

The Indispensable Succession Plan

Boards shouldn't wait until they have a crisis to deal with who's up next. The issue must always be top of mind—and top of agenda

by [Ram Charan](#)

Now that the dust has settled on the recent tumult in the [C-suites of Merrill Lynch and Citigroup](#) (BusinessWeek.com, 11/27/07), one thing is clear: Boards need to have a credible, specific, and actionable chief executive officer succession plan in place at all times.

The lack of such a plan—which appears to have been the case at two of the world's highest-profile financial services firms—destroys credibility in the capital markets and erodes shareholder value. It also stirs anxiety inside the companies involved, making it difficult for people to stay focused and maintain momentum. Boards that fail to have a decisive succession plan at all times, whether it's for an emergency or planned retirement, run the serious risk of being judged negligent in the court of public opinion.

The problems at Merrill Lynch ([MER](#)), which had to scramble to find a successor to Stanley O'Neal, and at Citi ([C](#)), which is still searching for a new chief executive, make the point. But you can easily find other examples. Kmart ([SHLD](#)) and Apple ([AAPL](#)) (before [Steve Jobs](#) returned) each had four consecutive CEOs who failed. Harder, but not impossible, to find are examples of boards being prepared. (When health tragedies struck two consecutive CEOs of McDonald's ([MCD](#)) in 2004, the board's robust succession plan came through.)

Behind the Board's Behavior

Why are so many boards so bad at what, by definition, is one of their most important jobs? As someone who has spent his entire professional life studying corporate leadership in all forms, it seems to me there are two fundamental reasons:

1. Boards don't take succession seriously enough. They assume that if the CEO is new, is performing well, or is several years from retirement, succession can wait. Urgent and routine matters eat up time, and succession slides to the bottom of the agenda. Or else the

boards rely on the CEO to carry the weight. So, for example, when the CEO says the potential successor won't be ready for four or five years, the board is too polite to push the issue. Regardless of the current CEO's age or status, succession should be a constant and urgent concern.

2. Boards don't think through the constantly changing criteria for the CEO job. The world is in continuous flux, and so are the challenges a chief executive faces. The board must periodically revisit and perhaps change the mix of criteria by which leaders are put on—and stay on—the short list of potential CEO successors.

Succession is a hands-on activity. Boards have to own it, not just by saying that they do, but by digging in and getting engaged in the details. It cannot be delegated. Delegation is abdication when it comes to succession planning.

Board Members Should Be Hands-On

Boards should discuss succession in depth at least two times a year. Board members should know who the potential candidates are—not only who might be the next CEO but also who could be the CEO after that. (What happened at McDonald's shows the importance of such in-depth planning). They need to know how each candidate is progressing. They should get to know the candidates formally, through boardroom presentations, and informally, at the dinner table or on the golf course. That way, directors can form their own opinions of the candidates rather than rely solely on the CEO's.

Directors should also be prepared to suggest ways to help the candidates grow. Say those one-on-one meetings reveal that a candidate is weak in operating experience. The board might suggest a move to test (and preferably improve) that area.

The concept of "fit" is paramount. The board must have knowledge of the current non-negotiable requirements of the job, and the potential CEO's experiences and natural skills. If the two are not in sync, the board will soon be looking for yet another chief executive. Boards shouldn't assume that leaders who have performed spectacularly elsewhere can be winners at their company, too. What's right for another company is not necessarily right for yours.

A Sample Slate of Strengths

Take the current situation at Citigroup. Here is my assessment of the non-negotiable criteria the next CEO should meet (in addition to the customary leadership traits of high integrity, high energy, presence, and ability to communicate):

- **Credibility**, both internally and externally. Employees must believe the new CEO is the right person for the job, and so too must capital markets, investors, and customers. If people inside don't think the CEO is capable of creating a disciplined process for getting things done, the person will have an uphill battle getting people motivated and aligned.

There could even be a talent drain. Doubts in the capital markets about the leader's capability could quickly cause liquidity problems. This week's \$7.5 billion Abu Dhabi investment was a show of confidence in this fine institution. The right leader must deliver on this confidence.

- The ability to quiet the waters. Citigroup needs a leader who exhibits maturity, confidence, and self-control, who thinks things through for the short and long term, and makes reasoned judgments. Such a leader will have a calming effect on frayed nerves both outside and inside the company.
- Demonstrated ability to cut through the complexities of the capital markets. Having the intelligence to understand the capital markets is just one part of it. The next CEO must have the judgment and courage to crystallize the three to five most critical issues and priorities to focus on in the coming months and years. How well the CEO sorts, sifts, and selects is crucial. He or she must have the intellect and psychological courage for it.
- Ability to manage risk, which is inherent in financial services. The CEO has to have sufficient domain expertise to identify it, and experience in managing it.
- An eye for grooming leadership talent. Citigroup's success depends on more than just the person at the top. The next CEO must be prepared to build Citigroup's future by spotting the next generation of leaders, and in particular, by grooming future CEOs.

Given these criteria, it is only fair to ask how well the company's interim CEO, [Win Bischoff](#), measures up.

I have never met him, but I have talked to many leaders with whom he has worked. I've cross-checked his qualities behind the scenes, and this is what people—who have traded candor for anonymity—have told me: He is a person with the highest integrity, a man who is a master of global capital markets with vast international experience. He has the ability to get to the essence of complex issues through incisive questioning. He has deep experience in designing and managing risk. And he is a steady hand who has a calming effect on those who work with him. He seems to be a good match against the criteria.

Preparation Before the Spotlight

But there may be others who might be even better. It is incumbent on the board to find out, and I have no doubt it will. Four members of the Citigroup board—[Alain J.P. Belda](#), Alcoa ([AA](#)); [George David](#), United Technologies ([UTX](#)); [Anne Mulcahy](#), Xerox ([XRX](#)) and [Richard D. Parsons](#), Time Warner ([TWX](#)) are CEOs who have strong succession plans in place within their own companies.

Pressure on the board compounds when it has to make a crucial decision under an intense public spotlight. The lesson for other boards is to treat succession as urgent. Directors must ask themselves: Do we have a very clear, very specific succession plan? If the answer is no, the board then must ask what it is prepared to do about it, and by when.

Such an important matter shouldn't be left to a committee. Staying on top of this issue is a key responsibility for each and every board member.

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