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PREPARING TO NAME THE NEXT CEO: FOUR CRITICAL QUESTIONS

By John Szold, CEO, Planning For Succession Inc.

Lack of a robust succession plan is the corporate equivalent of failure to exercise or eat a balanced diet. Unhealthy outcomes may be the result of any of these omissions. The Street regularly punishes companies for poor succession planning and implementation. Apple's shares dropped more than 10% in 2009 when Steve Jobs went on medical leave. When Mark Hurd was fired from HP in August, 2010, its shares dropped 14%. As Ram Charan wrote in *Ownning Up*, "Every director knows deep down that nothing is more important than having the right CEO at all times".

As directors, if we can agree that CEO succession planning is a critical governance responsibility, we might avoid these crises by simply knowing a few key questions to ask and what to listen for in the answers.

1. Do we have the information to make a decision when we need to?

Red Flags:

There is only one likely successor for the CEO role. He has earned the right to this job because of his long service and loyalty to the company. I keep my personal evaluations in my desk drawer. The only time the board has seen the succession candidates is when they present at meetings. Watching people present a PowerPoint deck is an efficient way of evaluating them as leadership candidates.

Good answer:

We have a robust succession plan actively administered by the executive management group. We have a bench of future leaders being developed. Succession candidates are identified for all of the possible roles they might fill. A timeline to readiness is determined based on each individual's developmental needs.

Senior management discusses the plan at least quarterly and reviews progress on the development of the succession candidates. There are two candidates for the CEO role and each other senior management position has multiple possible successors. We report to the board's HR Committee by updating a one page dashboard each quarter.

Each candidate has an individual development plan that prescribes a combination of formal training, rotational experience, and strategic project team work. HR and the candidate's supervisor monitor the progress that is made in working through the plan.

Each board meeting provides an opportunity for a few of the candidates to talk at greater length about the challenges and accomplishments in their areas. Beyond that, we encourage site tours hosted by the candidate, opportunities to interact socially with the directors, and one-on-one discussions. We take pains to ensure that the board is exposed to all of the C-suite candidates on a regular basis.

2. **Does the succession planning process extend beyond the handful of senior leadership roles to identify and grow high potentials in a constructive way?** Although this may seem operational, you need to be satisfied that it is effective by hearing reviews of the top layers of leadership by the CEO and/or the head of HR. You would expect balance sheet items to be rigorously audited. Why would you lower your standards for human capital?

Red Flags:

It is too expensive to develop all of these people. They'll just go elsewhere anyway. If we told people what we had in mind for them, they would assume they are entitled to the promotion.

Good answer:

Management has cascaded the succession planning process down through all management levels. This enables us to develop successors for most roles. In addition, we have a good handle on who our high potentials are, allowing us to create development opportunities for them that keep them engaged and help retain them.

HR maintains a succession planning chart for this group. The management team discusses the progress or each individual every quarter. The results are incorporated into the dashboard that is shared with the board.

We are very open about our succession planning process. When people are brought into the process, we explain in detail how it works and take pains to emphasize the objectivity and equity that are built in. Individual discussions are held with all succession candidates. We point out that it is a two way street – we see them as having potential and are willing to invest in them – but we expect them to make a commitment of time and energy to their own development. However, circumstances, including their own performance, can change so that nothing is cast in stone.

Performance and self-improvement are personal matters. People are managed against their personal best, not each other.

3. **Is there an emergency plan with a name attached? Is it reviewed regularly?**

Even a young CEO in a well performing company can get hit by a bus or a scandal.

Red Flags: We'll decide when we need to.

Good answer:

The CEO updates and reviews the names on the emergency list with the board on a regular basis. The board approves the choices. After all, can a board be expected to make the same quality of decision in a two hour emergency meeting that it would have if succession planning had regularly been on its agenda?

If there are no viable names on the emergency list, the board has a contingency plan which may include an independent director stepping in on an interim basis, the formation of a search committee, an executive search firm passively on retainer.

4. Does the board know what it should be looking for in the next CEO?

Red Flags:

Candidates are encouraged to outperform their peers. Ultimately, there will be winners and losers and we're prepared to live with that.

Good answer:

A sound investment portfolio is created through diversification. Similarly, in developing a pool of candidates we want to be able to choose from a mix of skills and talents when the time comes. The answer to what is required in the next CEO is rooted in the strategy. We cannot assume that what is effective today will be effective in the future. Consider the range of strategic options and the differing types of leaders best suited to achieve them:

- Will our market differentiation be based on efficiency or innovation?
- Will the future be more stable or less stable in our industry?
- What are our growth expectations: survival, organic growth, acquisition?
- Will we be going global for customers or supply chain?

Understanding the organization's future needs will fuel the internal development program or may cause the board to create the criteria for an external search.

Compare developing the talent specifications out two or three years to your golf game. On a 400 yard hole, if your drive is only four degrees off, you'll miss the pin by 28 yards! How much room for error is there?



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