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# CEO Succession Planning

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# **CEO Succession Planning**

***A Dose of Reality...***

## Overview

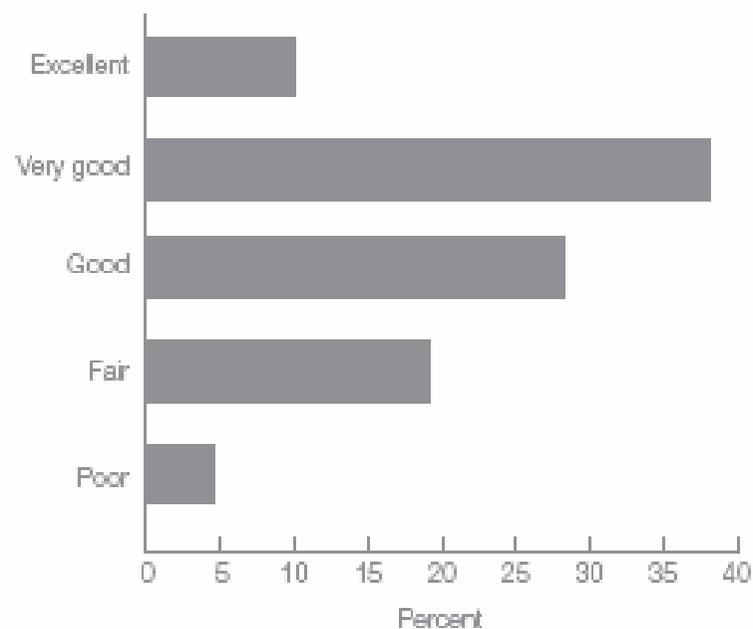
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- ▶ Risk management has become an especially critical (perhaps new) focus for firms
- ▶ Succession planning and internal talent development is a fundamental component of risk management
- ▶ Investors, rating agencies and governmental entities are starting to request (proprietary) information about succession planning
- ▶ Succession planning and internal talent development translates directly into future shareholder/stakeholder value

# Assessment of Succession Planning

43. How would you rate the overall succession planning at your company?

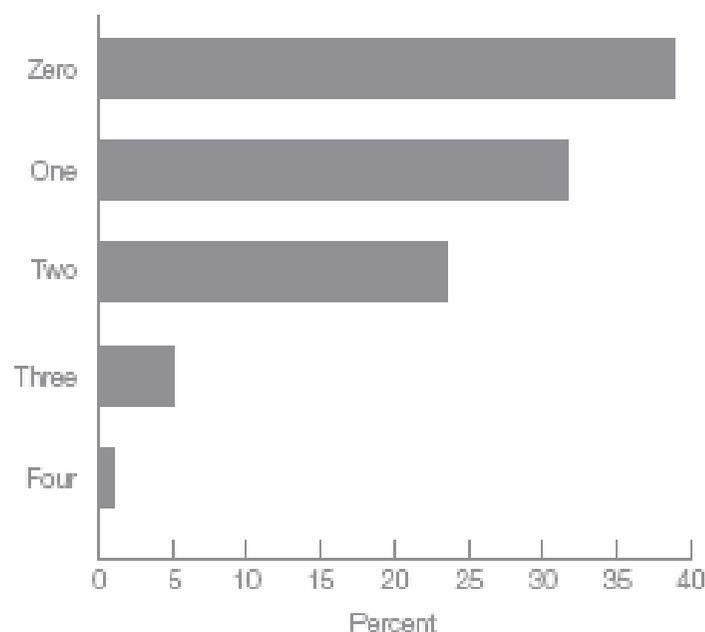
Descriptive	%
Excellent	10.0
Very good	38.2
Good	28.2
Fair	19.1
Poor	4.5
<b>Total</b>	<b>100.0</b>



# Internal Talent Pool for CEO

(IF YES) How many candidates from the internal talent pool are "ready now" to immediately assume the CEO position (you could name them tomorrow if required)?

# Candidates	%
0	38.8
1	31.6
2	23.5
3	5.1
4	1.0
<b>Total</b>	<b>100.0</b>



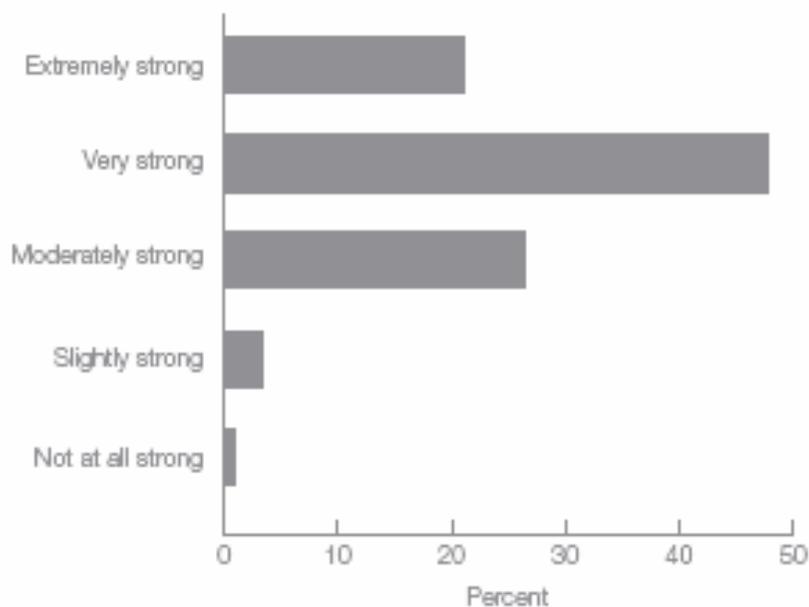
(IF YES) If you had to choose a CEO successor within the next 12 months, how viable are internal candidates for the CEO position? (A viable CEO candidate is an individual the board could confidently promote).

Descriptive	%
Extremely viable	14.4
Very viable	22.5
Moderately viable	30.6
Slightly viable	22.5
Not at all viable	10.0
<b>Total</b>	<b>100.0</b>

# Internal Talent Pool for C-Level Executives

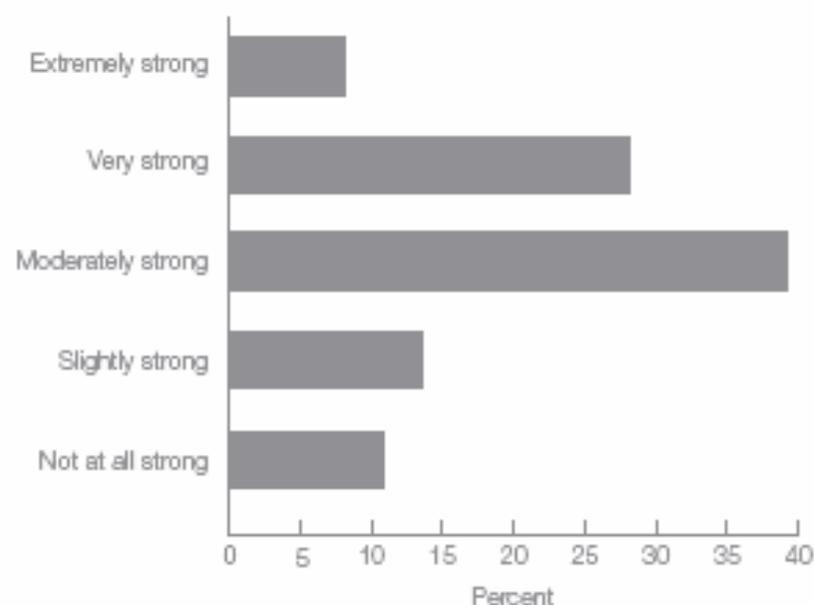
## 32. How strong is your understanding of the strengths and capabilities of your present C-level executives?

Descriptive	%
Extremely strong	21.2
Very strong	47.8
Moderately strong	26.5
Slightly strong	3.5
Not at all strong	1.0
<b>Total</b>	<b>100.0</b>



## 34. How strong is your understanding of the strengths and capabilities of the executives one or two levels below the C-level?

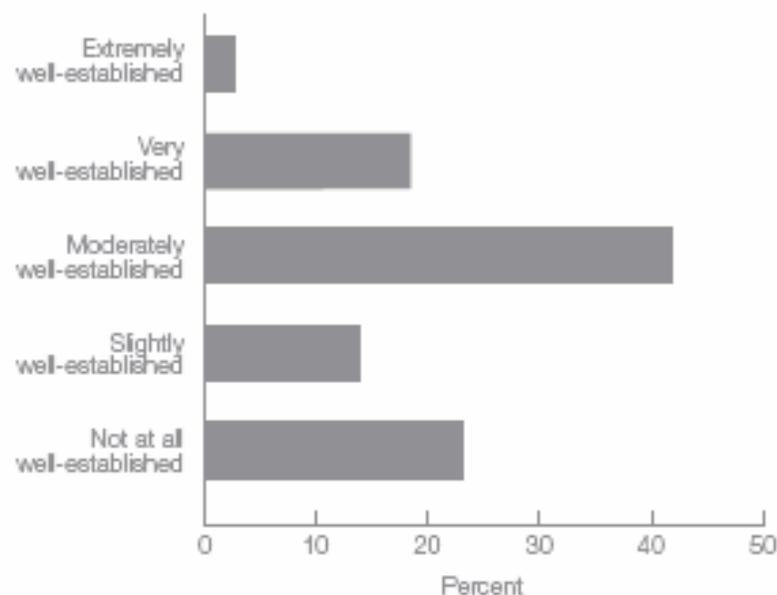
Descriptive	%
Extremely strong	8.2
Very strong	28.2
Moderately strong	39.1
Slightly strong	13.6
Not at all strong	10.9
<b>Total</b>	<b>100.0</b>



# Benchmarking the Internal Talent Pool

**33. How established is your company's external benchmark of the CEO successor candidates (i.e., assess the talent of internal candidates relative to the talent in the external marketplace)?**

Descriptive	%
Extremely well-established	2.8
Very well-established	18.5
Moderately well-established	41.7
Slightly well-established	13.9
Not at all well-established	23.1



# What Should the Next CEO Look Like?

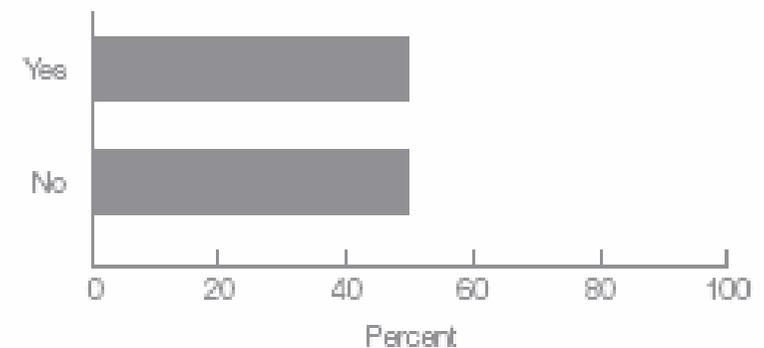
Find another just like  
the one we have?

OR

Find someone that is  
completely different  
from what we have!

26. Does your company have a written document that outlines the skills, competencies and experiences required for the next CEO?

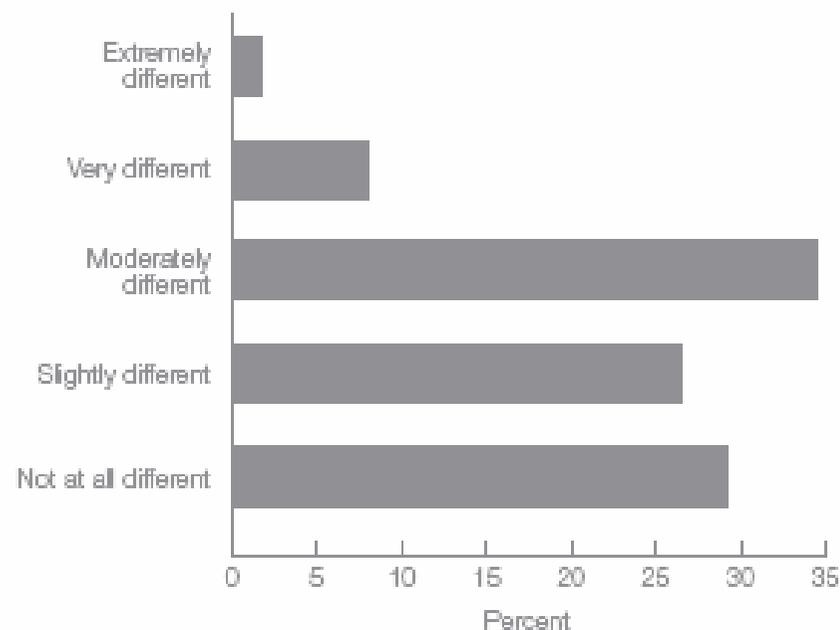
Response	%
Yes	50.0
No	50.0
Total	100.0



# What Should the Next CEO Look Like?

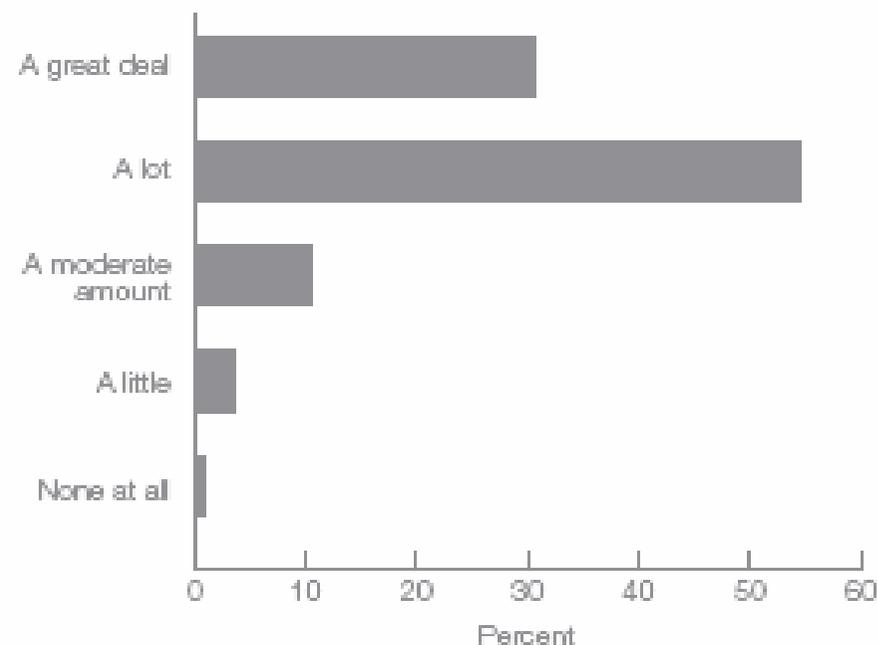
**27. How different is the skills and experiences profile for the next CEO from the skills and experience profile for the present CEO?**

Descriptive	%
Extremely different	1.8
Very different	8.0
Moderately different	34.5
Slightly different	26.5
Not at all different	29.2
<b>Total</b>	<b>100.0</b>



**29. How much does the skills and experience profile for the next CEO take into consideration the future needs of the company?**

Descriptive	%
A great deal	30.7
A lot	54.4
A moderate amount	10.5
A little	3.5
None at all	0.9
<b>Total</b>	<b>100.0</b>



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# **CEO Succession Planning**

## ***Compliance-Based versus Operational***

# Dangerous Myths Surrounding Succession Planning

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- ▶ **External candidates are more exciting and promising**
  - Boards prefer the devil they don't know to the devil they do
  - Internal successors are often lower risk than outsiders
- ▶ **The successor has to be ready now**
  - The only way to know if someone is "ready now" is after the fact
  - The board must evaluate the context of the leadership situation
- ▶ **CEO succession planning is a single-person event**
  - Boards focus on the CEO role in succession planning to the exclusion of other positions
- ▶ **What worked in the past will work in the future**
  - What a company needs in the future may be drastically different from what was needed in the past
    - *Examples:* Jamie Dimon and Bill Harrison at JPMorgan Chase; Marius Kloppers and Charles Goodyear at BHP Billiton
- ▶ **"We have a great internal candidate – we don't need to look outside"**
  - A company cannot be myopically focused on its own people

# What is Compliance-Based Succession Planning?

## “Names in a Box”

- ▶ The most rudimentary form of succession planning that meets the minimum criteria and creates a false sense of security (that ultimately leaves companies unprepared to deliver viable candidates when the company requires them)
- ▶ If you had to name someone immediately (not just on an interim or emergency basis), could you?

## Examples

**YAHOO!**<sup>®</sup>



**Bank of America** 

 **Merrill Lynch**

**citigroup** 

# Core Components of Operational Succession Planning



# Steps in an Operational Succession Plan

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- ▶ **Add succession expertise to the board**
  - Make sure that the director chosen to chair the nominating and governance committee has previous succession experience (either as a candidate or someone who has run the process)
- ▶ **Think of succession planning as a multi-person event**
  - Remember that the executives that are not promoted to CEO are also crucial to success and the creation of shareholder value
- ▶ **Develop a robust succession architecture**
  - Must encompass everything from an emergency plan through a more gradual, 5-years out succession; revisit this architecture regularly
- ▶ **Develop a Skills & Experience Profile**
  - Must take into account the future needs of the company and be continually revisited
- ▶ **Engage the board in the development of candidates**
  - Use external advisors to assess and benchmark candidates, as well as provide ongoing coaching and support, providing updates to the board in the process to establish “viability”
- ▶ **Identify “blockers”**
  - Prepare to move people off of the senior team to further develop potential successors
- ▶ **Expose candidates to the board**
  - Fireside chats, attending executive’s offsite session, one-on-ones, etc.
- ▶ **Engage in a confidential external search**
  - Ensure that the board can compare internal candidates against the best-in-class talent in the marketplace
- ▶ **On-board the successor and provide senior team with ongoing support**
  - Prepare for what happens *after* the successor is named by providing crucial support (a good team, wise and accessible mentors, executive coaching and a feedback-rich environment)

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# The Succession Planning Process and its Constituents

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# Roles of Each Constituent in the Process

**Ensuring a smooth succession is the most critical responsibility for the Board of Directors and the CEO. Best practice succession planning gives the Board, management team, employees and shareholders confidence in the long-term future of the Company by reducing succession risk.**

## Board



Owns the process and is responsible for the successful CEO appointment and transition, demystification of the succession process and allaying of apprehension. Charged with the development of a robust leadership pipeline (the number one sign of good governance). Best practice is for the Board to utilize a proven process and methodology for evaluating leadership talent.

## Outgoing CEO



Provides input into the process. His/her number one job is to have developed at least one potential successor inside the organization. He/she provides input into the current and future state of the business model and strategies. He/she also provides input to the team conducting the internal assessments in terms of his/her objectives and a dispassionate view of the internal candidates.

## Senior Management Team



Must have a clear understanding of the internal process and the required CEO skills and competencies. Accommodate developmental roles on the senior team when necessary. A high-level developmental roadmap and detailed personal coaching plan will be developed for internal candidates (which can be refreshed every 6 months depending on the transition time frame).

## Stakeholders



Assurance that the Board is rigorously managing the succession process and performing active oversight of leadership development. Shareholders gain confidence that the best leadership is being identified, recruited, developed and retained based upon the ability to drive business performance and enhance long-term shareholder value.



# What Can Go Wrong (or Right)?

## Outgoing CEO Behaviors

The Aggressor	The Passive Aggressive	The Capitulator	The Hopeful Savior	The Active Advisor	The Power Blocker
					
<ul style="list-style-type: none"> <li>▶ Where the sitting CEO 'plays nice' for most of the process then steps in at a key decision moment and tries to steer the process to their handpicked candidate, undermining the other candidates in the process</li> <li>▶ They will often take an aggressive, position-based approach with the board, trying to force and outcome to the candidate they favor</li> </ul>	<ul style="list-style-type: none"> <li>▶ Where the sitting CEO subtly undermines candidates (in the way they position them in front of the board, their description of how they are doing in their business, etc.)</li> <li>▶ Can come across as advising the board on the candidates, yet once it is revealed it erodes trust between the sitting CEO and their Board, which can have even broader consequences</li> </ul>	<ul style="list-style-type: none"> <li>▶ Where the sitting CEO has advised and partnered well with their board, helping lead what could easily be seen as a best practice process but when it is very close to making the decision on a candidate, they capitulate and decide that they actually are enjoying their role and want to stay on for another few years</li> </ul>	<ul style="list-style-type: none"> <li>▶ These sitting CEOs do not want to leave the job and actively promote successors in their likeness (when the company often needs something very different to take it to the next place), or they promote someone less capable, secretly hoping they will fail so they can be swept back in to "save" the company</li> </ul>	<ul style="list-style-type: none"> <li>▶ These sitting CEOs are ready to leave the company and realize that it is time. They provide great input on the selection process, but do not overstep in their role. They provide thoughtful input when asked, but do not impose their "will" on the board. They serve more as an advisor, with full acceptance that the board will make the final decision</li> </ul>	<ul style="list-style-type: none"> <li>▶ These sitting CEOs cannot separate themselves from the firm. They define themselves in terms of their position and their career, and have no idea what they will do after leaving the job. As such, they will tend to block the process, throwing up obstacles (some subtle, some not-so-subtle) to slow things down, or even derail the process</li> </ul>