Seamless transition

Dennis Carey, vice-chairman of **Korn/Ferry International**, has placed or led CEO succession projects at dozens of global companies that have been credited for doing CEO succession extremely well, based on the performance of the placements and the company following the process. He provides ten best practices that have emerged from these experiences.

In recent years, a plethora of consultants, journalists, regulators and others have deluged CEOs and directors with theories, prescriptions, critiques and a variety of other 'best practice' pronouncements about what should be done for CEO succession planning. Instead, we should get back to the basics and keep these ten ideas front and centre, and remember that doing this right is the most important responsibility a board has.

1. One of the most important considerations in CEO succession planning by great boards is having a solid CEO evaluation process. The evaluation system should be linked to corporate goals and objectives, integrity and ethics, communications, team-building, operational excellence and shareholder return. Simply put, this is the key bellwether for determining if you have the right CEO now and in the future, and helps shape what leadership competencies are necessary to drive corporate strategy and execution.

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2. Discussions about business strategy should always be linked to discussions about CEO succession. Yogi Berra [former US baseball player] once quipped: "If you don't

know where you are going, you will wind up somewhere else." Bad strategies and ineffectual leadership generally go hand in hand.

3. Often ignored, the CEO's evaluation should emphasise and reward how well both the CEO and his team develop a succession plan for the next generation of leaders. A recent survey of the top chief human resources officers in the US at the CHRO Board Academy at the Wharton School suggested that most boards lack a coherent CEO evaluation system that adequately measures performance and links succession planning to cash compensation opportunity, and for those that do, it is generally not compelling enough to change their behaviour.
4. The evaluation and succession method should be developed and overseen by a committee of directors and in concert with the non-executive board leader. If a board does this right, CEO succession will no longer be viewed as an event-driven crisis. The plan should include short-term disaster scenarios – consisting of one or two potentials – as well as medium (three-year) and longer-term (three to five-year) plans.
5. Non-executive board leaders should be responsible for orchestrating succession planning and should be periodically evaluated by the board for this responsibility. If your non-executive board leader is not performing, appoint a new one. Good CEOs should be partners in this process. Non-performing CEOs should not.
6. Remember that good CEOs are hard to find. Keep a high-performer as long as you can without significantly diminishing the chances of keeping the next CEO in your company. Able lieutenants who have learned how to run a company well generally succeed great CEOs and become great too.
7. Poor-performing CEOs need to be counselled out quickly. Get to know the next level or levels down and assume that a poor-performing company generally breeds B-players. If the company is performing well under poor leadership, it is usually best again to stay inside. If both the company and its CEO are sub-par, begin looking outside quickly.
8. Appointing a fellow director as CEO may be a good stop gap, but only when the board determines that they have no executives ready to be CEO. However, when a director volunteers to be a candidate for the CEO job, they should exit the board first and let the chips fall where they may. Directors who lose in a shoot-out with other candidates generally can't help but be a bit biased when the new CEO takes the helm, or feel constrained to be critical when needed. It is also difficult for directors to be objective with all candidates if one of their fellow sitting directors is one of them.
9. When you go inside for your next CEO, get the scoop on the candidates from those who have worked around them as well as the CEO. GSK did a 450° assessment against the future needs, strategy and drivers of the company. '360s' are inherently inaccurate due to concerns by graders that they may be 'discovered'; it has been determined that unless a trusted insider or third party does the assessment, the picture can be blurry. In a 450° assessment, candidates are graded by over a dozen peers, and bosses in the organisation against four or five key metrics. In the case of GSK, the youngest and most unlikely winner came out orders of magnitude higher than his competitors. Remember, even Proctor and Gamble, and Coke had CEO succession 'misfires' from within the company due to a lack of data on how the executives were perceived from within. Finally, both companies got it right the next time around.

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10. When you go outside, be wary of references and assessments coming from consultants. There often is a tendency to either sell or destroy a candidate. Board members should engage directly in the reference and assessment process. You might be surprised what the same reference will tell you about a candidate, rather than what they tell a consultant. Furthermore, very few assessment firms will have significant experience truly assessing – psychological or otherwise – a CEO candidate. Most firms spend a few hours with the person and then say "terrific" or "out". Directors need to engage with the references, get to know the candidate and remember the axiom that the best predictor of future success is past success. Directors also know the culture of the company better than consulting houses do.

CEO succession planning should be embedded in corporate culture, rewarded when done well by the executive team, and embraced as part of corporate strategy. Interestingly, the great companies that do this well, such as P&G, IBM, and Xerox, learned from past mistakes to get it right the next time they did it. These observations should help you mitigate the biggest risk any company faces – getting the wrong person for the top job. ■

Further information

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