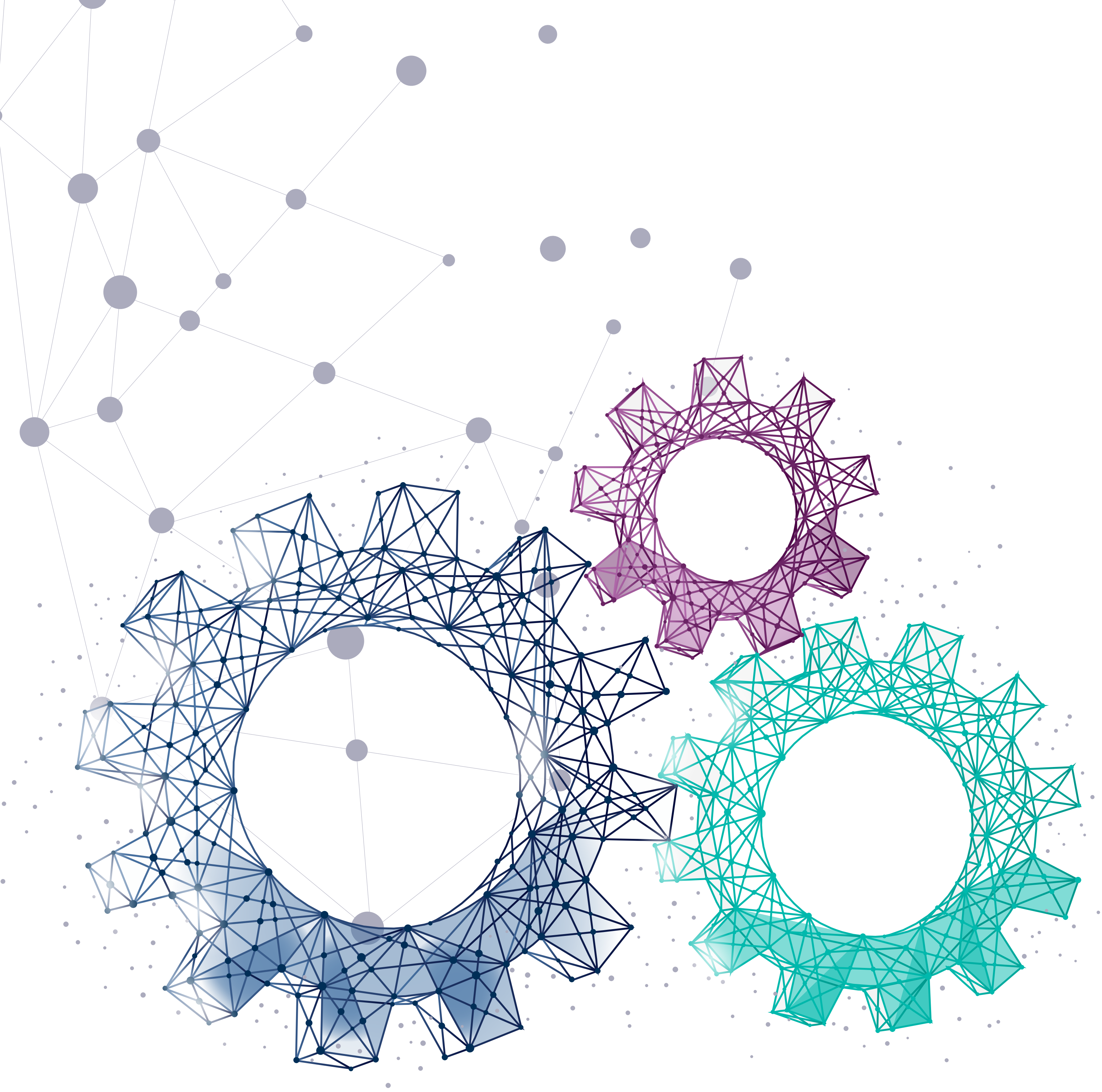
Russell Reynolds ASSOCIATES

Is Your CEO Succession Plan Crisis-Era Ready?



CEO succession planning is one of the most important responsibilities of a corporate board, and one of the most challenging. In the best of circumstances, directors are working thoughtfully to anticipate the future, develop potential successor candidates over several years, and to ultimately have one of them step into the top spot. In emergencies or other unexpected circumstances, there is a great sense of uncertainty as to whether the board is selecting the best leader, or just the best leader available right now. It is an expensive question to answer. By one estimate, replacing a ill-chosen or short-tenured CEO leads to a loss of $1.7 billion in shareholder value in addition to a loss of organizational confidence and momentum.

According to forthcoming research from Russell Reynolds Associates and The Conference Board, more than 60 percent of directors surveyed stated that their board had not reviewed or updated the succession plan for the CEO and other key executives in light of the health risks posed by the COVID-19 crisis. The sector with the highest share of corporate boards that did review the CEO succession plan is Consumer Staples (25 percent of all respondents in this sector), while the sector with the lowest share is Materials (11.1 percent). Interestingly, the largest companies were by far those with the highest shares of cases where the board of directors did not review the CEO succession plan (70.3 percent of those with annual revenue of $10 billion and over and 80 percent of those in the Financials and Real Estates sectors with asset value exceeding $100 billion).

While there are many matters competing for the board's attention right now, it is highly advisable that CEO succession planning be high on the board's agenda, even if the incumbent CEO is in good standing. The risk of an unanticipated CEO transition is heightened right now due to the exceptional challenge of leading in this time, the emergence of new expectations and requirements for the organization, the increased stress all leaders are experiencing, and health risks from the virus. And, given rapidly changing market and competitive dynamics, it is highly likely that a company's existing succession plan may no longer put forth the best person for the job, given that the specification was written during better times, and the future looks to be increasingly dynamic and difficult.

These are the six questions boards should be asking:

1. **Is our emergency successor still right for this environment?** A documented plan for emergency CEO succession is a necessary (and, often, regulatory) requirement. Beyond a "name in the envelope," leading companies look at different successors that correspond to a range of potential emergency scenarios. As boards work to ensure continued alignment on the emergency plan, they should ask the hard questions of whether designated emergency successors are as qualified and relevant today they were pre-crisis. Where the question invites uncertainty, boards should act to ensure that the designated emergency successors' skillsets and mindsets are matched to the go-forward environment.

2. **Is our CEO role specification still right?** The best companies approach succession planning as a dynamic process, highly responsive to shifts in the environment and company strategy. Material changes in strategy may require the board to reexamine the relevance of the specification for both the current CEO and future CEO roles. As the company transitions to an post-pandemic existence, and as leaders do their best to predict an unpredictable future, what are the critical skills, attributes, and abilities for the CEO? How do those differ from what you thought mattered the most before this crisis?

3. **Do we have the right people in our near-term succession pipeline, and are they prepared?** Crises serve as rare, powerful tests of leadership capability. While many leaders rise to the occasion with fortitude and resilience, others struggle to perform when their playbooks are rendered irrelevant. And, new stars often emerge. Now is the time to ensure that your near-term succession pipelines reflect what the crisis has revealed about who your leaders are – and who they aren't. Are there executives who you had high hopes for who aren't performing? Any you had underestimated who have stepped up and shown what they're capable of?

4. **Do you need to reevaluate external talent options?** A strong succession process includes a robust, regularly refreshed list of external leaders who could compete as potential succession candidates. Just as you should revisit your internal pipeline to ensure its relevance, you should revisit your external benchmark list. Are those individuals still the right people, or does your list need to change? What has the crisis revealed about their performance and potential and availability?

Do you have the right team in place? Many forecasters believe that we are headed into the eye of the storm – a period of calm before a "second wave." While boards should avoid initiating leadership changes for the sake of sending a signal, they should be equally cognizant of the risk of failing to act when it is clear that leadership changes are required. The cost of complacency has never been higher. Are the leaders you have today the leaders you want at the helm during that period? If not, what changes do you need to make immediately to be comfortable that your company has the best chance at success?

Is your board ready, aligned and able to have these discussions? In the midst of a crisis, a board's succession planning discussions are as challenging as they are critical. Directors are not always aware of just how much their company's strategy impacts and influences succession planning and talent decisions at the most senior levels of the organization. This can result in a lack of real agreement on the board about the implications of the strategy on their company's ideal future CEO profile. Additionally, some directors are also uncomfortable talking about succession planning, fearing that it implies a lack of confidence or support in the current leader. Board leaders must work to align the board around a shared view of the company's strategy, its implications for the CEO role, and the importance of succession planning no matter how well regarded the incumbent.

Urgent for Some, Critical for All

One of the reasons that many boards aren't very focused on succession planning right now is that they are so consumed in the moment, and a CEO succession or transition seems like a far off need that can be addressed at some later time. In normal circumstances, we recommend to our clients that they begin long term CEO succession planning five or so years away from the potential transition. This provides ample time for multiple internal candidates to be rotated through several senior assignments, in the process developing a multitude of business and leadership attributes they could then bring to the CEO role. But the current situation is different. The reality is that there are many scenarios that might require a CEO transition much sooner:

Near-Term: Some boards may realize they are already facing challenges with regard to their CEOs performance or tenure. They may have just announced a CEO transition right before the pandemic occurred and want to support the incoming executive, or were planning to do so soon but now wonder if they should wait for better days. At the same time, many boards may be faced with an unanticipated need to transition a senior executive. Their CEO may become ill from the virus and need to step down from their role, or a board may assess that a healthy CEO is simply unable to lead effectively during this challenging period.

Medium-Term: If a company is getting along without a current challenge, boards still need to worry that one might be right around the corner. They might have a CEO who doesn't need to be replaced immediately, but who clearly isn't as strong as they seemed when times were better, and may not be suited for future business needs. Alternatively, they might have a well performing leader who had planned to stay in the role for several more years, but is now reevaluating that decision and wants to step down sooner.

Long-Term: Regardless of how well your company is doing right now, and how strong their succession planning process seems, this period of turmoil will most likely have a lasting impact on your business model, and this is the time to adjust their planning to accommodate new realities: What it takes to be a successful CEO will be different in the future than it was in the recent past. The internal candidates you were relying on may no longer be up to the task, and your external prospects may no longer be available. The jobs you thought were on the critical path to the corner office may no longer be essential. Ultimately, your leadership pipeline may not be as strong and resilient as it once was.

What Matters Most

We have spent significant time over the past couple of months talking to executives, board members, and our internal experts to identify the critical leadership traits CEOs and other leaders need in a time like this. While the list will vary by industry and organization, we believe there are six imperatives that every leader now needs:

1. **Bravery:** Executives need to be courageous in thinking independently and making very difficult decisions. They know they are not bystanders to what is happening right now, but highly visible and active leaders. They are willing to make personal sacrifices such as taking a pay cut, or make smart corporate investments when being pressured not to. They need a sense of ownership and self-efficacy, with a confident mindset that they can act and make decisions that will improve outcomes. With these in place, they will need to be resilient, able to withstand and work through the problems they face, as well as the resulting public scrutiny.

2. **Authenticity and empathy:** Executives must display authenticity and empathy in all that they do, and be a context-sensing communicator who is close to pitch-perfect in their communications with different audiences and in varying situations. They know that everything they say and do is a form of communication to those around them, and as such, they must embody the organization's values and culture fully, as their actions will be analyzed as if they were under a microscope. In challenging times, the ability to show openness and vulnerability is critical for a leader to build rapport with others. Transparency is essential.

3. **Purpose-driven:** Leaders must be able to motivate and mobilize the organization to societal purpose, to serving customers, and be the principal advocate in explaining the "reason for being" for the organization. This source of belonging, engagement, and motivation are very important overall, but especially critical while emerging from a period of crisis. Executives must be able to create a shared narrative to guide and galvanize people around strategy. They must be alert to new constituents, such as governments and regulators who will demand a seat at the table with every new relief program or grant they accept. These challenges present opportunities to modify or reinvent the business model in a way that creates long-term sustained value in a way the current model does not.

4. **Offensive and Defensive Agility:** Executives need to think differently about the opportunities and challenges they are facing in order to serve and win over customers. They need to know how and when to deploy both an "offensive" and "defensive" mindset, and to approach issues systematically and while thinking across multiple horizons. CEOs need to focus on the now, but not forget the future. It is important to think about how to address near-term requirements without sacrificing long-term imperatives, and how to overcome horizontal dependencies, including talent, data, analytics. They get there by being inclusive in how they invite and harvest disparate perspectives, and they execute cleanly by managing the pace of their teams, setting better customer outcomes (not just profitability) as the overarching goal, integrating decision cycles, and aligning operations and divisional objectives.

5. **Financial and Operating "Sharpness":** Executives need a strong level of financial and operating "sharpness" to navigate the inevitable volatility spikes in funding and liquidity across the capital markets as well as longer-term financial and economic challenges that may redefine the organization's competitive position. As part of this, executives must be extremely well-versed in how the organization creates value to both customers and to shareholders, and what levers and options are available to re-balance the firm's margins as well as its capital structure to ensure financial and operational resilience, if not survival.

6. **Forced Digital Acceleration:** Enlightened executives openly embrace digital transformation now, starting with "data is a corporate asset" mindset, a determination to use advanced analytics to better serve customers and safeguard the organization, and a willingness to embrace digital tools to improve productivity and even supplement the human connection to colleagues and customers alike. From innovation to analytics to remote work, digital is now critical to leader's goals, and must be carefully harnessed to counter new associated cyber challenges and threats.

First Steps

While there are a number of things boards must do related to CEO succession planning, there are three concrete first steps to take:

REVIEW YOUR LEADERSHIP AND EXPERIENTIAL CRITERIA

Your current criteria was developed at a time that was far different from what we are facing today, and what we will be dealing with for years to come. Boards need to review and revise their leadership and experiential criteria with an eye toward the future, understanding that this is the foundation upon which all other succession planning activities will be built. Getting it right is critical.

ENSURE YOUR EMERGENCY PLAN IS MORE THAN JUST A SINGLE NAME IN AN ENVELOPE

Historically, just under half of all CEO transitions were unplanned. That number will likely increase for the foreseeable future. Boards need to reevaluate their emergency succession plans to ensure they have multiple options (from inside and outside the organization), those individuals are all still available and viable in the organization's new competitive context, and that they all have the right mix of skills and experiences given the new leadership and experiential criteria the board has developed.

DO NOW WHAT YOU NORMALLY WOULD PUT OFF FOR LATER

Activities like external talent benchmarking have historically been held until late in the succession planning process. That needs to be rethought. Especially given the changes to the leadership and experiential criteria, and the dynamic nature of the market today, it is quite possible that your next leader needs to come from outside the organization. Trying to find that person quickly is a challenge. Doing so thoughtfully and methodologically will result in a stronger set of candidates to pick from.

While there are many things on the boardroom agenda today, directors must make the time to put CEO succession planning front and center. The tremendous loss of shareholder value from an unplanned transition, combined with the increased risk of CEO illness or burnout right now, make this topic more important than ever.

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