PLANNING FOR SUCCESSION
SUCCESSION PLANNING AND MANAGEMENT

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The SEC & Succession Planning

An advisory from Planning For Succession Inc. to its clients and friends

How we got here

After Bank of America's hurried search to replace CEO Kenneth Lewis, it is widely believed that the U.S. Securities and Exchange Commission was spurred to change its position on disclosure of succession planning processes, resulting in increased transparency. Staff Legal Bulletin No. 14E (CF) removes the rock under which corporations could hide their succession plans – or the lack thereof.

For example, the Laborers' International Union of North America has announced plans to file several shareholder proposals on the subject starting with Bank of America. It's too early to tell if shareholder activism will be a trickle or a flood. Prudent boards will view the SEC's bulletin as an early warning to place greater emphasis and communications on succession planning. Board members need to consider what will be needed to satisfy shareholder questions about process, communications and transparency…not to mention effectiveness.

Planning for Succession has identified five major issues for boards to consider when building a sound succession plan:

1. Trust me! We have a Succession Plan.

How much detail is required to explain the contents of a Succession Plan? Who is qualified to express an opinion on its existence and efficacy?

At minimum, we recommend that boards identify:

(a) the board committee that is responsible for succession planning;

(b) the use of an outside consultant, independent of management, to design and manage the process;

(c) the scope of the succession planning process and its degree of readiness.

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2. A plan with one candidate is no plan

Sophisticated shareholders will not accept that the corporation's succession plan has identified only one successor to the CEO. And risk-sensitive directors shouldn't either. McDonald's Corporation survived not one but two CEO replacements due to death and illness in a year. This is the true stress test of effective succession planning.

Robust succession plans look beyond the heir apparent to other potential candidates and recognize the domino effect of upward mobility.

3. In case of emergency, dial 1 800-RECRUITER.

There may be legitimate reasons why there are very few or no internal candidates. At minimum, the succession plan should identify the skill sets needed for future success and industries in which succession candidates may be found. That way, when the inevitable happens, many of the specifications that recruiters need to work from will have already been established.

4. I'd tell you but then I'd have to kill you.

One of the most difficult parts of implementing a succession plan is establishing an internal communications policy. What makes the message tricky is that the corporation is revealing a planning process not a firm decision. The confidential discussion with internal candidates has the potential to create winners and losers if not managed properly.

As sensitive as the topic is, it is well worth the board's time to thrash out key messages and speak with one motivating voice, making sure that management does too. Complete secrecy merely relegates communication to the proverbial grapevine.

5. Failing to plan can be planning to fail.

One of the toughest challenges an organization will face is CEO transition. An effective succession planning process not only prevents a potential leadership crisis by proactive identification of candidates, it can also contribute to the development of high potential performers and retention of the organization's brightest talent.

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Many of our clients use customized scorecards to measure and monitor the degree of "bench strength" quality that is available to replace the CEO. The best-practice ones also ask for a certification from the consultant that the plan is current and being managed properly.

In the absence of accounting-like standards, there is considerable variation in qualifications of consultants that work on succession planning and in the quality of their advice. Succession planning advisors should not be conflicted by the need to generate income through external candidate placement. And like compensation consultants, they should not be beholden to management.

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