

Roadmap for successful succession planning

This robust four-step process enables the board to fully address its leadership transition responsibilities and help set the new CEO on the right course.

BY STEPHEN A. MILES AND THEODORE L. DYSART

LEADERSHIP TRANSITION from one CEO to the next is a risky event. Historically, the risk was addressed through the anointing of a successor by the incumbent CEO. Once that successor was identified, a great deal of time was invested in making sure he or she was ready at the right time.

In the post-Sarbanes-Oxley business environment, however, CEO succession now requires the full consideration of the board. After all, this group is responsible for governance; it is the board's duty to develop, implement, and ensure that a thoughtful and thorough succession planning process is executed. The CEO's responsibility has become more of a service to the board by continually preparing one or two strong internal replacements. The CEO also has a duty to ensure the long-term effectiveness of an organization. The true test of a leader's success is the company's performance after departing. CEOs have a legacy to protect and, likely, a personal financial interest in the ongoing performance of the company. They should be eager to support a top-notch succession planning process.

Unfortunately, we know from our work in executive search that succession

Stephen A. Miles is managing partner, Leadership Consulting Practice, and

Theodore L. Dysart is managing partner, Americas, Global Board of Directors Practice, of Heidrick & Struggles (www.heidrick.com).



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planning efforts often are woefully underdeveloped, unevenly executed, and sometimes simply ignored. Boards that perpetuate or permit a happenstance approach to succession planning have abdicated their responsibility to shareholders. A robust process that allows boards to manage this strategically and proactively must be in place.

Our purpose here is to outline a straightforward process Heidrick & Struggles has developed from deep experience in talent assessment and executive search. This process provides a roadmap for directors in their efforts to implement what can truly be called a best practices approach to succession planning. Such an approach protects the interests of board members, employees, shareholders, and other constituents, and serves to give them confidence in the long-term prospects for the company.

What does a best practices succession planning process look like? The process involves four steps.

Step One: Analysis and Planning

The first step of the process involves efforts to develop a solid understanding of two things: (1) the most significant challenges the company and its industry are likely to face over the next four to six years, and (2) the executive competencies and experiences that are likely to enhance the ability to lead the company as it confronts those challenges.

Because a succession plan is a living document, the relevant four- to six-year window continues to move. Consequently, these efforts must be continually updated. The challenge in getting commitment on this critical exercise is a tendency for those involved to think the answer for the company's future is simply to get a younger clone of the incumbent CEO. Rarely is this a winning strategy.

In only the rarest cases will the challenges ahead require the same skills that worked in the past. Take as an example General Electric. The past three CEOs — Reg Jones, Jack Welch, and Jeff Immelt — are starkly different people. In its leadership succession, GE has done a good job of looking “through the windshield” rather than “in the rear-view mirror” to understand what the next CEO needs.

Doing this well first requires a rigorous effort to understand the industry and its future, plus the company’s likely competitive position going forward. Investing in a credible forecast makes it possible to more precisely diagnose the skills and capabilities a CEO will need for success.

A second challenge of succession planning concerns timing. First, there is a strong bias among groups charged with succession planning for the “ready now” candidate. But the odds that the “perfect” person finds a way to a leadership opportunity are so improbable that any effort to plan for it is a fool’s errand. Instead, analysis and planning activities should focus on identifying candidates who, with two to four years of investment, can be made ready. Second, companies are often either too quick or too slow to develop successors. When the successor is ready “too soon” they become a target for headhunters seeking talent for other firms — your competitor! When the successor is ready “too late,” the company finds itself poorly led while the new executive gets “sea legs.”

Step Two: Candidate Development

There are three types of candidates who should be considered in succession. The most important pool is internal candidates. Whereas there is transition risk for both internal and external successors, in most instances the risk is lower for the former group — just one of the reasons this is the most sensible place to start.

As noted above, a “ready now” candidate is unlikely to emerge. Frankly, if succession planning is done well, “ready now” is moot — what is called for is the identification of people who could be made ready in two to four years. A great

deal can be done in that time frame to develop an executive: rotations in different functional areas, international assignments, exposure to the board, a cross-functional companywide project, or something else. For this group, the key task involves holding each up to the requirements developed in step one and then developing a robust plan that is refreshed every six months to get them to a place where the board views them as truly viable succession candidates. The Heidrick & Struggles Leadership



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Consulting Practice has partnered with many boards of directors to aid in the internal assessment, market calibration, and development of potential successors, helping put a robust framework in place for development.

The second and third groups are usually identified with the help of executive search consultants who spot talent in the industry and rising stars across all industry sectors. Normally, these executives lie beyond the company’s reach in terms of development. In those instances the on-

going goal should be to identify these people to help keep the board honest about the relative quality of the talent it is developing inside.

In some cases, however, these executives are not unreachable. When companies are able to execute a best practices approach to succession planning they can actually take advantage of the considerable lead time to go outside and catch a rising star. Through investments in the new executive’s development the board not only increases the company’s bench strength but also has a chance to explore the executive’s likely effectiveness as a potential CEO successor. John Chambers of Cisco ascended to the CEO position this way, having been recruited as EVP of sales and operations.

This element of a succession strategy can decrease the ultimate transition risk and allow the board to observe a successor before making the ultimate decision.

Step Three: Search and Selection

As the anticipated transition approaches, the preparation of the internal candidates should be coming to closure. Simultaneously, the ongoing scanning for external candidates should be updated and considered to identify at least two viable external candidates.

At this point the most effective way to proceed is to invite the internal candidates to give a board presentation at which each describes his or her five-year vision and strategy for the company. After a presentation and a moderated Q&A session, a clear winner will likely emerge — if the development of internal talent has been successful. If that fails, it is time for the search to turn to external candidates.

The challenge with external candidates is that they represent “the devil you don’t know.” Not only do they present an incomplete picture to you, but also your company is an incomplete picture to them — the uncertainty runs both ways. As a result, the transition risk is much greater. Generally, we advise boards that unless a case can be made that the external candidate has an upside at least twice what is envisioned from

the internal candidate, he or she is not worth the risk. Of course, this is difficult to quantify. The key point is that the increased risk associated with an external candidate must come with an increased expected benefit.

Step Four: Managing the Transition

A best-practices transition process takes place in three phases: pre-boarding, on-boarding, and transition coaching. We consider pre-boarding to be the period between the selection of the successor and his or her first day on the new job. Some observations are warranted here. First, an internal successor begins some semblance of pre-boarding as soon as he or she becomes a potential heir. And external successors experience pre-boarding as company outsiders. Finally, there are some dramatic episodes — such as the abrupt removal of a CEO — that can preclude formal pre-boarding.

In the end, those responsible for the transition must do the best they can with what they have available. That said, here are some characteristics of pre-boarding that represent best practices:

- Deliberate exposure to board members so that both they and the successor can begin to strengthen relationships.
- Structured and sufficient time with the predecessor to design and then execute the transfer of power process; particular attention should be focused

on sharing tacit knowledge such as elements of culture and norms, which are difficult to quantify.

- Opportunities for the successor to develop understanding of the talents of the existing top management team.

- For internal successors, completion and reinforcement of the work plan implemented as part of the effort to get them ready.

- For external successors, a quick screen to identify any substantive areas requiring attention, such as requirements for “crash courses” in the industry, the company, its strategy, and its people.

Next, on-boarding refers to the events that are in very close proximity to the successor’s first day on the job. Again, internal and external successors will experience this differently but best practices here include:

- Coming to closure with relevant parties on a plan for the new CEO’s first year, including measurable metrics and milestones.
- Active engagement of the senior team with the design of the rollout of this plan.
- Development and implementation of communication strategy for the roll-

out and execution of the plan.

Finally, transition coaching should be planned for new leaders during their first year in place. Providing a coach offers these individuals a supportive and apolitical resource to provide two critical functions. First, a coach helps the successor continue to do the personal development begun when the company initiated the succession development process. Second, a coach allows the successor access to an “honest broker” who can provide focus on key activities during the first 90 days and beyond.

Maximizing the opportunity

Handoffs from one leader to the next are tricky because of the complex nature of the position, the dynamic nature of companies, and the politics and intrigue that surrounds them. For that reason they represent a time when the company is vulnerable. The work we have done at Heidrick & Struggles on the best practices succession program goes beyond simply protecting a company during a vulnerable time — it allows the board to capture the maximum value that this opportunity provides. By crafting a thoughtful, strategic approach to succession, the board fully addresses its governance responsibilities and sets the new leader on a successful course. ■

The authors can be contacted at smiles@heidrick.com or tdysart@heidrick.com, or by telephone at 312-496-1345.