



Is Your Board About to Pick the Wrong CEO? Five Reasons the Answer Might Be “Yes”

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Given its importance to a company’s health, it’s no surprise that CEO succession continues to be a favorite topic in the business press. That iconic companies like Apple, Hewlett-Packard, and GM have recently named new CEOs only adds to the interest. And as troubled firms such as Best Buy and Yahoo! announce new chiefs, Monday-morning quarterbacking around their selections has become a favorite pastime.

There is no shortage of advice around what a healthy CEO succession process looks like. We don’t have an issue with the advice that’s been proffered – it’s all about taking care to ensure a good outcome. Yet in spite of all the attention the topic has received, we contend there is a key missing piece. The missing piece is that the first and arguably most critical step in a succession process is ensuring that the right people are sitting around the table to execute the process. Not only should the board about to make the decision on the next CEO be experienced in such matters, but the interrelationships among the board members should also be healthy. These criteria are often overlooked.

It’s generally assumed that the board is ready for the responsibility of picking the next CEO. It may not be. And when it isn’t, we are concerned that *giving the wrong people the right instructions does not foreshadow a good result.*

Below we share our take on the board characteristics that should cause concern during a CEO succession.

#1: Is There Interpersonal Conflict?

Boards are often filled with larger than life individuals, each with long track records of success – and strong

opinions they are more than willing to express. While a certain level of conflict helps avoid ‘groupthink’ through the discussion of multiple perspectives, conflict can be harmful when it gets personal. A lack of trust, private agendas, and the like can cause tremendous damage in the decision-making process around the naming of a new CEO. Frankly, situations like that recently witnessed as Hewlett Packard struggled through a number of succession challenges led many to question the board’s capabilities to provide proper governance.

THE RISK: When the conflict becomes personal, strategy and vision take a back seat. The incoming CEO – no matter how talented – is starting out at an extreme disadvantage when coming into a scorched-earth battlefield left by a warring board.

#2: Are There Irreconcilable Differences Regarding the Vision for the Company’s Future?

The nature of business today – economic uncertainty, increasing globalization that brings with it both threat and opportunity, technological advances, and equivocal signals from governments around fiscal and regulatory policies—brings with it a very noisy decision-making environment. It is easy to see how different strong, experienced individuals could develop commitment to different strategies as the best path forward. And no other single act more clearly affirms a strategic direction than the selection of a new CEO. When board members do not share a common vision for the future, they likely will be looking for very different capabilities in the next CEO and likely will not be able to agree. At Yahoo!, for example, it’s fair to say that the best strategic direction for that company has remained a mystery for the board.

Picking the Wrong CEO

THE RISK: If the board can't agree on a strategic direction, an incoming CEO could be like a star quarterback who's suddenly asked to pitch a no-hitter. A board's ambivalence can set up an otherwise talented CEO for failure if he or she is brought in to play the wrong game.

#3: Does the CEO Have Too Much Say?

In some cases, a CEO is too influential on the board. This influence may have been earned through years of success, as when the CEO has become an icon of industry (e.g., Jack Welch). In other instances, the dual role of Chair/CEO provides that individual a great deal of power in all board matters, including succession planning. It wouldn't be fair to say that heavy CEO involvement inevitably leads to a poor choice as a successor, but it is reasonable to hypothesize that allowing the CEO to dominate the process is an abdication by other board members of a key responsibility.

THE RISK: Allowing the CEO undue influence in the succession process risks keeping the focus on the past versus the future. What CEO doesn't want to cement his or her legacy? "Handpicked" successors can work if there is a long preparation with full vesting from the board (such as Apple's Tim Cook), but ceding too much control over the process to the CEO can leave a board weaker, dealing with the baggage of the old CEO, and removed from a critical area of accountability.

#4: Is There Insufficient Diversity?

Years of research on group decision-making reveals that diverse groups – though often slower to reach a consensus – make superior decisions. Diversity is thought to widen the group's search for alternatives, to offer a more creative process for vetting alternatives, and allow for a more open and candid discussion when identifying a path forward. It's reasonable, then, to hold that diversity on the board offers a benefit as the contenders in a succession process are identified and considered. Insufficient diversity around the table can limit the field of

candidates: for example, when the board lacks industry diversity it's quite possible that their networks are redundant – not likely to be broad enough in search.

THE RISK: A narrower field of candidates known to the board is a risk when homogenous boards are casting their nets outside the company, but the risk also applies with internal candidates. Lack of diversity as far as functional background, for instance, may put blinders on the board when evaluating chief executive potential of those within the company. Gender, ethnic, and age diversity issues can also apply.

#5: Is there a Lack of Succession Experience?

Like any other work group, boards are assembled with a job in mind. Succession is a key responsibility of a board and as such, the knowledge, skills, and abilities to do it well need to be unequivocally and deeply reflected in the team. Just as it would be unconscionable to appoint someone without proper experience to head the audit committee or the compensation committee it is essentially malpractice to presume the succession challenge requires any less acumen to do well.

THE RISK: Lack of experience in succession planning, and the challenges that arise with even the smoothest processes can derail a board. When there isn't enough attention paid to appointing people who can accomplish this task, all the well-intended advice in the world won't be enough to allow anyone to be sanguine about the outcome of a succession hunt.

As you see a company begin the process of making plans to replace a CEO – whether the event be a carefully timed and orchestrated one or a quick move in response to a crisis – a key indicator of how well the successor will perform comes from understanding how ready and capable the board is of working together, with savvy, to arrive upon a credible, capable candidate. If the board suffers from one or more of the liabilities identified here, it may be that the first order of business is to address those challenges of the board itself.

ABOUT THE AUTHORS



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