The CEO's First Year Isn't a Victory Lap. It's the Board's Next Test

Selecting the chief executive officer is arguably the most important and complex responsibility of a board of directors. CEO succession risks are significant, largely because the incoming CEO is usually untested in the CEO role itself. A supermajority of newly appointed S&P 1500 CEOs in 2025 — 85 percent — are serving in their first public company CEO role. Half are destined to underperform their peers.

In our experience, CEO success or failure isn't predetermined. We know from our research into the CEO life cycle that boards have a significant impact in shaping company and CEO performance. Our recent survey of CEOs and directors globally underscored this: Effective board support correlates with a range of positive outcomes, including higher total shareholder return, achievement of growth goals and greater CEO satisfaction with their board's contributions and engagement. The start of a new CEO's tenure provides a board a clean slate to define the right support model.

Working with newly named CEOs, we've observed a set of patterns that successful CEOs follow to lay a firm foundation. Likewise, we've identified a common set of practices that the best boards use to oversee and support a new CEO and put them on firm footing as they navigate their first year and transition into an often turbulent second year. We've captured these best practices in five key steps for boards that can make the difference in setting up a new CEO for success in their first year and beyond.

1. Shift board focus from selection to support

The board's role evolves significantly once the new CEO is selected. At this key juncture, boards need to quickly shift their perspective from "finding the right next CEO" to "making that CEO effective." This is a critical switch in attitude and action, and one that requires time, attention and intent, especially after an often stressful and sometimes grueling selection process.

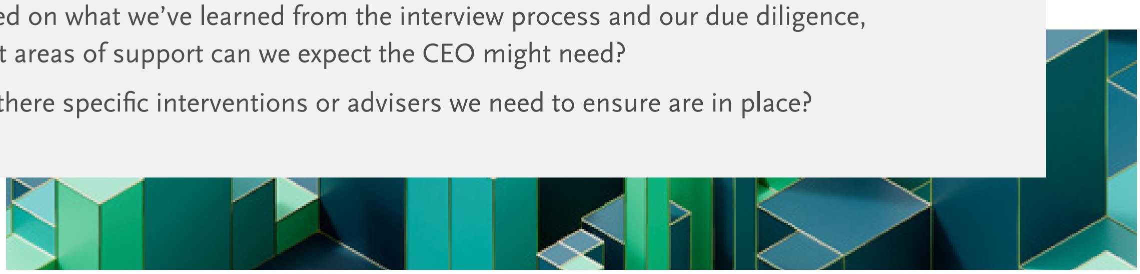
This shift must happen quickly. We have observed the "trauma of the transfer" — the fact that this is a massive disruption to the incoming CEO's personal and professional life (e.g., moving to a new area, uprooting their family, navigating a huge professional change, establishing a new support network for everything from fitness to healthcare). The stress of this career move applies equally to internal candidates and outsiders, and, ironically, the stress may be even higher for an insider, who must reset relationships with former peers, including those who may have vied for the CEO role. Almost without fail, board members (collectively and individually) underestimate the magnitude of these considerations.

In many cases, the incoming CEO will be reluctant to raise or discuss these issues, but a proactive effort by the board can help ease the burden and signal support. And, just as importantly, these conversations can be a meaningful way to start the relationship-building process.

Questions for the board

» Based on what we've learned from the interview process and our due diligence, what areas of support can we expect the CEO might need?

» Are there specific interventions or advisers we need to ensure are in place?



2. Create individual relationships between the board and the new CEO

Building strong, individual relationships between directors and the new CEO is crucial. Each board member should take the time to get to know the CEO personally and professionally as, in our experience, these relationships are the foundation for a culture of transparency and trust between board and CEO. While most directors believe they have built robust ties with the CEO, these relationships in reality can be pretty thin and fragile, even into the second and third years of a CEO's tenure.

Following the selection, and as part of the CEO's onboarding, the board should ensure the CEO is quickly starting to build a relationship with each director. Ideally, the CEO's first 30 days will include one-on-ones with each board member — something quick and focused on building a level of personal rapport.

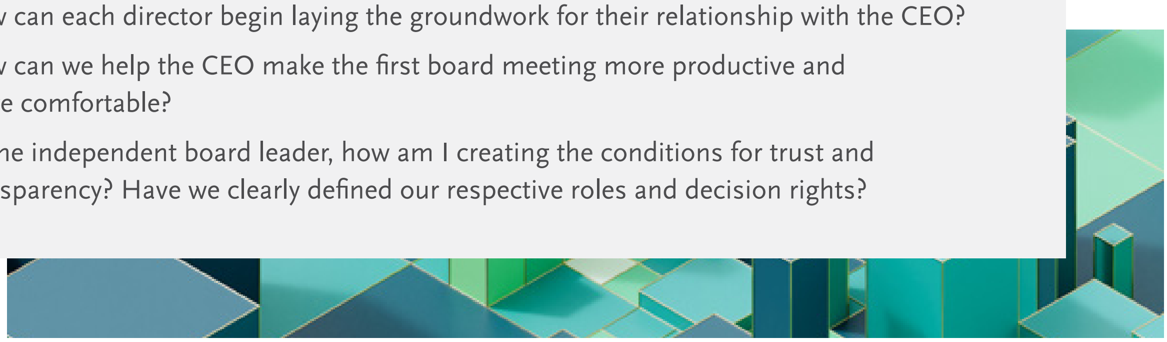
In the best cases, this initial touchpoint is followed by an in-person meeting between each director and the CEO. An important aspect of the in-person connection is for each person to get a better understanding of the other's motivations. For directors, this is an opportunity to take stock of the CEO as they're confronting the reality of the new job and to learn what the CEO most needs from the board. The CEO can get a read on each director, gathering insights into questions such as: How deeply engaged is the director? What are their areas of interest? How does board service, and this board in particular, fit in the director's career goals?

Another early action is for the independent board leader (chair or lead director) to connect with the CEO and clarify expectations for the first board meeting: Will the board expect a full, traditional meeting from a CEO in their first few weeks? Will the CEO and independent board leader co-lead? How can the CEO best prepare for a successful meeting? How can the board leader help ease the burden of the first meeting? Addressing these questions and actively working to help the CEO through them is a huge opportunity to build trust, but it is something that we've rarely seen done.

A key underpinning of the independent board leader-CEO relationship is building a "no surprises" culture based on transparency and trust. The independent board leader fosters this culture by quickly and directly sharing directors' feedback and concerns with the CEO on behalf of the board. In high-performing organizations, the CEO not only has a clear understanding of board expectations but also has the confidence that the independent board leader, serving as primary liaison between board and CEO, will provide direct and clear feedback and share any concerns from the board. This initial period presents a natural opportunity for the independent board leader and CEO to set and reset norms around executive sessions and reduce the new CEO's anxiety about them, including defining ground rules around whether the board will have a standing agenda item for an executive session (not "call them when needed").

Questions for the board

- How can each director begin laying the groundwork for their relationship with the CEO?
- How can we help the CEO make the first board meeting more productive and more comfortable?
- As the independent board leader, how am I creating the conditions for trust and transparency? Have we clearly defined our respective roles and decision rights?



3. Ensure the board is prepared for robust discussions around corporate strategy and the changes required

The process to find and select a new CEO presents a unique opportunity for the board to reassess the organization's position within the industry and its strategic direction. As part of this, the board should be actively questioning the direction of the organization and the implications for the incoming CEO. The search is not the time for the board to complete a full strategic review, but the board should confirm the general sense of direction and provide clarity on any "third rails" that the board will not contemplate or other guidance for the CEO as they contemplate their strategy.

Once the CEO is selected, the board should invite the CEO to share as early as feasible an initial assessment of the state of the business. This starting evaluation builds a common, detailed understanding of "where things are" to inform the strategic plan. The board should then set expectations for a strategy offsite within six to nine months, when the board and CEO should align on a more detailed strategy, along with underlying short-term and long-term objectives. This discussion should cover operations, talent readiness to execute the plan and the investments/changes required to achieve those goals.

In our survey, we found a lot of agreement between CEOs and directors about the kind of support boards should provide CEOs, including strategic thought partnership, relevant subject matter expertise and proactive engagement with management on the changing context for the business. Yet, the same survey found a 20-point gap between the support directors think they are providing and what CEOs say they experience — clearly indicating that there is still much work to be done.

Questions for the board

- How can we ensure that the CEO's strategic vision is both ambitious and achievable?
- Do we believe the CEO's plan is thoughtful and balances a meaningful aspiration with the current state of the organization?
- What are the key short-, medium- and long-term metrics for evaluating progress on our strategic objectives?

4. Perform timely, meaningful and formalized performance evaluations

Boards should be mindful that a new CEO often benefits from a market bump, and it's unlikely the first year of performance will be directly attributable to the CEO. The halo effect is real and pronounced, and we often see board feedback go uncommunicated until it's too late to turn around a perception or the problem has taken root.

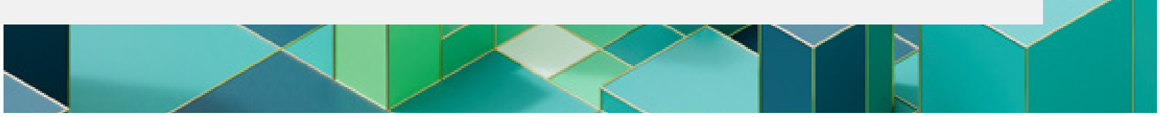
A structured plan for providing formalized feedback to a new CEO will help the board separate outcomes from behaviors. The first step is for the boards to fully understand and align on the CEO's plans to drive the strategies, actions and behaviors expected to pay off in their first three years. The board's evaluation, accountability and compensation strategies should reflect these metrics and take into account both quantifiable outcomes (e.g., financial performance, operational targets) and qualitative measures that incorporate inputs and desired behaviors (e.g., engagement scores, willingness to make quick decisions on team and organizational changes, structured 360-degree executive leadership team feedback). Because compensation can be a sticking point for a new CEO, it's important that boards carefully monitor whether the compensation plan unintentionally creates performance disincentives for the CEO and other key leaders.

Beyond metrics and measures, boards should be on the lookout for signs that a CEO may be struggling and require additional attention and engagement from the board. These signs may include:

- Limited clarity on long- or short-term strategy
- Delays and vacillation on team and organizational appointments
- Confusion across the organization about direction/strategy/intent
- Inability to explain the results (good or bad) — do they see the results as the outcomes of their direction, or are they continually surprised by the results?
- "Hail Mary" actions (like unexpected M&A explorations) or other distractions

Questions for the board

- How can we ensure that our evaluation process is fair and transparent?
- What are the non-financial measures we should incorporate into the CEO's evaluation, and how can we be transparent about our expectations throughout the year?



5. Evaluate whether changes are needed to the board's composition, leadership and/or governance

The appointment of a new CEO is an important time for a board to look in the mirror and thoughtfully consider its governance. In our experience, few boards self-reflect after the appointment of a new CEO.

Board composition should top the list for evaluation. A new CEO brings a new profile to the board. And the new CEO likely has different needs for support. For example, a first-time CEO may benefit from having at least one director with recent experience as a CEO and/or more directors with boardroom experience. The appointment of a new CEO should serve as a catalyst for the nominating/governance committee to review the board's composition, gain input from the CEO on the skills and experiences of highest value based on the new strategic direction, and update the board's succession strategy.

Leadership style is another watch-out for the board. We have observed situations when the styles and personalities of the new CEO and the independent board leader do not mesh. These are tricky situations for boards to navigate, but ignoring the issue never ends well. If the board is picking up clues that the relationship between the CEO and independent board leader is not working, intervention is a must and change may be warranted.

Boards also should gain alignment with the CEO on the board's role (if any) in the interview process for top executive candidates, especially those who interact regularly with the board. For example, in some companies, the audit chair interviews candidates for the CFO or internal auditor jobs, while the nominating/governance committee chair interviews general counsel candidates and the compensation committee chair interviews CHRO candidates. It can be helpful to have two directors participate in these interviews to provide another perspective.

Questions for the board

» Based on the strategy review and the new CEO's strengths and weaknesses, how should the board skills matrix be changed?

» Are changes warranted to boardroom succession strategies — including the pace of change and director turnover?

» Are changes warranted to boardroom leadership, including the independent board leader and committee chairs?

» Are there other governance changes we should consider to enhance the effectiveness of the board?

» How could the annual board evaluation be enhanced?

Conclusion

While it's tempting for boards to think their job is done once they have appointed a new CEO, they should view a transition as the start of an important new phase of board work. The first year or so of a CEO's tenure is a high-risk period for the board and the company. As one board chair told us, "New CEOs are overwhelmed. It's a bigger job than they thought. It's all new to them. So ensuring that the board is standing by with their transition plan and prepared to act as mentors and guides is critical."

In our experience, few boards take a formal approach to overseeing and supporting the CEO's transition. But boards can reduce the risks and increase the odds of success by recognizing the challenges facing the new CEO, building a relationship based on trust and transparency, aligning on strategy and performance expectations, and ensuring board composition and governance practices support the needs of the CEO.

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