Chapter 17

Ensuring CEO Succession Agility in the Boardroom

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On April 19, 2004, James Cantalupo, the CEO of McDonald's, died of a heart attack. The next day the board of the McDonald's Corporation announced that Charlie Bell would succeed Cantalupo. Although the board and employees of McDonald's grieved for James and his family, the company didn't miss a heartbeat.

On October 2, 2009, in the midst of a financial crisis, Ken Lewis, CEO of Bank of America, announced his resignation. The board had ample warning, since Ken was under pressure to move on for months. But the board had no successor. Instead, they searched frantically. Some executives whom the Bank of America board asked to be their CEO refused the position practically on the front page of the *Wall Street Journal*. Excellent candidates that were brought forward were unsure of the board's process. The question of who would lead Bank of America riveted the business and financial community. In the meantime, the company was leaderless for months during the financial storm, and its stock price fell. The board with warning was caught off guard; the board without warning replaced its CEO overnight. What accounts for the difference? Board preparedness, or what we call "succession agility in the boardroom."

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The hiring and the firing of the CEO is the number one role of the board of directors. Boards that have strong CEO succession management practices, such as McDonald's, Procter & Gamble, and Pfizer, offer other boards a reservoir of best practices that can be adapted and shaped to fit most companies.

Ten best practices of succession agility that we have distilled from boards with world-class CEO succession capability follow.

1. CEO Succession Planning Is a Process, Not an Event

CEO succession planning begins the day a new CEO takes the helm and continues until the next CEO takes over. At P&G, the board works with the new CEO during the first year of the CEO's tenure to develop a plan for his or her succession.

CEO succession is not a one-off event that happens every seven to ten years, nor is it just a transaction in which a search committee is formed and an executive recruiter retained. Rather, it is a systemic process integrated into a company's talent management approach. When done well, a company has multiple internal candidates, as well as younger up-and-comers with recognized future CEO potential, and has tailored development plans to fit. At Amgen, the board is directly involved in reviewing the senior leadership team annually, and CEO succession is an integral component of this work.

At well-run professional service firms, during review, young associates are asked the question, "Could you be a partner one day?" The same should be true of good senior leadership development processes, where the question should be, "Could you be our CEO in 5, 10, even 15 years?" Waiting until the incumbent CEO announces he or she is ready to move on is too late to begin.

2. CEO Succession Is a Strategic Move

The board's single greatest ability to influence the strategy of the company is through the CEO they hire. However, too few boards see CEO succession as a strategic event, an opportunity either to reshape strategy or to heighten a company's ability to execute strategic goals. The best processes start with the current strategy, or a clear sense of where a company's strategy must evolve, and then hire to drive the strategy. It is surprising when some otherwise knowledgeable boards write a set of leadership characteristics without either a deep rooting in strategy or significant input from management.

It is human nature for each board member to have two or three key attributes in mind and to test for those. But this often leads to dysfunctional discussions. Properly done, boards develop a strategic-driven, management-informed set of leadership competencies and the entire board works off the same page. It is important that these competencies be developed in an inclusive process involving the entire board, the current CEO, the head of HR, and often outside advisors.

Management reports to the CEO, but only the CEO reports to the board. Therefore, the board, in a sense, exercises strategic execution through the CEO. The leader chosen

by the board must be properly geared to develop and implement the strategic direction the company must take.

3. Assess Character and Fit

How many WorldComs or Enrons could have been avoided had boards not only dug deep into CEO competencies but also clearly understood the values, character, and integrity of the leaders they have evaluated and entrusted? It is self-evident that the more self-focused the CEO, the more potential danger to the enterprise. The more enterprise-focused the CEO (on both people and performance dimensions), the more enduring value is created. But too many boards have failed to go beyond evaluations of competencies, drive, and achievement to develop a picture of a candidate's character. Doing so requires time, judgment, and the willingness of boards to listen to (and encourage) perhaps a minority of board members who speak up and say, "I'm uncomfortable." Of course, outside references are essential, and the board members chosen to lead this process must be of the highest character themselves.

Though the spectacular business failures of recent years were often driven by flawed individuals, most leaders are of good character. A larger and more important issue is "fit." Excellent leaders still fail. Often the problem is one of "organ rejection," or lack of fit. Boards may choose someone who is an intentional "non-fit" and who will shake up the organization and transform it. This can be good, but it must be purposeful. When a transformation is not required, a lack of fit can doom an otherwise excellent leader and bring dire consequences to the organization.

Evaluating fit can be tricky; management's and the current CEO's view is required. When done well, boards openly discuss the relative importance of fit and test for it.

4. Foster an Abundance of Candidates

Leading companies seek to have more than a handful of possible successors. Two or three successors should be the minimum number of inside "ready now" candidates in well-run companies.

5. Ensure That the CEO Is Leading the Process

Many CEOs, especially those early in their tenure, are understandably uncomfortable leading a process to select a replacement. Nevertheless, the age of the imperial CEO has past, and today it is part of the CEO's job description to create a fertile field of able candidates.

Boards will often pressure the CEO to narrow the list and declare a choice. But CEOs should resist naming a candidate too early. As one CEO told us, "I want all horses to run past the finish line." If the CEO chooses too early, the pressure is off and performance could suffer too. The job of the CEO is to present facts and information and candidates, and to let the board decide. As a member of the board the CEO should indicate a preference only later in the game, after the board has the time, exposure, and quality information to genuinely assess the lead candidates.

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The quality of a CEO succession planning capability must be part of the current CEO's goals, and he or she should be reviewed accordingly on an annual basis.

6. Create Leadership Development Plans to Groom Internal Candidates

It is imperative to help key talent understand the requirements to become CEO. Candidates should not be left to wonder. A comprehensive, challenging, and actionable development plan needs to be established for each candidate. One critical component of the plan is to identify enterprise-wide initiatives that each candidate can lead to demonstrate his or her strategic, collaborative, and silo-breaking leadership competencies. Research has demonstrated that "stretch assignments" can account for up to 70 percent of leadership development impact.

Whether it is international, cross-functional or cross-business unit exposure to broaden a candidate's understanding of the entire business, the best training for the CEO role is often leadership away from headquarters, where the business unit leader has the opportunity to captain the ship. Companies such as Northrop Grumman have moved successor candidates into staff roles. For example, Wes Bush became CFO, moving in and out of the line with a purposeful, board-driven mission to broaden his experience, before being anointed Northrop Grumman's next leader.

7. Ensure the Board Knows Personally Key Candidates

Board exposure with candidates should include one-on-ones, visits to the candidate's business, and social interactions. For some current CEOs, this can be unsettling or intimidating, but many recognize the value. Board members need to invest the necessary time, outside of board meetings, to get to know the candidates. Some boards arrange overseas trips for directors and candidates to rub shoulders, as the proximity of travel is often a good way to build rapport. GE, for example, encourages board members to mentor candidates, walk the floors, and get to know in depth the operations and the leaders. The board members benefit from the education, the leaders/candidates benefit from the mentoring and experience, and the CEO succession process is strengthened.

8. Know the Outsiders

Many companies, especially those facing disruptions in their business, a marked increase in competitive pressure, or a failed CEO and management team, will not have a pool of inside candidates to draw upon. In these cases, the board should know the outside leadership community well and have their eyes on potential successors, even if from a distance.

The board should maintain a quiet "stable" of outside candidates. Of course, the identification of capable outsiders is best conducted without formal contact with the potential candidates until the board "pulls the trigger" and moves quickly on a CEO

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transition. This screening is most helpful when in response to the company's evolving business strategy and business climate, and therefore it needs to be an ongoing process.

In some cases, there will be no insider or ready outsider, or no warning of a CEO firing or death. In this case, the board should have an acting CEO in mind, and often a member of the board, such as Ed Whittacre, who took the helm of GM, adding the CEO title to Chairman when Fritz Henderson was asked to resign. This can be risky, as the new leader must be more than a caretaker and must not be seen as political choice or a usurper. In best cases, the acting board member enjoys the support of the board and moves quickly to find a permanent leader.

9. Have a Clear, Disciplined, Data-Driven Process

Once CEO succession shifts into high gear, a board search committee is named, often led by the lead director or non-executive chairman. The effectiveness of these committees varies. The best committees develop a CEO competency model, evaluate candidates, seek candidates from a wide pool, integrate the search with the company's strategic goals, and leverage executive recruiting. The worst committees are unclear of their process, force candidates through multiple interviews, thereby turning off high-quality people, and are aggressive or episodic.

The better processes are data-driven. For example, GlaxoSmithKline developed assessments of internal candidates with inputs from a variety of trusted executives in the organization who worked directly with the candidates, ensuring against favoritism and other biases such as a lofty title or a long term of service. This approach led GlaxoSmithKline to choose Andrew Witty, a dark-horse late entrant, who won an internal race against two long-serving executives. At WellPoint, the board ran a review of insiders and outsiders over six months, comparing both candidate pools on the same data-driven criteria.

Boards, having done the above, are now in a position to calibrate insiders against outsiders, and importantly follow a process that improves the company's chances of retaining talented inside candidates who were not chosen, but nonetheless feel they were well treated and are willing to serve under a new command.

10. Ensure the Retiring CEO Onboards the New CEO

Regardless of whether the new CEO selection is internal or external, it is too soon for boards to declare victory and hand the new leader the keys. CEO retention is an increasing issue in corporate America, and the first year is crucial. CEOs need to develop too, and care needs to be taken to their onboarding. This is best directed by the retiring CEO in partnership with the board. The new CEO will be evaluating the existing team, and care must be taken to ensure that onboarding does not become political. Nor is this an invitation for boards to meddle; the new CEO needs a free hand, but he or she also needs partners in the boardroom ready to offer a helping hand. The board must ensure that the current CEO is motivated and focused on an effective transition.

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When the retiring CEO stays on for a limited time as chairman, as Bob Lane at Deere, there is time for an orderly passing of the baton. At the same time, all symbols must change: The new CEO is the CEO, and the chairperson must immediately assume the role of non-executive chairman of the board.

Conclusion

Boards will thrive or perish in direct proportion to their succession agility. Choosing the right leader at the right time is the board's most important role, and one that enables a board to create an enduring legacy of value creation through their carefully chosen appointment of a CEO.

References

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