

How to Avoid Disruption In Your Succession Plan

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Overview

Public company CEOs have an average tenure of five years. This is a result of activist engagement, technology disruption, and shifts in strategic direction. Even companies like GE, who were once renowned for having robust succession planning for executive positions, have now been forced to address gaps caused by unexpected succession events.

With recent high-profile incidents that have called for CEOs to step down, it's evident that ongoing Board oversight of culture and CEO succession planning must operate in tandem (e.g., Martin Winterkorn, Travis Kalanick, and Steve Wynn). Not having a well-thought-out succession plan that incorporates cultural fit is a huge mistake, and boards are paying close attention. A [study](#) of the world's 2,500 largest public companies shows that companies that scramble to find replacements for departing CEOs forgo an average of \$1.8 billion in shareholder value.

Disruption of succession has become a significant problem for CHROs who need to provide leadership options for their Boards that are different than the normal state of business. In the long-run, it can be an opportunity for companies to better align their talent with their strategic direction.

Barrett Stephens
Chief Executive Officer
RSR Partners

Darleen DeRosa
Managing Partner
OnPoint Consulting

The Succession Planning Dilemma

CEOs and CHROs need to build a succession plan roadmap that includes scenario planning for a variety of timelines and unforeseen events.

Shareholder impatience has put pressure on boards for improved performance. As a result, companies are being forced to divest or spinoff their portfolio of businesses, or in other circumstances, make changes to the executive leadership team. However, many companies do not have the bench strength internally to address the capability gaps. But they also do not want to signal to the market prematurely their strategic intent. In our eyes, several best practices have emerged to address these issues.

Imperative Steps for CEOs and CHROs

Identify positions that are critical to the success of the organization and develop success profiles for those roles. In other words, what does success look like for these critical roles?

Develop a comprehensive understanding of the organization's leadership bench strength: Using the success profile as a centerpiece, assess individual capabilities and their leadership potential to assume larger roles.

Conduct a scenario analysis for various timelines and succession opportunities: Conduct a potential problem analysis looking at the internal and external threats to the business and industry and to the incumbents in each strategic position.

Accelerated development for key leaders. The assessment data should determine targeted development needs for top succession candidates. Senior leaders should meet periodically to review progress toward development goals and ensure high potential leaders have exposure in key areas as well as other resources to support their development. This information can also be used to facilitate onboarding once leaders are promoted.

“Companies that are able to rapidly realign their leadership talent to their shifting strategic needs will not only win the war on talent, but also will generate incremental value for their shareholders.”

- Brett Stephens
RSR Partners

Succession planning isn't just a strategy to deploy when you're in crisis mode—it's an insurance policy as essential as any other risk management plan.

- Darleen DeRosa
OnPoint Consulting

Imperative Steps for CEOs and CHROs

Take action to enhance the engagement and retention of high potential employees. Ensure the high potential leader's direct manager is involved in creating a work environment that enhances engagement. Actions such as providing autonomy, clarifying a sense of purpose and opportunities to learn and grow increases the likelihood of retention and the organization's return on investment in these individuals.

Compile a short list of external leadership options who can potentially address gaps in the succession plan: Develop internally or use a leadership consulting firm to provide potential leadership ideas. It is imperative to work with a firm that can ensure maximum confidentiality and discretion and not signal to the marketplace about the company's future intentions.

If CEOs and CHROs work with their Boards proactively, rather than reactively, the risk of succession plan disruption can be mitigated. In return, Boards should monitor their leadership team's succession efforts. In this light, the CEO and CHRO should regularly present assessments of the key members of their team to identify and evaluate candidates – both internal and external – for succession. Leadership consulting firms can play a critical role in these processes. While added expertise will help avoid succession disruption, it cannot change the fact that, relative to the quarterly drives for performance, succession planning is a non-financial and long-term initiative. A new mindset must be instilled in today's corporate boardrooms to increase confidence in the future prospects – and successful leadership – of the world's public companies.

Authors



Barrett Stephens
Chief Executive Officer
RSR Partners
+1 (203) 618-7022
bstephens@rsrpartners.com



Darleen DeRosa
Managing Partner
OnPoint Consulting
+1 (203) 553-5128
dderosa@onpointconsultingllc.com

About Us

RSR Partners, an executive search and leadership consulting firm, is a leader in corporate governance consulting, board director and senior-level recruiting, and strategic talent advisory. The firm works selectively with clients who share our conviction that people are the only form of sustainable competitive advantage. It measures its success based on the value great leadership creates and the transformative impact it can have on all its clients.

Through its strategic partnership with OnPoint Consulting, a top organizational and leadership development consulting firm, RSR Partners offers an integrated, but independent leadership assessment platform, separating search and assessment to ensure clients are provided with objective and unbiased advice. OnPoint Consulting's open architecture approach to leadership assessment is not limited by captive diagnostic tools, but rather a customized success profile tailored to the unique leadership needs of each organization. The result is a comprehensive, data-driven picture of the individuals who have potential to become an organization's future leaders.