

A surprising number of companies don't have a CEO succession plan. Here's why

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Updated 9:47 AM EDT, Fri September 06, 2019

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Whether they quit, retire, get fired or die, all CEOs eventually leave. The billion-dollar question is: Who should replace them?

The boards of 20% of public companies and 32% of private ones can't answer that question. That's because they haven't discussed long-term succession planning in the past 12 months, according to a survey conducted by the National Association of Corporate Directors.

A higher percentage haven't even identified an interim CEO in case a CEO leaves abruptly.

But merely discussing a succession plan doesn't really indicate whether a board is adequately prepared to replace an exiting CEO.

"I can tell you from having heard these conversations that they can be so perfunctory as to be almost meaningless," said Mark Nadler, founder of Nadler Advisory Services, which counsels companies on succession issues and board effectiveness.

Picking and developing potential successors should be an intensive, ongoing process for boards and CEOs. But it can get emotional. And if it's not handled well, a company risks losing key talent along the way.

Insiders or outsiders?

A board should assess -- and regularly update its assessment -- of the kinds of experience potential CEO candidates will need to best meet a company's future strategic needs.

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When they identify internal candidates, they'll also need to figure out how best to develop them -- e.g., what are the best stretch assignments to give them, do they need a coach or should they be enrolled in an executive education program.

Usually a few board members will be convinced there have to be better people from outside the

company to choose from, while others will contend an internal candidate is a better bet.



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"Often it turns into a battle over two clichés," Nadler said. "Familiarity breeds contempt. Better the devil you know than the one you don't."

But looking outside the company in a succession search is usually something boards want to keep very quiet. Otherwise talented executives -- themselves potential successors -- will be more likely to leave if they feel that the board is looking for someone better.

The uncomfortable conundrum for incumbent CEOs

It used to be CEOs could recommend a successor and board directors would greenlight the candidate, Nadler said. But with increased investor scrutiny about companies' succession plans, those days are gone.

Still, CEOs need to help the board select and groom candidates.

The problem is, they're basically being asked to replace themselves and cede power, despite a career spent amassing it.



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Former Xerox chairman and CEO Anne Mulcahy has noted how hard the succession process is on incumbent CEOs. "It's designed to make you go away without causing a big impact, and that doesn't come naturally. Giving up power and accountability is a challenge," Mulcahy wrote in a

[column](#) for the Harvard Business Review.

What's more, a board's preference for certain candidates over others can read like a verdict on the incumbent CEO's performance. "Will it confirm that I did a great job if the board picks someone like me or slap me in the face if they pick someone who will take things in a different direction?" Nadler said.

In other instances, he noted, both CEOs and board members drag their feet on succession planning because a CEO may be reluctant to plan for his exit -- especially early in his tenure. And board members who have grown close with him may be reluctant to push him on it.

Steps to a better process

To help assure buy-in from the CEO in the succession process and retain talent at the company, corporate governance and compensation consulting firm Farient Advisors suggests that boards might link some of the CEO's bonus to the development of internal candidates and provide retention packages to those senior executives who lose the succession race.

The NACD recommends that succession planning be integrated into boards' long-term strategy discussions rather than treating it like a standalone process.

And Nadler urges board members to get to know internal candidates and a CEO's entire senior team. "Board members need to get out of the boardroom and get to know their company's leaders."

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