

CEO Succession Planning for Midsize Companies

The importance of CEO succession planning is widely acknowledged as one of the core responsibilities of the board of directors, yet far too many corporations, particularly small and midsize companies, fail to systematically prepare for leadership transitions. The CEO's job is more complex than it ever has been, which is a major reason why CEO succession planning is more critical than ever. When conducted poorly, it can have harmful consequences, resulting in internal distractions, uncertainty, and the loss of value developed by the previous CEO. Even worse, a poorly run CEO succession process can unintentionally put the company in play to the detriment of shareholders, while a failed process can be a death sentence for small and midsize companies.

Simply put, having a solid CEO succession program in place, both for emergency situations and as part of long-term orderly planning, is a hallmark of a well functioning and effective board of directors.

Ultimately CEO succession planning is about the company both surviving and thriving. It's about building long-term sustainability and thinking strategically about the kinds of executive talent needed to best serve the organization.

A CEO succession process can help to safeguard companies of all sizes against hiring or promoting poorly. It can help ensure the best leader is in place and that the best leaders for the long-term have been identified. Furthermore it can provide a driving force behind a successful leadership development process within the company.

So what constitutes a *good* CEO? The finest leaders are confident... trusted... courageous... persuasive... decisive. They are good communicators who take the long-term view, inspiring others toward accomplishment. They must manage communications skillfully to a broader and constantly growing set of constituencies, including the board of directors, employees, customers, shareholders, political entities, regulators, suppliers, communities and many others. Such leadership qualities are timeless, and for the most part, universal. The modern-day CEO must have a mix of these qualities, and more, to be successful navigating this highly complex leadership role.

Today's CEOs must lead through influence, as opposed to practicing a command and control approach. They must manage an executive team effectively, motivating direct reports to produce results in an intricate environment. What's more, they must be appropriately hum-

ble. They cannot be afraid to express humility. Knowing when to set aside the voice of experience in favor of embracing the collective guidance and wisdom of the broader leadership team and keeping egos in check will ensure a much longer tenure, subsequently producing greater results and value for all constituencies.

As an evergreen topic, even a cursory online search for CEO succession planning produces an abundance of articles, blogs and other commentary on the subject. Yet much of this material is focused on the largest companies and organizations.

So how do midsize companies prepare for CEO Succession planning when their needs, cultures and in particular resources differ so greatly from their Fortune 500 counterparts? Larger firms have deeper pockets, allowing for better access to executive search firms and other resources, plus a deeper pool of internal talent and better board director contacts. But is there guidance midsize companies can glean from those larger companies that have deployed a systematic approach to this process pearls of wisdom and scars from errors of judgment that can be adopted and followed as a foundation for success?

Regardless of size, the basic principles of CEO succession planning hold true for all companies. These principles include:

- Linking succession planning to company strategies, business realities, and a forward-looking view of leadership requirements
- Recognizing that CEO succession planning is a continuous and collaborative, board-driven process
- Ensuring a disciplined and systematic succession process
- Defining clearly the key roles in succession planning
- Identifying internal candidates well in advance of a succession event
- Conducting rigorous, objective developmentally oriented assessment to benchmark both internal and external candidates
- Regarding succession planning as an opportunity to develop and encourage a talent-rich organization
- Recognition that succession doesn't end with the naming of the new CEO, but continues with onboarding and support in the new role
- In some cases, confronting and dealing with potential successors who are family members or long-term family friends involved with the company, and/or transitioning from founders

Using these shared principles as a foundation, midsize companies can create and implement a

CEO succession planning process that is specific to their needs, their context and the business environment in which they are operating.

In spite of the resources obstacle, establishing a successful and cost-effective CEO succession planning program is not necessarily difficult to do, but time and again in our work advising midsize company clients we encounter an array of objections. However, we believe every obstacle has a solution:

Succession planning is an expensive and time-consuming effort suitable only for large companies

Regardless of company size, succession planning is a fundamental duty the board cannot ignore and it need not be prohibitively expensive. Succession planning requires thoughtful consideration about the opportunities you have to turn business issues into training opportunities for promising executives. Upgrading technology, developing new products, international expansion, and promoting innovation all represent ideal opportunities to foster talent. High potential executives must understand that it is the skill set and experiences they accumulate, not simply the size of their P&L that will move them ahead in the organization.

Our shallow bench of talent prevents us from implementing a best practices model of succession planning and development

Midsize and small companies do face limited talent pools and must look as deep into the ranks as they can. Boards should understand the talent pipeline in the organization beyond the executive suite and emphasize the importance of early executive development. Maintaining a relevant and up to date view on external talent also becomes all the more critical. Benchmarking and talent mapping can further assist the board to understand the relative strengths of internal talent and sources of external talent.

The limited rotational opportunities and developmental roles within our company inhibit an effective succession planning process

In this case we advise clients to be more daring in the reassignment of duties, even if it may occasionally seem like a step backward. Perhaps the manager of a large division would benefit from the experience leading a smaller but strategically important business segment, or from spending time in an expat role. You can also give promising executives special projects to

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manage or assign them to lead a task force on issues that are important to the future and success of the organization. Assignments leading strategy development and M&A activities can also be beneficial learning opportunities.

□We are worried about developing strong talent that could be poached away□

To be sure, retention is always a risk, and executive turnover is on the rise. Even so, it's far better for companies to be talent-rich and risk losing some people than it is to be talent-poor. For all the talent you may lose, ultimately you will have more to work with, helping your organization perform better. Organizations that develop reputations of fostering talent will attract high potential talent.

□There is strong resistance from the sitting CEO□

This is a common objection but it is the job of the board to assert itself and establish a CEO succession plan for the long-term good of the company and in case of unforeseen emergencies. It should be a routine element of board business at least once per year, preferably more often. To further emphasize the importance of succession planning the board can incorporate it into the CEO's review and compensation program.

□With no near-term need anticipated, we have no incentive to prioritize succession planning□

Here we encourage clients to expect the unex-

pected. It's simply a fact that executives move on when they receive an offer too appealing to turn down. Illness may strike, and unfortunately executives occasionally die. Although it takes time, your CEO succession program should be a routine part of company culture to be put in motion when required. An ongoing, as opposed to periodic, approach to succession planning will help.

□The politics of succession planning can be disruptive to our leadership team and organization□

To help avoid the negative dynamics of succession planning you can ensure it is a routine part of the company culture, as mentioned above. Promote transparency and set expectations by communicating honestly with high potential talent who are included in the succession plan. Remind them that succession planning is an ongoing process integral to the company's success that develops over time. It should also be made clear from the outset that political jockeying is a disqualifying behavior that will not be tolerated.

“We can always just find a CEO though an external search when the time comes□

While we highly encourage examining external candidates to benchmark against internal executives, when all other factors are equal internal succession is less risky and less costly. Having a firm grasp of the pros and cons of all existing talent helps to validate your pro-

motion and hiring decisions when the time comes. Furthermore, boards simply don't have a crystal ball to see the future available talent. The external talent you want and need may not be available or interested when you need them.

So what have we learned? CEO succession planning is a continuous and collaborative, board-driven process that is fundamental for companies of any size. Even so, midsize company boards should temper their expectations rather than fixate on what Fortune 500 companies do. Best practices can be adopted, but should be implemented within the context of the midsize corporations, embracing the characteristics that are unique to its culture and business environment. Be flexible, focusing on the creative tools and tactical approaches that will work under existing resource constraints. Keep your senior leadership engaged. Unlike large companies with bigger infrastructures and established talent development programs, midsize companies must be flexible and inventive in finding ways to develop their people and keep them engaged through an arsenal of creative tools and tactics, such as cross training, special projects and task forces.

If done in this proactive and creative manner, midsize corporations can create successful, deployable succession planning programs that not only will produce results and value for internal stakeholders but for external groups alike. Above all, however, do not wait for an emergency situation to strike. There is no time for complacency. ■

About the authors

Pat Canavan has a background in finance, organizational change and academia. He has held Fortune 50 positions in corporate governance, succession planning, leadership development, p&l management, regional management, human resources and information technology. He is the former Senior Vice President of Global Governance at Motorola, Inc. where he was also the CIO, the President of the Emerging Markets and the Chief Human Resources Officer. He serves as an Advisor to the National Association of Corporate Directors (NACD) and is a founding Board member of the Yale University Millstein Center for Corporate Governance and Performance.

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