

The Succession Planning Imperative



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Planning for CEO succession should be considered an essential duty for boards of directors, regardless of the state of the economy, the company, or the industry. Unfortunately, succession planning—or the lack of it—primarily attracts attention during periods of business difficulty, especially when prominent chief executives are unexpectedly removed. We've seen this most recently with the collapse of the subprime mortgage market.

Yet this issue is about much more than today's headlines. Succession planning is critically important for two reasons.

The "positive" reason is continuity. Succession planning increases the likelihood that the leadership vision, core strategies, and business achievements of the organization will continue uninterrupted, if and when the chief executive is replaced. Preparing for this should be an imperative for all boards of directors.

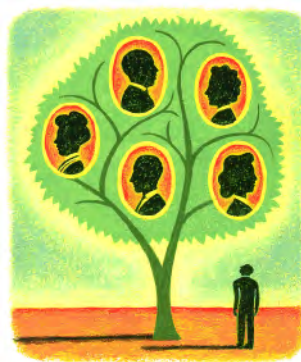
The "negative" reason is discontinuity. When crises prompt unplanned changes in top leadership, the result can be highly disruptive. Shifts in corporate culture and leadership vision may be inevitable and, in some instances, desirable. But in most cases, discontinuity at the top creates problems that can and should be avoided.

Despite these powerful incentives for succession planning, many boards of directors don't make this a priority or carry it out. A 2007 Thomson Financial survey of directors found that 24% had not undertaken CEO succession planning during the previous year. Some 10% of those directors said that they had never discussed the topic.

Many directors realize that succession planning is important to immediate strategic planning. A survey by PricewaterhouseCoopers and *Corporate Board Member* magazine found that 35% of

board directors are dissatisfied with their company's succession plans, with about half of those attributing their displeasure to the fact that succession planning is not regularly on the board's agenda.

Problems may arise because boards mistakenly view this kind of planning as a long-term matter, rather than an issue of pressing concern, an important element in crisis planning. It's when a chief executive dies unexpectedly, or must be replaced under difficult



circumstances, that a board's failure to carry out succession planning has the most serious consequences.

While succession planning for senior management is a responsibility of Human Resources and the CEO, planning for CEO succession clearly should be a board responsibility. A CEO's attention will understandably be focused on such matters as earnings "89 days from now" and the corporate strategies to be implemented to produce those earnings. CEOs should be involved with, but not responsible for, the board's succession activities. Likewise, CEOs shouldn't be permitted to raise roadblocks to the process.

Boards can best facilitate this process by formally establishing a Succession Committee, with a chairman and ongoing responsibilities, similar to the Audit, Nominating, and Compensation committees. Right now, succession is everyone's responsibility

and, therefore, it is no one's responsibility. With a Succession Committee in place, the chairman would be expected to report to the board regularly on the committee's strategy for identifying potential CEO successors, its timeline, and, as progress occurs, internal executives under consideration.

Committee members would meet with likely candidates among the direct reports and next-highest level of executives to assess these people against the company's leadership criteria and succession time frame. Then, as the strongest potential successors are identified, the entire board could take steps to get to know them in a meaningful way. Potential candidates should be asked to report to the board on key corporate issues. This will provide insight into the talents, acumen, and managerial style of each individual.

After strong internal candidates are identified, the board must ensure that these individuals have the right experiences to prepare them to step into the CEO role. Savvy boards might prepare for multiple succession scenarios, identifying a strong financial candidate who would be best-suited in one scenario or a visionary leader for another circumstance.

How should directors respond, if CEOs attempt to dissuade them from setting up succession committees and pursuing planning activities? There is only one answer: Boards need to put succession planning on the agenda and keep it there. That's the bottom line.

As recent events have emphasized, directors must feel comfortable with a company's succession plan because they will need to answer for it—or its absence—if the CEO needs to be unexpectedly replaced. If they're dissatisfied with what's happening on this front, it's worth asking whether this is the right board for them. ■