

# Too Important to Fail: Four New Rules for CEO Succession Planning





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CEO succession has always been one of most critical and high-stakes responsibilities of a board. A failed process can result in an unaligned board, a lack of ready talent and, ultimately, a value-destroying CEO transition. Layering onto an already challenging dynamic, several key forces are converging to make the CEO role more complex than ever — with implications for both the attributes of future CEOs and how boards should approach CEO succession today:

***The external forces affecting business are more dynamic than ever.*** Technological disruption, shifting business models and the rise of new competitors were already reshaping businesses. Now social, political and environmental forces are accelerating their impact on businesses — requiring CEOs to lead on issues such as social justice and equity, climate change and other ESG issues and be prepared to comment on them. All of this is making the job of CEO more challenging. “On one hand, we’re still living amid unprecedented uncertainty, which requires a certain kind of leadership — dynamic problem solving, dynamic risk management, speed, decisiveness, transparency,” one director observed. “At the same time, issues like climate change, racial and social justice, the political divisiveness that we see in our external world all have the potential to spill into the company and have to be skillfully and humanely navigated. That requires empathy, it requires heart, mind and authenticity.”

***CEOs now answer to more stakeholders.*** The rise of “stakeholder capitalism” — accelerated by the COVID-19 pandemic and social unrest — means CEOs are expected to address the concerns of a range of stakeholders, including customers, employees, communities and future generations through sustainable business and social practices. These stakeholders hold CEOs accountable not just in quarterly earnings calls, but real-time through social media, calling out failures to meet expectations around DE&I and sustainability and lapses in empathy and authenticity in CEOs’ interactions with stakeholders. “Stakeholder management is becoming even more important. Your employees are expecting it, your customers are expecting it, and some of your investors are as well,” a director told us. “There was a time when CEOs could hide out from these issues. But in this last year, there was nowhere to hide.”

***Stakeholders demand accountability for diversity, not just promises.*** The data has proven that diverse organizations outperform. The talent exists, but most organizations have not followed through or have under-invested in developing a pipeline that ensures a diverse range of leadership options for their future. Stakeholders are challenging organizations and their CEOs to build and develop a diverse ecosystem of leaders and to provide more transparency on the progress and outcomes.

Best-in-class CEO succession planning will evolve to reflect these realities — accommodating a wider range of possible future scenarios and ensuring boards have more options to select from when a CEO transition is imminent. To do this, boards and CEOs will have to start succession planning even earlier to increase the chances the right person will be ready for whatever scenario the company faces. Boards that do this well will follow the four new rules of succession planning:

1. Take a multidimensional view when scenario planning
2. Increase succession options
3. Evaluate and accelerate potential, don’t just rely on proven experience
4. Think beyond CEO succession to CEO-plus

## Take a multidimensional view when scenario planning

The most effective boards will plan for multiple future succession scenarios and understand the implications for the characteristics and capabilities needed in the next CEO. The scenarios will differ based on the anticipated timeline of the CEO's departure, potential future business directions and the degree of uncertainty about the future. Understanding these different scenarios, including what's needed in an emergency, will help boards agree on the variations of the profile that would best align with the different contexts. The result of this exercise is a future CEO profile that dynamically evolves as the context and priorities come into focus closer to the transition. Some core elements of the profile may be constant regardless of the scenario, such as capacity for judgment, decision-making and change leadership, while others may vary based on the strategic focus, for example, customer centricity, industry experience or financial sophistication.

Boards can collectively explore questions about the future such as: What are the most critical strategic opportunities and challenges facing the company? How much change is required? What are our aspirations for the organization going forward? What critical leadership and managerial competencies would help the next CEO succeed? This process may require directors to challenge assumptions they have about the direction of the business or to think bigger or longer term than their current plans. Directors on the board of one fast-growing company we work with, for example, challenged fellow board members to consider a scenario in which the business was reinvented as a digital platform company with different sources of revenue growth and even more aggressive growth targets — and what that would mean for the type of future leader they would need.

Ultimately, the boards that are best positioned for the future are regularly revisiting their succession planning, treating it as an extension of their ongoing (often annual) strategic review of the company. Succession planning done right begins long before boards think they need a CEO transition.

## Increase succession options

Effective CEO succession planning focuses on identifying and developing more individuals as potential successors to increase the likelihood that the board is prepared for the range of future scenarios envisioned. Boards increase the odds of having a diverse set of options by starting early and casting a wide net at the outset of the process.

To do this, boards will have to be open minded about their options, looking beyond the most-likely successors to include high-potential, seemingly long-shot possibilities who could become the right person given their development trajectory and the circumstances. This involves assessing a wide range of leaders internally to identify their development needs and potential to grow into viable candidates for different scenarios, ensuring they have robust development plans and periodically checking on their progress. Boards can scan external talent to illuminate leadership and experience gaps to develop and close with their internal talent.

Being intentional about including more people in the succession planning process not only increases the odds that the board will have the right person for the future, it also can help companies increase the diversity of their leadership teams. Consider today that, at a record high, [only 8 percent of Fortune 500 CEOs are women](#) and there have only ever been [19 Black CEOs in the history of the Fortune 500 list](#). In order to make real progress increasing diversity in senior leadership — so that there is a greater representation across all backgrounds in three, five and 10 years — boards can use succession planning to grow, develop and accelerate a more diverse talent pipeline, not just one candidate.

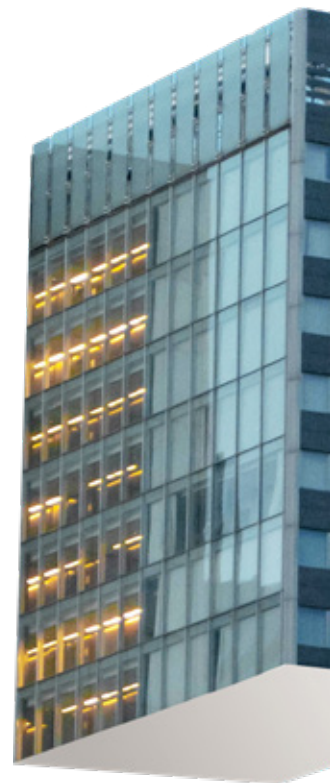
As one director observed, “You are seeing more companies incorporate diversity into their performance plans, so executives are being compensated based on their ability to create a diverse and inclusive work environment. Younger executives are being challenged to get multiple assignments earlier in their careers, so that by the time they get to the point where they’re being considered for the top jobs, they’ve done a lot of different things within the organization. That’s optimal.”

## Evaluate and accelerate potential, don’t just rely on proven experience

Potential is a powerful antidote against change and disruption. Our research finds that the ability to adapt, learn and adjust is critical for all CEOs today — whether they are serving in the role for the first time or have prior experience. Leadership attributes including agility, humility, empathy, resilience, adaptability and the capacity for judgment and decision making in novel, unfamiliar and highly ambiguous circumstances are the traits that the most effective leaders draw on to respond to new challenges and ongoing disruption.

The ability to assess for potential and develop these critical traits in future leaders is critical, given that an 84% of newly appointed S&P 500 CEOs in a given year are serving in their [first CEO role](#) and need to grow and develop quickly to meet the demands of the position. CEOs with prior CEO experience also need these leadership characteristics. While they may come into the role with a proven playbook to draw on and access to talent, those who over-rely on their prior experience or are less able to adapt to a new context may underperform over the long term.

“Agility is a really important quality both for a leader and for a company. The ability to anticipate and adapt will be one of the key characteristics differentiating the most competitive companies, and a quality that will differentiate the most effective leadership,” one director told us.



Agility and potential, however, are more difficult to assess and less likely to be developed in traditional talent development approaches. Forward-thinking CEOs and CHROs will work together to create development approaches that reward and develop these critical but nontraditional leadership attributes, including ethical reasoning, cultural dexterity and self-awareness, and boards will make sure talent development approaches are in place as part of succession planning. We have seen that a robust assessment of CEO potential can give boards the confidence that a succession candidate has the ability to grow, adapt and overcome gaps in experience to handle the strategic complexity of the CEO role.

## A focus on development

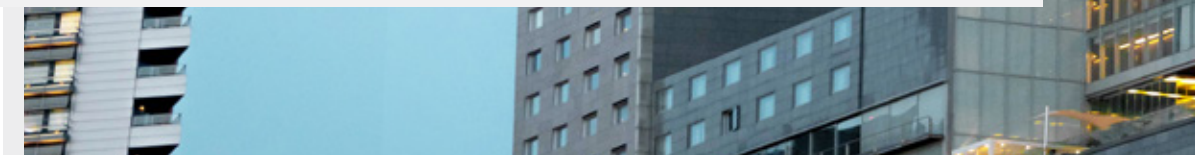
Hubert Joly, former CEO of Best Buy, went as far to say that succession planning should actually just be called development planning.

Viewing succession planning through a development lens mitigates a lot of the anxiety and perceived risks boards are concerned about when the topic of succession planning is raised.

Creating a succession planning process that both identifies a future successor and strengthens the overall leadership team requires boards and CEOs to start early and create a process that includes more than just the most likely successors. This includes looking more broadly for people with high potential earlier in their careers who could be contenders for the CEO role with the right development plans and interventions. Without a formal assessment process, some of these high-potential leaders could be overlooked — because of a language barrier or some other unconscious bias, for example, or because their current role is more limited in scope.

The first step is a thorough assessment of top leaders in the organization, even two or more levels down in the organization, to identify those who have the ability to stretch well beyond their current roles. These leaders tend to be highly adaptable, learning-oriented and able to navigate complexity and politicized situations. They have good judgment, even in situations they haven't encountered before. Specialized assessment tools can provide this insight about leaders' potential, but there are other indicators of individuals' ability to go far, including the ability to connect, engage, and win the hearts and minds of others.

Specific development plans and coaching accelerate executive development. The most effective development tool is an assignment to a new larger or more complex role along with specific, clear development goals and game plan for getting the most impact from the experience. Development goals might include leveraging their leadership impact, leading with purpose, communicating authentically, increasing their understanding of how boards work, building external networks and visibility, and shaping their agenda.



Companies that do this best will incorporate what they learned about leadership from the pandemic into their succession planning and talent development processes, the director said. “These companies are saying the pandemic was not just a window into the characteristics that are needed in the case of a ‘100-year flood,’ but what is needed to lead in the world we’re living in.”

## Think beyond CEO succession to CEO-plus

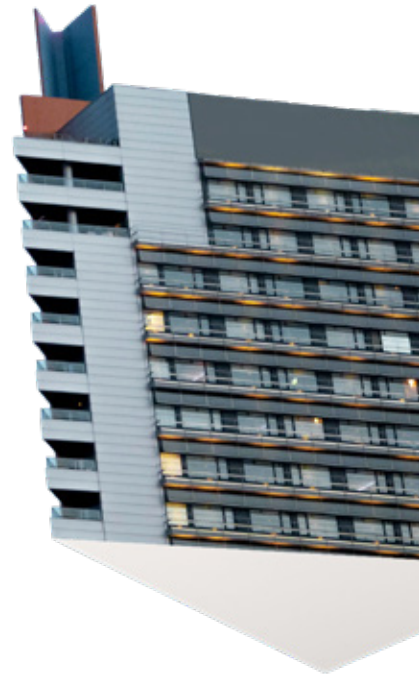
The best CEOs are complemented by a diverse team of the right leaders to support their success and address gaps in their skills or knowledge. A robust succession plan — that starts early, casts a wide net and focuses on development — produces strong internal options for CEO succession but also accelerates the development of a broad set of leaders, many of whom will be critical to the new CEO’s success. Increasingly, boards should be thinking in terms of the ecosystem of supporting talent that will be critical to helping the organization succeed in its next phase.

Moreover, succession planning doesn’t end when the selection is made. Too many boards think their job is done when the next CEO is announced, but the [first two years of a CEO’s tenure are a critical opportunity to create a strong foundation](#) that will bend the performance curve of the company over the CEO’s entire tenure, our CEO Life Cycle research has found.

Aligning on a strong onboarding plan, development support for the CEO — including top team effectiveness work — and a plan for the board to stay in sync with the CEO about expectations and performance will ensure the CEO has the necessary ecosystem to accelerate and thrive.



The CEO role is changing, and traditional succession planning approaches built around a single CEO profile and one view of the future of the business are insufficient for today’s dynamism. Going forward, best-in-class CEO succession planning will reflect multidimensional scenario planning and embrace robust talent development approaches that increase the diversity of the executive pipeline, produce more CEO options for the future, develop an ecosystem of top leaders who will be critical to the organization’s long-term success, and invest in early support of the eventual new CEO and top team.



# SpencerStuart

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