

Now Is the Time to Revisit Your Emergency Succession Plan

Leadership Continuity and the COVID-19 Pandemic

The COVID-19 global pandemic presents the real possibility that multiple executives could fall ill at the same time, creating a risk to leadership continuity that few boards have prepared for in the past. Potential interim successors might be unable to serve, or more than one senior executive role could require an interim successor.

Most boards address emergency CEO succession in some way, even if it's just discussing the "name in the envelope" who could be quickly tapped for an interim need. The current crisis underscores the importance of having a robust, formal emergency succession plan and raises questions about how prepared most organizations really are.

In this article, we highlight best practices for developing an emergency succession plan and explore additional considerations for succession planning during the current crisis, including:

- » Planning for multiple back-up successors
- » Providing greater transparency about short-term succession plans
- » Taking a team approach to knowledge-sharing and supporting one another throughout the crisis

Define the criteria for the interim successor

Boards historically have prioritized continuity and the likely investor reaction when selecting an interim CEO successor — someone who can give investors confidence that the company is in good hands until a permanent successor is selected. Not surprisingly, the most common interim leaders in emergency successions are the board chair, another board director, the CFO, the COO and, occasionally, a division president.

In a crisis, the board may prioritize different criteria depending on the context and stakeholder needs: a “culture carrier” or leader with significant followership who can calm the organization and maintain continuity in the short term; an executive who is able to rally the leadership team; a highly effective communicator; or the CFO, who is closest to the financials and may be best positioned to manage through a cash crunch.

It’s also important to consider the range of skills and characteristics a leader can bring to the situation. An interim CEO must have a deep reserve of personal energy and resilience to lead under pressure. They will be called upon to make difficult decisions for the greater good. Communications skills and traits such as clarity, empathy and authenticity also are highly valuable in a crisis. The ideal interim can balance the short-term demands of the crisis with the long-term strategic agenda.

Boards also should consider potential successors’ availability — and their longer-term aspirations. Some directors who might be hesitant to serve as interim CEO under normal circumstances may become willing to serve in a crisis, for example. Boards that have recently completed external benchmarking also may consider whether anyone identified as part of that exercise could be tapped in an emergency. Unless the company is in the last stages of long-term CEO succession planning, the interim successor is typically not the person who will become the permanent successor.

Consider the domino effect

Emergency succession plans typically identify an interim to lead for a defined period, under the assumption that the incumbent would return or be replaced by a permanent successor. The most robust plans not only identify an interim successor, but also articulate how the interim’s responsibilities will be handled — whether someone will cover some or all of the interim leader’s current responsibilities or the interim leader will double up responsibilities.

An interim CEO must have a deep reserve of personal energy and resilience to lead under pressure. They will be called upon to make difficult decisions for the greater good.

The current crisis calls for even more contingency planning to address the potential cascading effect of leadership absences. Where possible, organizations may want to identify multiple potential interim successors for key roles and consider other contingencies for covering critical responsibilities. The plan should also consider what additional help the interim may need, and from whom, to lead through the crisis.

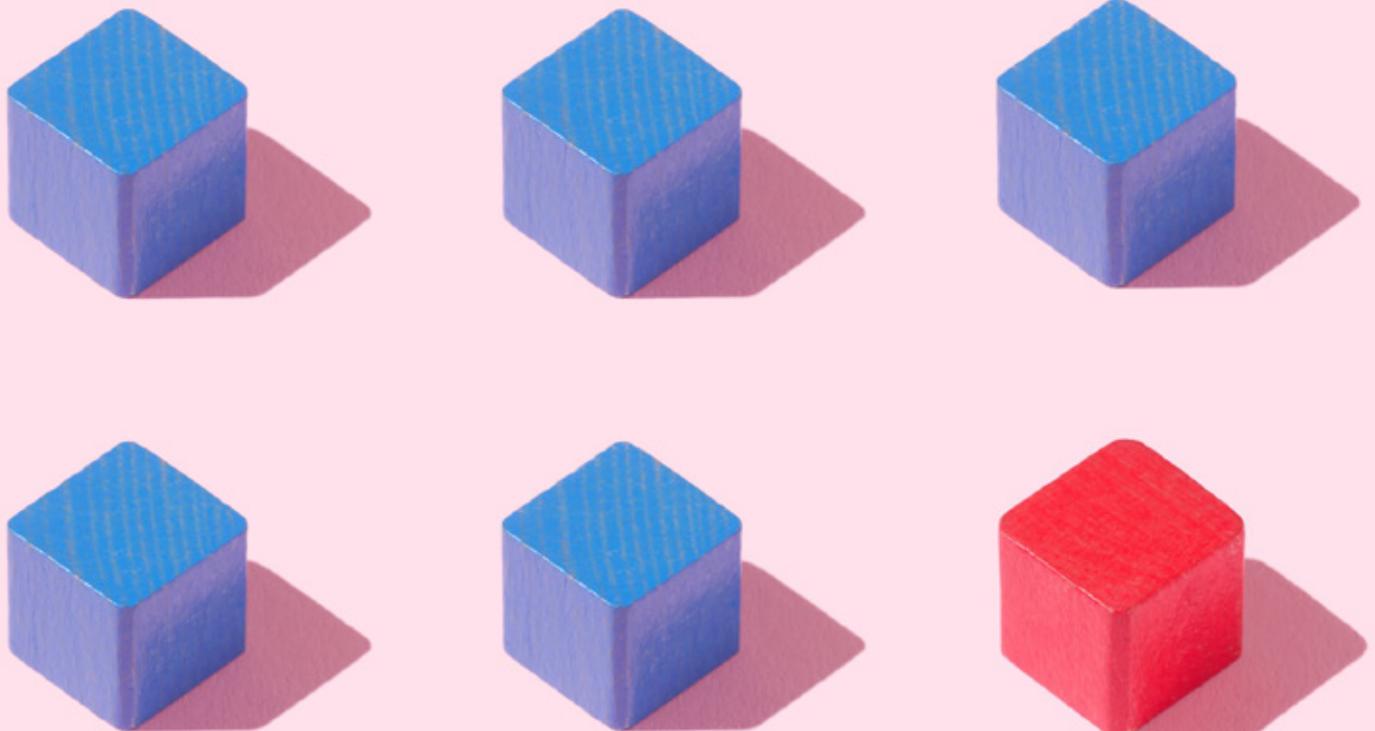
Understand the external talent market

A best practice in longer-term succession planning is to have a view of the external talent landscape in the event of an emergency situation when an outside CEO is needed. An emergency interim successor most often comes from inside the company or the board. However, in cases when there is no ready internal permanent successor, the board will need to look outside. Maintaining a regularly updated view of potential successors outside the company with relevant experience for the future direction of the company can shave months off the search process in an emergency scenario.

Increase transparency

We typically advise boards not to discuss emergency succession plans outside of the boardroom. Advising someone on the executive team that they have been tapped as an interim successor, especially if the person aspires to be CEO, can place undue pressure on the executive and can be disruptive to the team. It also can exacerbate bad feelings if circumstances necessitate a different choice at the time of a transition.

In the current situation, however, letting individuals know that they are potential interim successors can give them time to get smart about the responsibilities they may take on and to prepare for their own succession or back up. Depending on the situation and how long the interim need is expected to last, consider what support the person may need in the interim role — which could include exposure to the board or other key leaders or coaching in areas such as communications and investor relations.



Leadership teams should ensure that knowledge-sharing is actively happening, establishing processes or platforms to provide interims access to the information they may need in an emergency. We've heard from HR leaders whose top leadership teams have established a "buddy system," so that emergency short-term successors shadow one another in important meetings. At another client company, the executive who is a potential interim successor for several key roles because of her versatility is proactively asking where she would be most needed in an emergency and shadowing other leaders. She also is making sure she has her own succession in order.

Delineate the responsibilities of each role

An emergency succession plan should delineate a set of responsibilities for the interim CEO and other key leaders during the transition. For an executive serving as the interim CEO, the emphasis is typically around strategic continuity, communications and leadership. This is distinct from a longer-term successor, whose focus may be on strategy or driving change.

In a crisis like the pandemic, where multiple executives could be out at the same time, each member of the leadership team should understand who will be responsible for what, and the team should be working together to create mechanisms for knowledge-sharing and backing one another up. The team needs to be highly coordinated and working together through the crisis. Executives have to put their egos aside. It's not a time for political maneuvering or positioning.

Make the plan formal: Vote on it and put it in action

It's not uncommon for directors to assume they have an emergency successor for the CEO, but have no formal plan in place. This can lead to misalignment among directors and delay the board's response in an emergency situation.

Things need to move quickly in an emergency, and there will be many other issues to deal with, so being able to put an interim successor in place immediately and having a scripted action plan in place is critical to a smooth handover in an emergency. Boards do not want to find themselves disagreeing about who could step up in during a crisis.

Codifying these activities in a formal plan will help the team to ramp up quickly in an emergency and hold team members accountable for preparation.

The Critical Role of the CHRO in Emergency Succession Planning

One of the most important responsibilities for the chief human resources officer (CHRO) is driving emergency succession planning for the organization. As much as boards' engagement in CEO succession planning has increased in recent years, directors still very much depend on the CHRO to guide a thorough, thoughtful process and ensure that the organization is ready to respond when the time comes. For this reason, the CHRO must be a thought partner with the board on succession and serve as an advocate for a best-practice approach. This includes ensuring the CEO and the board are aligned on emergency succession plans, and that those plans are codified by a formal board vote. Traditionally, emergency plans are reviewed annually, but the COVID-19 crisis suggests that, to be most effective in a crisis, the emergency succession plan needs to be a living, breathing document that evolves as the context changes.

The CHRO and the general counsel are likely to be key drivers of many of the immediate activities in an emergency transition. These can include the communications plan, a plan for the interim's compensation, SEC reporting requirements, contingency planning for other key roles, and the launch of a search for a permanent successor, if needed. As in other succession planning, the CHRO often serves as the chief of staff to the board in architecting the plan.

In addition to naming primary and alternate emergency successors, the emergency succession action plan should outline the sequence of activities that needs to happen immediately in an emergency transition and who is responsible for those activities. These include:

- » Who gets notified when and by whom
- » The process guiding the appointment of the interim
- » The development of required regulatory disclosures
- » Protocols for internal and external communications
- » A process for determining the compensation for the interim CEO
- » Protocols for launching a search for a permanent successor, if needed

The importance of providing a timely and consistent message to stakeholders is a key reason boards should be prepared with a crisis communications response plan. Ideally, press releases for a variety of scenarios should be drafted and ready to use in an emergency situation.

In light of the COVID-19 situation, boards and management teams might consider building out succession action plans to include other activities, such as contingency planning for various scenarios, knowledge-sharing, shadowing and any other steps they plan to take to increase their readiness. Codifying these activities in a formal plan will help the team to ramp up quickly in an emergency and hold team members accountable for preparation.

Conclusion

Leadership continuity is essential for business continuity. History has proven that unplanned leadership vacancies do occur, so it's critical that boards stay vigilant in reviewing the company's succession readiness. A well-thought-out plan will avoid the need for directors to "make it up" in the midst of an emergency that attracts immediate and intense stakeholder scrutiny. The board and the CEO should together establish a strategy in advance and codify the procedures that will take effect if an emergency occurs. The threat to leadership continuity posed by the COVID-19 pandemic suggests that organizations should revisit their emergency succession plan regularly and consider newly relevant issues, such as contingency planning for multiple leadership vacancies. As businesses emerge from the current crisis, many boards are likely to revisit their long-term succession plans as their companies may be operating in a new context and some leaders may be rethinking their transition time horizons.

Emergency succession planning checklist

Define the criteria for the interim successor.

When thinking about the right interim, consider the primary stakeholders and the soft skills that are critically important in a crisis.

Consider the domino effect.

When possible, identify multiple possible interim successors and make contingency plans to address the potential cascading effect of leadership absences.

Understand the external talent market.

Maintain a regularly updated view of potential successors outside the company who could be considered when there is no ready internal permanent successor.

Increase transparency.

Alert individuals that they are potential interim successors so they can get smart about the responsibilities they may take on and to prepare for their own backup.

Delineate the responsibilities of each role.

Identify a set of responsibilities for the interim CEO and other key leaders during the transition, including what knowledge-sharing is needed.

Make the plan formal: Vote on it and put it in action.

Review and vote on the plan regularly so the board is ready to act immediately in an emergency. In addition to identifying interim successors, the plan should outline activities for the immediate response.



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