

Succession Planning: A Board Imperative

Directors should have knowledge of their leaders, both inside and outside of the company, to ensure a smooth transition and minimal risk to business continuity and growth.

Generally, Boards understand the need for succession planning however for a variety of reasons they all too often don't do it very well. In surveys conducted by leading authorities such as the various national associations of directors, academics and global strategy firms, directors consistently rank succession planning as one of the top three agenda items for the board. However many boards do not rate themselves highly when it comes to planning for a change of CEO and actual market evidence suggests that would be an accurate evaluation. According to a recent survey by the Center for Board Leadership (National Association of Company Directors) only about half of public and private corporate boards have CEO succession plans in place.

So just what will it take for boards to get the message and become great at succession planning?

A robust succession planning process is not merely good governance. Given the current deterioration of the business environment, measuring the performance and retention risk of the CEO (and the extended leadership team) and underlying succession depth is critical to business performance and continuity. Known as Leadership Risk Management, it is a continuous process for all companies irrespective of how long the CEO has been in the role.

So, why do boards have difficulty with succession planning? There is a widely held view that at the heart of succession planning is personality, ego, power and politics. Added to this there are several other, more concrete, obstacles to succession planning, such as:

- Poor CEO/Board dynamics;
- The lack of a well-defined process and shared mind set;
- Poorly defined "ownership" of succession planning responsibilities;
- Scarcity of internal, CEO ready talent; and
- Inability to objectively assess potential candidates.

Three Types of Succession Planning

While in the past it was unclear who was responsible for CEO succession planning in this era the board now has ultimate responsibility. Indeed, the stakes are higher than ever for boards to select the right leadership for their companies, given highly visible dismissals of CEOs, critical attention directed to CEO compensation, and increasing pressure on performance.

There are three accepted types of succession planning scenarios.

The first is the "gets run over by a bus" syndrome where there is the person, usually an emergency option, the board has waiting in the wings.

The second is the "planned transition," where a CEO makes known to the board his or her date for departure, allowing the board to start an orderly process, often over a 2 to 3 year period, to find a successor.

The third type, and the most fraught with uncertainty, is the "deterioration in confidence."

In our experience, many boards are less capable of handling succession when it becomes clear over a period of months they must change CEOs sooner than planned because the business is at risk of faltering, if not already. In general, boards do not pay enough attention to this increasingly common scenario.

There is however a fourth scenario where companies apply a rigorous process of managing their leadership risk through the ongoing identification, development and review of internal successors that is continuously benchmarked against the external market. In deploying this approach the board removes the higher risk levels associated with the above three scenarios and positions the business to account for any planned or, more importantly, unplanned changes.

Knowing Your Leaders

One reason boards might not handle deteriorating situations well is their insufficient knowledge of the talent inside companies they govern and within industries in which their companies compete. Boards are only recently grasping the significance of the Leadership Risk Management - the need to know who future leaders of their companies might be no matter where they reside. For many years leadership risk management has been overshadowed by other fiduciary and governance responsibilities.

Now, however, boards understand they must gain deeper knowledge of senior leaders in their organization. More than that, they realise they need a much deeper appreciation and understanding of external talent in order to identify the best possible future leadership for their organizations well ahead of the planned or unplanned need. Leadership Risk Management does not require directors to become talent management experts! It does however require boards to take responsibility for ensuring that the right processes for succession planning and talent management are in place and that they have the appropriate knowledge of their leadership risk position.

There are three key initiatives that a board should adopt:

Benchmarking

The first is to ensure a board has more than cursory exposure to its company's senior management. Directors should get to know the senior leadership well through presentations in the boardroom and regular meetings outside of it. The era when CEOs shielded directors from managers is long gone. CEOs are no longer sole conduits of information to directors, especially with new fiduciary responsibilities imposed on boards by Sarbanes-Oxley, such as oversight for financial reporting.

Secondly, boards should benchmark potential leadership. Benchmarking puts a continuous risk management process in place that includes collecting information about potential successors without the need to approach executives directly. Benchmarking provides boards with in-depth profiles of potential leaders, putting the board in a better position to assemble quickly a list of potential CEO candidates.

Future View

Third, whether a board considers internal or external candidates or both, its starting point should be a Success Profile for a CEO who reflects the strategy and context of a company's future, not its present. The Success Profile should reflect the best characteristics of world class leaders in the company's business segment, including those of leaders in competitive companies.

This approach requires strategic consensus on the board about future growth and a vision of where the company should be in three to five years. It is easier to ride the coat tails of a successful departing CEO than to pursue an evolution or change in direction for a company. However a board that does this is often stuck in the past and not moving into the future.

Leadership changes are not easy, nor are they stamped from a mould. Each company is unique due to its strategy, situation, history, and culture. A highly skilled leader might not always be the best fit for an organization, given the organization's values, its way of operating, and its position in the marketplace. Boards should think carefully about fit because one of the biggest risks of bringing in an outside CEO is a poor cultural response.

Dynamic

An outsider can create ruinous clashes in a company by trying to impose systems the company rejects. On the other hand, some organizations need cultural transformation and ground breaking CEOs, and boards should be prepared to stand by them until the CEOs get the hard work done. We have seen boards that do this well. They have stated publicly they expect radical change and, in so doing, they have helped deflect criticism.

Because organizations and marketplaces are dynamic, succession plans shouldn't be static. Boards need to update their plan, risk profile and leadership knowledge on a continual basis. Things change far too quickly for a succession plan to be mothballed and remain unexamined. Boards must embrace the reality that few things matter more to an organization than having the right leaders in place today and in mind for tomorrow, while recognising tomorrow can arrive at any time!

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