Planning for the golden years

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• Many companies operate without CEO succession plans
• Existing succession plans are often unfit due to resistant CEOs
• Don't forget about other C-suite executives
• Decrease in strong CEO candidates pushes companies to look inward
• Boards need to frequently discuss succession for CEOs and for themselves

By **Robert McGarvey**

Let's get the statistical shocker out of the way. Only about half of companies that should have a CEO succession plan in place do, according to new research by the Center for Board Leadership with Mercer Delta Consulting. The National Association of Corporate Directors (NACD) dittos that finding. The 2007 Public Governance Report from NACD shows that 93 percent of directors believe succession planning is very important, but only half say their company is doing anything about it.

Don't think such plans are academic. NACD's CEO Ken Daly says that in 2006 there were 1478 CEO departures from public companies – perhaps one third of those exits were involuntary – and that means succession has emerged as an everyday reality for the C-suite. Succession planning has stopped being an academic concern for the board and is now literally an organizational life or death issue.

And it gets worse: Very few companies have succession plans in place for other key corporate officials such as the CFO, CIO and CTO.

'Succession planning really is a misnomer in most companies because, usually, there is no real planning at all,' says Deborah Wallace, an executive board consultant and principal of BrinkPoint Consulting.

Keep in mind, too, that just what constitutes 'a plan' varies enormously from company to company. 'It can be anything from something written on the back of an envelope to a detailed report to the board actually having confidence that it has identified the next generation of leaders,' says Elise Walton, partner at Oliver Wyman-Delta Organization & Leadership.

'Hope is not a succession plan,' adds Deloitte Consulting's Lee Dittmar, who leads governance, risk and compliance (GRC) client engagements.

Bad news from many experts is that even among the companies that say they have a succession plan in place, often there is a profound lack of confidence that the plan will work if it is needed. And nowadays odds are rising that it will be needed because CEO tenure keeps getting shorter. How ready are public companies for this? 'Some of the succession planning that is occurring is just not very good,' says Daly.

'Lots of companies have a plan but when they need it, they don't necessarily follow it,' says Brian Wilkerson with Watson Wyatt – and the reason is that the board simply lacks confidence that the plan will actually get the company where it needs to be.

'Often I am shocked by the quality of thinking by boards about succession,' shrugs Ron Garonzik, head of succession planning at global consulting firm Hay Group.

Just do it

For every company that handles succession well – and experts now point to Coca Cola, Clorox, McDonald's and Pitney Bowes as prime exemplars of smooth successions, even under adverse circumstances – there are dozens of companies that seem to be stumbling blindly in the darkness, from insurer WellPoint to Citigroup. The very bad news is that when a company seems stymied by the next step in a succession, that is a company that is likely to be hammered by Wall Street and governance experts.

What Wall Street absolutely abhors is uncertainty – 'The Street just hates it,' says Michael Robinson, senior vice president at Levick Strategic Communications. Not having a smooth blueprint for what to do when the CEO gets hit by a bus, or caught in a sex scandal, or simply fails to measure up to expectations – is a sure way to plunge into the unknown. 'Too many boards are living in denial that they won't have to deal with this issue,' says Steve Wagner, managing director of Deloitte's center for corporate governance.

Just why isn't succession planning being done better? For starters, some experts say that the state of succession planning is actually improving. 'It's better than it was four years ago,' says Drew Hambly, a Moody's analyst and author of a recent report, 'Analyzing unexpected CEO departures and severance payouts for signs of weak governance'. PwC's Catherine Bromilow who leads the firm's corporate governance group in the US, says their data show an increase from 53 percent of firms with succession plans in which the board expressed satisfaction in 2005 to 65 percent today, which translates into roughly 20 percent more companies that have gotten serious about succession.

Resisting change

But that still leaves a lot of big companies that are stumbling and a key reason is that 'CEOs are resistant,' says Ed Speidel, a senior vice president at Radford Surveys + Consulting. Not unexpectedly. Many CEOs are unenthusiastic about making it easy to push them aside. Rarely do CEOs overtly block the process, say the experts. But, there often is 'passive opposition by the CEO,' says Walton, who elaborates that many pay lip service to the process without meaningfully moving it along.

'Naming a successor is, for many CEOs, a deferrable task,' says David Mahmood, a principal at Allegiance Capital.

Just thinking about succession 'makes people uncomfortable,' says Justin Menkes, author of Executive Intelligence. He adds: 'There's a psychological reluctance to take on this issue.'

What's more, few boards specifically – and meaningfully – hold a CEO accountable for succession planning. The CEO probably has his or her feet held to the fire when it comes to revenues, profits and strategic planning – but there is little evidence that (outside a cadre of elite corporations such as GE) a key and specified to-do for the CEO is: find and develop a successor, preferably two or three.

But even that may miss the point because the focus may be too narrow: 'The organization needs to see succession planning as a systemic process,' says Garonzik. This means that in companies where it is really happening, succession thinking is baked into the DNA and occurs on a continuing, ongoing basis. A succession plan that is effective is not a one-time project, but an everyday project. At Pitney Bowes, vice president of talent Susan Johnson meets with the C-suite four times a year to review what is happening in regard to succession planning and the identifying and development of high potential young executives. Once a year she meets directly with the board to go over the same data. The upshot is that this board is left confident that there are replacements available throughout the organization – and that there are more in the pipeline. 'The organization needs to accept the reality that the only certainty is change and it needs to be prepared,' says Dittmar.

Good planning takes time

A sobering reality is that, as more companies are discovering, the safety valve of simply going outside to make a quick hire of a new CEO may not work anymore. 'This is a supply and demand issue and, right now, demand is outstripping supply,' says Dittmar. That means that high-visibility, first-rate CEO candidates – who are ripe for being picked off by a company that needs a replacement CEO tout de suite – are just not numerous. Home-growing them is the more dependable approach, at least in the context of today's demographic shifts. This is dramatically worsening the odds of finding outsiders, fast, say the experts, and it is also upping the pressure to get internal succession planning right.

Exactly what do boards need to do to take their company's succession planning to the next level? For starters, says Wagner, 'boards need to push the CEO, to hold him accountable for putting a succession plan into place.' That will not be an easy or pleasant conversation, but, says Wagner, the board has to issue this directive to the CEO and do it unmistakably. Note: No expert says that actually doing the succession planning belongs among the board's to-dos. Most believe it should be the job of the CEO, probably working in harness with the vice president of human resources. Either way, however, for succession thinking to be concrete the board has to get involved in setting the priority.

And it has to keep after it: 'The board needs to discuss succession at every meeting,' says Joe Griesedieck, a member of Korn/Ferry's boards and CEO practices. 'Doing it once a year just is not sufficient.'

One blueprint for real succession planning is offered by consultant David Nour who says the board should make it a point to meet with top candidates that are identified by the CEO-led succession team. Bring them in regularly, urges Nour, and let the board get a feel for how they perform.

'The board needs to be reviewing the high performers who will be the next generation of leaders. That is a big part of their responsibility,' says Hambly.

That of course ups the time commitment for the board, but those obligations may be just starting. 'The next evolution is for there to be a standing board subcommittee devoted to succession,' says Clarke Murphy, who is the leader for the Russell Reynolds CEO/board services practice.

But one more huge succession task remains on the agenda for the board. Boards need to begin planning their own succession, says Daly. 'Whenever you see a board that is not doing a good job planning its own succession, it is hard to believe it is doing a good job planning the CEO's succession.'

Dittmar agrees: 'The board needs a succession plan for itself,' she says. 'You have to be good at doing this for yourself if you are doing this for others.'

How many boards actually have such planning in place? Hard numbers don't exist but guesses among board experts is that very few boards have directly tackled this issue. And that, suggests Daly, leaves one with multiple worries about the real state of succession planning at all corporate levels.

Is there reason to be at all optimistic about how boards will do when they are faced with so many succession issues? Most experts, amidst sometimes blistering criticism of how boards have done so far, are unexpectedly sanguine. Elise Walton is a case in point: 'Boards are still learning how to do all of this, and these are big, complex jobs.' Give them more time, she suggests, and probably they will get a handle on succession, too.

'The most difficult part of all this is just doing it. It is a lot of work,' says Bonnie Hagemann, CEO of Executive Development Associates.

The only hitch: The clock is still ticking and, at any moment, inadequate succession plans can be exposed. And that is why this is one very urgent board to-do that just cannot be put off.

back
back to top