Let's Address The Good Reasons Why Companies Do Not Conduct CEO Succession Planning

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The global business press continuously has observed the following: effective CEO Succession is important to the continuity of a business, it is one of a board's most important purposes, yet in practice it is rarely conducted well. The National Association of Corporate Directors in the US reported several years ago that 42% of public companies lack an effective succession planning process. This state of affairs should not be a surprise anymore.

The question has been what to do about it. Over the past 10 years, businesses broadly have been encouraged to do better. In the US, the pressure in this area has increased. More and more shareholder groups (especially powerful institutional investors) have been asking boards to disclose details of a given company's CEO Succession plan. In late 2009, the US Security and Exchange Commission felt the need specifically to weigh in on the matter via Bulletin 14E by holding boards accountable for ensuring the presence of CEO Succession planning and processes.

The issue is nuanced in situations in which board independence may not be high and/or in situations in which there is substantial controlling interest. The objective likely for areas of the world such as Singapore is to create approaches that benefit from effective CEO Succession principles, but do not involve substantial regulation. The best way to do this is to probe under the surface as to why companies are inconsistently effective in CEO Succession planning. It is only in this manner that hidden obstacles have a chance of being overcome.

There are actually many good reasons why organizations do not engage in overt CEO Succession planning, yet these reasons rarely are discussed openly. Ralph Ward, a wonderful writer about boards and governance, summarized it effectively: CEO Succession is similar to funeral planning—inevitable, but denied for as long as possible. The denial and delay relate to the following factors:

1. Controlling interest may have a clear person in mind for the CEO role and/or desire a closed and limited process; they may not want to

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consider a broader group of options or a broader process

2. Board does not want to inadvertently convey a lack of confidence in the incumbent CEO that produces a difficult or uncomfortable board versus CEO dynamic
3. Stakeholders/ shareholders may mistakenly perceive that there is a problem with the incumbent CEO and/or inaccurately believe that the incumbent CEO's tenure will end sooner than is accurate; therefore, the incumbent CEO will lose power inside and outside of the company during an active CEO Succession planning process
4. Internal CEO candidates will be overly competitive and not constructive with each other
5. Internal talent who is not a part of CEO Succession planning will become demotivated and leave the organisation
6. Belief that external talent likely is better than the internal talent options, therefore there is no need to attend to internal succession
7. Belief that moving CEO Succession candidates around the business to help them in their development will be too disruptive to the business; leaders in the business do not want to lose their best talent to other parts of the business
8. Many organizations are not exactly sure who does what (and when) in CEO Succession processes; in a related sense, it is not seen as an urgent business need

Most of these factors can be mitigated if the CEO Succession process is repositioned as primarily a leadership development process. This emphasis on development has many benefits. First, development necessarily involves a clarification of criteria based on needs of the organization in the future and then the subsequent assessment of leadership talent in relation to these criteria. These steps are important within development yet are also seen as components of an effective CEO Succession process by academics, consultants, and regulating agencies. Second, with an emphasis on development, the process can be more comfortably inclusive, broader, and continuous. Controlling interests that have a strong preference for a certain candidate can be comfortable that through ongoing development they are doing their best to prepare their candidate. Also, an enhanced focus on development would provide far less opportunity for perceptions both inside and outside the organization to inaccurately fear that the organization contains near-term festering problems that might lead to CEO turnover. Third, an added orientation to development will reduce competitiveness amongst leaders and in contrast increase the prospects for retention. Fourth, the use of specialized search consultants such as from Russell Reynolds Associates as interviewers within development-oriented assessment can provide a practical, benchmarked view about how good internal talent is in comparison to the relevant external talent market. Therefore, an external point of view about internal talent can be embedded within development. Fifth, added weight to development will help organizations realize that new work assignments and responsibilities are not "nice to do" but "must do" (along with in parallel mentoring or coaching, and appointment to an external board).

Finally, regarding roles, we see the CEO and enterprise head of Human Resources as running the proactive, continuous leadership development process. We look at the board as ensuring this takes place, and as ensuring they are up to date regarding the quality of the supply of talent that could eventually fit the CEO position. On a related point, we understandably have observed a clear trend in which boards want more time and better time with leadership talent under development. They want to have an opportunity to thoughtfully and personally evaluate leaders (for example, within two-day visits to field sites and organizations), as well as to be potentially useful to their development. It is in this way that members of a board can be at their best in taking part in one of the most important decisions in their careers. ■

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