Crises in leadership transitions are inevitable, yet many boards are caught off guard when they happen. Smart boards take five steps to ensure a seamless succession.
According to the 2014–2015 National Association of Corporate Directors (NACD) Public Company Governance Survey, almost 30% of directors report that their boards lack a formal emergency CEO succession plan. And many of the formal plans may be long on form and short on substance. For example, we recently asked each director of a regional bank if the board had an emergency succession plan in place. All 11 directors assured us that it did. But when we asked for the successor’s name, three different names emerged. In another instance, a global bank’s emergency succession planning document unambiguously identified the company’s president as successor. Yet when the directors were polled privately, almost all admitted that they had no confidence in the choice they had ostensibly approved.

Prudent boards seek to minimize such ambiguities and avoid leaving emergency succession to chance. They recognize that the topic is fraught with implications for the company and its stakeholders — implications that bear careful forethought. Among them: an ill-considered choice could leave the company adrift during a critical time, resulting in weaker performance, reputational damage, or both. In some cases, a delay might even put the company into play as a takeover target. On the more positive side, emergency succession planning offers an opportunity for the board to review the company’s pipeline of top talent as well as the competencies required for the next leader.

Why, then, don’t all boards make a habit of rigorous emergency succession planning? For starters, it’s an uncomfortable conversation. Directors may worry that bringing up the subject of emergency CEO succession will suggest a lack of confidence in the leader. “The last thing you want to do is make the CEO think you lack confidence in his or her leadership,” said the board member of a Fortune 500 industrial company. “It seems like CEOs are taking fire from all sides today. I’m just a little reluctant to make the CEO feel like I’m taking a shot at him too.” Further, it is a somewhat unusual agenda item, set apart from topics like financial results, risk, proposed investments, and legal matters. Even on boards that conduct long-term succession planning, emergency succession planning may never quite make it onto the agenda.

Nevertheless, formal emergency succession planning remains a fundamental responsibility of the board and is increasingly recognized as a critical dimension of risk oversight. Boards can best fulfill that responsibility and minimize risk by taking five steps.

1. Formalize the process

Choosing the emergency successor is ultimately the responsibility of all of the independent directors, but the process is usually owned by the nominating and governance committee or the compensation committee. While either group can do an effective job, we tend to believe that the former is more appropriate for the task — the argument being that succession issues should remain separate from issues of compensation, whenever possible.

2. Prepare for common worst-case scenarios

The committee should first develop a general profile that defines the core capabilities in the areas of strategy, leadership, and execution that an effective successor should have under various emergency scenarios. Unless a “ready-now” successor is waiting in the wings, the new CEO is likely to be an interim
appointee. When considering possible candidates, the committee should therefore also take into account how long the appointment is likely to last — again under various scenarios. Some of the most common scenarios, and their time constraints, include:

- **The CEO resigns with little advance notice, dies, or is permanently disabled.** If the company is performing well, the several possibilities for assuming the role could include a board member, an “almost-ready” internal candidate, or a “less-ready” internal candidate paired with an executive chairman of the board. Ideally, “almost-ready” or “less-ready” appointees, having proven themselves over a reasonable trial period, would lose their interim status and, in the case of the “less-ready” candidate, no longer need pairing with an executive chairman. By contrast, a board member who assumed the chief executive role would be expected to serve only until an expeditious search for a permanent replacement could be completed or an internal candidate readied to take the reins.

- **The CEO is fired for cause, such as an ethical lapse or violation of law.** The replacement in this case should be someone of unquestioned integrity who can repair the company’s reputation — possibly the chairman of the board or another outstanding director to serve until a suitable replacement of equally sterling reputation can be found. Because ethical lapses or violations of law may involve — or be perceived to involve — other executives, the permanent appointee is likely to come from outside the company. In that case, the interim appointee must be not only of unquestioned integrity but also fully capable of guiding the company during what could be a lengthy external search process.

- **A company crisis makes the continued service of the CEO untenable.** Crises could include environmental disasters, product safety fiascos, lethal industrial accidents, massive breaches of customer information, and the like. While some CEOs have proven adept at getting out ahead of spectacularly bad news, the textbook example being Johnson & Johnson CEO James Burke during the 1982 Tylenol scare, others have had little choice but to step down. In such cases, the replacement must be a strong communicator capable of quickly becoming the reassuring public face of the company. And if the disaster is a result of lapses in operations, as many are, the new leader should also possess excellent operational skills.

3. Get the views that matter most

In arriving at a “name in the envelope” for each of the most common emergencies, the committee should seek input from the current CEO, the other independent directors, and the board’s executive recruiter of choice. No one better understands what it takes to run the company or possesses more insight into the strengths and weaknesses of its senior executives than the CEO. Based on working relationships with board members, the CEO will also have valuable views about the suitability of each director, under various conditions, for temporarily assuming leadership of the company. The other independent directors can also provide useful perspectives about their fellow directors and about possible candidates among management. In addition, an executive recruiting firm that has assisted the company in searches for directors and C-level talent, and conducted talent assessments of senior executives, can provide both professional evaluation skills and much-needed rigor to the process.

Under each emergency scenario, the committee should consider the effects of a particular choice on all stakeholders: investors, employees, and especially the top executive team. For example, how might the choice affect executives who believe themselves to be in the running for the top job in the long term? How will the leadership style of a given successor “play”
with top talent, who could become restive and seek opportunities elsewhere? How will the markets react to the choice? The public?

In some cases, the committee may need to weigh trade-offs: for example, the long-term consequences of passing over a prized executive versus the short-term effects of installing a "not-quite-ready" leader in the top job at a time of crisis. The committee should also take strategic continuity into account. If the company is at a critical inflection point — transforming its business, embarking on a bold new strategy, or pursuing a major acquisition — will the appointee, especially an interim appointee, be able to maintain momentum?

Having weighed all of the factors in each case, the committee should recommend a successor under each scenario and bring its recommendations to the full board for approval. However, if there are concerns about confidentiality or about how a choice might affect the executive team or other stakeholders, the recommendations may be submitted only to the other independent directors and the CEO. Where practicable, the designees are then informed in confidence of their places in the plan.

4. Examine the broader crisis management plan

Emergency CEO succession is only one of many kinds of crises that boards and companies may face (and in some cases, of course, the emergency may be precipitated by a larger crisis). Ideally, the board will already have in place a crisis management plan, including clear roles and responsibilities for board members and the identification of external experts who might be called upon for assistance. With emergency CEO succession, as with other crises, the plan should include specific steps to be taken by the board, their timing, and who is responsible for each.

In the event of a sudden unexpected CEO vacancy, the plan should include three successive stages: notification, the primary governance response, and the secondary governance response. For the first stage, specific board members and executives are designated to notify the CEO's emergency contact (for example, in the event of an accident), the chairman of the board and the chairman of the governance committee, key members of the management team, the head of public relations, and the head of investor relations. For the primary governance response, the appropriate board member is designated to secure
the CEO’s written resignation, if needed. The chairman (if the chair/CEO role is split) or the lead director (if the role is combined) is charged with calling a meeting of the board of directors, typically held within 48 hours of the vacancy. At this initial meeting, the directors, guided by their emergency succession plan, review their options, designate an interim CEO, and make any other interim executive changes as needed. The board will also be responsible at this stage for reviewing proposed communications to employees, the media, and investors. Meanwhile, the general counsel, within four days of the vacancy, must draft and file a Form 8-K with the Securities and Exchange Commission. For the secondary governance response, the board embarks on the search for a permanent successor, who could ultimately be the newly named interim CEO, another internal or external candidate, or a member of the board.

5. Regularly review and update the plan

Even the best of plans can go awry. A designee, for example, could be lost in any of the ways a CEO might be. A “ready-now” candidate could surface where none existed before. A scan of the talent market could generate a list of potential candidates from outside the company. The plan should therefore be reviewed at least yearly by the committee and, if necessary, updated.

With clear criteria for successor designees, the right “names in the envelope,” and an implementation action plan — all reviewed annually — the board can go a long way toward taking the emergency out of an emergency succession.

Moreover, boards can use the momentum they gain from this process to prepare themselves for another critical conversation: long-term succession planning. Boards that lack formal emergency succession plans often lack long-term succession plans as well, or treat the issue in a perfunctory way. For those boards, creating the emergency succession plan can provide a smooth transition to addressing the long-term plan, prime directors about the issues, and prepare them to have the necessary discussions. And for boards that don’t? They are likely to find that every succession is an emergency.

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