



CHRO at the Center

Five Recommendations for Managing an Effective Succession Planning Process

Most boards have embraced responsibility for CEO succession planning, accepting that effective succession planning is an ongoing process requiring consistent, dedicated work on their part. The CEO, meanwhile, should be a proactive, engaged partner with the board, ensuring that the company has a robust, forward-looking approach to executive talent management. The third major player in CEO succession planning is the chief human resources officer. The CHRO reports to the CEO, and together they are charged with grooming the next generation of leadership. At the same time, the CHRO has a fiduciary responsibility to the board to assist directors in running an effective process.

Given the high stakes and inherent political and emotional dynamics at play, the CHRO must walk a fine line in navigating this dual role. In our experience, the skill and sophistication of the CHRO can have a disproportionate impact on the success and effectiveness of the succession planning process. In addition to ensuring that the company has best-in-class talent development programs, the CHRO plays a critical supporting role when it is time for the CEO to hand off the process to the board for the selection phase. It is this transition that can be particularly tricky for both the board and the CEO, as emotions and the politics become more intense. A well-established C-suite executive succession planning process and a rigorous and regular talent review at the board level helps make for a smoother transition.

Drawing on our experience working with boards, CEOs and CHROs on CEO succession planning, we offer the following five recommendations for CHROs for managing an effective process and balancing their dual responsibilities.

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BE THE AUTHORITY ON A BEST-PRACTICE PROCESS

As much as boards' engagement in CEO succession planning has increased in recent years, directors still very much depend on the CHRO to guide a thoughtful, orderly and transparent process and ensure that directors are armed with the information they need to make the best decision when the time comes.

For this reason, the CHRO must be an advocate for the best practices in succession planning. This includes ensuring that the board and management team engage in a due diligence process. The first step in that process is to consider the future strategic direction of the business and the ideal company culture. This process should lead to an agreed-upon profile for the future CEO, which should guide the selection process. Unfortunately, we have found that there can be a surprising lack of alignment among directors and between the board and CEO in key areas such as strategy and the selection criteria. The CHRO can play an important role in ensuring directors discuss these questions and agree on the selection criteria, and that the board and CEO consistently apply the agreed-upon criteria when evaluating potential CEO contenders. Thoughtfully developed CEO criteria provide both a roadmap for internal candidate development plans and a framework for selecting from among finalist candidates. In addition, a tight CEO profile can help insulate the process from efforts to push for favorites by keeping all parties focused on the specific requirements of the business.

The CHRO also should advocate for the rigorous assessment of internal candidates, external benchmarking and the creation of specific development plans that identify the gaps that individuals must address and in what time frame. Many boards benefit from having outside assessment expertise when evaluating how the internal team stacks up against the requirements. This is particularly true when the board recognizes that the business requires a change in strategic direction. In most cases, the CHRO is responsible for the day-to-day interface with board advisers and, in a real sense, the HR executive manages the process between meetings, ensuring advisers are on the right track and produce their deliverables.

INFORMED INDEPENDENCE: AVOID THE ADVOCACY TRAP

Boards tend to lack the granular information about CEO contenders that they most need to make a selection. Much of the board's knowledge of internal candidates comes from presentations during board meetings or dinners. Directors naturally turn to the CHRO to help them get smart about internal executives in the pipeline. Indeed, CHROs are in the best position to represent executives' progress — or lack of progress — on their development plans. At sophisticated companies, the board committee tasked with CEO succession will want to know the CHRO's point of view and, once a

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selection is made, will hold him or her accountable for the information provided. This is a weighty responsibility and often tricky; CHROs don't want to undercut a candidate with an overly critical assessment, nor do they want to overlook weaknesses and have the board come back after an internal candidate is selected and ask, "Why didn't you know about these capability gaps?"

CHROs should strive to provide a balanced point of view on the process and the strengths and developmental needs of internal candidates. They need to be honest with the CEO and the board as to whether internal candidates are meeting their milestones. In a process where many of the other players may develop biases, the CHRO must be the one who ensures the honesty and integrity of the process.

ADVISE AND SUPPORT THE CEO

CEO succession planning can be very challenging for the sitting CEO, personally and professionally. This is particularly true as the process moves toward the selection of the successor. CEOs face the reality that the board is driving the process, not them. They also have to deal with their self-image, which is attached to the business they run and may have spent their lives building. Even for CEOs who have actively groomed potential successors, it is a process they ultimately will lose control of, and most CEOs are not fond of lack of control. At some point, as conversations begin to pivot to speculation about the new CEO, the current CEO may begin to feel like a lame duck. This tempts some CEOs to behave in less flattering ways. Thus, an important role for the CHRO is to serve as counsel to the CEO during the inevitably difficult periods in the process.


CEOs can become impatient with the board's process when they view it as too exhaustive, or disagree with the direction the board is taking. For example, considering external candidates when a strong insider is available is sometimes frustrating to the CEO, but completely logical to the board. Advocates by nature, CEOs may need to be reminded not to push too hard for a particular candidate or solution, which can backfire with directors, or to derail the planning process by finding fault with all the contenders.

Finally, many CEOs are not as prepared emotionally as they think they will be when the organization becomes increasingly distracted by the inevitable transition. In our experience, even when CHROs excel on strategy and organization, the process can fall apart if the CEO gets in the way, potentially costing the business a generation of CEO talent. A CHRO who is a skilled adviser to the CEO can add enormously to the success and effectiveness of the succession planning process by encouraging the CEO to let go and make room for the successor and by helping the CEO avoid missteps that could stain an otherwise strong legacy.



The CHRO does not have to shoulder the burden alone. Savvy CHROs can sensitize the senior leadership team to the difficulty of retiring from the CEO role and encourage the lead director or non-executive chair and the small group of senior executives closest to the CEO to be on the lookout for outlying behavior so the CHRO can intervene appropriately.

MANAGE THE OTHER CONSTITUENCIES



In addition to the board and CEO, the CHRO must be mindful about how the process can affect the business' other key constituencies, including internal candidates. The stakes are very high for these executives. They often receive advice from people who are distant from the process, and some of this advice is bad. At the same time, they are trying to run their businesses while they compete for the top job. While the process will inevitably result in disappointment among the unsuccessful candidates, the CHRO can play a critical role in the retention of executives who are important for the success of the business. This is achieved in part by promoting a fair and objective assessment and development process that focuses as much on building a strong team as identifying the successor to the CEO. The CHRO also will have to be frank with senior executives who are not going to make it to the CEO role and help them develop a specific career plan with the knowledge and experience they will want to build.

Just as the CHRO advises and provides emotional support to the CEO, the chief HR leader also provides similar support to internal candidates. In fact, the CHRO may be the only “safe” place for candidates to share concerns about the length of the process or other issues. Candidates tend to think that CEO selection is primarily about assessing the candidates, but much of the process at the board level involves developing a shared perspective on the needs of the business, the candidates and their ultimate decision.

Meanwhile, a CEO transition can be highly disruptive to the company and its employees. Uncertainty about the future surrounds every transition, but a perceived horse race between candidates can be particularly disruptive. Individuals tend to align with one candidate or another. The CHRO needs to keep an ear to the ground to understand how the organization is reacting and keep the board and the CEO apprised. Such discussion helps the CEO and CHRO to develop strategies to minimize disruption and smooth the running of the company. A strong CHRO does not let organizational paralysis set in the business.

When a transition is imminent, the process may become an active search. External candidates can be another constituency when this happens. In addition to dealing with insecurities about whether to leave their current company, external candidates are most concerned about the risk of exposure. Nobody wants to have their board or management team find out that they are a candidate for an outside job by reading it in *The Wall Street Journal*. One of the roles that the CHRO can play is to impress upon the committee and board how critical it is not to let their deliberations leak to the press. Press leaks about internal and external candidates can have very negative consequences for the succession process and the company itself. Leaks can tarnish the company's reputation, cause it to lose viable candidates for the CEO role and create turmoil within the organization.

POSITION THE NEW CEO FOR SUCCESS

Finally, once the new CEO has been selected, the CHRO plays an important role in helping him or her prepare to assume the top job. The CHRO should work with the new CEO to map out what the first 100 days will look like at strategic, organizational and personal levels. Determining where the new CEO will want to make a mark and differentiate himself or herself from the previous CEO is critical. Having been so closely involved in the succession planning process, the CHRO also knows the areas where the new CEO may lack specific experience and can recommend ways to support the new CEO in those areas.

“A take-charge” CHRO also can be the driver of the immediate transition plan, helping the chair or committee head prepare for the activities that occur immediately after the official decision by the board. These can include the communications plan, a plan for the outgoing CEO, compensation for the new CEO, SEC reporting requirements, and retention strategies for non-selected candidates and other key management players. The CHRO often serves as the chief of staff to the committee in architecting the plan, and the CEO and CHRO are usually the ones who ensure that key members of management are confidentially brought into the process to execute these plans.

The CHRO also should encourage the former CEO to limit his or her stay at the company. It's not uncommon for a retiring CEO to linger on and become a hindrance to the new CEO and the agenda he or she is trying to execute.

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ABOUT SPENCER STUART

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