

CEO Succession Planning: Did Microsoft Get It Right?

by Kenneth C. Oh on September 5, 2013

Steve Ballmer's recent announcement that he was stepping down as Chief Executive Officer of Microsoft Inc. made headlines across the globe. According to his open letter to Microsoft employees, Ballmer will stay on the job for the next 12 months while the board of directors solidifies a successor.

While whether Ballmer voluntarily decided it was time to walk away or was forced out over slumping revenues is up for debate, the business community reacted favorably to the announcement, with Microsoft enjoying a 7 percent bump in its stock price.

CEO succession planning is a critical aspect of corporate governance. A poorly managed or absent succession plan poses risks to organizational performance and to shareholder value. Yet many corporations don't have a course of action in place to deal with planned and unplanned changes in leadership.

A smooth transition is integral to maintaining the confidence of investors, business partners, clients and staff. In this case, Microsoft lessened the uncertainty that can accompany a CEO's resignation by announcing it in advance and providing detailed information to interested parties about the forthcoming transition.

In most cases, a CEO succession plan should be a written policy that details, at minimum:

- The procedures for electing and replacing the company's officers.
- The respective roles of the CEO, the board of directors and the various board committees in the succession process.
- The criteria for evaluating internal and external candidates.
- Emergency succession procedures to address a vacancy due to a sudden death or illness.

If Microsoft has a comprehensive succession plan in place, the company likely has several candidates in mind.

If you have any questions about succession planning or would like to discuss the legal issues involved, please contact me, Kenneth Oh, or the Scarinci Hollenbeck attorney with whom you work.