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Managing the dynamics of CEO succession

by MARGARET EXLEY

Managing the succession of the CEO is unlike any other decision a Board has to take. It is one of the very few decisions, which affect the operational management and performance of the organisation, but where the CEO is not the final decision taker. It's also personal. CEO's rarely begin thinking about succession as soon as they should. For a number of reasons, including fear of confronting their own mortality, they sometimes put off dealing with succession. When succession processes run aground, they can destroy their legacy by threatening investor confidence, lowering share prices, attracting adverse media attention, creating dissension within the Board and initiating destructive political behaviour among candidates. However, what many Boards don't always recognise is how much work and planning effective CEO succession requires.

CEO succession needs a long lead-time. Typically, as we work with clients we expect to begin the process about 18 months before the departure of the current CEO. However, in some cases the work can start several years before. The reason to start so early is because the work involves thinking through the timing and criteria, particularly in the context of the future needs of the business. Selection criteria are critical, and need careful development. This can take time, and needs to be done privately and personally between the Chairman and Chief Executive. The CEO needs to avoid creating a horse race among the management team, which can be disruptive and unhelpful in managing the current business. Each potential candidate should be assessed by the CEO against very clear and specific business related criteria. Sometimes this may involve casting the net wider in the company than the 'usual suspects' and looking at the potential of candidates who with two further career moves may be ready for this critical role.

There are four critical phases to effective CEO succession planning.

Phase 1 - Situational Assessment. The required actions here depend on the Chairman's and Chief Executive's reading of the organisation as well as matters of personal importance, such as how long the CEO wishes to remain and when he might want to retire. The conversations that take place during this phase are private. The CEO may think this through alone or turn to a trusted advisor.

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A key question in the timing of the CEO's departure. Factors such as age, the stability of the company and the availability of a qualified successor weigh heavily on this decision. To maintain maximum influence over the succession process, the Chief Executive should consider leaving sooner than others expect. The next key decision in the assessment phase is to identify the selection criteria. Rather than looking backwards at the candidates' performance in current positions, the company's future strategy and related leadership needs should be considered. Often, the company faces major changes, and people who are adequate managers today will not possess the leadership capabilities that will be required tomorrow. CEOs are well advised to use a rigorous process to rate candidates, because it both helps them to think more objectively about each person's potential and to prepare for later communications with the candidates and with the Board. Based on the early assessment, development plans for each candidate can be constructed.

Since CEOs are often emotionally attached to their roles, they may hesitate to start the process at the point when it would be best for the company or when they can still have the greatest influence over the process and outcome. If CEOs wait too long to begin the process, their age or the company's performance may cause the Board to start the process with or without the CEO's support. CEOs who wish to have maximum influence on the succession process must start the process at the peak of their power, not once their influence has begun to wane.

Outgoing CEOs should be fully engaged in the selection of their successors even if they would prefer to remain neutral and leave the choice to the Board. Whilst most Boards consider selection of the CEO as their most important responsibility, Boards typically concede that they are less knowledgeable about the candidates and less well acquainted with the intricate details of the company's strategy and competitive situation than the CEO. Some Boards may advocate the need for fresh thinking at the top or favour a candidate they know personally, but these are not usually the best criteria to use in making a selection. The CEO needs to share information with the Board regarding the candidates, the company status and the most important selection criteria.

Phase 2 - Engagement. This begins when the CEO indicates to the Board, or a Board Committee charged with overseeing CEO succession, that the succession process has begun and that the search for a successor is formally underway. This need not involve a public announcement. In fact, it probably should not involve any external communication. Communication between the CEO and the Board is enough to begin the process. At this point the Chairman and the CEO must define the 'rules of the game'. These include:

- Agreeing on the timing of succession
- determining the roles of the CEO and the Nomination Committee
- reviewing the selection criteria and the CEOs assessment of internal candidates
- deciding whether an external search is needed
- considering the impact of succession on the senior team
- planning for communications to important internal and external stakeholders

Formally, the Board takes the succession decision, while the CEO manages the succession process, with the oversight of the Chairman. However, if the CEO does good work during the situation assessment phase it is more likely that the Board will accept the CEO's recommendations about the process and the candidates.

Phase 3 - Search and Selection. The search for candidates can range from a rubber stamp of an acknowledged successor to an extensive search for external candidates. Decisions need to be made about how public or private the search is, depending upon the situation surrounding the transition. Selection, of course, can easily take on a life of its own, revealing the deeper concerns of the CEO and the Chairman, as candidates are put forward and evaluated. Due to the difficult nature of these discussions, following a rigorous process designed by neutral third parties can be particularly helpful in surfacing hidden assumptions. Typically, CEOs seem to be harsher on internal candidates than on external ones. CEOs know the internal candidates well and have witnessed their successes and failures. In contrast, because external candidates present themselves in the best possible light, they may appear to do everything but walk on water. CEOs need to be aware of the reputational halo that often envelops external candidates. Especially when their company is not doing as well as they would hope, Boards and CEOs are likely to seek a 'corporate saviour' rather than turning to more qualified internal candidates.

Phase 4 - Transition. This is the period between the selection of the new CEO and the official transfer of authority. During this time, individuals jockey for position with the new CEO, the exiting CEO can experience the lame duck syndrome, and needed organisational changes or reconfiguration of the senior team can be put on hold until the formal transition is completed.

The plan should lay out when key events will occur, how conversations will take place with different stakeholders, what criteria the departing CEO will use to decide when to step aside, and what each expects from the other during the process

There are four requirements that must be met for a successful transition:

1. Complete the official transfer of power from the departing CEO to the new CEO
2. Create a connection between the new leader and employees
3. Gain acceptance of the new CEO by key customers, shareholders, analysts and other important stakeholders
4. Allow the departing CEO to let go and move on.

During this period when all eyes are on the new leader, each decision and communication takes on heightened importance.

Transitions differ in their degree of difficulty depending on the candidate's history. A candidate who moves up from the number two job can expect an easier transition than one who is brought in from the outside. We have seen incoming CEOs handle their transitions gracefully, moving quickly to build a senior team and support for their leadership. We have also seen CEOs stumble out of the gate because they assumed they needed to impress people with their ability to take charge or waited far too long to take action. The best way to meet the four requirements for a successful transition is for the departing and new CEO to agree on a plan to manage the process. The plan should lay out when key events will occur, how conversations with take place with different stakeholders, what criteria the departing CEO will use to decide when to step aside, and what each expects from the other during the process. In some of the smoothest transitions we have witnesses the departing and new CEOs have met regularly to discuss the transition, with a third party facilitating the discussion.

Succession is one of the most important and most difficult tasks a company's leadership will ever undertake. Our experience tells us that CEO succession can be managed for more productive results and a higher return to investors. To do this, Chairmen and CEOs need to work closely together to plan the process carefully, be objective in their assessment of the company's leadership needs, pay attention to the rational, political and emotional elements of the process and thoughtfully craft a plan for the transition. CEOs who devote the same effort to managing it as they do to managing their company's other strategic priorities, help ensure that they leave behind a positive and lasting legacy. CEO

Margaret Exley is the Chairman of Mercer Delta, UK.