SUCCESSION PLANNING

Your CEO Succession Plan Can’t Wait

by J. Yo-Jud Cheng , Boris Groysberg and Paul Healy

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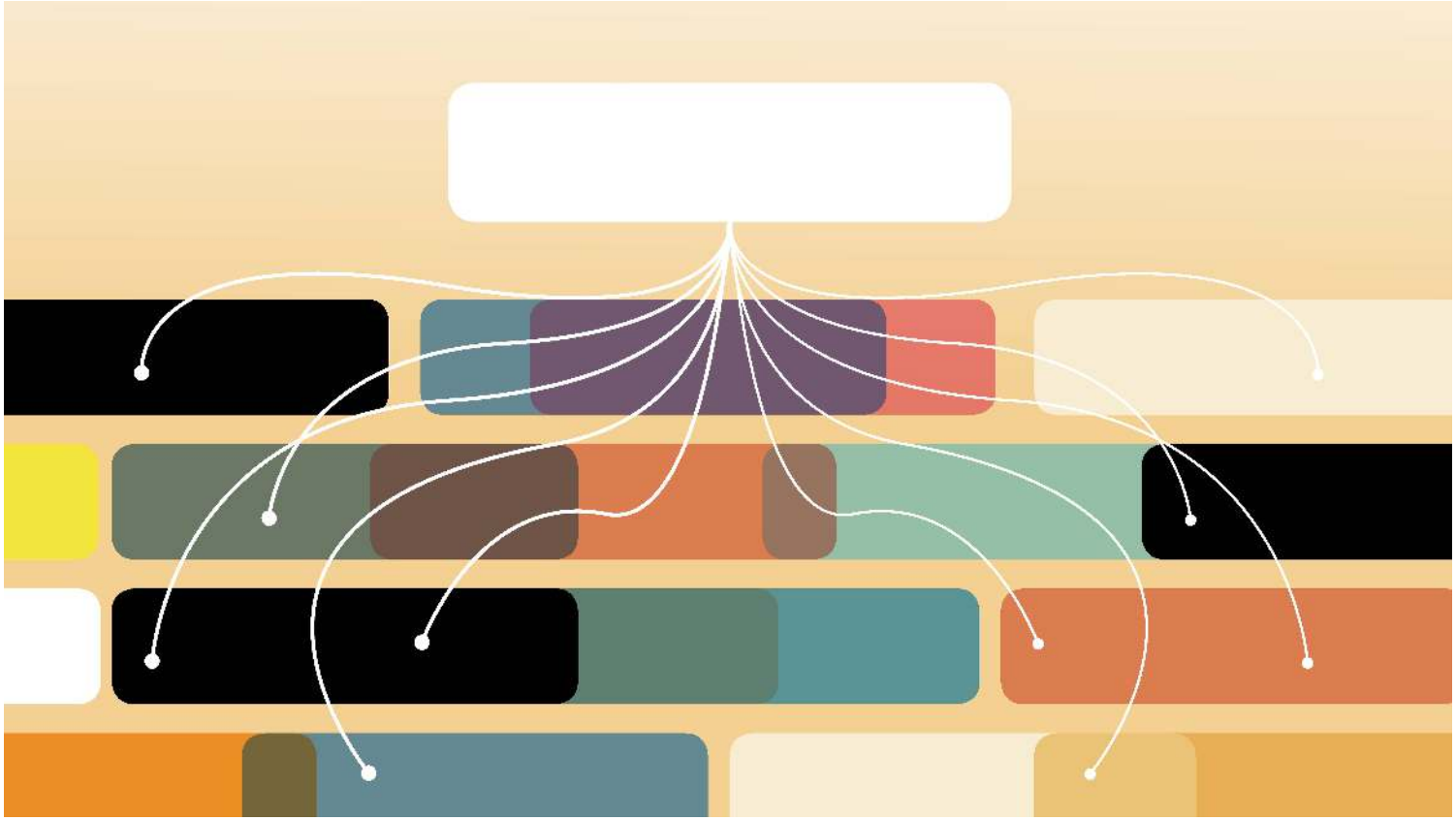

HBR Staff

“We really need to have a name in the envelope as soon as possible.” So begins many of the discussions we’ve been having lately with board members who are frantic about CEO succession planning. Given that the median age of S&P 500 CEOs is 58 — putting many executives at higher risk of Covid-19-related illness — it’s no wonder that inquiries we’ve received from companies around the world focus intensely on best practices in running a “quick” CEO succession process.

Adding to the urgency, succession planning has long been a blind spot for most boards. From 2015 to 2016 we conducted a global survey to better understand the experiences, practices, and attitudes of board members. In this article we will share what our work reveals about relative levels of succession preparedness across regions and industries. Our findings should spur directors of companies without adequate plans to act now. Toward that end, we also offer suggestions for approaching this admittedly delicate task thoughtfully.

Where the Need for Planning Is Greatest

Among the companies based in countries with the highest number of confirmed coronavirus cases thus far, those in Spain, Brazil, China, and Italy are the least prepared for an emergency succession. A startling 83% of boards we surveyed in Spain, and more than three quarters of boards in Brazil, China, and Italy did not have a contingency plan in place, failed to discuss CEO succession regularly, and lacked a process for such planning. The gaps can too easily create major leadership instabilities that may stall economic recovery.

Where Succession Planning Is Most Needed Among Countries Hardest Hit by the Pandemic

According to a global survey of board members, the share of respondents who said their board...

	Does **not** have a contigency plan for CEO succession	Does **not** regularly discuss CEO succession	Does **not** have an effective plan process for CEO succession
All companies	53%	41%	54%
Countries at risk			
Spain	83	60	57
China	78	78	73
Italy	78	81	72
Turkey	69	78	72
France	61	67	65
Belgium	60	64	56
UK	60	37	57
U.S.	45	29	46
Germany	44	53	49
All countries (by region)			
Africa	55	34	48
Asia	64	72	68

Asia	64	73	68
Australia/N.Z.	56	23	52
Cental/South America	72	49	54
Eastern Europe/Russia	60	43	81
Middle East	69	76	73
North America	45	29	47
Western Europe	59	48	59

Note: Countries at risk were identified based on the total number of confirmed coronavirus cases as of April 21, 2020, from the Johns Hopkins Coronavirus Resource Center. Succession planning data were not available for Iran and Russia.

Source: Global survey of over 5,000 board directors, conducted from 2015–2016 by Professors Boris Groysberg and Yo-Jud Cheng; Spencer Stuart; WomenCorporateDirectors Foundation; and independent researcher Deborah Bell.

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When we looked at the industries with the greatest economic exposure to the coronavirus, media and leisure products were least prepared for an emergency CEO succession. Many of these boards did not discuss CEO succession on a regular basis prior to the coronavirus pandemic. This pandemic may fundamentally alter these industries, and boards will need a robust succession plan to ensure that they have the right person in place to lead into the tumultuous future.

The Industries Most in Need of Succession Planning

According to a global survey of board members

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	Does **not** have a contigency plan for CEO succession	Does **not** regularly discuss CEO succession	Does **not** have an effective plan process for CEO succession
All companies	53%	41%	54%
Industries at risk			
Media	61	51	67
Leisure products	60	38	50
Metals and mining	57	42	61
Auto components	57	50	53
Textiles and apparel	57	46	57
Hotels and restaurants	56	28	50
Automobiles	50	44	36
Airlines	47	25	38
Oil and gas	45	39	56
All industries (by category)			
Consumer discretionary	57	40	53
Consumer staples	53	38	55
Energy and utilities	38	32	47

Energy and utilities	[illegible]	[illegible]	[illegible]
Professional services	50	43	52
Health care	61	45	60
Industrials	52	38	51
IT and telecom	59	44	66
Materials	55	40	56

Note: Industries at risk were identified based on Moody's Global Covid-19 Impact Heatmap. "Textiles and apparel" includes luxury goods. "Hotels and restaurants" includes leisure facilities. "Oil and gas" includes consumable fuels. "Professional services" includes financial services.

Source: Global survey of more than 5,000 board directors

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We also found that 63% of private companies did not have a CEO succession contingency plan in place, and 69% of companies with less than $50 million in annual revenues lacked a plan. Succession planning was more common among larger firms, but the need for a succession plan is often more acute in small firms, especially start-ups. As one start-up director said, "We have significant key-man risk, as this is a start-up that monetizes the thought process and experience of the founder." Moreover, when the pool of internal executives is small, boards need to think creatively about back-up plans and ways to divvy up critical responsibilities to ensure business continuity.

Company Size Is Also a Risk Factor

According to a global survey of board members, the share of respondents who said their board...

	Does **not** have a contigency plan for CEO succession	Does **not** regularly discuss CEO succession	Does **not** have an effective plan process for CEO succession
All companies	53%	41%	54%
Company type			
Private	63	59	68
Public	47	31	46
Company revenues (annual)			
Less than $50M	69	66	79
$50M to $99M	60	54	68
$100M to $499M	58	41	56
$500M to $999M	50	33	52
$1B to $4B	44	30	43
$5B to $19B	36	21	32
$20B to $49B	41	19	28
$50B to 99B	44	36	37
$100B to $400B	43	27	34
More than $400B	54	40	46

Source: Global survey of more than 5,000 board directors

What Steps Should Boards Take?

Even in the best of times, succession planning can be a challenge. In the words of one director: “We find this really difficult, so [we] are ducking the issue. We know we have to address it, but keep deferring.” Such excuses are even less tenable now. Covid-19 is forcing boards and management to work together more intensively to ensure the long-term health of the firm —and this new level of collaboration decidedly includes succession planning. In particular, the pandemic necessitates more extensive contingency planning than usual and a reassessment of leadership needs within the rapidly evolving industry environment. We recommend the following steps:

- **Start by laying groundwork for the short term.** Boards need to know who can take the helm on an interim basis in the event that the CEO leaves the firm, or becomes ill, or otherwise unable to fulfill their duties. Directors need to prepare a list of candidates — ahead of time! — to call if a vacancy arises. The board should collaborate with human resources to ask the CEO for a list of back-up candidates and also identify directors who could step up.
- **Don’t cut corners on the longer-term plan.** When planning for the longer term, boards should devise and maintain the process of leadership development, succession planning, and CEO selection. Although the process might need to be accelerated, it is important for the board to work through the appropriate steps and to evaluate the new reality: What does the CEO role require moving forward? What is the appropriate profile?
- **Revisit existing plans and priorities.** Boards that already have a longer-term plan in place cannot be complacent. A plan from a few months ago might not be

relevant any longer. Given how dramatically the pandemic has affected some industries, directors should be prepared to reconsider the profile of their next CEO. For example, companies in the cruise and retail industries that were focused on growth just a few months ago are now facing the need for a turnaround. The right candidate to lead the charge might need deeper operational experience or other capabilities that were less of a priority in the past. We are also hearing that more and more boards are looking for a digitally savvy CEO and are willing to skip a generation of executives to get one (called "CEO leapfrogging").

- **Consider *all* critical roles.** It takes more than one person at the top to manage a crisis situation. When formulating a succession plan, look at the rest of the top team and the board. Are there back-up plans in place for all individuals in critical roles? This is a time for management and board directors to be aligned, cohesive, strong, and supporting each other both personally and professionally.

But Don't Rush Things

While we strongly urge boards to plan succession carefully, we are equally adamant that they should take the time they need to select wisely — especially given that directors are being pulled in many different directions right now. Rushing a decision and selecting the wrong candidate can lock the firm into an even more dire and challenging situation.

For some firms, postponing a CEO change to maintain business continuity can be a wise choice, especially if the board is considering an external candidate who will need more time to build relationships and for on-boarding. Amid extreme disruptions in the airline

and financial services industries, the International Airline Group (parent company of British Airways, Iberia, and Aer Lingus) and the California State Teachers' Retirement System (CalSTRS) have announced that their CEOs will defer previously announced retirements.

Still, waiting it out might not be an option for some boards. Under investor pressure, Altria's CEO, who was on temporary medical leave to recover from the coronavirus, has officially stepped down. The CEOs of ADT, Morgan Stanley, NBCUniversal, and Booking Holdings have also tested positive for Covid-19, and the list continues to grow. Preparing for an emergency scenario with the CEO and other critical roles is more important than ever. Having an interim plan will give the board time to make a more permanent decision.

And once a new CEO is chosen, the board will need to do everything it can to help them as they faces the post-Covid reality. One way to do this is to retain retired executives who can provide valuable expertise, institutional knowledge, and support. Boards can consider transitioning the former CEO to an executive chairman role or even a co-CEO role in order to keep them involved in the company's operations. Disney's Bob Iger, who stepped down as CEO in February, has reportedly "reasserted control" as the company contends with park closures and extensive employee furloughs. Meanwhile, at Michaels Companies, former CEO Mark Cosby is remaining employed full-time with the company as a senior advisor, rather than as a board member as previously announced.

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