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The Big Leadership Decision

Implementing a CEO Transition Involves Many Complicated Factors for A Company

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San Diego — CEOs have tough jobs. There are many ways to go wrong and many ways to make stakeholders unhappy.

CEOs can have "blind spots," said Scott McClendon, a retired CEO and board member. McClendon has had to fire eight chief executives from for-profit and nonprofit organizations over the course of his board career. The process is "terrible" and it never gets easier. "You want the person to succeed," he said.

Ten companies on the San Diego Business Journal's list of 50 largest public companies in San Diego County have changed CEOs since Jan. 1, 2015. (The list begins on page 20 and ranks the companies by market capitalization.) The CEOs left for various reasons, some of which are still not entirely clear.

Real-World Challenges

Ideally, a CEO transition is a well-planned event, said Nikhil Varaiya, a professor of finance at San Diego State University's College of Business Administration.

In the real world, external circumstances such as an unexpected death force a change at companies, Varaiya said. Boards might also have to react to poor management or a crisis such as a moral transgression.

There is a whole range of leadership issues in CEO turnover, said Robin Toft, CEO of Toft Group Executive Search in Carmel Valley. A CEO might not be able to attract and retain talent, or attract capital. Lack of communication can cause inefficiency and unrest.

Some CEOs miss sales or other goals.

As a company grows, some CEOs reveal themselves as micromanagers.

"Sometimes folks have trouble letting go," said Jennifer Perry, vice president with FMG Leading, whose services include executive coaching and leadership development. Delegation and trust are so important in the chief executive's office, Toft said.

Companies also go through various stages, and the ideal CEO for developing a product may not be the best person to build an organization to commercialize it.

It's a rare CEO who can make the transition but it's been done, Perry said, mentioning Peter Farrell of ResMed Inc., a San Diego medical device maker, as one example.

McClendon said the process also goes the other way. Sometimes companies must revert from marketing and double down on research and development.

Keeping Boards Happy

On top of everything else, Toft said, CEOs have to “manage up” — that is, manage their boards of directors — which itself is a full-time job.

“You’re not your own boss,” she said. “That is lost on the general population. You work for the board and investors.”

Pressure on CEOs is not limited to public companies.

Dow Jones VentureSource tracks a group of 88 private U.S. startups valued at $1 billion or more. Ten percent (nine of 88) have changed their CEOs in the past few months, The Wall Street Journal reported in April. The reason? Venture investors want to reach profitability sooner in the face of a volatile stock market and slowing global markets.

Outplacement firm Challenger Gray & Christmas Inc. keeps track of CEO exits on a national scale. In the first four months of 2016, the firm said 427 CEOs left their posts, up 8 percent from 396 in the same period of 2015.

Some 1,221 CEOs left their jobs in 2015, according to the Challenger study. The top three reasons companies cited for their departures were retirement (129 cases), a decision to step down into another position, often a board seat (99 cases) and resignation (82 cases).

Life Sciences See Turnover

In 2015, a disproportionate share of San Diego companies who changed their CEOs were in biotech and related fields. Reasons varied.

NuVasive Inc. founder Alex Lukianov resigned as CEO of the company in March 2015 for reportedly violating company expense-reimbursement and personnel policies.

“We believe this leadership transition is appropriate and in the best interests of the company and all of our stakeholders,” independent director Jack R. Blair said at the time. NuVasive makes products for

spine surgery.

Biotech companies have an extra burden of passing clinical trials. Celladon Corp. CEO Krisztina Zsebo resigned in May 2015 shortly after her company’s gene therapy product didn’t pass muster in a phase 2b trial.

Arena Pharmaceuticals, whose anti-obesity drug Belviq sold slowly, let go of Jack Lief in October. One financial blogger suggested it was because Lief was a strong scientist but not the salesman Wall Street wanted. Uli Hacksell, another CEO with drug-development experience, resigned from the top job at Acadia Pharmaceuticals in March 2015, letting Steve Davis, an executive with more experience in operations and commercialization, take the top job.

Not all the departures are downers.

CEO Faheem Hasnain left Receptos Inc. after Celgene Corp. bought the company in August for $7.2 billion. Celgene did not need someone of Hasnain’s magnitude at the top, Toft said.

Jay Flatley is scheduled to step down from the top job at Illumina Inc. in early July. Going forward, he will be executive chairman of the world's top maker of DNA sequencing machines and the No. 3 company on The Top Public Companies List.

More than one observer contacted by the Business Journal praised Flatley's record — including his ability to scale Illumina from 30 to 4,300 employees. Flatley is leaving at a peak, said Varaiya.

Flatley's successor is company President Francis deSouza, who Illumina hired in 2013.

A crucial element of good corporate governance is having a good succession plan in place, Varaiya said, and that is typically the result of a lot of hard work.

"Our biggest challenge in industry is succession planning," Toft said.

"You have to have a backup in place, get a talented No. 2 in the company — especially if you're going commercial."