BOARD STRATEGIES FOR OVERCOMING THE MOST COMMON SUCCESSION PLANNING OBSTACLES

The passage of the Sarbanes-Oxley Act more than a decade ago set in motion a dramatic change in CEO succession planning: While CEO succession had always been in the board's purview, the board reasserted itself in working on the subject with its passage. This change brought much-needed oversight and additional rigor to the succession planning process at many companies. Nevertheless, many directors still find aspects of the process challenging and feel less confident than they would like to be that the board will be in the position to make the best decision for the business when a transition is imminent.

In our experience, there are four main areas that boards continue to find challenging:

- **Getting started and addressing succession planning with the appropriate regularity.** Some boards can be reluctant to broach the topic, particularly with a strong, established CEO or when a transition seems distant, or they may over-focus on certain facets of the process.
- **Ensuring that the strategy and criteria for the next CEO is forward-looking enough.** When the strategy relies too heavily on status quo assumptions or doesn't look far enough out, it reduces the chances that the process will produce internal candidates with the right skills for the future business.
- **Thoughtfully and effectively assessing internal candidates.** Directors often tell us that they lack the insights with which to thoroughly assess potential successors or to understand whether a candidate will be ready in a specific time frame.
- **Assuring the development of a robust succession pipeline.** When they do not set expectations with the CEO and CHRO that succession planning and talent development are ongoing and shared responsibilities, boards can lack confidence in the succession pipeline.

To increase director confidence in the process, boards may need to take a fresh look at how CEO succession planning is practiced today and consider whether it is time to update their approach. We examine the most common challenges in more detail and consider ways boards can overcome the obstacles they face to establish a rigorous and effective succession planning approach.

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1 Start now and embrace CEO succession planning with the right balance

Most directors and CEOs today recognize that the board has the ultimate responsibility for CEO succession planning and selecting a CEO successor. That doesn't mean, however, that directors find it easy to initiate discussions about succession, particularly with an entrenched and successful CEO who doesn't plan on leaving any time soon, but does have a pivotal role to play in the succession process. Overcoming resistance to raising the issue with the CEO — or, in the most difficult situations, forcing the issue with a reluctant CEO — continues to be a challenge for many boards.

One approach that can be helpful in desensitizing the issue is to start early — years before a transition is on the horizon — develop a regular cadence around C-suite succession planning, and encourage the CEO and CHRO to be partners in the process. One of the best ways to achieve this balance is to begin CEO succession planning when a new CEO takes the helm and set expectations about the CEO's role in the process immediately. Starting early and making succession planning an ongoing activity can help minimize the emotion that often surrounds succession and also allows the board to get to know potential candidates and their performance over time.

The right structure and approach can enable the board to give succession planning the attention it needs, while balancing all the other priorities directors have on their plates. Succession planning is arguably one of the more important responsibilities of the board, and many board members are eager to participate. However, it also is one of the most intensive board responsibilities, requiring significant work between meetings. Many boards establish a smaller working committee — three to four directors who are the most qualified and who have the necessary time — to steer the process and handle the granular work associated with assessment and benchmarking, but involve the board at critical touch points throughout the process.

2 Ensure that succession planning is rooted in the future needs of the business and base criteria for the role on the levers that will be critical to the future

Most board members today accept that the foundation for CEO succession planning is an agreed-upon strategic direction for the company from which the criteria for the next CEO can be based. Very often, however, the articulated strategy is too rooted in the present or relies too heavily on status quo assumptions, rather than taking a prospective view of where the company needs to be in five to 10 years. When this occurs, the criteria for the next CEO may not be tied to the specific strategic, organizational and operational levers that the next CEO will need to employ, potentially impeding the development of internal candidates with these capabilities.

Wise boards agree on strategic issues up front, since these decisions will influence the kind of future leader or leaders the company will need, and push themselves to go beyond generalities. They identify the very specific effect the next CEO needs to have on the business and define the skills that it will take to accomplish that effect. These could include invigorating the innovation pipeline, applying disciplined cost management, pursuing specific growth targets in emerging markets or building new organizational capabilities or cultural themes to drive organic growth.

Agreeing on a future-looking strategy that informs the criteria for the next CEO is a critical step that helps make the process go smoothly. It also helps boards avoid the trap of choosing an executive who mimics the incumbent's strengths, instead of selecting the candidate with the qualifications best suited to the company's strategy for the future.

3 Thoughtfully and effectively assess internal candidates

By definition, internal candidates are not proven CEOs, so how can boards gain better insights into candidates' ability to succeed in a role that is dramatically different in scope and complexity? Boards tend to see succession candidates through a very narrow window of observation and judge potential based on past performance, both of which can cause bias (positive and negative) when considering successors. To gain the insights they need to understand the capabilities of their company's rising executives and make the discerning judgments about their readiness for the top role, boards need to embrace an assessment process that is fact-based, rigorous and forward-looking.

Assess succession candidates with a forward-looking lens

A board's ability to choose a CEO successor requires a frank view of candidates' readiness, including an understanding of their development needs based on the future direction of the company and the likelihood of their being able to close any gaps in a reasonable amount of time. Candidate assessments should review candidates' track records delivering against strategic and operational levers that are similar to what the next CEO will be required to pull, drilling down into the specific contributions individuals have made in the businesses they have run. In addition, boards should strive to gain an understanding of candidates' ability to stretch into the CEO role. Executives' analytical capabilities, social intelligence and self-awareness are skills that speak to their Executive Intelligence and ability to navigate more complex, ambiguous and demanding contexts.

A rigorous review of an individual's competencies, including the observations of others who can validate their performance in current and past roles, can reveal whether candidates have the relevant experience as well as potential gaps. Gaps may include a lack of specific knowledge or "hard skills," such as experience with regulators or financiers, or a deficiency in certain "soft skills" — behavioral skills such as the ability to navigate complex interactions or to influence, motivate and create followership among others. Boards also will want to consider whether the culture of the company needs to shift or change, and how aligned individual candidate profiles are with the desired company culture.

Incorporate external benchmarking

Companies that are strong producers of internal talent sometimes lose a sense of how their talent compares to the best-in-class talent externally or overlook how the world has shifted around them. Taking a look at external talent — through research, informal or formal introductions or an executive search — can provide additional insight when assessing the readiness of potential successors. Ideally, benchmarking should happen in tandem with internal assessment, so that the results of the internal assessments and external benchmarking can be compared simultaneously. This process is critical to giving the board a good sense of the relative strength of the internal candidates, as measured against outside talent who have proven themselves as skilled in the operational areas that will be critical for the company's future success and have demonstrated the values and behaviors that align with the ideal company culture.

4 Assure the development of a robust succession pipeline

For boards, having confidence in the succession pipeline means ensuring that the CEO is focused on developing a succession-ready team and that directors have the insights about potential CEO contenders they will need to provide the necessary developmental assignments and, ultimately, to choose a successor. This ideally is a broad-based effort that incorporates up-to-date definitions for all the senior team, regular assessments and benchmarking, and thoughtful developmental assignments.

This does not mean that directors must become talent managers. But, it does require boards to take responsibility for ensuring that the right processes for talent management are in place and that they have the appropriate knowledge of potential leadership. Directors should get to know the senior leadership through presentations in the boardroom and regular meetings outside of it. Boards should plan on a deep-dive talent review at least once annually, which includes having the CEO and CHRO lead a discussion about forward-looking leadership requirements against which talent can be evaluated. By being involved on an ongoing basis, the board can observe patterns of performance and develop a more nuanced point of view on executives' strengths and weaknesses.

Well-governed companies take a longer-term view toward succession. Boards should make sure that there is a process in place to develop talent for all the top positions in the company, and that compensation plans for the CEO and other top executives are linked to their success in developing and retaining talent. By taking these actions, boards can more effectively prepare their companies for succession over the short term, and help build the bench strength that the company needs for stability and success well into the future.

CEO SUCCESSION: THE CEO'S ROLE

The CEO is both a member of the board and the leader of the management team. As such, the CEO must be an active participant in many aspects of the CEO succession planning process, but then step back as the process progresses toward the selection of the next CEO.

Ideally, the CEO will, early in his or her tenure, emphasize his or her commitment to management development and providing internal succession options for the board to consider on a long-term basis. The CEO should be a proactive, engaged partner with the board and CHRO in a regular C-suite and CEO succession planning process, including planning for emergency succession scenarios. For CEOs, this means ensuring that the board begins succession planning early in their tenure, working closely with the CHRO to develop a robust, forward-looking approach to executive talent management, and being willing to step back to give potential successors room to grow at the right time. Finally, as a transition grows nearer and the attention of the organization begins to turn to the next CEO, CEOs must manage their own emotions regarding the changes.

Conclusion

Corporate boards have become increasingly sophisticated in CEO succession planning, embracing their ownership of the succession process and adopting thoughtful approaches to identifying and developing potential successors. To further increase their confidence that the succession planning process will produce strong candidates and provide directors with the insights they need to select a successor, boards should start early and work closely with the CEO and CHRO to regularly assess candidates based on the forward-looking requirements of the business.

About Spencer Stuart CEO Succession Services

Spencer Stuart is one of the worlds' leading executive search consulting firms. We have extensive experience advising organizations and helping them prepare for a range of scenarios, from long-term orderly succession to emergency succession.

Our experience with best practices, our market knowledge and widespread access to leadership talent combine to make us a valuable partner for boards, chief executives and HR leaders committed to CEO succession planning.

We often act as a catalyst for boards to rethink or enhance their succession strategy. We take a dispassionate view of all available options, whether a client is considering internal talent alone or also seeking comparative assessment through external benchmarking.

Spencer Stuart works with clients across almost all aspects of the succession planning process including:

- Developing the succession planning approach and process
- Defining the future CEO requirements
- Working with HR leaders to assess internal talent and advise on development plans
- Benchmarking internal versus external talent
- Articulating plans across both the short and long term
- Updating assessments and plans over time
- Search
- Transition counsel

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