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The Seven Deadly Sins of Succession Planning

By John Szold

As the boomer generation gets ready to retire, the words 'succession planning' are on the lips of CEOs, boards and business owners across the country – or, at least, they should be.

Planning for an inevitable shift in leadership seems like a smart thing to do, yet time and again companies get hit from behind as they fail to develop and implement effective succession plans. In most cases, these companies fall prey to one of the Seven Deadly Sins of Succession Planning:

1. I'll be here forever
2. What this place needs is more people like me
3. What this place needs is new blood to shake things up
4. Managing 'things' qualifies you to manage people
5. Keeping secrets
6. Believing that everyone wants to be a senior executive
7. Blood is thicker than water

Here's a look at Sin Number One.

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Sin: "I'll be here forever"
Like ordinary folks, CEOs engage in varying degrees of sinning – the organizational kind, that is. Certainly the most damaging sinner is the CEO who has no specific replacement plan. The lack of planning may be a sin of omission ("I haven't got around to it yet") or a sin of commission ("I'm not going anywhere").

Many CEOs hold a paradoxical belief that they are both indispensable to organizational success, yet if they do somehow leave, the organization will continue to flourish on the basis of their tailwinds.

When the inevitable happens (and Murphy's Law will make sure it does), it triggers a crisis of major proportions. No one has been prepared to take over. The CEO has controlled all of the important decision-making as well as the key contacts and relationships. The CEO's tailwind turns out to be a vacuum.

More pragmatic CEOs are motivated to leave things in good shape for their successor, believing that well-prepared successors will likely improve upon the situation.

I had just facilitated the first succession planning meeting at a large industrial services firm. I was feeling quite satisfied with the committee's progress when the President asked me into his office. I was anxious to gauge his reaction and relieved when he expressed his pleasure with the process. Then he dropped the bombshell. "Now that's over" he asked, "when can I retire?"

Fortunately, he had taken pains to develop a strong successor and legacy. Within a year, the President had indeed retired. His successor racked up a 40 per cent sales increase after one year running a mature company in a mature industry. This wasn't good luck. This was the measure of a CEO who took ownership of the need to develop talent very seriously.

Great leaders groom one or more talented successors, then get out of the way and allow them to take over. In 1998, Bill Gates stepped aside from Microsoft's day to day business and turned the keyboard over to Steve Ballmer. While Gates has remained the public face of Microsoft, it is Ballmer who piloted Microsoft through its anti-trust difficulties in the U.S. and presided over several software releases including XP and more recently, Vista.

However there are several instances of talented founders who, having decided that their successor is not worthy, reappoint themselves. Michael Dell, Chairman of the computer company that bears his name, recently removed CEO Kevin Rollins to take on the CEO role again. Why? Since installing Rollins in 2004, Dell's PC brand fell into second place behind HP. Its stock price plummeted 16 per cent from a year ago. A company famous for double-digit sales growth now exhibits tepid growth. No wonder it was time to reboot.

This history of stepping back in has been duplicated by Steve Jobs at Apple, Charles Schwab of brokerage fame, and even the late Sam Walton at Wal-Mart. Are these boomerang founders demonstrating faults in their own succession plans or does their ego not permit someone else to take over? Did the successor make things worse or inherit a latent problem?

Occasionally a CEO is so obsessed with leaving behind the perfect successor that he or she creates impossible standards – then is surprised when no successor is found. The outcome is no better when Murphy's Law is applied to this organization. Potential successors are denied the experience that would prepare them to take over. Ted Rogers has been grooming heirs apparent for ten years. One of the better ones might be talented enough to be the next Premier of Ontario but not the CEO of Rogers.

Does this type of founder need more money? Do they have a monopoly on the right answers? Of course not. Instead, it may be that running their company is all they know and want to do. They're afraid to give up the reins of power. In feeding their own needs, they shortchange investors,

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Atonement

The atonement for Sin Number One rests with the Board of Directors. The Board must provide leadership and direction to the CEO and senior executives. It's not easy to tell a successful CEO to plan for the time when he or she will turn over the reins. But this is a key reason for having competent independent directors.

In managing a CEO ego the size of Lake Superior, the Board should focus on helping the departing CEO leave a meaningful legacy. CEOs would like to see themselves go out at the top of their game and not on organizational (or personal) life support. If the planning time frame is long enough, say five years or more, the CEO has opportunity to both groom a successor and create the living memory of his good deeds.

Legacies are created through corporate philanthropy, serving on other boards (especially not-for-profits), and taking on an ambassadorial role. Building legacies can help absorb the sometimes toxic energy of a CEO's smothering passion and make it easier for a successor to take over.

The Board has a special duty to ensure that a consistent and rigorous examination of executive succession planning is in place. Even under "natural" conditions – the planned and voluntary retirement of the CEO – the Board's greatest responsibility is to ensure the selection process turns up the CEO-to-be with the greatest potential to lead the organization to higher performance levels in the future. Search committees need to be formed and a skilled head hunter brought in. The board's ability to choose the best performers hinges on how well it can predict the future.

So how can they accomplish this seemingly daunting task? Certainly the organization's current problems and culture are important. More often than not, the people with the best answers to today's problems already exist within the organization. All it takes is for someone to ask them how to fix a problem or include them in an effective implementation team. The real challenge is dealing with the unknown.

Companies do not experience the future as a repeat of the past. Inevitably, the relentless Darwinian consolidation of business produces larger and fiercer competitors, bigger and more demanding customers, and international supply chains. Companies that look at candidates' potential rather than their history are much more likely to make solid choices. Direct experience is not an accurate predictor of success.

When Lou Gerstner was appointed CEO of IBM in 1993 the company had lost US$8.1 billion. Gerstner's resume was bursting with achievements at McKinsey, American Express, and RJR-Nabisco. Computer experience? That would have disqualified him. By the time Gerstner moved on in 2002, IBM made an annual profit of $7.7 billion.

Repentance

The repentance for the "I'll be here forever" sin is to install a succession planning process that starts with the CEO and senior management team and has the support of the board. Like dominos, when successors have been identified for these roles, the process moves down to backfill in the middle management group.

The virtues of effective succession planning are:

- Decisions are approached in a systematic and consistent way. A well-communicated process goes a long way to quelling the grapevine's perspective of favouritism.

- The planning process is carried out continuously, avoiding crises and providing reinforcement for continuous performance improvement. Developing great leadership talent takes time and nurturing.

- Decision-making balances subjective management evaluation with objective performance criteria and third party assessment. It is natural to want to hire people in our own image. A proper assessment of the organization's future needs may discover that a completely different set of talents and potential is needed for the future.

- Unless there is a replacement emergency, the planning horizon is long enough to work through meaningful development plans for successors – usually three to five years.

Falling prey to the Seven Deadly Sins of Succession Planning does not necessarily result in the eternal damnation. Once addressed, a properly carried out succession plan not only ensures a continuity of leadership but it supports future growth through the retention and development of a company's brightest talent. It can also be the key to increased motivation, performance improvement and a seamless transition from one management team to the next.

John Szold is an organizational development consultant specializing in Succession Planning and is Managing Director of Caliper Canada, Toronto. This is an excerpt from his forthcoming book, The Seven Deadly Sins of Succession Planning.