How to Find Your Next CEO

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Almost 1,500 CEOs quit or were fired last year – about six per day on average. Marquee names in the last year included Jerry Yang of Yahoo, Aylwin Lewis of Sears, Steve Jobs of Apple, and Dick Bond of Tyson Foods.

Small wonder, then, why finding a new CEO ranks as a top concern for corporate boards — yet only half of them have a plan in place to find a back-up boss. “This is the single-hardest job a board faces, but it’s the one they fail at the most,” says Nell Minow of The Corporate Library, a research firm focused on corporate governance. Your board doesn’t have to be among those that fail to plan for a smooth transition at the top. Here are the steps your directors can take to create a succession plan that works.

Things you will need:

- Varies. You could spend several thousand dollars if you need to hire a consultant to get the search process going. Internal HR and CEO budgets should cover expenses to keep the effort afloat.
- It’s a year-round job. Set aside time during quarterly board meetings to review the qualifications of potential candidates and update the full board on your plan’s status. Expect to put in more time as the deadline for a CEO transition draws near.
- **Point Person(s):** Assign a director to head up succession planning and keep the full board appraised of progress. Enlist the support of HR employees when needed.
- **Scorecard:** It’s crucial for the board to maintain detailed records throughout the succession process, so that all members are up-to-date about who’s in the running at any given time, and how they rank against other contenders.

step 1

Plan for Plan B

Goal: Make succession an ongoing priority.

The recent past is littered with examples of boards that have failed to make succession a front-burner issue. While Citigroup’s former CEO Chuck Prince was under fire throughout most of his tenure, the company had no succession plan in place when he left, says Mark Nadler, a partner at Oliver Wyman Delta Organization & Leadership, an executive consulting firm. Nadler, who authored the book “Building a Better Board,” contrasts Citi’s example with that of Time Warner, the media giant that replaced Dick Parsons with Jeff Bewkes. “The process took two years, and the board was involved the whole time,” he says.

Succession planning can be sticky because CEOs historically controlled the process, and chief executives typically don't want to plan for the day they're gone. A CEO should be involved in creating and implementing your plan, but he or she cannot be the driving force. Boards should delegate the job to one or two board members on either the governance or compensation committee.

Constance R. Dierickx, a senior consultant with RHR International Co., suggests drawing up two written plans: a "hit-by-the-bus" emergency plan and a long-term plan. Both should identify a timeline, name who will be involved (current CEO, HR staff, and a consultant perhaps), establish a process for identifying potential candidates, and lay out how often the full board will receive updates.

The hit-by-the-bus plan should not only identify the "ready now" candidate to step into the CEO role, but it should also outline a process of what to do if a CEO suddenly quits, is fired, gets injured, becomes ill, or dies. Work with your media team, too, to decide how the news will be communicated. When Steve Jobs stepped aside in January because of ill health, for example, the move forced the company's PR team into triage mode because only a week earlier Jobs himself said that his health concerns were not serious enough for him to step aside.

Nitty Gritty

Enlist the Current CEO

Because few board members get involved with day-to-day operations of the company to access potential successors, incorporating CEO input into the succession process is crucial, according to Minow. To ensure that a CEO stays committed to helping with the plan, companies can tie his or her compensation or bonus to identifying and mentoring potential successors. Boards also can prevent a CEO from cashing in any stock for three years after his or her departure as an incentive to selecting a solid successor, Minow says.

step 2

Identify Critical Needs

Goal: Know the company's long-term goals and future challenges.

This is no easy task these days, since the economic outlook fluctuates on a daily basis. Nevertheless, when boards set out to create plans, it is incumbent upon them to address what challenges and market conditions the business will likely face in three, five, seven, and 10 years.

Dierickx of RHR suggests boards hone future projections from interviewing analysts and surveying customers. Individual interviews with board members and industry outsiders will clarify a vision for the future, she says. Historical analysis of businesses also can help in the current environment. P&G, IBM, and GE were founded during economic panics in the 1800s, for instance, and United Technologies hung out its shingle in 1929. The way these giants navigated a tough economy may lead to some insights for directors trying to look past present market conditions and plan for the future.

When conceiving succession plans, don't fall into the trap that many boards do by thinking they only need to clone the existing CEO, says Stephen Miles, managing partner at Heidrick & Struggles, an executive search and consulting firm. "In only the rarest cases are the challenges ahead going to need the same skills that worked in the past," Miles says.

Hot Tip

Get your criteria straight

Don't settle for a laundry list of adjectives when profiling your dream CEO. Trite descriptions of what a leader *should be* do not go deep enough when describing what your company needs, says Ram Charan, author of the book "Leaders at All Levels." Board members may agree they want a CEO who is "visionary," but they may have drastically different views on what that means, he says. Would that person bring radical change immediately? Or institute change over a few years? Avoid catchphrases and discuss what leadership qualities are really meaningful to the company.

step 3

Start the Search

Goal: Find promising internal candidates and chart their leadership potential.

Now that the board knows what it wants and needs in a new CEO, it's time to identify those people who best fit the specific criteria. More companies — 60 percent — now promote from within, according to management consulting firm Booz Allen Hamilton. Steve Jobs handed the baton in January to Apple's COO, Tim Cook, who filled in as CEO in 2004, when Jobs underwent cancer treatment. And Tyson's board bounced 61-year old Dick Bond in favor of former insider Leland Tollett, 71, who served as CEO and chairman of the meat giant from 1995 to 1998.

Internal candidates can be especially valuable in the current environment, where seasoned talent is difficult to find, if not impossible. No one working today was running a company during the Great Depression, for example, and the global financial crisis is a first for this generation of executives. So a candidate with some company knowledge can make up for lack of experience with the macroeconomic climate, and speed up the transition time.

Here's how to narrow the pool of would-be CEOs:

Groom potential successors and track their progress. Outline how the existing CEO will mentor executives, how candidates will develop their leadership skills, and how they will rotate through various posts in the company on their way to that corner office. Dierickx uses “talent maps” — color-coded organizational charts — to update board members on the professional development of internal candidates. (For more information on developing future leaders, see BNET’s Crash Course on How to Start a Mentorship Program.)

Don't let the process turn into a spectator sport. Most boards keep their succession candidate lists quiet, and for good reason. An openly announced competition can cause a politically destructive environment within a company, and it can ultimately undermine the effectiveness of the existing CEO, says Nadler. Make it clear to candidates early on that they'll be graded on how they stay above the fray, and how well they stay focused and work collaboratively.

Get out of the boardroom. To get to know a potential chief executive, directors need to know what he or she is like outside of the office, says Nadler,“With off-sites and dinners, directors have a chance to just sit and get a feel for a candidate,” he says. Some companies send directors in pairs to visit faraway operations, to meet with top management, and to mix office time with social time, like dinners and drinks.

Standardize the evaluation process. Establish a way to measure the readiness of all of the candidates. Will the process involve in-depth interviews? Personality or leadership tests? Or 360 interviews, which combine online ratings and interviews with a candidate’s peers, bosses, and the people they manage?

Danger! Danger! Danger!

Consider external candidates with caution

If the board wants to consider outside candidates, stay focused on challenges and competencies, and don’t be swept away by a CEO’s personality or great resume, says Charan. A deal-making CEO that succeeded in the telecom business by making acquisitions may not be right for your slow-growth business, he says. External candidates also face a huge learning curve. Perhaps they are new to the industry, or the corporate culture is vastly different, says Nadler. “You never know anyone as well as the people who work inside your company,” he adds.

And be warned: The appointment of an outsider also may prompt other valuable insider executives to depart. When Yahoo hired former Autodesk CEO Carol Bartz, 60, to replace Jerry Yang early this year, the board’s decision apparently irked then-president Susan Decker, who had been considered for the job. Decker served alongside Bartz as on outside director on Intel Corp.’s board, which made the choice even more uncomfortable for her. She quit when the company announced the Bartz appointment.

step 4

Plan the Transition

Goal: Set up the new chief exec to succeed.

Companies should enlist the outgoing CEO or a hired consultant to coach the new leader for what can be a lonely job. But keep the period of transition short — six to 18 months at most, says Nadler. Letting go may be tough, particularly for a founding CEO, or for the CEO who is still a shareholder, which is very often the case. “You don’t get to be a CEO without being a strong, independent person. Sometimes you have to pry their fingers off that job,” says Minow.

In the case of a public company, outgoing CEOs must limit their involvement once a regime change has been made. The board cannot legally share certain information because he or she is now an outsider. The outgoing CEO should, if possible, physically distance himself or herself from the new recruit, moving to an office down the hall, down the street or even out of state, Nadler says.

When Bob Lawless retired in January 2008 from McCormick & Co., the Baltimore-based spice company, he moved to Florida. But, as chairman, he still coaches the company’s new CEO, Alan Wilson, by taking business trips when Wilson invites him to, and through weekly phone calls. Lawless says he never initiates those calls — he waits for Wilson to seek advice and counsel.

Big Idea

Bring in a successor — but keep the search process going

Despite the disdain for bonuses and perks in the wake of the ongoing government bailouts, companies hiring a new CEO should be careful not to get seduced into a comp package devoid of incentives to perform, says Minow. CEOs should consistently be evaluated against the rest of the world, and even if it seems that he or she is the best person for the job, succession plans should be refreshed continually. Boards should always be thinking and planning for the next successor. “If your CEO is not doing the best job today, then your board better have a Plan B,” says Minow.