



## Why does your board need two CEO succession plans?

CEO succession planning is often the elephant in the room. CEO's don't want to talk about it because, if they do, there's a fear the board will think they want to leave or are unhappy. Directors don't want to talk about it because of a fear they will offend the CEO or because it doesn't seem relevant at the moment – it's something they'll do next year. Yet, CEO selection is one of the four most important jobs of the board.

CEO selection has five parts: (a) setting fair compensation with appropriate performance metrics; (b) monitoring performance; (c) ensuring line of sight into senior management ranks; (d) discussing an emergency succession plan (the "hit by the bus" scenario); and, (e) developing a natural succession plan.

How often the board discusses its two succession plans (emergency and natural retirement), and the form of these conversations, will vary at every company. But, there must be a plan that is tailored to the long term strategic objectives of the company. Effective boards can answer "yes" to the following questions.

1. Has the board asked the current CEO about his retirement plans?
2. Is the current CEO comfortable talking about succession?
3. Does the board have an emergency ("hit by the bus") plan? Was it reviewed recently?
4. To enhance its familiarity with potential internal candidates, does the board periodically invite potential leaders to present at board meetings? To have dinner with the board the night before the board meeting?
5. Because CEO succession planning is ultimately about management development - does the board understand the company's process? Is it good or just "good enough?"
6. Does your CEO succession plan include the following key ideas?
  - The board owns the process and discusses CEO succession at least annually.
  - The board understands the normal/ordinary selection time frame.
  - The board has an emergency plan.
  - The company builds a talent pipeline by ensuring a robust management development process.
  - The company sources external talent.
  - The board has defined key CEO attributes that are in-line with long-term company goals.
  - The key CEO attributes are reviewed annually.
  - The board understands that a successful CEO selection process does not end with picking the right candidate.
  - For new CEOs, the board manages the on-boarding process with key stakeholders. For seasoned CEOs, the performance review includes "checking in" with key stakeholders.
  - The board sets CEO performance metrics, and monitors performance.

*BQs are published monthly. Discuss your answers in the executive session at your next board meeting. It could help your board become more effective.*

