

## Putting the Board in the Driver's Seat On CEO Succession Planning



The choice of Chief Executive Officer is often the single most important decision any board will make. That's why it's important for the board to be firmly in the driver's seat on CEO succession planning. Two things are essential before starting this journey: A roadmap and a destination.

**(i) CEO Succession Planning Roadmap** – A CEO Succession Roadmap is a comprehensive timeline that incorporates each step in the succession process - from developing criteria for the future CEO through to the CEO transition, itself. Creating the Roadmap at the outset of the CEO succession planning process gives directors both the time and opportunity to critically think through the best approach on a range of CEO succession issues - so that these reflect the company's unique circumstances and don't become 11<sup>th</sup> hour decisions. The Search Committee can then drive forward to orchestrate the plan, knowing that their board colleagues understand and are in alignment with the steps they'll be taking.

There are a myriad of considerations in creating an effective CEO succession plan. Here are just a few:

- How will the board get exposure to top internal candidates throughout the process – and what are the board's preliminary views on internal candidates?
- Does the board envision naming the top (internal) candidate as Chief Operating Officer prior to a final CEO decision?
- If the board has formed a Search Committee to lead the process, how and when will non-committee members participate in candidate interviews and other facets of the process?
- At what stage in the CEO succession process will an external search be conducted?
- Are directors comfortable using the search firm to both identify external candidates and conduct executive assessments (on both internal and external candidates)?
- Will the outgoing CEO remain as Chair for an interim period (a common practice at some US companies that combine Chair/CEO roles) or exit at the time of the CEO transition?

Directors' answers to many of these questions can impact the CEO succession planning process – in some cases, significantly. For example, if most directors would like to see the top internal candidate serve as Chief Operating Officer prior to a final CEO decision, this means the board will probably need to be in a position to make a COO decision at least 12 months prior to the anticipated CEO transition date.

When designing the CEO Succession Planning Roadmap, it's important to be realistic about the time required for each step. Flexibility is also essential; there will always be some twists and turns along the way. Roadmaps should never be set in stone – but they do help to keep everything on track.

**(ii) Future CEO Criteria** – Developing the Criteria for the next CEO can be thought of as “the destination” – a picture of the future leader the board wants to take the helm when the current CEO retires. It's the cornerstone of any CEO succession plan – which is why it's important to address this issue at the outset of the succession process, even if your search consultant refines the criteria later on.

Every director has their own ideas about what they're looking for in the next CEO – even if these are unspoken. This exercise brings them to light, by having all board members express their views on the optimal criteria for the next Chief Executive Officer in the context of the company's business model, strategic direction, corporate culture and other important factors. Yes, there will be different perspectives; there always are. But working through those differences at the very start of the process and coming to alignment is a critical first step in a well-considered CEO succession plan.

It also generates some really worthwhile board discussion about your top talent: You may realize that some of the candidates initially viewed as CEO contenders don't align that well with the criteria you're developing. Or you may identify potential candidates who had previously been overlooked. The criteria can also be used in executive development plans. For example, if “global experience” is seen as a priority for the company's next CEO and one of your internal stars has largely held domestic roles, you might consider naming them to lead a project with global scope or even an international assignment.

CEO criteria should be well-defined (avoid vague terms like “leadership” – which means something different to everyone), readily understandable, and clearly aligned with corporate strategy and corporate culture. They should also be realistic in number; one Fortune 500 board developed 42 CEO criteria, which was tantamount to having no criteria whatsoever. Establishing priorities is a practical necessity to avoid a “walks on water” criteria list; but some flexibility is also important throughout.

### **The Importance of Director Engagement**

Of course the Board Chair, the CEO or the Chief Human Resources Officer can whip up a draft of the **CEO Succession Planning Roadmap** and the **Future CEO Criteria**– and send them to the board for comment. But that approach doesn't really get directors engaged or tap into their insights on these critical issues. A series of structured individual interviews is best practice – and these can be conducted quite readily on Zoom. After all, this is one of the most important decisions the board is going to make - and every director deserves an opportunity to weigh in with views at the start of this process.

If *Board Advisor* can serve as a resource to your board on CEO Succession Planning, we'd be happy to explore this with you. We don't conduct searches or assessments – and are therefore entirely independent on these issues. We draw on our experience working with nearly 200 boards over the past 25 years. Our approach reflects our core belief that the board – not a consultant - should always be in the driver's seat on CEO Succession Planning. Visit our website at [www.boardadvisor.net](http://www.boardadvisor.net).