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# THE DILEMMA

*Q: My board is reluctant to discuss CEO succession – they are worried about offending our current CEO. How can I convince them to take a more proactive approach to succession planning?*

Directors may differ on what constitutes the most important board role, but almost all will agree that hiring the right CEO for the organization is one of their most critical responsibilities. Yet, many boards struggle to put a systematic process in place for identifying a new executive leader and, consequently, scramble to replace the CEO when confronted with a need to make a change at the top.

One of the most common reasons for lack of succession planning is the discomfort directors feel in broaching the subject with the current leader. They fear that raising the succession discussion will signal to the CEO that the board is dissatisfied with his or her performance. One way to overcome the awkwardness is to ensure that succession planning is a regular subject of discussion between the board and the CEO.

Corporate director Maryse Saint-Laurent believes that a succession plan that focuses on identifying talent beyond the next leader will make the process more palatable for a hesitant CEO. A good start, she says, is to assess whether there are internal candidates who could be ready to take the CEO job within a one-to-two-year period, and others potentially in a three-to-five-year period.

"In both instances, consideration should be given to what development plans may be necessary to ready the prospective candidates in the predicted time frames," she says. "By putting a staggered plan in place, it puts the process in context for all involved."

Saint-Laurent also notes that "boards should equally turn their minds to addressing potential emergent situations, such as if the CEO was

to become ill or incapacitated. The emergent-need candidate is one who would not usually stay in the job over the long term but could lead the company through a stressful time or prepare [it] for a future chief executive transition."

According to Adrienne DiPaolo, a partner at law firm Torys LLP in Toronto, boards should start CEO succession planning early – well before a transition is on the horizon – to enable a more robust process and allay any anxiety about offending the current CEO. "Boards shouldn't shy away from leveraging the current CEO's expertise, particularly early in the succession process. The CEO's views – including thoughts on the skills, competencies and qualities required – should inform the board's design of the new CEO profile and selection criteria. The CEO

also plays a key role in developing and evaluating the internal pipeline of candidates,” says DiPaolo. Some organizations also offer specific incentives for the CEO to help develop senior executives’ talent, in an effort to ensure that internal candidates are being properly identified and prepared.

However, boards should not expect the CEO to lead the process of finding his or her own replacement. According to DiPaolo, “the CEO’s involvement should taper off over time as the board’s search process becomes more focused.” Current CEOs may have a bias toward finding someone who will carry forward their own vision of the organization and may not be able to provide a broad enough perspective on the qualities required to lead the organization into the future.

One of the key elements that the board must agree on is the strategic vision of the organization and what leadership qualities will be required to fulfill that vision in the near and long term. The board also needs to understand how the organizational culture supports the strategic plan and be prepared to choose the right CEO to support that culture or, if necessary, help transform it.

Different sectors may face different challenges when it comes to CEO succession planning. In the not-for-profit sector, for example, many directors may not have the necessary experience to hire a CEO. There may also be fewer internal candidates for the position, so organizations may be forced to look externally.

Among privately owned businesses, “CEO succession is rarely, if ever, practised in the boardroom,” says Darren

Rawson, a principal at Ozone Advisory Group, an Edmonton-based governance consultancy for private companies. “The CEO is often the sole or majority shareholder, has been there a long period of time, and is not ready to turn over leadership. Since most private company boards meet less frequently, perhaps quarterly, board time is extremely scarce and strategic conversations often dominate the agenda.”

However, Rawson notes that “progressive private company boards look at CEO succession as part of a larger talent development conversation.” Rather than identifying one or two named successors, the talent review process should identify talent gaps within the organization and outline how to develop people who are already working for the company.

Rawson adds that private companies should consider implementing “a simple process that summarizes the current talent, outlines the strategy to develop talent, and identifies the talent gaps, [thereby] enabling the board to have a healthy conversation and ensure that talent development is included in business planning.”

Having a well-thought-out succession plan is becoming critical. According to a 2018 CEO transition survey by Spencer Stuart, median CEO tenure at large-capitalization companies in the United States fell to five years, down from six in 2013. As organizations face a shifting landscape and increasing disruption, the need for new leadership may become more pressing. If boards are forced to find a new CEO in a hurry, they may not be able to select the best person to lead the organization. ■

## DIRECTORLENS

- Boards may find that CEOs feel more comfortable discussing emergency succession or a staggered transition plan for internal candidates.
- Boards should begin the CEO transition process early and include it as a regular agenda item.
- Boards should address both long-term and emergency succession planning.
- Boards should leverage the current CEO’s expertise on the appropriate skills and qualities needed for the role.
- Boards should not expect CEOs to lead the succession-planning process.
- CEO succession planning is rarely practised by private company boards but progressive private boards can build it into a broader talent-development process.

*Send your comments or ideas to:*

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