

Overcoming Resistance to Succession

Nels Olson offers sage advice for boards seeking an effective CEO succession plan of action.

Let's consider a number of different scenarios common to board practice, starting with a new company and new board—presumably this would be a fresh start with a clean slate. From your perspective, is this the ideal situation?

Nels Olson: In this day and age, given the scrutiny boards are subjected to, it comes down to good governance: making sure you have the right representation, the right financial expert and appropriate comp and audit chairs. It's imperative that you have succession planning in place from day one. This is something we emphasize in the conversations we have with our clients. I'm working on a board project right now for a pre-IPO company. We are discussing not only the board make-up, but other issues they should have in mind. A CEO succession strategy is front and center.

Scenario #2: *What about an entrenched CEO, perhaps a founder, who is resistant to any mention of a successor?*

This is the trickiest scenario of them all. It really comes down to the lead director having a discreet conversation, away from the rest of the board, with the sitting CEO, stressing the importance of succession planning, and frankly showing some examples of some that haven't gone well. It is important to discuss SEC Bulletin Section 14E and the financial-regulation rule about transparency and succession planning and the need to have a plan in place. There are enough things out there that could be a catalyst to the conversation, which were very difficult in the past, and a little fear can be a powerful motivator.

Scenario #3: *The distracted board: With so many short-term issues, particularly during an economic downturn, how should the board prioritize longer-term issues?*



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Every company has a significant number of issues that it is dealing with at any given board meeting. I think it's up to the lead director or the head of the nominating committee to make sure succession is at the top of the agenda, and that periodic off-site meetings are planned to focus exclusively on succession. Succession planning and picking the chief executive is the number-one job of the board. Regardless of all other issues that are in front of a board at any given time, making sure there is a plan in place is critical. There's not nearly as much push back as there had been in the past about this because directors recognize the importance of succession.

Scenario #4: *The inert or complacent board that believes its longstanding succession plan is sound: How do you test your current plan and how often is sufficient?*

You need to make sure that your succession plan is revisited at least on an annual basis and that you have an up-to-date game plan, which anticipates common scenarios. In many cases, you need to review your current strategy at least twice a year. So the nominating committee has to make it part of its agenda and use board meetings as an opportunity to get to know the other potential internal candidates. Directors need to be exposed to potential candidates both at the board meetings and outside of them, whether it's through presentations or special assignments given to them, as well as social situations. These interactions allow for a broader perspective on those candidates and allows the board to get to know some of the potential candidates.

Scenario #5: *The stricken CEO: What's the best interim solution if no succession plan is in place?*

The most likely scenario is you have an interim person, whether that's the chairman of the board or someone on the senior team who could step in while this is being examined, but it's most useful to use someone during this traumatic situation who has some familiarity with the company, is respected and will have a firm hand on the tiller. It's common for the chairman to step in while a search is being conducted. The chief concern is to ensure that the company is communicating to the investment community that the board did not drop the ball and strong, capable leadership is in place.