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# Overcoming the Obstacles to CEO Succession Planning

When it comes to the crucial process of CEO succession planning, there is a wide and troubling gap between aspiration and reality. These days, most boards of directors – particularly at public companies – are well aware of their responsibility to oversee a robust CEO succession process. But that recognition doesn't guarantee that they are willing to engage the CEO in serious discussion of succession nearly as early as they should.

In reality, at far too many companies – particularly those led by a founder, family member, or an iconic figure – the pervasive unease surrounding any discussion of succession planning ends up delaying the process much longer than it should. That delay – often measured in years – poses major risks to the organization in terms of insufficient preparation and transition to the next generation of leaders.

To be sure, some companies and their boards do a good job of CEO succession. These organizations employ many of the best practices in succession planning that we helped the National Association of Corporate Directors (NACD) to develop several years ago (see page 8). But for most CEOs and boards, the more essential issues to be grappled with – before they even get to best practices – concern if, when, and how to begin planning for the transition at the top.

The good news is that we are seeing an increasing number of directors and boards take a more activist approach, seeking education and information about best practices. For many, the impetus for overcoming their unwillingness to take on CEO succession flows directly from the experience of trying to replace a CEO and suddenly realizing there were no suitable internal candidates. As one director told us, "We don't ever want to find ourselves in that position."

To avoid such a scenario – and to surmount the roadblocks to a robust succession process – the first step is to truly understand the complex dynamics involved. With that in mind, here are the objections to succession planning that we encounter most often:

1. **Reluctance to launch a "horse race"**
   There's no doubt about it, setting in motion an explicit process in which a small number of senior executives are under constant scrutiny as potential successors to the CEO will almost certainly unleash some complicated and often dysfunctional dynamics, both inside and outside the organization. Colleagues begin to view each other as competitors. People begin to choose sides. What should be routine business decisions take on political overtones. Inside politics becomes a major spectator sport, diverting focus from markets and customers. In more specific terms, there is a heightened risk of losing those executives who handicap the race and decide their chances are slim or are offended at not being involved in the race at all, and who, in either case, decide to head for greener pastures rather than wait for the race to run its course.

   There is also a significant danger that launching the horse race – either formally or informally – will send signals that are easily misinterpreted. Some CEOs worry that the moment the succession process is perceived as beginning in earnest, they will assume lame duck status. CEOs and boards are also concerned about sending the wrong signals to customers, competitors, and the financial community; there is always the risk that talk of CEO succession implies unsatisfactory performance, a loss of confidence by the board, and the potential for instability.

2. **Resistance from the CEO to letting go**
   Apart from the organizational dynamics of a horse race, succession planning is an intensely personal experience for CEOs, particularly for company founders or for older CEOs who are unlikely to go on to another CEO position somewhere else.

   For any of us, the inevitability of retirement can be traumatic, with its sobering implication of mortality. But for CEOs in particular – many of whom have made a lifetime of choices in which career goals took precedence over family or personal interests – the prospect of retirement can be particularly unsettling. At a certain point, they find that their personal identity has become inseparable from their professional role; if the role disappears, there's a gaping void that must suddenly be filled. So, it is not at all surprising that a number of CEOs engage in their own form of executive denial and find endless excuses to delay the succession process until a more propitious time.

   The truth is that far too many boards find it all too easy to become "enablers" of their CEO's dysfunctional approach to retirement. We shouldn't be surprised; at most companies where the CEO has been in place for years, there are strong personal relationships between the chief executive and at least some of the board members. If the CEO is actively resisting any discussion of retirement or succession, there is no simple way for the board to raise the question. Almost certainly, the mere mention of the issue will provoke embarrassment or anger or the very real prospect of direct conflict, none of which are welcome in most boardrooms. So everyone tiptoes around the issue, hoping the situation will somehow be resolved amicably before a crisis ensues.

3. **Uncertainty about what a robust succession process entails and how much work it might require**
   We often encounter CEOs and boards who have never engaged in a fully organized succession process. As a result, they are unclear about what work would be required, what the timeline would

be, what internal and external resources might be needed, who would be involved, and what roles they would play. Faced with those uncertainties and fearful of how much time, effort, and expense the process might entail, they decide to keep things simple – either by hiring a search firm to line up some outside candidates or by merely selecting whoever seems to be the best available contender at the time the job must be filled.

More specifically, we hear CEOs and boards say things like, "We're not GE; things just aren't that complicated here. Forget about managing a horse race; we'll be lucky if we have one solid candidate when the time comes. If we don't, we'll go outside and hire someone." In many companies, it is a matter of priorities and focus, and in particular, companies with a new and relatively young CEO tend to view succession planning as a far-off task that falls well toward the bottom of the priority list.

## Understanding Succession Dynamics

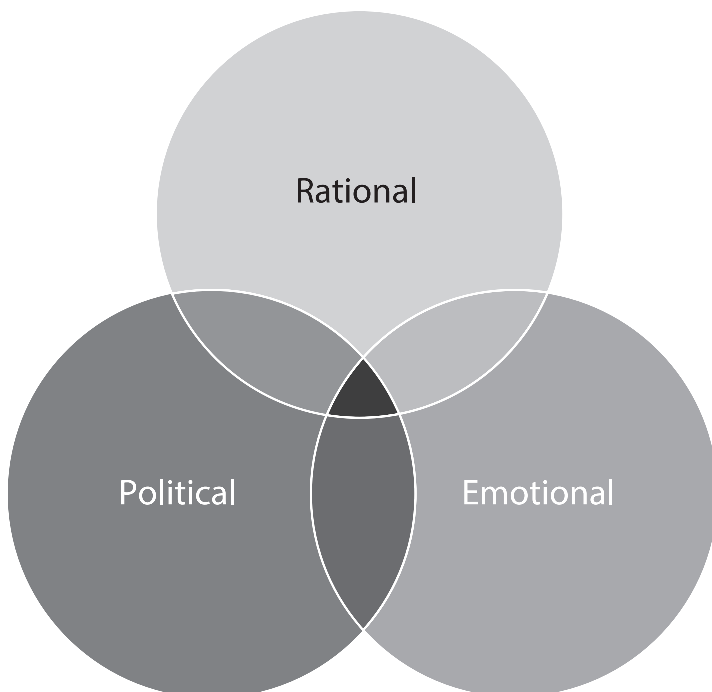
All three of those obstacles to planned CEO succession – reluctance to launch a horse race, a CEO's resistance to letting go, and the board's uncertainty about embarking on an unfamiliar and potentially complicated process – underscore quite legitimate and understandable concerns. But that doesn't mean they should be accepted as valid reasons for delaying or even totally ignoring one of the most profound responsibilities faced by every CEO and board – the responsibility to take prudent yet proactive steps to identify and develop viable candidates to fill the organization's most senior jobs, including that of CEO. On the contrary, these obstacles should be examined closely, because they illustrate the underlying components – political, emotional, and rational/analytical – of practically every succession process. And to be effective, a succession process must recognize and address each of them.

The graphic below elaborates on what we mean when we talk about the three components, and is followed by examples of companies where the components were identified and successfully managed.

### THE POLITICAL COMPONENT

The concerns surrounding any potential succession horse race illustrate one aspect – but only one – of the political component of the succession process. There

FIGURE 1: Rational, Political, and Emotional Issues in CEO Succession




**Rational**

- Identifying job requirements based on company strategy
- Searching diligently for the best candidate
- Assessing candidates using multiple methods and raters
- Selecting the best candidate for the job, regardless of personal loyalties

**Political**

- Dealing with factions within the board
- Avoiding destructive internal politics
- Balancing the needs of external constituencies

**Emotional**

- Coping with personal emotions
- Helping those not selected adjust
- Creating support for the new CEO
- Moving on

are a number of other aspects that are a function of the range of individuals and groups, both internal and external, who care far more about the CEO selection than any other appointment the company makes. These stakeholders fall into four major categories:

- The board of directors, whose responsibility to shareholders transcends the tenure of any CEO
- Outside stakeholders: activist shareholders, financial analysts, the business press, unions, major customers, suppliers, regulators, communities where the company operates, and various political and social interest groups
- Internal candidates for the CEO position: some adhere to the rule that the best way to win the new job is to steer clear of politics and let performance speak for itself; others will take matters into their own hands by actively lobbying for their candidacy or trying to sabotage others
- Internal constituencies: some will search for ways to either support their favorite candidate or undercut the competition – office politics at its most destructive and dysfunctional

In a realistic succession process, it is acknowledged that political dynamics are at play and understood that the process must be implemented and communicated – to the interested parties in all four of the above categories – in ways that will manage expectations and mitigate, to the extent possible, the steady stream of rumors, gossip, and uninformed analysis that inevitably accompanies the lead-in to a CEO transition.

Inevitably, any time you have two or more legitimate candidates vying for the top job, you have the makings of a horse race whether you want one or not. However, a disciplined succession process provides some powerful ways to depoliticize what might otherwise become a seriously destructive experience. For example:

- Assessing candidates against specific criteria tied directly to the organization's strategic, organizational, and cultural requirements helps to reduce the influence of purely subjective factors such as image and reputation
- Explaining to the candidates that during the selection process they will be evaluated on their collaborative behavior and their focus on the enterprise rather than themselves helps to keep candidates on their best behavior and discourages political maneuvering
- Gathering data from multiple sources (peers, direct reports, etc.) creates a broader sense of accountability that encourages candidates to do more than just deliver numbers or impress their boss
- Positioning the process as a developmental intervention involving the entire senior team demonstrates a broad commitment to senior-level professional growth while, at the same time, providing individuals with clear insights as to why they are – or are not – viewed at this moment as viable candidates for particular jobs
- Focusing on career development for the entire team opens the door to developing attractive opportunities for valuable candidates who might otherwise leave once they see they're not likely to be next in line for the top job

Consider, for example, the succession situation at a large healthcare company. The CEO believed that two members of his senior team would be strong candidates to succeed him; the board wasn't so sure. Yet the CEO was reluctant to begin a selection process that would inevitably turn into a horse race and, he feared, destroy the team environment he had worked so hard to create. The last thing he wanted was to see his top performers start focusing more on themselves than on the company. Finally, he was worried that starting the process too soon would hasten the day when he might lose one of his top people.

The board, while sympathetic to those concerns, insisted that it was in the company's long-term best interests to launch the process with the help of experienced professionals. As a first step, the CEO sat down with each of the two leading candidates, in turn,

and laid all his cards on the table: He described the context (the need to plan for his eventual retirement), the process to be used, and what would happen over the next two years. He told each who the other candidate was, and then made it absolutely clear that it would be a mistake to view this as a competition – to the contrary, "collaborative teamwork" would be a major consideration when the board evaluated the two candidates at the end of the process.

Did those conversations, and subsequent coaching support to each leader, ensure that the company would avoid all the potential pitfalls associated with horse races? Of course not. But they went a long way to surfacing the central issues and managing the inevitable politics underlying the succession process.

### THE EMOTIONAL COMPONENT

There is usually some emotional component present in any transition situation, but it absolutely permeates the CEO succession process from start to finish.

The most obvious manifestation is the situation we discussed earlier: CEOs' resistance to letting go of the powerful role that has become so central to their professional – and often personal – identity. For many, the prospect of life outside the C-suite ranges from terrifying to literally unimaginable. Not surprisingly, the notion of succession takes on such enormous emotional overtones that many CEOs will put it off interminably unless pressed into action by the board. And even after the succession process is finally in place, the board must keep a sharp eye out for signs that the CEO is sabotaging the process, finding excuses to eliminate promising candidates and thereby start the process all over again.

A CEO's maneuvering to delay the succession process can play out in various ways. The CEO might be hypercritical of all potential candidates, subjecting them to endless scrutiny. Or, the decision can become clouded by unrealistic comparisons: The long-time CEO compares candidates to his own current performance, rather than stepping back and remembering what he was like at the moment he was selected as a novice CEO. Consequently, he sets the bar so unrealistically high – and some board members, uneasy about having to deal with a new CEO, readily go along – that any candidate who doesn't have some CEO experience can't possibly hope to pass muster. In other cases, the CEO seeks ways to push the process farther into the distance by prolonging the succession process or even seeking changes in company by-laws to eliminate or extend retirement deadlines.

We've seen this scenario manifest itself time and time again – CEOs who are so reluctant to give up the job that they become, in effect, serial successor killers. The pattern became particularly conspicuous at a successful insurance company whose founder ran the company for more than two decades. As he entered his 70s, he kept repeating his history of positioning likely successors, then knocking them down once they had become viable candidates. The board saw what he was doing, but was reluctant to directly confront the founder. It took dramatically worsening business results for the board to finally decide it was time for him to leave. In retrospect, board members admit that they waited far too long – allowing their judgment to be clouded by personal loyalty and fear that no one else could run the place – and should have begun an orderly succession process years earlier.

The emotional issues extend to the CEO's choice of a successor as well. Typically, both the incumbent and the candidates have known and worked with each other for years, possibly decades. There might well be strong friendships, or bonds of loyalty, or feelings of obligation, or all of the above. CEOs often find themselves torn, weighing a candidate who has been loyal, steadfast, conscientious, and competent against someone with whom they share little history but who has the potential to become a superstar. Beyond that, the stakes are incredibly high for both the winner and the losers; those who lose out generally have to forget about the job or go somewhere else to find it. That is a heavy emotional burden for some CEOs to deal with as they think about a pool of candidates with whom they have long-term relationships.

The succession situation at a global manufacturing company clearly demonstrates the emotional component of the succession process, as well as the interplay of the other two components of succession dynamics. The CEO, who had been in his job for ten years and at the company for more than two decades, had become ambivalent about his own career plans. He was torn between going off to travel, write, and teach, on one hand, or staying a few more years to see through the strategy he had helped implement. Complicating the issue was the absence of an obvious successor. Opinions varied regarding the strongest candidate, who was the current head of a major business. As part of a disciplined process, relevant data regarding the candidate was gathered and assessed; as a result, it became clear to the CEO and the board that the candidate had great strengths but was not the person to lead the enterprise. The result was that the board persuaded the CEO to stay for another four years and, in that time, to not only identify and develop other CEO candidates, but also to design an enhanced role that would keep the business leader committed to the company rather than leaving for an opportunity somewhere else.

**THE RATIONAL/ANALYTICAL COMPONENT**

This component comprises the rational aspects of CEO succession, and is strongly guided by the collection and analysis of objective data through an explicit and defined work process. It is all about gathering dispassionate, hopefully quantifiable data about each candidate's strengths and weaknesses and then matching those profiles against the explicit requirements of the job. Ideally, the process clarifies the trade-offs involved with each candidate, thus leading to a final selection decision based on an objective evaluation of the best available data.

The problem is that all too few CEOs and boards have actually seen this kind of rational, analytical process in action. In their experience, the succession process is dominated by the political and emotional components. They have no firsthand knowledge regarding what the process could look like, how long it might take, how much work it might involve – and in the absence of that information, there is a strong tendency to assume that the work is too complex, too costly, too time-consuming. The flip side of the argument, of course, is to look at the enormous cost to countless companies – including major global corporations – that failed to cultivate qualified leaders who were ready to become CEO when the company needed them.

The situation we encountered at a mid-sized investment bank was fairly typical. The company's CEO was in his mid-40s, doing a great job and in perfect health. The last thing in the world he was interested in was a CEO succession process that would distract his team's intense focus on the business. Furthermore, he really didn't see a logical successor in the bunch – they were all highly specialized, and excellent within their specialties – and he saw nothing to be gained by rocking the boat and raising succession questions years before he was likely to move on. In other words, it just wasn't on his near-term radar screen. Nevertheless, some of his board members – particularly those who had experience at larger financial institutions that practiced sound corporate governance – weren't satisfied. At the very least, they said, the CEO needed to address the "what if you were hit by a bus" scenario. And so, with our help and an exposure to what succession planning looked like at other companies, the board and the CEO set about the work of describing the criteria they would use to select a future CEO. They then designed a candidate identification and development process that could be triggered at some appropriate point in the not-too-distant future as the CEO grew more comfortable with the entire situation. All the while, the process was carefully positioned as good governance, with assurances that the business was fine and the CEO wasn't going anywhere.

At a larger financial institution we've worked with, the need to start thinking seriously about succession came to the fore as the company dramatically increased its size through a single acquisition. Up to that point, the CEO had easily deflected the succession issue, and his

board – delighted with his performance and reluctant to contemplate the implications of his departure – was happy to go along. But the sudden and dramatic increase in the organization's complexity in terms of size, globalization, and diversity of business activities created urgent concerns among board members about succession planning for all the executive positions, including that of the CEO.

Prompted by board members experienced with succession "best practices" at other companies, the CEO engaged us to help design a leadership model based on future strategic and leadership requirements and then conduct multi-source assessments of the CEO and executive committee to create robust succession plans for all the top positions. Clearly, this was a situation where the rational/analytical component played a huge role. But as is often the case, it wasn't that simple or clear-cut; there was a decidedly emotional component as well.

One reason why the company had avoided creating a succession plan before the merger was that the CEO found it difficult to imagine a time when he would leave the company or, if he did, who might possibly be qualified to take the reins. The succession process we ultimately helped the board put in place resulted in the president – the CEO's likely successor – being given more responsibility and room to grow. The process worked; as the president grew into the job, the CEO grew more comfortable with the idea that one day he could actually leave with the confidence that the company was in good hands. Over time, the rational process for developing a potential successor through redesigned roles and responsibilities also became an emotional process that vastly increased the CEO's level of comfort with the notion of eventually letting go.

## Conclusion

A sound succession process should take into consideration all three components – political, emotional, and rational/analytical – and, as a consequence, help to address and overcome the barriers that so often get in the way. What's more, our experience is that a well-developed and well-implemented succession process provides additional benefits beyond the identification and preparation of the next individual to lead the company. More specifically:

1. A process that enables the CEO and the board to explicitly identify the criteria they will use in selecting the next CEO can actually serve double-duty as a first step toward creating an overall "leadership model" to guide the recruitment, development, and selection of leaders throughout the organization.

2. The approaches, tools, and process used for CEO succession can be leveraged to initiate (or revamp) succession planning at other levels so that the organization is effectively building a pipeline of future talent.

3. The process helps the CEO enhance his relationship with the board, creating a deeper shared understanding about how the CEO adds value, how he should be rewarded, what he needs from the board, and what they need from him.

4. The process is an opportunity for a significant senior team-building intervention involving the development of leadership models, the design of assessment processes, participation in assessment and feedback activities, and discussions of the organization's future and its leadership needs. One of the foremost causes of dysfunction and poor performance among senior teams is the unspoken issue of succession, which often feeds competition, mistrust, and anxiety. Making succession a legitimate and natural part of the team's work goes a long way toward demystifying and depoliticizing it, creating instead an opportunity to build trust, reinforce desired behavior, and engage the team in working together in new ways.

There is a consistent theme underlying this entire discussion, which is that every aspect of envisioning, planning, and implementing a transition at the top of the organization is fraught with complex dynamics. But failing to confront them doesn't make them go

away; they simply operate in the shadows, exerting a powerful but unmanaged influence on relationships and performance. In fact, it is precisely putting the issues on the table – which is undeniably difficult at first — that enables the CEO and the board to finally work together in ways that will protect the organization's best interests.

## BEST PRACTICES FOR BOARDS IN CEO SUCCESSION PLANNING

1. Board/CEO discussions on long-term succession planning should begin 3–5 years prior to the time a CEO transition is expected.
2. The full board should be involved in CEO succession planning.
3. Open and ongoing dialogue should occur between the CEO and the board on the topic of succession planning, including a formal annual discussion of at least half a day.
4. Criteria for the new CEO should be developed consistent with the company's future strategic needs; ensure that the board and the CEO are aligned on these criteria.
5. Formal assessment processes should be used to give board members better quality information to assess candidates.
6. Board members should be given ongoing opportunities to interact with internal candidates in various settings.
7. The succession should be staged, but horse races should be avoided.
8. Developing internal candidates is typically preferable to external recruitment.
9. The outgoing CEO should either leave the board immediately or stay on as Chairman for a transitional period of 6–18 months maximum.
10. A comprehensive emergency CEO succession plan should be in place at all times and reviewed at least annually.

## About Nadler Advisory Services

Nadler Advisory Services offers highly specialized consultation to CEOs, boards of directors, and senior teams to help enhance the quality of executive leadership, corporate governance, and organizational performance. Nadler Advisory Services is firmly focused on high-level, close-in advice and consultation to CEOs, boards and senior teams in the following areas:

- CEO Advisory Services
  - Personal leadership effectiveness
  - Building an effective leadership team
  - Organizing the leadership of the enterprise
  - Collaborative strategy development
  - Effective communications
- Board Advisory Services
  - Assessment of overall board performance
  - Analysis of board composition
  - Evaluation of individual director performance
- CEO Succession Planning Services
  - Navigating all phases of the succession process: initiating the conversation, identifying and developing candidates, selection, transition planning, and supporting the new CEO

To obtain further information about Nadler Advisory Services, please contact us at info@nadleradvisory.com or at 1-917-633-4480.

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