SUCCESSION PLANNING

Should a Crisis Change Your CEO Succession Plan?

by Dan Ciampa

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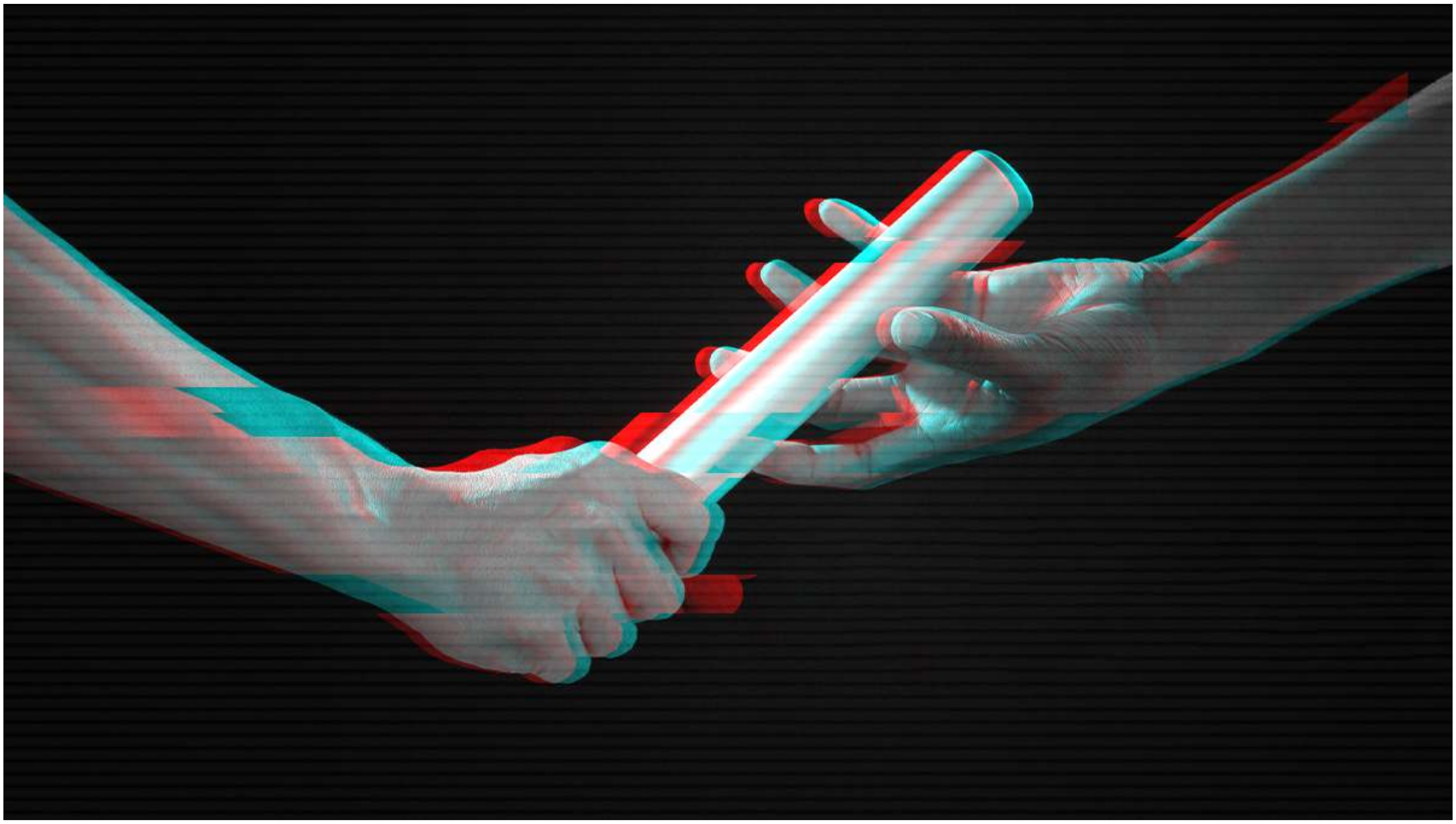

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In any given year, several hundred U.S. companies change CEOs, perhaps as part of an orderly retirement, because the incumbent CEO unexpectedly leaves, or because the board opts for new leadership due to performance concerns.

Such transitions continue during times of crises—and indeed, challenging times can increase the rate of turnover. During the 18 months from January of 2008 to June of 2009, at the height of the last global financial crisis, more than 2,000 CEOs of publicly-traded companies were replaced—a record, according to statistics compiled by the firm Challenger, Gray & Christmas. Although some of these transitions were long-planned, others resulted from boards deciding that new leadership was necessary to deal with the recession and to rebuild their organizations after it was over. Some boards may have believed existing leadership hadn't reacted well enough to early signs of trouble, while other boards needed someone to blame. Whatever the specific reasons, our last crisis created or accelerated significant changes at the top.

At this point we can't predict whether the same will happen with our current pandemic and the economic damage that will follow. But even though we're still in the middle of this crisis, we can make sure transitions from one leader to the next one are managed well.

As directors confined to their homes are replacing face-to-face meetings with tele-conferences and learning to use Zoom, what should they be saying to one another about the succession plans they had initiated? Is a crisis the time to change leaders? Or is it better to avoid dramatic changes during uncertain times?

As boards debate this complex issue, answers to four questions will help them select the right path..

The first question is: ***Who should be in charge during the crisis***? Even if the succession process is in its late stages and an offer is close, it's usually better for the sitting CEO to remain at the helm, assuming he or she has the confidence of the organization and the board. For one thing, the competent incumbent will have in place mechanisms to maintain as much stability as possible, such as established working relationships, decision-making procedures, and communication forums. Also, at times of high stress, employees prefer to be led by someone familiar who projects a steady presence and keeps a strong hand on the tiller as the company enters troubled waters.

One example of a delayed transition is at Harvard Business School, where dean Nitin Nohria was due to step down on June 30, after a decade in the role. In March, Harvard University announced that Nohria instead would stay on as dean until December 31. In a letter explaining the change in plans, Harvard president Lawrence Bacow expressed a desire for Nohria's "steady hand as we navigate the unprecedented circumstances now before us." Bacow also referred to how the crisis was making it hard to focus on the search, writing that the university wanted to postpone selecting a new dean until the administration can "give the ongoing dean search the full attention it deserves."

The exception would be if the CEO had shown any reluctance to hand over the mantle of leadership to a successor, and might view the crisis as an opportunity to show how indispensable he is and stay in place. If the board does ask the CEO to stay longer than planned, limits on the extension should be negotiated; the terms might include a fixed time frame plus the existence of certain signs of stability, such as positive cash flow and sales forecasts.

A second question is: ***When should an outside successor join the company?*** If the objective of the search was to hire a designated successor who would work with the CEO for a transition period before assuming the title, and if a final candidate had been identified, the right path might be to hire that person so that he or she could join the company as soon as possible. Arriving quickly enables the designated successor to gain credibility by being part of the top group as it deals with the crisis and also to use this period to get to know the company and vice versa.

This opportunity comes with two caveats.

The research on succession is quite clear about the importance of the period after accepting an offer and before day one on the job. (See "After the Handshake," HBR, December 2016.) The successor must use this time to get materially and emotionally prepared for her start, and the CEO must ensure that the organization is ready for the successor. If the successor is able to join more quickly than anticipated, the CEO should make sure that early days on the job are used to complete that getting-ready task; otherwise, the transition will not be as smooth or efficient.

Also, recognize that announcing the designated successor sooner than expected accelerates the risk that some senior managers, perhaps coveting the top job themselves, might prepare to leave as soon as the crisis passes. While a common fallout of CEO successions is for passed-over managers to leave, a crisis is not the time for them to be distracted because they're planning their departure. Before the announcement, the CEO and board should agree on a plan to ensure key people remain 100% engaged. That might include committee chairs who have good working relationships with key people checking in with them and reporting back to the CEO, or retention packages to keep them in place until the company stabilizes.

A third question boards should ask is: ***How is the company being changed by the crisis?*** The longer the crisis lasts, the more challenges the company will face as a result of it. In some cases, that means the characteristics, skills, and experiences that are needed in a successor will change from specifications that had been approved months before, when the economy was still growing.

For example, if a company that was performing well in a growth environment and brimming with confidence and cash was seeking a new leader before the crisis, the board's objective might have been to find someone who could aggressively move the company into new markets by expanding its operations, driving innovation, and pushing the culture to take risks.

But because of the coronavirus crisis, that same company now faces an economy that's likely to be stalled for months, customers who are reluctant to buy, a supply chain that's been devastated, and an organization that will need to be rebuilt after furloughs and layoffs. Instead of aggressive expansion, this company will need to cut product lines, rein in costs, and rebuild confidence both internally and externally. That scenario requires a different leader than the type the board had been envisioning just a few months ago.

One non-executive chairman of a company that's searching for the next CEO told me that his board was divided on whether to make an offer to their favored candidate and get her aboard as soon as possible, or to instead pause and wait until the crisis ends to take stock of where things stand. When I asked if he'd considered moving forward but with revised expectations for the next leader because the coronavirus had changed conditions so much, he said: “We haven’t thought of that, but that’s probably something else we have to talk about.”

A fourth question is: ***What can the board learn during the crisis?*** If there are internal candidates to be the next CEO, the crisis presents an important test of leadership capacity. Observing them closely will reveal who is resolute in the face of uncertainty, who is able to make tough choices and stay calm under intense pressure, who helps peers and rallies people to go the extra mile, and who shows compassion and empathy for what front-line workers are going through. For external candidates, the same sorts of issues should be probed in interviews and with their references.

In addition to individuals, directors will learn much about the character of the organization during the crisis that should shape the next leader’s agenda. For example, directors who pay attention will see how adaptive its processes and systems are when stretched beyond previous limits, its resilience in the face of adversity, and whether borders between departments come down and cooperation replaces political squabbles.

The selection of a new leader and the hand-off from a predecessor are delicate and difficult challenges in the most stable of times. When these handoffs take place during a crisis, the degree of difficulty increases. When thought through in a careful way, however, boards can find the right direction that can benefit the company in both the short and the long term.

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