10 CEO Succession Planning Mistakes to Avoid

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Mary Fetherolf

Many directors give themselves a low grade when asked how well they handle their CEO succession planning. Why? Because human nature keeps them thinking a CEO's departure is a far-off possibility. Because succession planning almost always stirs up uncomfortable issues. And finally, because CEO succession planning mistakes can hurt an organization's future prospects. Unfortunately, these mistakes are easy to make.

McDonald's former chairman Andrew McKenna once said: "CEO succession is the number one job of the board." Excellence in CEO succession planning signals excellence in governance overall. Sara Grootwassink Lewis, Audit Committee Chair for PS Business Parks, said "You have to come back to your core mission as a board member … and that's the creation and preservation of shareholder value… It's incumbent upon you to have the [CEO succession] conversation. It may be uncomfortable… but you have to, because it's so important to the continuity of the company."

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> ***Andrew McKenna, Former Chairman, McDonald's***

Harvard Business Review conducted a survey of board members' attitudes and experiences in 2015 and 2016. Among their findings: 69% of companies with less than $50 million in revenue had no CEO succession plan. Larger firms were doing somewhat better, with their deeper bench of internal candidates.

Now that the coronavirus pandemic (COVID-19) has impacted nearly every industry, businesses focused on growth find themselves retrenching to survive. The crisis has led to deeper collaborations between boards and executives, and sharpened focus on planning for contingencies – from black swan events like the pandemic, to eventual certainties like CEO succession.

Here, we examine ten CEO succession planning mistakes, along with advice on how to avoid them.

1. Thinking "If," Not "When"

Boards face constant challenges that often seem more pressing than CEO succession planning. While it's tempting to believe a CEO's exit is purely theoretical, boards must recognize that a CEO's departure is, eventually, an absolute certainty.

Best practice: Because a departing CEO is an ever-present risk and an eventual certainty, boards should maintain CEO succession planning as one of their top priorities.

2. Not Knowing Who's Doing What

"It's very important that the board and the CEO and the committees that work on [CEO search] all have an understanding of what role they will share in this process," said Sara Hays, a board member with Apogee Enterprises, who chaired the CEO search committee for her board. She recommends a person or committee who can be objective, and who possesses project management skills to maintain momentum and to engage and communicate with stakeholders be appointed to manage the process.

Best practice: CEOs may leave under well-timed or sudden circumstances. A plan for CEO succession is like a plan for disaster recovery: Participants in the succession process should understand their roles and responsibilities in advance of any crisis. Establish clear roles and responsibilities in a succession event and keep this information up to date.

3. Not Establishing a CEO Succession-Planning Function

Think of CEO succession planning as a function that encompasses:

- A leadership development program for internal candidates
- An established partnership for external searches
- A documented approach to ongoing CEO succession planning
- Regularly updated CEO selection criteria
- A committee tasked with ongoing CEO succession planning and selection
- Defined roles and responsibilities for CEO succession planning and selection
- The implementation of the appropriate tools to facilitate the search

Best practice: Set up a function that operates constantly and consistently to keep succession plans refreshed and to keep the board updated. Invest in the tools and resources that facilitate executive search, such as Diligent Nominations.

4. Unclear CEO Selection Criteria

The board must define and agree on what qualities they need in their next CEO. Start with the strategic plan to clarify the skills, experience and temperament that the CEO must possess to execute on strategy. Use this list to build a profile against which candidates can be evaluated.

Best practice: Assemble a profile to clarify CEO selection criteria, and to ensure consensus on those requirements.

5. Setting It and Forgetting It

The right sort of CEO for today's business strategy is not the right sort of CEO for all time. Because CEO selection criteria must draw on the organization's strategic initiatives and the evolving competitive and economic landscape, the succession plan should shift as conditions change.

Best practice: Plan to revisit CEO selection criteria whenever there are shifts in the corporate strategy, the competitive landscape or black swan events. Make CEO succession planning a regular board meeting agenda item.

6. Excluding the Current CEO

The best CEO succession plans include the current CEO's perspective. The CEO will have valuable observations about the role, the organization and its challenges. The CEO, therefore, can provide a unique perspective on candidates and criteria. Moreover, the current CEO's support facilitates transparency and minimizes disruption during transition.

Best practice: Enlist the CEO in ongoing succession plans and solicit his or her insights as those of a subject matter expert.

7. Neglecting the CEO Succession Plan Pipeline

Consider not only the next CEO, but the next several CEOs. Start by developing a pipeline of internal talent. Leadership development programs can include cross-training, coaching and mentoring, and formal classroom training. This can prepare internal CEO candidates, and it also raises up new leaders to report to a CEO. These programs ensure that the board gets to know internal candidates' job performance and social styles. Set a regular agenda item to discuss internal prospects to ensure skill gaps are addressed. Additionally, engage the CHRO and use the HR department's ability to operate as a full partner when cultivating the pipeline of internal candidates. They're versed in the analytical process of candidate selection and development.

Best practice: Set up an internal leadership development program to prepare successors for the CEO slot and for other C-suite roles.

8. Going It Alone

Firms of all sizes complement the services of their own HR teams with external search partners. External search partners' constantly refreshed view of the skills marketplace and their vast networks add great value for the compensation they're given. Consider and interview several firms before choosing a search partner. Boards and selection committees will be working closely with this firm, so a good fit is critical.

Best practice: Establish and build the search partner relationship before any active search. This is especially important when there are few internal prospects.

9. Straying from Criteria

When identifying a talented candidate, it's easy to get excited about winning qualities while overlooking shortcomings. These subjective reactions may lead to deviating from carefully established criteria. Long before assessing any candidate, consider industry benchmarks and quantitative assessments. It's rare to find candidates who meet every criterion. Before selection, discuss and agree which criteria are essential, and which are optional.

Best practice: Come to a consensus on objective criteria in advance to avoid being swayed by subjectivity when selection gets underway.

10. Rushing It

Operating with uncertainty about who will fill the CEO role is painful and risky, but give the matter the time it deserves. Ms. Hayes mentioned that Apogee took over six months with their CEO search. The first month and a half consisted of internal interviews to understand their own criteria. They met with four prospective search partners, then met finalists again. They clarified requirements when they rejected the search firm's first round of CEO candidates, and they saw more appropriate candidates in round two. This upfront work was a critical investment that paid them back in a confident CEO choice.

Best practice: Invest the time to make a wise decision and resist any temptation to resolve the matter quickly. Deliberate selection is critical to the corporation's long-term prosperity.

The Importance of Investing in Deliberate CEO Succession Planning

Investing time and attention to CEO succession planning rewards the organization as it secures and assumes new leadership. Keeping CEO succession in constant view helps the board, while concurrently aligning to the development of leaders within the company.

A clearly-defined approach demonstrates a firm's good governance. Excellence in CEO succession planning and selection protects shareholder value by getting the right leadership into place to deliver the right results.

To evaluate your current board practices, including board-to-executive communication, corporate culture, and executive pay, take our quiz.

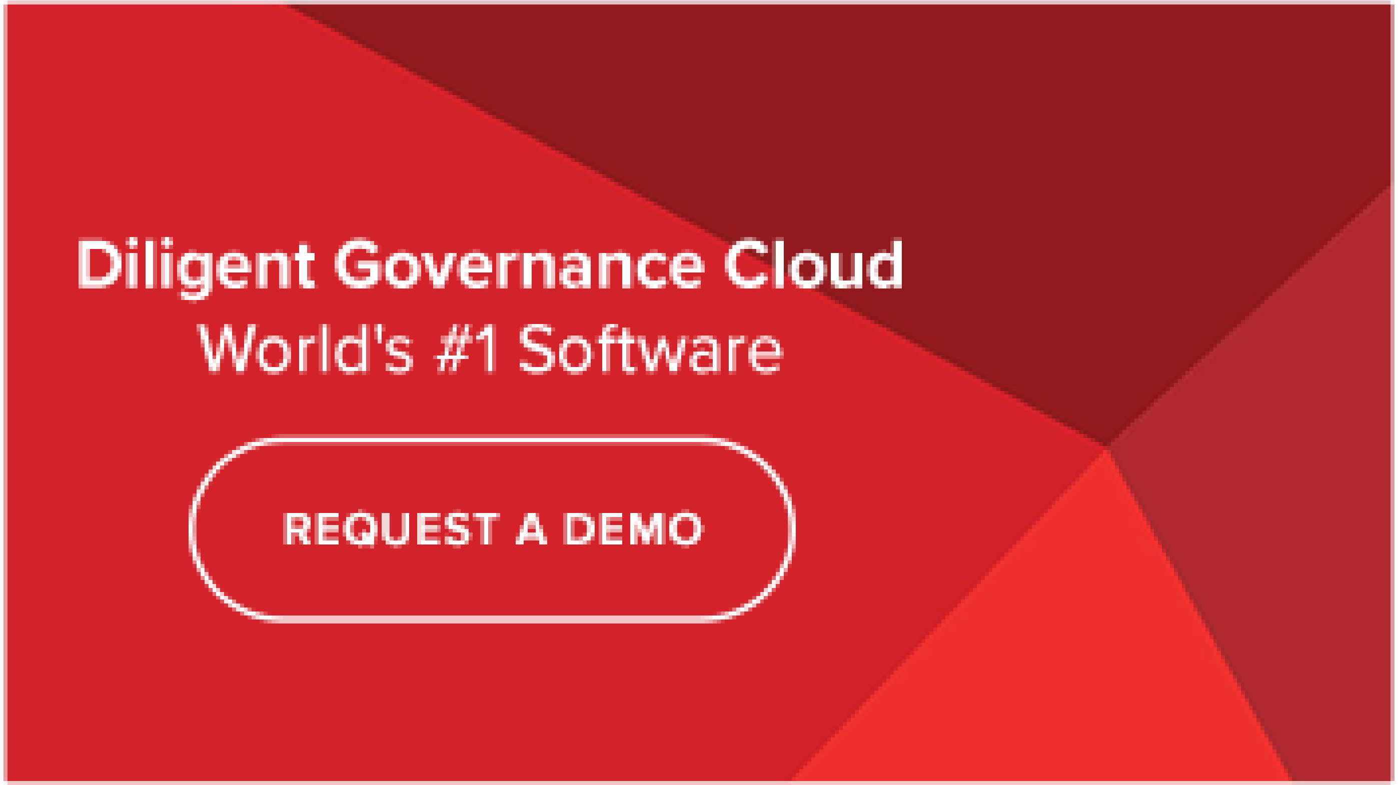
Ms. Fetherolf writes about the impact of new technologies and regulations on business strategy and operations. This second career follows several years consulting with business and technology leaders on program management and governance in regulated industries. Topics of interest include corporate governance, cybersecurity, data privacy, regulation, compliance, and digital transformation.

ARTICLE TOPIC: BOARD COMPOSITION, BOARD REFRESHMENT, BOARD SUCCESSION PLANNING, CEO SUCCESSION

RECOMMENDED

6 Challenges Facing Insider CEOs in 2021

Insider CEOs are often a natural choice when companies are creating CEO succession plans: CEOs promoted from within have typically run a large division or served in the C-suite already. They're familiar with the organization's key players and culture. Still, insider CEOs often encounter challenges just as significant as those facing externally hired CEOs.



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