

HARVARDBUSINESS.ORG

Ending the CEO Succession Crisis

Key ideas from the [Harvard Business Review](#) article By Ram Charan

The Idea in Brief

The CEO succession process is broken. Too many companies' succession pipelines are bone dry. Even among firms that do have succession plans, most aren't happy with them. Thanks to poor succession planning, CEO tenure is shrinking: Two out of every five new CEOs fail in their first 18 months.

How to find a CEO who'll serve your company long *and* well? Develop a deep pool of internal candidates--and keep it well stocked through a solid leadership development program. Ensure that the board devotes sufficient time to CEO succession--identifying promising candidates early in their careers and getting to know them personally. And if directors are considering outside candidates, suggest that they--not recruiters--drive the search process by defining specific requirements and vetting candidates.

As perennial performance powerhouses such as GE and Colgate-Palmolive demonstrate, nothing affects a company's future more than CEO succession. Start investing time and energy in your firm's succession planning today: The call for a new leader could come as soon as tomorrow.

The Idea in Practice

How to succeed at succession? Apply these potent practices:

Bolster Internal Leadership Development

In CEO succession, it takes a ton of ore to produce an ounce of gold. Very few of your company's leaders will ever be qualified to run the firm. Spot promising candidates early--then nurture them with the right on-the-job experiences. Move candidates through positions requiring responsibility for steadily larger, more complex P&L centers. If your company's not configured to provide such opportunities, create jobs--large projects, small internal organizations--that exercise a candidate's P&L muscle.

A \$10 billion company in a highly capital-intensive and unionized industry has targeted the head of its smallest division as the next CEO. Though brilliant and articulate, the candidate has no experience running big businesses in general or this type of business in particular. The board is considering creating a deputy position in its largest division for him and making the current division head his coach--granting the coach a bonus if he ensures his successor's success.

Insist on Board Involvement

To help your company find a strong CEO successor, your board must spend less time monitoring financial performance and more time planning for CEO succession and managing searches.

The board should dedicate at minimum two sessions a year to hashing over at least five CEO candidates--devoting at least 15% of board time to succession.

Directors should also personally get to know rising stars--inviting them to board meetings and dinners, talking with them informally, and observing them in the natural habitats of their business operations.

Put Directors--not Recruiters--in Charge

Without effective direction from the board, recruiters approach searches looking for generic qualities such as character, vision, and relationship, team-building, and change-management abilities. To guide recruiters, directors must:

Articulate three or four non-negotiable aspects of talent, know-how, and experience pertaining to your company's dominant needs for the next several years *and* to future growth. One company's criteria included experience in segmenting markets according to customers' needs, and a track record of building strong executive teams.

Conduct due diligence on outside candidates--seeking reliable external sources, demanding candor from them, and rooting out fatal character flaws and skills shortages. Require recruiters to provide detailed explanations of how each candidate fulfills the company's criteria. A 10-page report on each is reasonable.

Copyright 2005 Harvard Business School Publishing Corporation. All rights reserved.

- [Purchase the full-length Harvard Business Review article here.](#)
- [Visit Harvard Business Online.](#)
- [See more on Strategy and Execution at Harvard Business Online.](#)

Further Reading

Articles

The CEO's Real Legacy

Harvard Business Review

November 2004

by Kenneth W. Freeman

Freeman, retired CEO of Quest Diagnostics, mines his own handoff experience for succession-planning lessons. Most boards don't discuss CEO succession enough, he maintains:

Why rock the boat when things are going well? Why risk offending the current CEO? Moreover, most CEOs can't imagine anyone adequately replacing them.

To ensure effective succession planning, incumbent CEOs must put ego aside and initiate and aggressively manage selection and grooming of successors. Thinking early and often about a successor helps ensure the company's long-term health--and may improve CEOs' performance during their tenure. Incumbent CEOs must also engage the board in succession planning, seek successors different from themselves, and make successors' success their own. After all, a CEO's true legacy derives from what happens *after* he leaves the corner office.

The Dark Side of CEO Succession

Harvard Business Review

January-February 1988

by Manfred F.R. Kets de Vries

The author examines the unconscious emotions that come into play during changes in a company's top leadership. When key players act on these feelings, they can disrupt and possibly sabotage a sensible succession process. To be sure, any leadership change is unsettling. But the incumbent CEO, board of directors, and other top managers become particularly vulnerable to unconscious emotions during three specific points in the succession process: when the CEO first recognizes the need to retire, when the successor is chosen, and when the new CEO takes charge. When players know ahead of time how their unconscious feelings could jeopardize each phase of the CEO succession process, they can then manage their emotions to promote a positive CEO transition.

About the Author

Ram Charan has been advising CEOs and boards of directors for more than three decades. His most recent books are *Boards That Deliver* (Jossey-Bass, 2005) and *Confronting Reality: Doing What Matters to Get Things Right* (Crown Business, 2004), coauthored with Larry Bossidy.

Copyright © 2007 CNET Networks, Inc. All Rights Reserved.