

A Practical Guide to CEO Succession Planning

In this issue, Clarke Murphy and the CEO/Board Services Practice discuss the specific elements and timeline of a successful CEO succession plan, as well as the steps necessary to ensure a smooth transition.

The transition from one CEO to another is a critical moment in a company's history. A smooth transition is essential to maintain the confidence of investors, business partners, customers and employees and provides the incoming CEO with a solid platform from which to move the company forward. A properly designed and executed succession plan is at the center of any successful transition.

CEO vacancies can be planned or unplanned; in either scenario, by the time a succession plan is needed it is far too late to start building one. Because of this, it is the responsibility of the board to make succession planning a priority, even in the face of more immediate and tangible issues. In addition to being necessary for risk mitigation, succession planning brings with it several beneficial byproducts:

- It provides a framework that drives senior executive development, aligning leadership at the top of the enterprise with the strategic needs of the firm.
- It gives the CEO, through an ongoing analysis of the job requirements, the opportunity to adjust his or her role in light of changing business conditions and strategic imperatives.
- It strengthens the relationship and information flow between the board and the senior management team through the regular contact that is part of the board's review of candidates.

Russell Reynolds Associates regularly advises boards and CEOs on chief executive officer succession planning, and from this experience we have developed the following practical guide to the succession planning process.

Establishing the Foundation

Succession planning is usually directed by the governance or compensation committee, or occasionally a special ad hoc committee. The current CEO's involvement varies (depending on whether the succession is planned or unexpected) with primary responsibility being the development of internal candidates. The lead director often acts as the single point of contact between the board and the sitting CEO on succession matters.

Create a written succession plan.

This document should detail how the company's officers are elected and replaced, how successors are to be chosen, and the respective roles of the CEO, the board and the various board committees in the succession process. Emergency succession procedures, in the case of sudden death or vacancy, are also included. Agreeing on these elements before there is a need to implement them helps ensure an orderly, deliberate transition while avoiding uncertainty and destabilizing political maneuvering.



Conduct regular, in-depth reviews.

The entire board, together with a senior human resources executive, should review the succession plan twice a year, including an examination of the relevant bylaws and succession procedures and a review of the baseline capabilities requirements for the next CEO—a working document that summarizes what these requirements would be if the search for a new CEO were held today.

To determine those prerequisites, the board should begin by examining company direction and strategy over a five- to ten-year time period, factoring in the impact of various scenarios such as how the business will be affected by challenges including the continuing globalization of supply chains, customers, competitors and investors, or the risks and opportunities brought by changing climate and global health conditions. Looking at the impact of broad trends such as these helps ensure that the company's next leader will have the capabilities and experience necessary to respond to unfolding complex events across numerous fronts. The board should also use this opportunity to observe successful CEOs from both inside and outside the industry and identify traits that have contributed to particular successes.

The board then distills these considerations into a set of required capabilities. The Russell Reynolds Associates' Assessment Framework offers one model for implementation. Based on the company's situation and strategic direction, some capabilities will be deemed essential and others of secondary or little importance.

Compare the resulting list of capabilities against the firm's senior talent pipeline.

While human resources manages the day-to-day aspects of measuring development, the board should be briefed annually and have regular exposure to internal candidates through board presentations, field observations and site visits. Revise the leadership development plan of each candidate as needed to address progress and shortcomings.

Boards can decide to bolster this talent pipeline by recruiting from outside. This necessitates significant

advance planning; bringing in a senior executive who could potentially go on to fill the CEO role typically requires a three-year lead time so that the candidate will have fully been absorbed into the firm's culture by the time that the elevation takes place.

Narrow the field to two or three finalists.

This typically occurs two to three years from the planned date of CEO transition, with input from the full board and the CEO. The final round of professional development for the candidates should be designed so that they are exposed to multiple aspects of the business and are given responsibility for key initiatives—such as overseeing entry into a new geographic region or the integration of an acquisition—that will mirror the sorts of complex challenges they would have as CEO while giving the board an opportunity to evaluate their performance.

Although there will be plenty of internal and external speculation at this point in the succession process, it is important to defuse any aura of competition that may develop; finalists should not be pitted against each other, but given separate domains in which to lead and the opportunity to build programs that will contribute to the company's profitability over a sustained period.

Implementing the Plan

Assess the finalist candidates.

Approximately one year before the planned transition, the full board should meet to implement the succession plan. The CEO competency list should be given a final review and revised as necessary. The board should then implement a thorough assessment of the finalist candidates, including:

- **In-depth competency-focused interviews** that probe for the skills and talents essential for the role;
- **360° referencing** that provides added insight from superiors, industry peers, colleagues and direct reports; and
- **Online psychometric testing**, interpreted by an Executive Assessment psychologist, which gives shape to intangible qualities.

CEO Competencies and Success Factors

Vision and Strategy

- Agile and able to integrate material from a wide range of learning and thinking, operates effectively in complexity and ambiguity
- Develops a “core” understanding of issues that challenges assumptions and the superfluous, distills the complex
- Both optimistic (expects success, frequently identifies potential and opportunity, never feels a victim and takes calculated risks) and realistic (practical, assertive, evaluates the situation and clearly identifies problems)
- Anticipates problems and opportunities, both reflective (considers multiple “angles,” considers the short- and long-term ramifications of decisions and actions) and decisive

Ensuring Tactical Success

- Can be hands off or hands on, depending on the situation
- High standards for self and others, competes with self
- Active manager of performance/drives execution by clarifying priorities, confronts problems and problem performers
- Hires, develops and retains truly excellent talent

Relationships and Communication

- Insightful regarding others
- Capable of empathy and effective listening
- Can communicate effectively with different internal and external constituencies

Motivation

- Interested in being/motivated to be CEO, willing to put in time and effort

Business

- Created and maximized success in more than one business entity
- Demonstrated ability to sustain commercial value in a business
- Raised the profile of his/her previous business entity
- Overall experience leads to credibility with board and investors/owners

Fit to Situation

- Fit to current and upcoming business stage/scope/scale
- Fit to current and upcoming business strategies and tactics
- Fit to current and aspired organizational culture
- Fit to and/or actual experience in industry/market

Measure internal candidates against their peers at other firms.

This will ensure the company is choosing the best CEO available, rather than merely the best choice from within its own ranks. The customary approach is to turn to independent senior search consultants, who then identify the most appropriate candidates in the marketplace. This list often includes not only candidates from within the industry in question but those from adjacent industries as well, to ensure that all of the best candidates are being considered.

On the basis of this information and the many other data points which have been amassed during the assessment period, internal candidates and the external benchmark candidates are given numerical rankings across the various required competencies, as illustrated on the following page. The board's governance committee, usually with the assistance of outside consultants, also produces a detailed written evaluation.

The board deliberates and makes its final decision.

If the board cannot come to an agreement on an internal candidate, it will need to conduct an external search to widen the pool. However, the foundation for an external search, including identified CEO competencies and the list of external benchmark candidates, is already in place.

The Successful Transition

Once a final candidate has been selected, it is critical that a thorough transition plan be developed so the new CEO has the benefit of a strong start. A solid transition spans a full year and contains five phases, which we have developed in conjunction with Jack O'Kelley of Katzenbach Partners:

1. Begin intensive knowledge sharing.

The outgoing and incoming CEO meet frequently for in-depth discussions regarding the operating styles, histories and expectations of board members and senior management, as well as other stakeholder constituencies, including investors, creditors, customers, analysts and regulators. At various points, individual members of the senior management team are included in these discussions. Third-party interviews can help prevent the biasing of information.

2. Communicate with stakeholders.

Following this briefing period, the incoming CEO should be introduced to the company's stakeholders in a series of information-gathering sessions. This allows the outgoing CEO to gracefully pass the baton and for the incoming CEO to build support and goodwill with various key players, especially those he or she has not dealt with before.

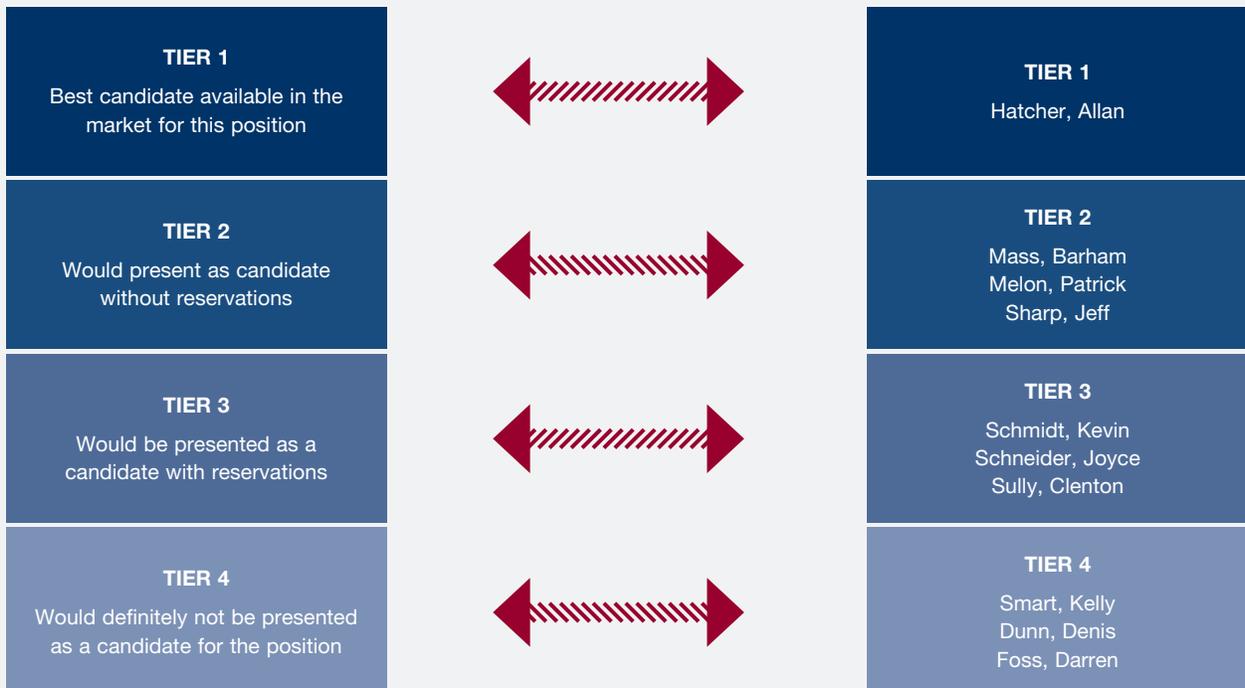
3. Develop a written transition plan.

With the involvement and support of the senior management team, a detailed timeline is then developed to provide the orderly transition of roles and responsibilities. If the appointment is an internal promotion, this includes the elevation of the executive who takes over the new CEO's former position. If the outgoing CEO is remaining as Chairman, that role needs to be clearly defined so as to not interfere with the new CEO.

Assessment Report

	Vision and Strategy	Ensuring Tactical Success	Relationships and Communication	Motivation	Business	Fit to Situation	Personal Average
Dunn, Denis	3	4	3	2	3	2	2.8
Foss, Darren	3	4	1	2	3	2	2.5
Hatcher, Allan	5	5	5	4	5	4	4.7
Mass, Barham	4	5	3	3	4	5	4.0
Melon, Patrick	4	4	4	4	3	2	3.5
Schmidt, Kevin	3	2	3	4	4	3	3.2
Schneider, Joyce	4	3	3	2	5	2	3.2
Sharp, Jeff	5	4	2	2	5	3	3.5
Smart, Kelly	3	4	2	3	4	2	3.0
Sully, Clenton	3	2	4	4	3	3	3.2
Overall Group	3.7	3.7	3.0	3.0	3.9	2.8	3.4

Competitive Benchmarking



4. Share the transition plan.

The plan needs to be effectively communicated internally and externally to project a sense of stability and positive perspective. Appropriate recognition of the outgoing CEO is an important component; failing to show appreciation for an outgoing leader's legitimate accomplishments risks alienating his or her supporters in the company and on the board.

5. Strengthen relationships with the board.

Even if the new CEO is known to the board, it is important that they begin to relate to him or her in the new role through one-on-one meetings. If the new CEO is appointed from within, he or she can begin to be phased into board meetings over a period of time. To the extent possible, the lead director should provide coaching and feedback to his or her successor throughout the process.

The Board's Ultimate Responsibility

Managing the CEO succession process is a board's ultimate responsibility. A regularly reviewed and closely followed succession plan is essential to successfully exercise that responsibility. The costs of shortchanging this process are easy to see when companies are caught off guard by events; the payoff is reflected in the company's momentum as it moves from one leader to the next. In addition, ongoing succession planning helps the board to be better informed and aligns the development of the senior management team with the strategic needs of the company. Beyond its usefulness in risk mitigation, CEO succession planning contributes to the successful governance and management of the firm long before a successor is needed.

Author

Clarke Murphy is a Managing Director at Russell Reynolds Associates. Clarke has more than 18 years of experience in recruiting for board of director, CEO and senior-level executive positions for leading global corporations.

About Russell Reynolds Associates

Leadership. In today's ever-changing global business environment, success is driven by the talent, vision and leadership capabilities of senior executives.

Russell Reynolds Associates is a leading global executive search and assessment firm with more than 300 consultants based in 39 offices worldwide. Our consultants work closely with public and private organizations to identify, assess and recruit senior executives and board members to drive long-term growth and success. We value teamwork, serving our clients with a collaborative approach that spans our international network of sector and functional experts.

Our in-depth knowledge of major industries and our clients' specific business challenges, combined with our understanding of who and what makes an effective leader ensure that our clients secure the best leadership teams for the ongoing success of their businesses. For more information, please visit us at www.russellreynolds.com.

RUSSELL REYNOLDS ASSOCIATES | Global Offices

Americas

Atlanta

1180 Peachtree St., NE
Suite 2250
Atlanta, GA 30309-3521
United States of America
Tel: +1-404-577-3000

Boston

One Federal Street
25th Floor
Boston, MA 02110-1007
United States of America
Tel: +1-617-523-1111

Buenos Aires

Buenos Aires Plaza
Manuela Sáenz 323
Seventh Floor, Suites 14 and 15
C1107CBP Buenos Aires
Argentina
Tel: +54-11-4118-8900

Chicago

200 South Wacker Drive
Suite 2900
Chicago, IL 60606-5802
United States of America
Tel: +1-312-993-9696

Dallas

8401 N. Central Expressway
Suite 650
Dallas, TX 75225-4404
United States of America
Tel: +1-214-220-2033

Houston

600 Travis Street
Suite 2200
Houston, TX 77002-2901
United States of America
Tel: +1-713-754-5995

Los Angeles

11100 Santa Monica Blvd.
Suite 350
Los Angeles, CA 90025-3384
United States of America
Tel: +1-310-775-8940

Menlo Park

2500 Sand Hill Road
Suite 105
Menlo Park, CA 94025-7015
United States of America
Tel: +1-650-233-2400

Mexico City

Torre Reforma
Paseo de la Reforma
115-1502
Lomas de Chapultepec
México 11000, D.F.
México
Tel: +52-55-5249-5130

Minneapolis/St. Paul

225 South Sixth Street
Suite 2550
Minneapolis, MN 55402-3900
United States of America
Tel: +1-612-332-6966

New York

200 Park Avenue
Suite 2300
New York, NY 10166-0002
United States of America
Tel: +1-212-351-2000

San Francisco

101 California Street
Suite 2900
San Francisco, CA 94111-5829
United States of America
Tel: +1-415-352-3300

São Paulo

Edifício Eldorado Business Tower
Av. Nações Unidas, 8501
11º Andar
05425-070 São Paulo - SP
Brazil
Tel: +55-11-3566-2400

Stamford

301 Tresser Boulevard
Suite 1210
Stamford, CT 06901-3250
United States of America
Tel: +1-203-905-3341

Toronto

Scotia Plaza, Suite 3410
40 King Street West
Toronto, ON
M5H 3Y2
Canada
Tel: +1-416-364-3355

Washington, D.C.

1701 Pennsylvania Avenue, NW
Suite 400
Washington, D.C. 20006-5810
United States of America
Tel: +1-202-654-7800

Asia/Pacific

Beijing

Suite 1320, China World Tower I
No. 1 Jian Guo Men Wai Avenue
Beijing 100004
China
Tel: +86-10-6505-2688

Hong Kong

24th Floor, Central Tower
28 Queen's Road Central
Hong Kong
Tel: +852-2523-9123

Melbourne

15th Floor
Bourke Place
600 Bourke Street
Melbourne VIC 3000
Australia
Tel: +61-3-9603-1300

Mumbai

Unit 9(A), Grand Hyatt Plaza
Santacruz (East)
Mumbai 400 055
India
Tel: +91-22-6733-2222

New Delhi

A4, Tower A
The Qutab Hotel and Apartments
Shaheed Jeet Sing Marg
New Delhi 110 116
India
Tel: +91-11-4603-4600

Shanghai

Room 4504, Jin Mao Tower
88 Century Avenue
Pudong, Shanghai 200121
China
Tel: +86-21-6163-0888

Singapore

2 Shenton Way
#08-01 SGX Centre 1
Singapore 068804
Singapore
Tel: +65-6225-1811

Sydney

Level 40, Aurora Place
88 Phillip Street
Sydney NSW 2000
Australia
Tel: +61-2-9258-3100

Tokyo

Izumi Garden Tower 14F
1-6-1 Roppongi
Minato-ku, Tokyo 106-6014
Japan
Tel: +81-3-5114-3700

Europe

Amsterdam

World Trade Center
Tower H, 18th Floor
Zuidplein 148
1077 XV Amsterdam
The Netherlands
Tel: +31-20-305-7630

Barcelona

Edificio Prisma
Avda. Diagonal, 613, 2ª
08028 Barcelona
Spain
Tel: +34-93-494-9400

Brussels

Boulevard St.-Michel 27
B-1040 Brussels
Belgium
Tel: +32-2-743-12-20

Copenhagen

Østergade 1, 1st Floor
DK-1100 Copenhagen K
Denmark
Tel: +45-33-69-23-20

Frankfurt

MesseTurm
60308 Frankfurt/Main
Germany
Tel: +49-69-75-60-90-0

Hamburg

Stadthausbrücke
1-3/Fleethof
20355 Hamburg
Germany
Tel: +49-40-480-661-0

London

24 St. James's Square
London SW1Y 4HZ
United Kingdom
Tel: +44-20-7839-7788

Madrid

Calle Miguel Angel, 11
Seventh Floor
28010 Madrid
Spain
Tel: +34-91-319-7100

Milan

Via Mascheroni, 5
20123 Milan
Italy
Tel: +39-02-430-0151

Munich

Ludwigstraße 7
80539 Munich
Germany
Tel: +49-89-24-89-81-3

Paris

7, Place Vendôme
75001 Paris
France
Tel: +33-1-49-26-13-00

Stockholm

Hamngatan 27
SE-111 47 Stockholm
Sweden
Tel: +46-8-545-074-40

Warsaw

Belvedere Plaza
ul. Belwederska 23
00-761 Warsaw
Poland
Tel: +48-22-851-68-38

Zürich

Genferstrasse 21
8002 Zürich
Switzerland
Tel: +41-44-447-30-30

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