

"The press release is key in communicating a management transition," he says. "Be careful about every word because investors will be reading into it. They will look at the incoming CEO's record to see what type of person you are bringing in and see what that might mean to the future of the company."

In a recent conversation with Calusdian, an investor mentioned that when he reads a bio that doesn't specify education information, he automatically assumes the CEO doesn't have a college degree. "Pay attention to what is included and what might be left out," he emphasizes.

Get "up close and personal" with your new CEO. Calusdian believes it's always a mistake for IROs to try to draft a message without first sitting down with the new CEO and getting his or her take. Yet, this mistake sometimes occurs, he says, because the IRO is dealing with the outgoing CEO and the board or because the new hire has not yet arrived on the scene.

"You as the IRO are doing the communicating," he says. "The closer you can get to the decision making or the thought process behind the decision making of the board, the better you are able to communicate.

"Yes, it's easier said than done," admits Calusdian, "but if you can get inside the process sooner, rather than later, you're much better able to develop the right messages so you're not unintentionally misleading investors. To communicate effectively, you need to be inside the incoming CEO's head." IRU

***Margo Vanover Porter** is a freelance writer based in Locust Grove, Virginia; m.v.porter@comcast.net.*