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Management

Best Practices In Succession Planning

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Over the past two weeks, two iconic companies, Merrill Lynch and Citigroup, have seen their CEOs unexpectedly depart. Equally surprising is the fact that neither company has demonstrated that a strategic approach to succession planning was in place.

Because the board of directors has responsibility for governance, the development and execution of a thoughtful succession-planning process must receive its full consideration. Unfortunately, such efforts are too often underdeveloped, unevenly executed and sometimes simply ignored. When boards permit a happenstance approach to succession planning, they have effectively abdicated one of their most crucial responsibilities.

Our review of succession efforts reveals the four best practices that can be implemented at any company and can help ensure that directors have an effective succession-planning process in place. These practices protect the interests of board members, employees, shareholders and other constituents, and also give everyone confidence in the company's long-term prospects.

1. Analysis

The first practice involves developing a solid understanding of the most significant challenges the company and its industry are likely to face over the next four to six years, and the skills and experiences the chief executive will need to lead the company past those hurdles. Directors must fight the tendency to think the answer is to find a younger version of the incumbent CEO.

Only in the rarest cases will future challenges require the same skills that worked in the past. For example, **GE**'s past three CEOs (Reg Jones, Jack Welch and Jeff Immelt) are starkly different people. In leadership succession, GE has done a good job of looking "through the windshield" rather than "in the rear-view mirror" to understand the leadership skills required of the next CEO. Investing in a credible forecast about the future makes it possible to understand the skills and capabilities a CEO will need.

2. Development

The best practices in development are different for internal and external candidates. For internal candidates, development begins with the identification of a small number of people who could be made ready in two to four years. Though there is a strong bias for "ready now" candidates, directors must recognize that such individuals exist only in theory.

The odds that the "perfect" person finds his or her way to a leadership opportunity at just the "right" time are so improbable that planning for it is ludicrous. However, a great deal can be done in two to four years to develop an executive, whether it involves rotations in different functional areas, international assignments or something else. A caution regarding internal candidates: When succession planning is cavalier about timing, candidates are either too quick or too slow to develop; those ready too soon become targets for headhunters, while those not yet ready are of little use.

External candidates are usually identified with the help of an executive search firm. Normally, these executives lie beyond the company's reach in terms of development, but in a best-practices approach to succession planning, companies actually bring potential CEO successors in through other positions. This allows the company to make a strategic investment in the new executive's development, as the board not only increases its company's bench strength but also has a chance to explore the executive's likely effectiveness as CEO. Both Jim Donald (Starbucks) and John Chambers (Cisco) ascended to CEO positions this way. The opportunity for the executive and the board to develop their relationship greatly reduces transition risk.

3. Selection

As the transition approaches, the internal candidates should be ready. The scanning for external candidates should be updated. The best selection practice involves inviting all internal candidates to give presentations to the board in which they describe their vision for the company's next five years. After a presentation and discussion, the likelihood is--if the development of internal talent has been successful--that a clear winner will be revealed. If none emerges, then it is time for the board to consider external candidates. The risk with external candidates is high--not only do they present an incomplete picture to directors, but the company is an incomplete picture to them.

The uncertainty runs both ways. Whenever risks are high, however, returns are also expected to be high. This means the board must see tremendous upside potential in an external successor, and it also means there is tremendous pressure on the individual selected for the job.

4. Transition

A best-practices transition focuses on both the on-boarding process and first 12 months of a new CEO's tenure. Internal and external successors experience on-boarding differently, but a critical presumption is that before the successor's first day, the board has made certain that he or she has begun to develop relationships with board members, had sufficient time with the outgoing CEO to complete appropriate hand-offs and has a sense of the areas that represent burning fires requiring immediate action. On-boarding itself refers to the process of getting up to speed on the job.

Again, internal and external successors will experience this differently, but the two most critical practices here are for the board and the successor to agree on a plan for the first year that includes measurable metrics and milestones and the active engagement of the entire leadership so as to be sure everyone is working from the same playbook. Finally, a coaching plan for the entire first year should be in place. Providing a coach offers a supportive and apolitical resource that, in the end, helps the successor continue to do the personal work he or she began when the company initiated the succession-development process.

Conclusion

Hand-offs from one leader to the next are tricky because of the politics and intrigue that surrounds them, the complex nature of the CEO position and the dynamic nature of companies. For that reason, they represent a time when the company is vulnerable. By crafting a thoughtful, strategic approach to succession, the board fully addresses its governance responsibilities and sets the new leader on a firm course toward future success.

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