

Succession Planning

From NACD BOARD LEADERSHIP CONFERENCE 2011

Succession planning is one of the most important roles of a board and senior management. What distinguishes good succession planning from average or poor succession planning? Below are highlights from a discussion on strong succession planning offered at the NACD Board Leadership Conference this year.

Issues

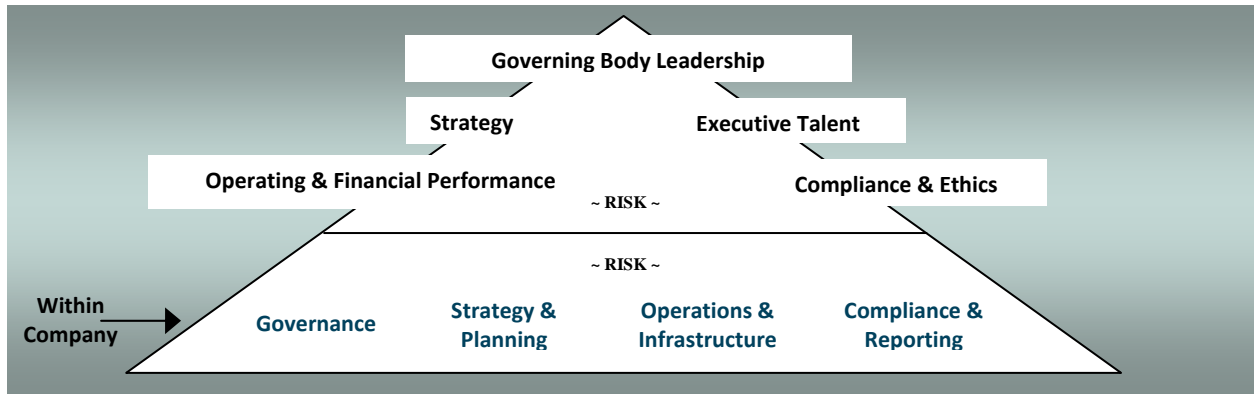
- Candidate sourcing
- Emotional factors and sensitivities
- New organizational challenges (whether internal or external)
- Timing
- Transition period (typically weeks versus months)

Characteristics of a Strong Succession Plan

- Positions company for sustained growth
- Is a systematic, disciplined process
- Plans for two to three generations ahead of CEO succession event
- Holds board highly accountable through regular discussions
- Has an expanded pipeline of internal/external talent
- Attracts and retains high-potential talent
- Benchmarks executives against competition

Implementation Best Practices

- Put CEO succession on the agenda regularly to integrate succession fully into board thinking
- Be transparent
- Can be a subset or report to the Compensation & Development Committee
- Know the proper role of the CEO
- Design a standard method for evaluating internal and external candidates
- Outline what you want and expect; document the criteria and contrast key competencies
 - Strategic versus operational expertise
 - Internal versus external orientation
 - Financial strength versus marketing strength
- Conduct GAP analysis (*where are we?* compared to *where do we want to be?*)



- Identify options to find candidates
- Note any differences for internal/external candidates
- Institutionalize a leadership development program
 - Identify 10 to 20 “thirty-somethings” to develop
- Provide good, constructive feedback to candidates; can use an external consultant

Initial Criteria for CEO

- Board and CEO need to know – what does the company need today? Spend time on understanding the strategic priorities today, mid-term and long-term. Three to five years from now. Five to ten years out.
- Strong financial skills, with solid handle on financial implications of volatile markets
- Must be able to understand the competitive landscape of the future
- Understand the risk environment
 - Best lessons for understanding risk
 - Imagine the unimaginable and think broadly
 - IT risk and cyber risk
 - Consumerization of IT creates issues; employees are saying, “I want to use one phone, one laptop, one notepad”
 - Cloud hackers (e.g., Anonymous)
 - Talent risk
 - Innovation risks (opportunity costs of not being innovative)
 - Growth
- Final interviews with candidates – ask them, “What are the key challenges of the role and how would you address them?”
- Russell Reynolds describes the board’s role in succession as a “buy/sell process.” The board must pay equal attention to interviewing candidates as to attracting candidates.

With an increasing number of leaders and people in senior management retiring, succession planning is moving to the forefront. The above raises the issues and suggests a consistent framework to develop a disciplined, unemotional succession plan.