

# The Succession Planning Governance Issue

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Succession planning as a significant business issue has seen more press, both currently and in the last several years, than ever before. CEO's, Boards, and senior management of organizations, both for profit and not-for-profit, are being confronted with the reality that while Succession Planning is a process that can be easily ignored or minimized, it is one of the most important strategic and fiduciary responsibilities of the Board and CEO. The success of headline grabbing organizations, such as GE and McDonald's, is a testament to the outcomes of effective succession planning. On the flip side, the shareholders of companies like Dana Corp., Coca Cola, Gillette, Martha Stewart Living Omnimedia, MCI, Tyco, and others have felt the effects of inadequate succession planning.

The evidence of Succession Planning's strategic value cannot be overstated, whether you consider events such as an untimely death of a CEO or business unit head, a criminal conviction, a sudden termination for performance or other issue, sudden debilitating diseases, or the natural retirement of a leader. In all but the latter case, the negative effects on the organization and its operational and financial performance are usually obvious even to outsiders. In some cases, the lack of a rigorous succession planning process has led eventually to the dissolution of the company, as was the case with TLC Beatrice International Holdings Corp., which was sold off in parts. While that is an extreme case, it is common for the Fortune 1000, and even more common in middle market and closely held firms and not-for-profits. Even in the case of natural retirement, operational and financial setbacks can be observed as the new leadership is thrust into a position without proper preparation, either from the outside or from within.

Fierce global competition has come home to every organization, no matter its size, in ways few would have imagined even five years ago – the outsourcing phenomenon is but one example. Because competition is so demanding today, the missteps of Boards and senior management have much greater ramifications. If the result of inadequate succession planning can be readily observed in operational and financial performance, one can be sure that is only the tip of the iceberg. Loss of market share, loss of momentum on key initiatives, loss of intellectual capital (an organizations most valuable asset today), missed strategic opportunities, new product failures, stumbling acquisitions, and a host of other issues are seen as real and, sometimes, incalculable costs.

Boards and senior management are often misled into thinking that as long as highly qualified people are identified and recruited for key positions that their fiduciary responsibility is fulfilled. They then pay little to no attention to how those successors are being trained and groomed to fulfill their future roles. There is mounting evidence that boards are extremely lax in their duties to their stakeholders. On the extreme of that view, Rakesh Khurana is a professor at Harvard Business School, and the author of *Searching for a Corporate Savior: The Irrational Quest for Charismatic CEOs*. In a recent article in CEO magazine, he points out that the search for charismatic leaders in succession planning can have the negative effect of stifling the rest of the organization. Doing searches for great leaders may make the Board and senior management feel good, but may not lead to sustained competitiveness.

CEO Magazine recently quoted a DDI survey of 1200 readers. While 96% of CEO's believe succession planning is vital to the organization on several dimensions, less than 20% believe their process is effective. Other governance specialists believe the real number of organizations that have effective succession planning processes in place is a tiny fraction of that.

Senior management and Boards have both a strategic and fiduciary responsibility to ensure a rigorous succession planning process is in place in the organization and at the Board level. The process can be on the leading edge of succession planning practices simply by ensuring that it is defined and implemented. At the same time, ensuring it is pragmatic – the process can be implemented without resorting to elaborate or sometimes controversial practices. Our research and experience is that organizations that implement a well thought out process are ahead of 90+% of companies across all industries. As a bonus, good succession planning processes prepare management to capitalize on the next opportunity to enter new markets or manage new acquisitions and actually add real value to the bottom line!