



The clock is ticking on CEO succession: Is your board prepared?

CEO succession should be an ongoing part of boards' work—but boards also need to understand how considerations shift as change gets closer.

No board can afford to be caught unprepared for CEO succession, regardless of the circumstances or timing. Shareholders and stock prices don't react well to uncertainty or surprises, and nothing is more fundamental to the continued health of any organization than an uninterrupted flow of capable leadership.

According to The Conference Board's 2019 *CEO Succession Practices* report, however, only about half of SEC-registered companies reported that their boards review the CEO succession plan on an annual basis, though there is significant variance by sector.¹ Considering all that is at stake with a change in CEO—and the continual rapid economic and industry changes that in turn are requiring strategic changes and thus modifications in what a company will need in a CEO—this lack of attention to an ongoing succession planning process is alarming.

CEO succession is a moving target, often with, by necessity, many spinning plates in the air simultaneously, including short- and long-term plans to meet various scenarios, from a sudden illness to a "me too" incident to a long-planned turnover of leadership.

Whether succession is long planned or imminent, in evaluating external and internal candidates, the board will want to have a crisp set of criteria; a well-defined process, including a detailed project plan; agreement on the decision process; involvement of the entire board in the final decision; and deep references and background checking along the way. An outstanding process with clear accountabilities and a disciplined and rigorous adherence to agreed-upon criteria ensure that the board is well positioned to make the best decision.

However, at the end of the day, no candidate, either internal or external, will be able to meet the full set of criteria. The board must recognize this and also be aligned on what strengths and experiences are absolute musts and what development areas it can work with or supplement through coaching, additions to the leadership team, board support, or other efforts.

Within that context, there are distinct challenges and action steps for boards to take to prepare for each of several timeframes.

¹ The Conference Board, *CEO Succession Practices*, November 2019, [conference-board.org](https://www.conference-board.org/data/ceo-succession-practices); data is from The Conference Board's annual survey of human resources executives, general counsels, and investor relations officers of SEC-registered corporations.

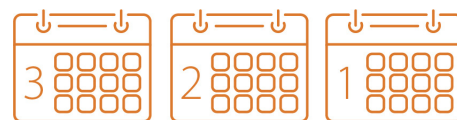
The luxury of time: Three or more years

Given sufficient time for a planned succession, three years or more, boards and CEOs have enough latitude to focus on the development of high-potential internal candidates, who are the best CEO successors in most circumstances. Indeed, for the most effective boards, the default approach is to focus on developing internal successors, unless there is a need for a dramatic shift in culture or strategy or time doesn't permit.

The development and assessment process starts with creating the future CEO profile, which the board should develop in conjunction with the current CEO. The profile is based on the company's strategy and defines the crucial CEO skills and attributes for the next phase of company growth. We view the profile as encompassing four dimensions: pivotal experience and expertise, culture fit and impact, leadership capabilities, and agility and potential.

Boards can then use that profile as a benchmark to assess internal candidates, tailor development plans to fill gaps, and track progress in a way that can be shared easily with the board. The profile is also used to benchmark external candidates, particularly as planning for a successor becomes more time sensitive and additional options may need to be considered. Often, boards will ask their search consultant partners to conduct a tabletop exercise and generate a list of prospective external candidates (but not contact them). This gives boards an opportunity to, on paper, compare inside and outside candidates as they progress in their succession planning—while still maintaining confidentiality.

In this timeframe, boards will also need to align on how internal politics and communications about the process will be handled. Internal candidates will be curious about their own progress; external parties including investors and media will want reassurance that the board is thoughtfully planning for CEO succession.



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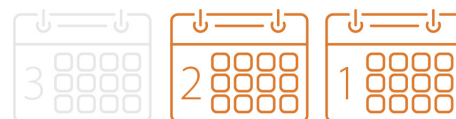
Counting down: One to two years

When the timeframe shrinks to one to two years, the pace of the process must accelerate markedly. The most significant shift is that, with less time for development, the board's and sitting CEO's focus is more on determining which candidates—both internal and potentially external—are nearly ready to step into the CEO role. A crucial step at this point is to reevaluate the requirements established for the future CEO profile to ensure they are appropriate to the company's perceived near-term strategic needs.

Internal candidates' progress on targeted development should be thoroughly assessed against the profile once it's calibrated. And, at this point, mapping of outside candidates is crucial to have a good benchmark relative to internal options, at least on paper. A full external search can be thoughtfully launched when succession is a year or so out, if the board feels that outside candidates should be considered.

The board should be diligently meeting with, assessing, and considering the risks and strengths of its various potential candidates. In addition, the board should be discussing how to handle internal candidates who will clearly not be selected—this is a delicate and important communication exercise that may at this point also include retention steps and personal board outreach.

It is also best practice at this time to identify an interim or emergency successor, especially if a finalist is not emerging or if the preferred candidate requires further seasoning before being appointed CEO.



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Imminent succession: Less than 12 months

When the CEO succession is less than a year away, an effective board will have specific plans it can put into motion. But even if a board has gotten off to a slower start, it can speed up tasks that need to be accomplished and make it to the finish line with a satisfactory resolution.

When an immediate successor is required, however, there is far less time to gain strategic and CEO profile insights from the board. Even so, this is still an important step, and the board will need to invest time in creating this foundation or making sure its earlier plans are still strategically relevant.

The first requirement, particularly if a succession is a surprise, is to identify an emergency successor. This may—depending on the circumstance—even involve a director stepping in as interim CEO until the board is ready to announce a permanent CEO replacement.

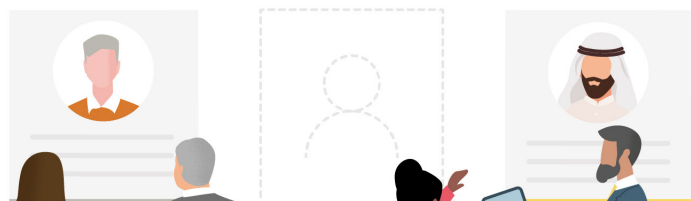
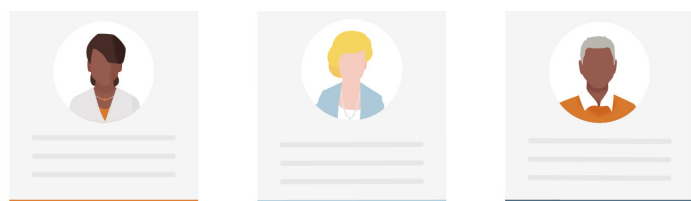
There will not be an opportunity to adequately develop internal talent, so, simultaneously, the board should be focused on immediate assessments of “ready now” internal candidates. If no internal candidate emerges quickly, the board will want to conduct an external search with alacrity. At a minimum, the board may want to ask for an external talent map—without conducting interviews with anyone—in order to quickly compare inside and outside options.

As with longer-term succession plans, managing internal candidate issues and expectations will be urgent. When events are moving quickly, these relationships become even more sensitive and must be handled thoughtfully to minimize the loss of top talent who could be tempted to leave for other opportunities. A deliberate focus on, and discussions with, these executives regarding how they are valued and their future opportunities at the company may help to maintain morale and stem defections.

Throughout, the board must move efficiently and with focus. Time is of the essence.



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Success is all about preparation

In our experience, boards that have a handle on maintaining an effective CEO succession process tend to be the same high-functioning boards that excel at all their other key duties, such as strategy development. They generally have a good working relationship with the CEO and have clarified boundaries as well as roles and responsibilities, on CEO succession planning as well as all other crucial governance duties. And they recognize that succession planning is an ongoing process grounded in specific contexts—overall economy, industry, and company strategy—at a specific time, all of which are subject to change.

Most important, leading boards devote the time—on an ongoing basis—that CEO succession requires in order to plan, and revise plans as needed, so that all reasonable contingencies, whether emergency or otherwise, are covered. To keep abreast of all developments, many of these boards now maintain succession planning as a standing agenda item for each board meeting, aware that discussing just once or twice a year is insufficient.

To paraphrase Thomas Edison, success in CEO succession planning is 90% perspiration. Boards that engage in the hard work, creating and implementing a rigorous, reliable process and keeping it current, will reap the greatest benefits. When the handover from one CEO to another finally occurs, there should be nary a ripple within the company or with shareholders. What could be more reassuring?

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Assessing CEO succession readiness: Questions for board discussion

Planning and strategy

- ☐ How often does the board discuss succession planning?
- ☐ Is the board aligned on the company's strategy and the required skills and experience for the next CEO?
- ☐ Is there an emergency CEO succession plan? When was it last updated? Is the candidate still viable?
- ☐ Is there a communication plan tailored to the concerns of a wide range of stakeholder groups? Who will be the spokesperson internally? Externally?

Talent development and retention

- ☐ Does the company have a rigorous talent development process in place to cultivate top leaders who are regularly reviewed by the board?
- ☐ What retention plans are in place for CEO candidates?
- ☐ Does the board have sufficient exposure to internal top candidates?

Selection and transition

- ☐ What is the board's current process for final CEO candidate selection?
- ☐ What are the procedures to transfer leadership and integrate the new CEO?



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CEO & Board Practice

Heidrick & Struggles' CEO & Board Practice has been built on our ability to execute top-level assignments and counsel CEOs and board members on the complex issues directly affecting their businesses.

We pride ourselves on being our clients' most trusted advisor and offer an integrated suite of services to help manage these challenges and their leadership assets. This ranges from the acquisition of talent through executive search to providing counsel in areas that include succession planning, executive and board assessment, and board effectiveness reviews.

Our CEO & Board Practice leverages our most accomplished search and leadership consulting professionals globally who understand the ever-transforming nature of leadership. This expertise, combined with in-depth industry, sector, and regional knowledge; differentiated research capabilities; and intellectual capital, enables us to provide sound global coverage for our clients.

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