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CEO succession planning often lost in the shuffle

By Stephen M. Honig

Over the last five years, average tenure of a CEO (based on a survey of public and private companies) shrank from 7.3 years to 4.4 years. Focus on CEO succession is becoming more important to boards. Half the members of boards surveyed believed that their succession planning was inadequate; only 33 percent had a well-documented succession planning process.

It is not clear why boards, at least of larger and public companies, don't do a better job with CEO succession.

First, it is clearly the task of the board, identified as such in all the popular "Board of Directors" literature.

Second, logic should tell directors that there is nothing more important than having the right CEO.

Finally, it should not be a secret that CEOs impact enterprise value. Because of reputational risk, and the speed and completeness with which media (including social media) spread bad news, boards are quick these days to remove CEOs who present potential public relations taint.

When you add today's quick firing trigger to the usual reasons for CEO turnover, including poor performance, retirement, moving to a better job, illness, death or merger, the lack of board focus on CEO succession is incomprehensible.

The driver for a robust policy for CEO succession ought to reside in the Nominating and Governance Committee, or NGC. Smaller companies, and many mid-market companies that are privately held, do not have a board structure that includes an NGC (often these companies are restricted to an audit committee and a compensation committee only).

That lack of structure feeds into the insufficient attention given CEO succession. And in some instances, as with a family company or a company still dominated by its founder, the issues (and politics) that relate to CEO succession are very different.

If a board perceives itself as not properly addressing CEO succession, it should charge the NGC with the task of proposing a succession plan. The charter of the NGC should "bake in" this NGC responsibility.

What are the elements of a robust succession plan? The starting point should be an evaluation of the company. How does the board define its strategic future? What substantive qualities and personal characteristics are most likely to be needed over the next five years in a CEO who can effect that strategy?

Boards should understand that they are preparing a policy that will be implemented primarily by company management, not by the board itself. Although the ultimate selection of a CEO will rest with the board, and when the time comes the task of screening, discussing and deciding indeed will fall upon the board, there is much to be done within a robust plan that will fall on management.

Further, a CEO succession plan should not be viewed in a vacuum. Senior management form part of the executive team, and management should be looked at as a whole. Who are the key managers? Do any of them rise to the level of candidate for CEO? Alternately, is the political environment in a company sufficiently established so as to accept a CEO sourced from the outside?

Succession plan contents

Details will vary with each company, but there are some basics:

- The company should maintain job descriptions for the CEO and senior C-level management, which are updated regularly.
- A program for dealing with internal executive development, not wholly focused on staffing the CEO position but with an eye toward that possibility, should be developed.
- An atmosphere within management should be fostered so that internal executives understand that their rotation through different functions, and their working with different committees, builds their own professional skills and is not necessarily an element in a “horse race” to the top where only one nose will appear as “winner” in the photo finish.
- A mechanism should be established so that senior executives spend face time with the board in both formal and informal settings, sometimes without the presence of the CEO.
- One or more outside search firms with experience in a company’s industry space should be made available and kept “on tap”; in case of an unexpected CEO vacancy, that is not the time to begin the process of identifying outside consultative resources.
- The company should maintain a “file” of promising outside candidates for the CEO slot, without projecting to senior management that “going outside” is a foregone conclusion.
- Specific procedures should be identified in the event of an unexpected CEO departure. Which public relations firm will be utilized? Who should (and should not) be speaking to the press? Who has the task of dealing with other key stakeholders (major investors, executives, employees, customers, vendors, lenders, the regulatory community)?
- In the unexpected departure of the CEO, how will the various tasks performed by the CEO be handled by existing management? Will anyone on the board be called on to fill temporarily any CEO functions?
- Who has the responsibility of monitoring social media, avoiding its misuse by people inside the company, and orchestrating appropriate response to any misinformation?

Boards should be proactive in driving CEO succession planning. Educational and training sessions for boards, perhaps during a retreat at which lawyers and HR professionals discuss the fiduciary and other roles of directors in succession planning, are one way to ensure the appropriate level of attention. Whenever the board effects a strategy switch for the company, a checklist item should be to revisit the CEO job description to make sure that it remains consistent with company needs.

Two difficult situations arise no matter how well a company plans: bringing in a CEO from the outside and when there is a merger.

Outside CEO

If a new CEO is to be brought in from outside the company, the board has a significant task to perform prior to that person’s arrival.

The board must take a leadership role in explaining to the executive ranks the board’s perception as to what qualities were needed given the company’s current strategic posture; what challenges the board foresaw for the new CEO; why the new CEO is in the board’s judgment the appropriate person to drive that agenda; why it is important for the executive ranks to support the new CEO; and (to the extent some inside person had been perceived as “the” next CEO) why the board decided it was in the best interest of all stakeholders to reach outside for the top executive position.

The board must also make sure that senior executives carry down into all ranks of employees the positive message that comes with naming a new CEO — particularly, though not exclusively, a CEO from outside the company.

CEO after merger

The merger situation is particularly difficult because a newly merged company may not be best served by having a CEO who is the CEO of either constituent.

Since mergers often are negotiated between such people, it is not unusual to find that CEOs of constituent companies either co-serve or have an arrangement whereby they will serve in succession.

Alternately, a management structure may be invented that gives major areas of responsibility and significant power to each former CEO though only one has the “CEO title.”

With everything else going on in connection with a merger, it may be difficult to expect boards (and the CEOs themselves) to spend a lot of time considering an outside CEO candidate. That may be particularly difficult because constituent companies, even those with robust succession plans, may not have contemplated such an event.

However, many mergers are not successful, or as successful as anticipated. Many are designed to be accretive but are not. In a merger, is either existing CEO, or any other

C-level executive of the constituent companies, the best choice to lead?

With apologies to George Davis (Boston managing partner at the search firm Egon Zehnder) for stealing his line, George suggested (at a recent conference of directors) that, in a merger situation, the CEO of neither constituent may be “tall enough” for the job and that one should “never measure the tallest of the pygmies.” The board must avoid the “brokered deal” and try to think strategically as to which person, even from the outside, should lead the emerging enterprise.

Lack of focus on CEO succession is not limited to for-profit enterprises. In the “hot off the press” governance survey of non-profits just issued by the National Association of Corporate Directors, it is reported that almost 30 percent of all non-profits, and 40 percent of smaller non-profits, do not have any CEO succession plan.

Further, less than half have a plan for emergency succession, and most of those plans look only to internal candidates. As many non-profits lack a robust infrastructure that includes other C-level executives, those in the business community who tend to constitute our non-profit boards need to think seriously about CEO succession not just from the standpoint of their for-profit enterprises, but also with respect to their charitable undertakings.

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