



## CEO Succession Planning

### The CEO's Critical Role

The primacy of the board in CEO succession planning is well-established, and, indeed, the days when the CEO held sway over the process and essentially anointed his or her own successor are now long gone. While the responsibility for CEO selection indisputably lies with the board, has the focus on the board inadvertently obscured the important role of the CEO in the overall succession planning process?

At the most basic level, the CEO's role is straightforward: driving management succession at senior levels, including the early identification of any inside CEO contenders, ensuring that the organization is developing succession-ready executives for all senior roles and serving in an of-counsel role to the board on CEO succession. In practice, however, many CEOs have questions about how and when to be involved in the process: In which activities should I take the lead? When should I step back from the process? What does the board expect from me, and what do directors think would better prepare them to select the next CEO?

In response, we have developed the following guidance for CEOs on when and how they should be involved.

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## **BE PROACTIVE: MAKE SURE PLANNING BEGINS WELL BEFORE YOU ANTICIPATE LEAVING**

Directors know that CEO succession planning is their responsibility, but that doesn't mean that they always find it easy to broach the topic. Boards can be especially reluctant to raise the topic of succession planning when there is a strong, high-performing CEO in place and a transition does not seem imminent. The CEO can serve as a catalyst for encouraging the board to begin thinking about succession earlier than they otherwise might and, certainly, long before a transition is anticipated.

When should succession planning begin? While somewhat counterintuitive, ideally, the process should start early in a CEO's tenure, possibly when the CEO starts in the role. Starting early and creating a normal cadence around executive development and long-term C-suite succession planning increase the chances that multiple strong internal candidates will be identified (or recruited), assessed, given specific development opportunities and ready when a transition is near. Wait too long to begin the succession planning process and there may not be enough time to address the developmental needs of candidates with potential. Starting early also allows directors to have more interactions with potential candidates over time, so they can observe patterns of performance and behavior and gain deeper insights into candidates' succession-readiness. Finally, when C-suite succession is an established process — rather than a response to an imminent transition — it can reduce the chances that succession planning will culminate in an intense and potentially disruptive horse race or the need for a CEO search.

In addition to emphasizing their commitment to management development and providing internal options for the board to consider on a long-term basis, CEOs also should encourage the board to plan for emergency succession needs, which can arise from a variety of circumstances.

## **SUPPORT A BEST-IN-CLASS TALENT DEVELOPMENT PROCESS**

In our experience, boards want to know more about the senior talent coming up through the organization than what they learn during regular board meetings or dinners. The CEO is in the best position to make sure directors have the insight they need by working closely with the chief human resources officer to ensure the company has a robust, forward-looking approach to executive talent development.

The foundation for CEO succession planning is the strategic direction of the business, from which the profile and selection criteria for the future CEO can be developed. In a well-performing company, the CEO is heavily involved in this part of the process. Getting the profile right is critical

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because the CEO criteria provide a roadmap for internal candidate development plans and a framework for selecting from among finalist candidates. In a best-in-class process, the board and management team engage in a due diligence process that forges agreement about the strategic direction of the business and the company culture, from which the profile for the future CEO is derived. At least once annually, the CEO and CHRO should lead a discussion about the forward-looking leadership requirements for the company and specific executive roles based on the strategic direction, update the CEO criteria as appropriate in response to changing circumstances, and conduct a deep dive to evaluate talent against that framework.

The CEO in concert with the CHRO should create development plans for potential internal candidates with a forward-looking lens, assessing individuals based on the future requirements of the business and translating those requirements into specific developmental needs. The CEO should keep the board informed about moves meant to accelerate candidates' succession-readiness, for example, assignments providing specific operational experience or exposure to external stakeholders. The CEO and board can benefit from bringing in outside assessment expertise when evaluating how the internal team stacks up against the requirements and external benchmarks, and it is particularly helpful when the business may require a change in strategic direction.

## **RECOGNIZE WHEN IT'S TIME TO STEP BACK FROM THE PROCESS**

The CEO is a very important player in CEO succession planning, both in an of-counsel role to the board or the committee responsible for the process and in overseeing the company's overall management succession. However, as the time for a transition nears and the process turns toward the board's selection of finalist candidates and, potentially, an external search, the CEO's participation diminishes.

CEO succession planning can be very challenging, personally and professionally, for sitting CEOs. They have to get used to the idea that the board is driving the process, not them. Even for CEOs who have actively groomed potential successors, they ultimately have to take a back seat in the process as the board moves toward selecting a successor. CEOs can't assume their role is going to be the same when a transition is near, and they shouldn't take it personally when the board assumes greater control or has different ideas about the process, the candidates or the timing of the transition. We have



seen CEOs become impatient with the board's process when they view it as too exhaustive, for example, if the board considers external candidates as part of its due diligence even when a strong insider is available. Advocates by nature, CEOs need to remind themselves not to push too hard for a particular candidate or solution, which can backfire with directors. CEOs also should be prepared for the possibility that the board may want to accelerate or decelerate the pace of the transition depending on their comfort with candidates' succession-readiness.

## **GIVE SUCCESSOR CANDIDATES ROOM TO GROW**

Not surprisingly, many CEOs are not fully prepared emotionally for the final stages of succession, especially when it is time to begin handing over certain responsibilities to one or more internal candidates. But giving potential successors the room to grow and develop the skills they will need for the CEO role is one of the most important contributions the current CEO can make to the process. In fact, it is in the final stages of development that potential successors may need to gain experiences that only the CEO can facilitate, such as greater engagement with the board or external stakeholders, and it is up to the CEO to allow that to happen. One CEO we worked with, for example, rotated responsibility for board meeting preparations between internal candidates and gave each exposure to each board committee.

When the CEO and board are strong partners in the development process, the CEO may encourage directors to mentor individual executives, particularly to address specific developmental needs. One mistake CEOs should avoid is promoting a succession candidate into the chief operating role unless they — and the board — are reasonably confident that the individual will be ready in time for the CEO transition. It can be disruptive and embarrassing to the organization and the board if directors ultimately conclude that the COO will be unable to close important developmental gaps and have to seek other internal options or conduct an external search to find the next CEO.

The CEO can help the board gain perspectives on internal candidates by encouraging directors to periodically share their points of view on the strengths and weaknesses of individual executives. These discussions can flag potential concerns early — when there is still time to address them — or allow the CEO the opportunity to correct any misconceptions directors may have.



## REMEMBER, HOW YOU LEAVE IS PART OF YOUR LEGACY

In the final phases of the succession process when the organization becomes increasingly distracted by the inevitable transition and speculation about possible candidates, it is not uncommon for the CEO to begin to feel like a lame duck. In this sometimes challenging period, CEOs should focus on their contributions to the business and the succession process, and feel good that an important part of their legacy is making sure that the board has a process that is going to lead to a great conclusion for the company. With the CHRO, the CEO also can be helpful in tracking how the organization is responding to a perceived or real horse race between candidates and prepare a response to keep the organization focused on the business.

Once the next CEO is selected by the board, the incumbent CEO also may work with the lead director or committee chair to meet with the unsuccessful candidates and other members of the senior leadership team, with the goal of keeping as much of the team together as appropriate. With the CHRO, the CEO also typically ensures that the key members of the management team or external counsel are confidentially brought in to execute transition plans.

An additional question that arises is what ongoing involvement, if any, the departing CEO will have with the company once the new CEO's tenure begins. The incumbent CEO will want to consider with the board what role he or she will play after the transition. If the CEO also serves as chair, he or she may be asked to remain on the board for a period of time as non-executive chair, or the expectation may be that he or she will leave both roles. Other times, the departing CEO may play a role during the transition in making introductions for the new CEO or serve in an interim consulting role. The CEO should be prepared to have a conversation with the non-executive chair or lead independent director about his or her future with the company and be willing to follow the board's lead.

## CONCLUSION

CEOs have a critical contribution to make in an effective CEO succession planning process. By encouraging the board to start planning early, overseeing a robust executive development program that produces succession-ready executives, stepping back at the appropriate time and giving internal candidates the room and experiences they need to grow, the CEO will play a vital role in developing and sustaining a strong leadership team — as well as producing viable successor candidates. Keeping that legacy in mind may help CEOs manage the personal and professional challenges they are likely to encounter throughout the process and during the transition.



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Spencer Stuart is one of the worlds' leading executive search and leadership advisory firms. Our experience with best practices, market knowledge and widespread access to leadership talent combine to make us a valuable partner for boards, chief executives and HR leaders committed to CEO succession planning, whether you are preparing for a long-term orderly succession to an emergency transition.

## ABOUT SPENCER STUART

At Spencer Stuart, we know how much leadership matters. We are trusted by organizations around the world to help them make the senior-level leadership decisions that have a lasting impact on their enterprises. Through our executive search, board and leadership advisory services, we help build and enhance high-performing teams for select clients ranging from major multinationals to emerging companies to nonprofit institutions.

Privately held since 1956, we focus on delivering knowledge, insight and results through the collaborative efforts of a team of experts — now spanning 56 offices, 30 countries and more than 50 practice specialties. Boards and leaders consistently turn to Spencer Stuart to help address their evolving leadership needs in areas such as senior-level executive search, board recruitment, board effectiveness, succession planning, in-depth senior management assessment and many other facets of organizational effectiveness.

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