

Issues

A Growing Commitment to CEO Succession Planning Among Boards

In my April 2005 newsletter I discussed how over the last five years senior executives have become increasingly committed to developing talent. This sea change didn't happen overnight. Rather, it was the culmination of years of growing awareness among senior leaders that they needed to be personally involved in developing people. Executives today are committed to developing talent – those who aren't are the exception.

I believe we are on the verge of seeing a similar shift in corporate boards: they are becoming more aware of the important role they must play in developing talent. Having recently strengthened their governance structures, disclosure practices, and audit responsibilities, they are now turning their attention to their responsibilities for strategy and talent, and more specifically to CEO succession planning.

Corporate Directors Recognize That They Need To Do More

Directors know they must be more involved in CEO succession planning. A 2006 survey by the National Association of Corporate Directors (NACD) singled out CEO succession as the most important and least effectively performed responsibility of the Board. And the NACD survey is not alone. Whenever they are polled, directors make clear that they need to do more:

- ✘ 40% of corporate directors said their involvement in CEO succession planning is less than optimal (Mercer Delta).
- ✘ 66% of directors felt Boards were not giving CEO succession the attention it deserved (Korn Ferry and O'Callaghan).
- ✘ 42% of directors in small companies said CEO succession wasn't even on their radar screen (Korn Ferry and O'Callaghan).

Increased awareness and commitment is laudable, but if Boards are to be successful in CEO succession planning, they must first rethink some fundamental assumptions about the succession process.

Many Barriers – Perceived and Real – Are Holding Directors Back

So if directors know they need to do more, why aren't they? Part of the answer lies in the preconceived notions many directors have about planning for CEO succession. My frequent discussions with participants at the Directors Education Program reveal some recurring myths:

- ✘ "If we put succession planning on the Board's agenda people might think we are about to push out the current CEO."

- ☒ “It’s the CEO’s job to produce and pick a successor.”
- ☒ “As a small company, we’ll likely recruit our next CEO externally so we don’t need to bother with succession planning.”
- ☒ “CEO succession planning means naming an heir apparent.”

In addition to these misconceptions, some practical barriers hold boards back from laying the foundation for effective CEO succession. Time is in short supply around the board table, and pressing issues such as financial reporting, disclosure, and compensation crowd out the less urgent and less tangible issues such as succession. Directors don’t take the time or make a deliberate effort to get to know the possible succession candidates well enough. Many CEOs and directors don’t have experience or comfort with open, in-depth discussions about the performance and potential of each of the executives below the CEO.

CEO Succession Planning – A New Approach for Boards

In my work with Boards I stress a new set of assumptions that must guide their actions. Specifically, I stress that succession planning is primarily the responsibility the Board, even though the CEO can play an important role in that process. I also emphasize that succession planning is a process that needs attention every year, regardless of whether or not a transition is expected any time soon.

Embracing new assumptions aren’t enough: I also work with Boards to outline the tangible steps they must take. First, directors must work closely with the CEO to agree on a list of possible internal succession candidates. Once the list has been created, the Board then needs to assess over time each candidate’s skills and shortcomings relative to the skills needed in the CEO role. Finally, the Board needs to oversee the retention and development of these people over the coming years – the grooming period.

Helping directors embrace this new role is becoming an ever-more important part of my practice. The two stories below, drawn from my work with Boards, demonstrate the practical things Boards can do to have greater success with succession planning.

What will be needed in the next CEO?

One of my clients had a very strong CEO in place, but the Board knew he would likely leave in 2-3 years. The CEO thought there were three possible succession candidates, but whenever he brought this up with the Board the discussion dried up. It was clear that there were divergent views around the table about the profile needed in the next CEO – and even what the role of the CEO should be in this private company.

I interviewed all the directors one-on-one, and identified the fundamental issue about the CEOs role and how it fit with the governance structure of the company. I helped them reach a consensus on the role, strategic imperatives, and skills needed in the next CEO.

With clarity on the role they quickly reached consensus on the suitability of the various candidates and have moved onto planning for a number of succession scenarios. Importantly, this clear definition of role and strategic imperatives has also improved the way the Board evaluates the current CEO’s performance each year.

Easing out the Founder CEO

I was working with a growing company that had gone public a couple of years earlier. Two of the directors felt the CEO – who was also the founder – wasn't the right person to take the company where it needed to go. The Chair, however, thought that the CEO deserved another year or two. The Board had to reach consensus on this if the company was to move forward.

I facilitated an informal three-hour discussion with the Chair and the chairs of each of the committees to work through all the pros and cons of replacing the CEO. They managed to reach a consensus which the full board supported. They decided to hire a new CEO immediately, and to move the founder to an Executive Chair role.

Then we worked on detailed job descriptions and conditions for how to make these roles effective, including the creation of a Lead Director role. As is often the case when working on issues about the CEO role, the recommendations included some steps to strengthen the Board's leadership and overall effectiveness.