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Succession Planning: How To Do It Right

Stephen A. Miles, 07.31.09

In an earlier article I discussed how most companies go about the business of succession planning at the top all wrong. Here I describe how to do it right. It's mainly a matter of developing a disciplined methodology that results in something more meaningful than names in boxes on an organizational chart. Here are four basic steps to take to move from those names in boxes to something truly operational.

Step 1: Fully engage your stakeholders. There are many stakeholders in succession planning, and it is important that each be brought into the process in a timely manner.

Instead of the chief executive officer and head of human resources presenting their succession plan to the board once a year, I suggest that the process start by engaging the board in the development of a forward-looking skills-and-experience profile for the CEO. The profile should be a living document refreshed as necessary to take changes in strategy or market conditions into consideration. It should also go beyond the traditional position description and delve deeply into both the competencies and experiences required for the next leader. It can then be translated into a dashboard for grading succession candidates in an objective manner.

By engaging the board first in setting the criteria and then in refreshing them each year, you create buy-in and alignment in the eyes of the jury who will select the next leader. You force that decision-making body to think long and hard about what the requirements are for the company's next leader; often they are different from those for the incumbent. You need a fresh look at the company by a board that is engaged and leading the process year in and year out, not just when a crisis requires it to spring into action.

Step 2: Assess your internal candidates. Once your criteria are established, you should get a baseline assessment of your internal candidates. I recommend that the board look wide and deep. The entire top team should go through the executive assessment process first--ideally by an outside firm--so that you don't single out favorites and start a destructive horse race. The next layer of management should also be assessed--or, in very large companies, a pool of high potentials from that next layer down, where a dark-horse candidate can often emerge. Looking at these different layers also exposes the board to its C+2 and maybe even C+3 executives. In some instances this helps boards realize how shallow or deep the talent bench is and provides the impetus to respond accordingly.

Step 3: Conduct a stress test and simulation. As in much in life, practice makes perfect when it comes to executing succession plans. Once the criteria for the next CEO have been developed, it is important that you measure your internal candidates against them across two time frames: a short-term emergency time frame and a more planned succession in the medium or long term.

Here are the kinds of questions you must have answers for: First, is there an emergency candidate who can take the reins for a time if the CEO were to leave tomorrow? This is often the CFO, COO or a board member. Second, whom do we have to invest in today so that he or she will be prepared tomorrow? Third, has the company developed a team strong enough to ease the transition to a new CEO? And finally, is there in place a seasoned chairman or lead director who is willing to coach and mentor a new CEO?

In some cases, it may become apparent there are no internal candidates about whom the stakeholders are optimistic. Then the task becomes quite different. Now there is obviously real risk to the company, and a plan for recruitment and development needs to quickly be put in place. Boards faced with this dilemma are advised to go out and recruit new bench strength below the CEO level. Bringing in a potential new CEO at a lower level allows the board to view him or her at work for a period of time. Should such an individual prove capable as a successor, his or her tenure in the company reduces the riskiness of the transition.

Step 4: On-board the successor. The most neglected step when it comes to succession planning is preparing for what happens *after* the successor is named. Making succession a sink-or-swim shock is simply too risky to endure. As I wrote in my previous article, "Succession Planning: How Everyone Does It Wrong," there is no such thing as a "ready now" candidate. Anyone named as a successor has learning to do and mistakes to recover from. Part of the succession-planning process must be to take advantage of the time between the announcement and the acceptance of the top job so that the leadership can address as many needs as possible. Crucial support must be provided--a good team, wise and accessible mentors, executive coaching and a feedback-rich environment--to create a setting in which the new CEO can be the most effective.

Boards can--and really must--play an important role in succession planning. Directors must be aggressive and unwavering in their efforts to make the process as real as possible. Honest external evaluation of current talent and a system to develop a rich talent pipeline are just two of the areas where diligent board involvement can make a big difference. In this effort, directors have to remember that the search for a "ready now" candidate is a fool's errand.

Similarly, what is most critical is creating and continually refocusing succession on the moving target of the knowledge, skills and abilities the next CEO will need in order to effectively lead. Finally, directors need to design their succession planning not just to choose the new executive but also to provide support as he or she finds his or her legs in the new role.

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