

Case Study: Emergency CEO Succession Planning - More than a Name in an Envelope



Back in the early 2000s a popular story on Wall Street involved an elderly Fortune 500 CEO who dodged the subject of succession with his board for years by reassuring them that an emergency CEO succession plan was in place: He'd put the name of his chosen successor in envelope and given it to his butler. If anything happened to him, the butler would provide the envelope to the board.

Few boards today would tolerate this high-handed approach. But many directors currently walk away from CEO succession planning discussions with little more than "a name in an envelope", albeit one that the board has discussed and agreed upon. This was initially the case for the board of a Nasdaq-listed biotech whose brilliant CEO, Max, was turning 50. To mark the occasion, Max had decided to take his two teenaged sons on an adventure - to climb Mount Kilimanjoro.

The board had never thought much about CEO succession planning. Max was only 49 and an extremely capable CEO. But the Kilimanjoro trip threw directors for a loop. Because Max spent most of his time hunched over his laptop or down in a lab; he looked like someone whose gym membership had probably expired several years ago. Now, he was off to climb the highest free-standing mountain in the world.

Max reassured the board that all would be well – he'd return from Kilimanjoro with nothing but great memories and nice photographs. If, by any chance, something should go awry, Max had every confidence that the CFO could step in and run the company in the interim. Nothing to worry about! This, however, was little more than an updated version of the "name in the envelope" approach to emergency CEO succession, the only difference being that Max had given the board the name in advance. Don't get me wrong, the CEO's view on who their emergency successor should be is critical for any board to understand and consider in emergency CEO succession planning. But it's hardly sufficient. And in this case, the Lead Director wisely stepped in and insisted on a proper process.

We worked with the board to create an interview protocol for 20 minute individual interviews with every director – and four members of the senior management team. The interviews were entirely confidential and covered a range of issues relevant to CEO succession planning, including identifying the risks/issues of greatest concern if the company found itself in this type of crisis, criteria for the interim CEO/permanent replacement in an emergency, readiness of internal candidates, talent pipeline behind any internal candidate(s), advantages/disadvantages of selecting a member of the board vs executive team as interim CEO. The protocol was distributed to all interviewees in advance so that they could frame up their thoughts on these issues prior to their interview.

Two days later, Max called the Lead Director: “I’ve given this some more thought; these questions got me to go a little deeper on this thing. If anything actually *did* happen to me on this trip, I actually don’t think the CFO should step in as interim CEO. I think it should be Susan – she runs the largest division that’s at the core of our strategy. I actually think the Street would think it odd if we didn’t name her interim CEO – as if we didn’t have confidence in the most important component of our business.”

But the protocol questions stimulated further thoughts, as well. During their interviews, three of the board members cited a hostile takeover as one of the biggest risks the company was likely to face if something happened to Max. “That’s a great point,” Max conceded, “I never really thought about that, but it’s true. I’m not sure Susan could step up to run the company – which, by itself, will be a stretch for her – *and* fend off a hostile takeover at the same time.”

In the end, an entirely different emergency CEO succession plan was developed: If anything happened to Max, the board would name Larry as interim CEO – a board member who had formerly been the CEO of another biotech, where he’d engineered the hostile takeover of one of his rivals. The board was confident that Larry could handle any hostile takeover efforts that might emerge. Larry was willing to step in, even though he’d have to relocate temporarily, so as to work out of company headquarters at least four days a week. They’d also name Susan as Chief Operating Officer. Mentorship from Larry would help Susan develop to become the permanent CEO, which the board actually preferred to the notion of hiring a replacement from outside. And naming her COO rather than interim CEO would avoid the CFO’s “nose getting out of joint” in the midst of the crisis.

Not only was the board’s ultimate decision a far cry from the “name in the envelope” approach Max had initially suggested – it created a platform for important board discussions about a range of critical issues. It also gave greater comfort to Max, who pointed out that “If something really were to happen to me, my family’s future depends on the success of this company - my wealth is tied up in the company’s stock. It’s critical to me, on a personal level, that the board make the right decision.”

In the end, Max returned from Kilimanjaro – on crutches with a sprained ankle, but otherwise in good spirits. Although the board never had to trigger the emergency CEO succession plan, the process itself had raised some important issues including executive development for Susan, for the CFO and for the talent pipeline beneath the C-suite, whose “young stars” the board had never met.

A robust emergency CEO succession plan – along the lines of what the board undertook in this instance – can lay the foundations of a well-considered long-term CEO succession plan, something many boards are reluctant to address if they currently have a high performing CEO. We can help your board create and drive an effective emergency CEO succession plan, just as we did for this board - and develop a comprehensive long-term CEO succession plan, as well. Visit our website: www.boardadvisor.net.