

3 Steps to Effective CEO Succession Planning

Do you have a replacement identified, trained and ready to go? Has your successor been vetted and approved by your board?

A major responsibility of every board and CEO is to make sure that there is a thoughtful CEO succession plan. A good succession planning process focuses primarily on the development of internal candidates. This usually results in the selection of an internal candidate. If an internal candidate is not currently available, they will hire a President or COO well in advance of the anticipated leadership change.

McDonalds: A Role Model

McDonalds is a great example of good CEO succession. Due to unexpected health issues in 2004, they replaced 2 CEOs. Each was home grown, ready to go and very capable.

How does a company develop this role model of bench strength? There are 3 steps.

1. A rigorous performance assessment process.
2. A strong succession planning process supported by creative personal development plans.
3. Continuous dialogue between the CEO and their board.

The best companies do each step well. If potential successors do not demonstrate the capacity to move up, they are replaced with other executive talent that has the runway to develop and possibly assume the CEO role.

The process is inhibited when good performers are one level down from the CEO without the capability to move up to the top job. The tendency is to keep them in their position because they are doing a good job. This can be a big mistake. When a CEO successor is needed, the board is forced to go outside. The risk of failure of an outside hire is much greater.

Medtronic just announced a new CEO brought in from GE. Their board must think carefully about why no internal candidates were ready. Are there real business reasons or was it poor execution of one of the 3 steps mentioned above.

The role model for CEO succession was GE when Jack Welch retired. Four executives were ready. One, Jeff Immelt, got the job and the other 3 rapidly became CEOs in other major companies.

The quality of CEO succession planning varies widely. Some CEOs and boards take this topic seriously while others just pay it lip service. The way CEO succession planning is implemented is a very good indicator of the overall quality of the current CEO and board governance.