An insider's view of succession planning: the separate and joint responsibilities of the board and CEO

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In the somewhat more innocent times of the recent past, CEO succession may not always have been done well, but at least everyone knew the role he or she had to play. Typically, the CEO led the process, making all the major decisions about not only who the successor would be, but the timing of any transition. If the choice or the timetable was not optimal, the board rarely acted to override the CEO's decisions and tread on what was perceived as the CEO's turf.

Things are not so simple anymore. Systematically planning for a capable successor to the CEO is now considered so critical to the ongoing success of the enterprise that it is no longer deemed proper or prudent to leave it completely in the hands of the CEO. While succession planning is viewed as a shared responsibility between the CEO and the board, it ultimately falls squarely within the board's realm — as well-planned and well-executed succession is so critical to maintaining investor confidence. In fact, it is considered one of boards' highest-priority duties and is increasingly scrutinized by outsiders, including organizations that compile board performance metrics.

Preparing for different scenarios

Since succession planning can be a complicated bit of choreography it is a good idea to map out specific roles and responsibilities for the board and CEO to ensure a thorough approach while, at the same time, avoiding overlap.

There are myriad ways in which CEO succession may play out. For planning purposes, it is prudent to cover and address the broad categories below, where the degree of CEO involvement ranges from active to none at all.

Logical succession
A core plan based on the age and future plans of the current CEO, which includes internal and external candidates and plans for the development of the internal group.

Emergency succession
A contingency plan developed to deal with an unexpected event that could force a sudden succession, including a health crisis or the CEO's departure to another company. This plan would identify an acting CEO such as a board member, senior executive or retired executive who could step in immediately.

Accelerated succession
A plan that the board would be able to implement if it has concerns about the performance of the company and/or its relationship with the CEO.

Maximum CEO involvement: Logical succession

The core to establish and build around for any board that wishes to achieve excellence in succession planning is the logical succession planning scenario. This is also, typically, the scenario where it is appropriate and desirable for the CEO to have a significant degree of input and involvement.

What we call the logical succession scenario, now deeply embedded at many leading companies, is a well-tuned process, which may unfold over the course of a number of years. During that time, the CEO and board work as a team to ensure the development and readiness not just of a successor CEO, but also the bench of executives for all key management positions throughout the organization.

It is never too soon to start this sort of succession planning, and it ideally is institutionalized as a routine process in just the sort of circumstances where one might assume succession planning is not required at all; that is, in situations where both company and CEO performance are proceeding well. At companies that do not just pay lip service to succession planning but practice it day in and day out, the senior human resources executive is a key player in integrating best practices and keeping the planning process moving.

In fact, it is when things are going well that both the CEO and the board have the luxury of carrying out succession planning and related management development as it should ideally be done. While the CEO and his or her team have day-to-day responsibility for succession planning, there should be regular interaction between the CEO and the board to assess the company's succession readiness. The CEO maintains an overview of the entire management chess board, so to speak, both assessing what may be needed for the organization in terms of leadership as well as individual managers' future prospects.

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A CEO who is practiced at longer-term succession planning recognizes that it is linked inextricably with management development, and is always thinking several steps ahead. This is necessary to ensure that there is time to round out the development of high-potential managers, whether or not they are viewed as future CEOs. With a process that anticipates shifts in the competitive environment and strategy, the board ultimately has greater flexibility and, ideally, choices when it is time to select the next CEO. A process that is truly systematic about succession planning includes an assessment of each key position, and seeks to identify both immediate back-ups and individuals who may be ready to step in within a one- to three-year time frame. Depending on how critical a given position is, recruiting from the outside may be necessary to make sure the pipeline is filled with the right potential candidates, factoring in the time required to address any development needs.

Directors need to ensure that there is a rigorous process in place so that the board is getting feedback on progress, particularly on potential successors to the CEO. In most companies where the CEO and the board have a good working relationship, and where succession is a deeply ingrained process, there is an ongoing conversation about succession. In this scenario, the board is never left guessing about succession planning progress, but builds updates from the CEO, as well as exposure to potential successors, into the agenda of each board meeting.

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Boards have become more active on the topic of succession generally, and specifically when the window for a CEO retirement narrows to between two and three years. At this point, it is appropriate for the board's involvement in the process to escalate as it becomes more engaged with potential successors, perhaps even considering whether to increase their responsibilities in certain areas, and encouraging participation in an outside board. The board should make it a priority to get to know high-profile potential successors and create opportunities to get to know them in a way they have not been able to previously. Before a formal succession plan is set in motion, the board needs to determine whether the process is on track toward the right solution. If the board is homing in on one or more individuals, it also needs to confirm that those individuals are interested, especially if planning is taking place over a protracted period.

An individual's goals can shift over time, and so can the company's strategy. In assessing any finalists for a planned succession that may be only a year or two away, it is critical that the board and CEO carefully reflect on the strategy going forward as well as the skills and experience required to execute it. This can help to narrow the selection process among seemingly equally qualified successors, and also allow for any additional development of skills and experience that is deemed necessary. What begins as an informal assessment intensifies and becomes more formalized as a planned succession date draws nearer, until it becomes a regular agenda item for the board in executive sessions.

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As a CEO transition nears, the board naturally will take over the reins from the CEO, and may want additional outside confirmation that it has made the best choice for the company. We often work with boards at this stage to benchmark a select group of external candidates with relevant experience. The benchmarking process may help to highlight areas where internal candidates still need to enhance skills, or possibly even add capable outsiders to the succession slate.

The board takes the reins: emergency and accelerated succession

An effective planning process properly anticipates shorter term and emergency leadership needs. As in long-term succession planning, the CEO's role in planning for these shorter term succession needs is to provide insights about any internal candidates and their readiness to step into the CEO role in an emergency. But once an emergency occurs or when the board concludes that it must quickly make a leadership change, it may no longer be appropriate or prudent for the CEO to have a role in the process.

When there is any hint of a crisis, and thus the risk of eroding investor confidence in the ongoing leadership and performance of the company, the board likely will move quickly to install capable interim leadership, activating the process to identify a permanent successor if need be.

One interesting trend we have noted in the past year or so is for boards that are thrust suddenly into an unplanned succession scenario to appoint an interim CEO. There are clearly benefits to this approach. Such an individual — perhaps a respected director with CEO experience or even the former CEO — may be identified and designated by the board as part of its own planning, just in case a situation arises where the board needs an immediate CEO replacement. With the company in capable, if temporary, hands should a crisis occur, the board then has the luxury of finding a permanent replacement, without rushing to fill the spot and possibly skipping key steps in the recruitment process. Some interim CEOs become permanent CEOs, but that does not have to be the case.

Laying the groundwork for successful succession planning

Regardless of where the company stands on the succession planning spectrum, we believe succession planning works best when:

Succession planning is viewed as a fundamental and ongoing board responsibility closely tied to management development. For companies that do it best, succession planning is not just about selecting the next CEO. It is a comprehensive approach to developing management talent throughout the organization. It is one of a handful of essential duties of the lead or nonexecutive director, but it also is a topic that should remain an ongoing priority for the board and appear regularly on the board's meeting agenda.

There is clarity about the CEO's role versus the board's. It is surely human nature to want to perpetuate the direction you have set, and CEOs are as human as everyone else. CEOs who work well with boards on succession planning are careful not to overstep their bounds — providing their views when needed, but then letting the designated board committee or team do its job. The board's succession planning efforts should be led by a director who is respected both by the CEO and fellow directors, and has the necessary clarity about the CEO's role.

There is a common understanding of the corporate strategy among the board and CEO. It is crucial that directors and the CEO clearly understand the company's direction over the next several years and articulate those priorities and plans in the same way. Understanding the strategy is an important step in helping to define the specifications for the next CEO, who will help to execute that strategy.

There is an ongoing, logical and measurable role for the CEO in the process. The CEO needs to be held accountable for succession objectives that are agreed upon with the board. In accordance with Peter Drucker's long-established maxim, "what gets measured gets managed," leading boards establish measurable annual succession planning objectives for CEOs, as they do with other key CEO responsibilities. At the end of the year, progress against these objectives is measured and reflected in the CEO's incentive compensation. Building specific objectives into the CEO's day-to-day and long-term responsibilities designed to meet these personal goals helps everyone to stay on track.

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CEO succession is now becoming institutionalized at many companies as a far more complex, far-reaching and rigorous process than it was in the past. That more leading companies are anticipating the inevitable departure of the CEO — whether sooner or later, planned or unplanned — and addressing their companies' succession needs should give investors greater confidence. Practiced properly, succession planning also helps to guide the development of management resources and builds the pipeline that leads directly to the corner office. While the board should be charged with the ultimate responsibility for succession planning, CEOs are indispensable to the process. The extra work required to clarify roles and responsibilities of the CEO and the board should be well worth the effort.

About the authors

Jim Citrin, former global practice leader for the Technology, Communications & Media Practice, focuses on senior-level assignments across industries. A regular writer on the topic of leadership, Jim also has co-authored two books on success and leadership with Tom Neff. Tom is chairman of Spencer Stuart in the U.S. and was the founder of the Board Services Practice in the U.S. more than 20 years ago.