AlixPartners

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CEO SUCCESSION: START NOW, MITIGATE THE RISKS

Change in executive leadership is predictable, and when planned for and managed well, the transition can reinvigorate and renew a company's mission, culture, values, and productivity. When mismanaged, however, a leadership transition can destabilize financial performance, erode competitive market advantage, shake employee and investor confidence, and damage company culture.

The risks are clear, yet the record of mismanaged leadership transitions is long and well documented. A recent AlixPartners survey of more than 100 companies reveals as many as two-thirds showed some aspect of under assessment and underpreparedness at key stages of the succession planning process. We found that most companies fail to take advantage of available tools and techniques to reduce the risks inherent in finding, preparing, and installing new CEOs. Our research also finds that using a mix of six practices focused on leadership development, practical preparation, and rigorous assessment improves the chances that a leadership transition creates value, rather than destroying it.

There is a stark contrast between a carefully planned transition and one made amid corporate distress. A company's readiness for and approach to CEO succession planning is most noticeably put to the test in times of crises and abrupt CEO departures. While several high profile tech companies recently struggled to replace their CEOs, Volkswagen named a CEO successor overnight after Martin Winterkorn resigned in the midst of an emissions scandal. Some companies are better prepared with stronger CEO contingency plans than others.

The AlixPartners survey addressed just over 100 chief executives, corporate owners, and board members, and examined approaches to talent development and CEO succession planning practices. It assessed corporate management at all stages of the CEO succession process, from the identification and development of high-potential leadership candidates into prospective CEO successors to the methods ultimately used to assess and compare them. It also addressed performance-related expectations for new CEOs.

Whether a company is naming a new CEO in a long-planned transfer of power or quickly installing new leadership during a corporate crisis, the process is demonstrably strengthened by focusing on preparation and assessment. There is no single path to smooth leadership transitions, though several elements can be combined to craft the best approach for each company.

UNDERPREPARED: EXPECTATIONS OUTPACE DEVELOPMENT

Not all companies have equal resources to devote to CEO succession planning or developing high-potential leadership candidates. However, our research reveals that even when companies underinvest and underprepare for such leadership transitions, lofty expectations persist in terms of how quickly a successor can be identified and placed in a role – a strong disconnect between practice and expectations. Over 75% of survey respondents expected potential successors to be ready within a year, over 50% expected the same within six months. At the same time, almost one-third of respondents said they lacked formal programs for preparing these individuals. As Figure 1 illustrates, a company's approach to CEO successors is defined more by what is not being done to develop them, than what is.

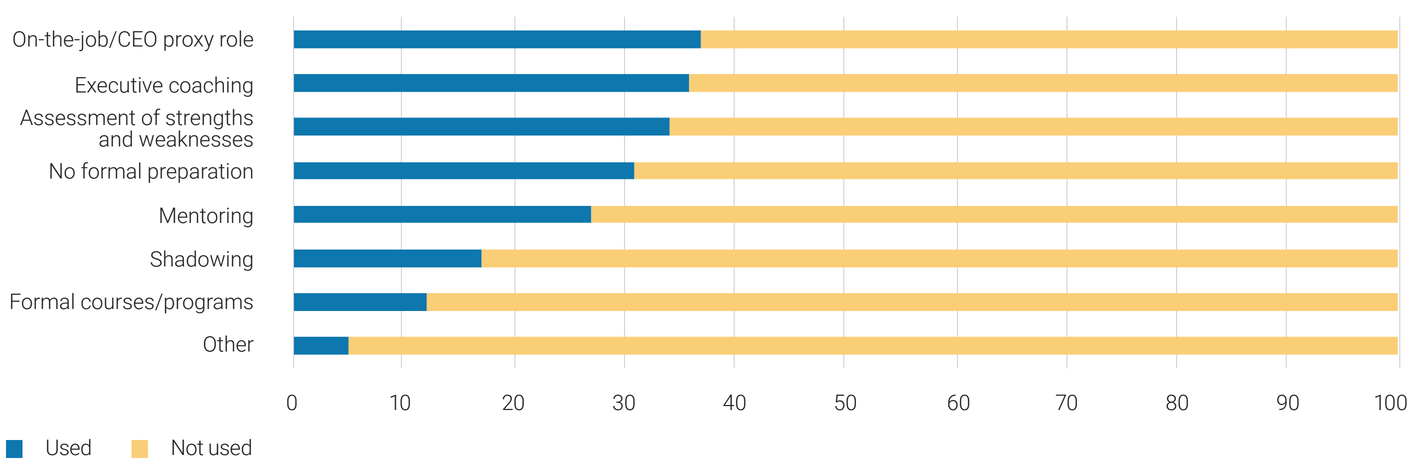
Some of the most popular ways to prepare CEO successors include on-the-job experiences, executive coaching, and formal assessments of leaders' strengths and weaknesses. Approximately one-third of survey respondents used these techniques. This suggests a staggering two-thirds of respondent organizations lack these fundamental developmental practices. In fact, 31% of our respondents said their organization provides no formal preparation or training at all for CEO successors.

Successful CEO transitions are more likely to occur when companies have diligently developed a deep bench of leadership talent. Consider Sundar Pichai, named in August 2015 as CEO of Google Inc. News reports commented on his "meteoric rise," but Google recognized Pichai's potential as early as 2004 as a key product manager with an ability to build and lead effective teams, while also mentoring and retaining top talent in a highly competitive landscape.[1] His stretch assignments included several role rotations, offering opportunities to gain product knowledge while learning and demonstrating his ability for strategic execution. He developed broader leadership experience overseeing the development of Gmail, Google Maps, the Chrome operating system, and the mobile-friendly Android operating system. His "meteoric rise" required years of careful planning and preparation on the part of others.

Boards may be underestimating the quantum leap in abilities and skills required for the role of CEO. Many key CEO responsibilities simply do not exist at lower levels, making it difficult even for experienced executives to prepare for their first CEO appointment without a specific strategic development plan. Industry wisdom suggests that a period of three years is required to effectively prepare a new CEO.[2] At the same time, management expert Noel Tichy says corporate boards typically kick off succession planning only in the last year or two of the sitting CEO's tenure.[3] This timing disconnect may explain the lack of ongoing formal preparation for top leaders. There is considerable room for improvement as companies realize last-minute, haphazard succession planning approaches are inadequate and create unacceptable levels of organizational risk.

FIGURE 1: HOW ARE CEO SUCCESSORS PREPARED?

If you have an identified sucessor(s), how are they being prepared for the role?



Source: AlixPartners

1. CNN Money, Aug. 11, 2015: http://money.cnn.com/2015/08/10/technology/who-is-sundar-pichai-google-ceo/
2. Charan, Ram. 2005. Ending the CEO Succession Crisis. Harvard Business Review. February
3. Noel Tichy, Succession: Mastering the Make-or-Break Process of Leadership Transition (New York: Portfolio, 2014), p. 58

UNDER ASSESSMENT = UNNECESSARY RISK

Given the lack of rigorous leadership training and preparation, one might expect that organizations are investing heavily in assessment procedures to ensure that the right person is selected for the top role. Regrettably, this is not the case.

Our survey results revealed scant use of assessment tools and methods to evaluate candidates for the most visible, influential role in an organization (figure 2). Nearly half the leaders surveyed use only one additional assessment method beyond their standard internal interviews with CEO candidates.

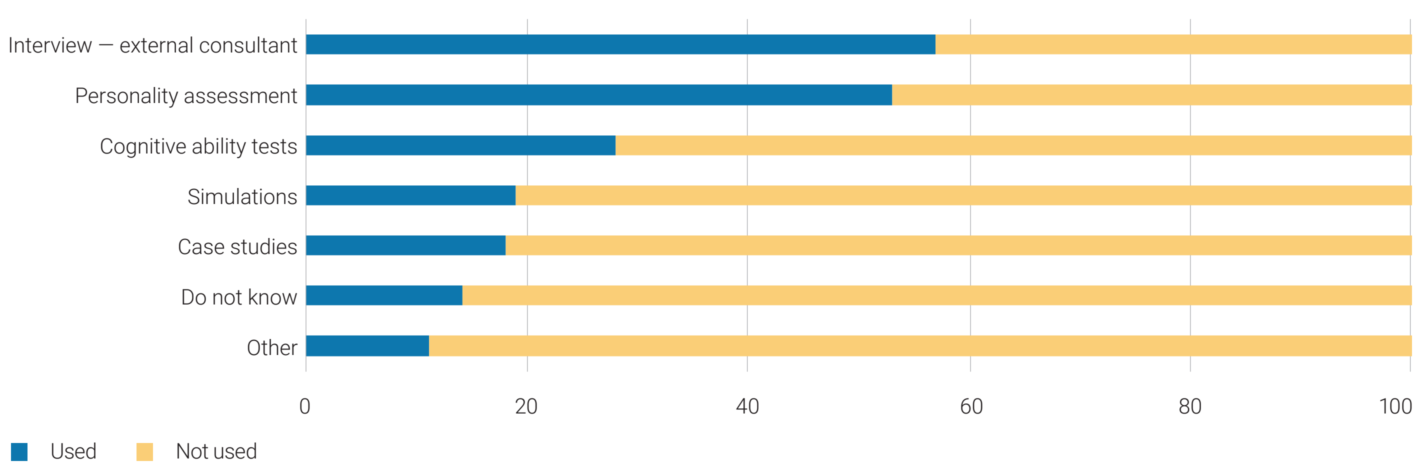
Additional methods favored by respondents include interviews by external consultants, and personality assessments. These provide some unique information in terms of external benchmarking and insights into how a candidate may behave in the future but are used by only half the organizations we surveyed. Indeed, integrating data from multiple sources – interviews, testing, work simulations – is widely regarded as scientific best practice. A multidimensional assessment approach to CEO selection creates a better-informed, data-driven understanding of a candidate's relevant skills, attitudes, and overall fit with the organizational culture.

Organizations that rely entirely on interviews to assess candidates are wholly dependent on the skills and impartiality of the interviewers, a very risky approach if you believe the scientific literature on interview validity. Additional datapoints from formal assessments not only provide greater objectivity and richer understanding of the candidate but also help depoliticize the process. In highly politicized and emotionally charged situations such as CEO selection, the value of sound and objective assessments cannot be underestimated. When hiring externally and endeavoring to separate fact from reputation, the argument for a multi-tool approach to assessment is even stronger.

The high-stakes selection for a CEO should allow little tolerance for underpowered assessment processes that miss critical evidence to inform a candidate's selection. Companies that pick their CEOs with a robust mix of selection tools have an informed view of how effectively a new leader will respond to both anticipated demands and unforeseen crises. They experience leadership transitions with a clearer understanding of the new CEO's strategic thinking style, vision for the company, what motivates their decision-making, and where they still need to develop. External benchmarking, cognitive ability tests, simulation exercises, and case studies can improve the selection process and outcome, yet they are too rarely used to maximum effectiveness.

FIGURE 2: ASSESSMENT APPROACHES USED FOR CEO SELECTION

What tools were used to select the CEO?



Source: AlixPartners

SIX PRACTICES TO IMPROVE CEO SUCCESSION

Not every company has unlimited resources for its leadership succession process, but every company must still determine how to grow their talent pool and identify and retain future company leaders. Postponing succession planning prevents a vital alignment between talent and business strategy. Proper planning will culminate in a self-renewing succession culture that ensures capable and motivated leaders are continually prepared internally, preventing ill-informed, reactive and expensive hiring decisions. Build talent from within whenever possible, and plan for the inevitable leadership change.

All organizations can use some basic practices to improve their succession planning, preparation, and leader selection.

1. Commit to ongoing, effective leadership development.
2. Assess and develop prospective leaders' business and people skills.
3. Use scenario-based strategic planning to craft future CEO profiles.
4. Assess candidates against objective criteria using multiple assessment tools.
5. Create a highly tailored approach to leadership development and review it regularly.
6. Adhere to a strong assimilation and integration plan, even if the candidate is an organization veteran.

When leadership changes are well planned, expected and unexpected transitions proceed more efficiently and productively. Internally, this benefits the incoming CEO and the workforce, and reinforces the organization's "culture"; externally, this helps bolster the company's brand image, its market valuation, and shareholder perceptions. This reinforces the importance of CEO succession planning and preparation as a critical risk mitigation strategy. Well planned CEO transitions produce confidence in the new leader and the organization stability rather than skepticism and uncertainty about the organization's future – a task no organization can afford to postpone.

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ABOUT US

For nearly forty years, AlixPartners has helped businesses around the world respond quickly and decisively to their most critical challenges – circumstances as diverse as urgent performance improvement, accelerated transformation, complex restructuring and risk mitigation.

These are the moments when everything is on the line – a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA – so we adopt an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done, and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.