

Put On Notice: Succession Planning Becomes a Priority for Boards

By Dayton Ogden

Strong companies develop a succession culture in which all levels of the organization plan for the inevitability of change.



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Just seven months after the McDonald's Corp. board named a successor to CEO James Cantalupo, who had died suddenly from a heart attack, it found itself having to name a replacement for a second CEO, Charles Bell, who was stepping down to battle cancer.

In what has become a model for sound succession planning, McDonald's directors responded immediately. On the same day it announced Bell's resignation,

confident a board can be about the health of its CEO. Most interesting to me was the discussion it raised about CEO succession and the readiness of boards to respond to the unexpected loss of the CEO.

A fundamental responsibility

That the McDonald's board was able to confidently name two CEOs in such quick succession is remarkable. Most boards' succession planning will not be put to the same test, but how many could respond similarly if necessary? The experience of McDonald's highlights why succession planning is a

the event of a sudden departure of the CEO.

During many years of working with boards and researching succession planning approaches, I have learned that successors and successful plans rarely just emerge. They are a product of a board's commitment to thoughtful, diligent planning and a willingness to hold the CEO accountable for the process. These boards work with the CEO to ensure that senior executives receive the appropriate developmental opportunities, including exposure to the board and outside board experiences, and push to meet a broad range of top executives. More independent

“The experience of McDonald's highlights why succession planning is a fundamental responsibility of the board and why it is critical to the ongoing health of the company.”

the board named Vice Chairman Jim Skinner, a 33-year company veteran, as CEO and charged him with maintaining the strategic focus and momentum established by his two predecessors.

The McDonald's situation naturally set off a flurry of discussion about myriad governance issues, including everything from when and what to disclose about changes in the CEO's health—balancing the CEO's expectation of privacy with the board's fiduciary responsibility to disclose material events—to how

fundamental responsibility of the board. And why it is critical to the ongoing health of the company that the board stays ever vigilant in reviewing the company's succession readiness. Illness, death, poor performance and new career opportunities—such as Carlos Gutierrez's recent move from CEO of Kellogg Co. to U.S. secretary of commerce—can end a CEO's tenure. Boards that do not make succession planning a priority can put at risk a company's ability to carry out its strategy and shake the confidence of the organization in

than in the past, and facing higher expectations from investors, boards today have the clout to take the lead in succession planning. Directors also have a platform for regular discussions about succession in board executive sessions, which are required by the Sarbanes-Oxley Act.

What the best companies do

Companies like McDonald's that are able to act quickly in a succession crisis tend to display the



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following characteristics in their approach to succession planning:

- They have strong boards that stay deeply involved in the succession planning process with the CEO on a continual basis.
- They continually expose their top management team to the board
- They encourage “next-generation” CEOs to gain exposure to outside board service, to the media and to the investment community
- They form executive committees to facilitate the development of several executives who are aware of challenges, business plans and strategies across the entire organization
- They view succession planning as an ongoing and “real-time” process and link succession planning to the strategic planning process to ensure a fit between where the business is going and the skills of likely successors
- They minimize the human drama in the succession process by creating conditions for a predictable outcome
- They link the CEO’s compensation to the development of succession plans
- They periodically calibrate likely internal candidates for CEO against comparable outside leaders

- They develop a “succession culture” in which all levels of the organization plan for the inevitability of change by ensuring that top executives and high-potential leaders throughout the organization are given the proper tools, exposure and training to develop into contenders for advancement

At any company, one of the most important jobs for the board and CEO is ensuring an uninterrupted flow of capable management. Not long ago, many boards would rely on the CEO to identify and groom his or her successor. In the current governance environment, few boards are willing to leave succession decisions in the hands of the CEO. I view that as a positive development as more boards are systematically and formally reviewing succession plans. Fortunately, few companies’ succession plans will ever be tested as McDonald’s was last year. Yet, the sudden departure of a CEO is not a rare event in the life of a company; those boards that plan for the unexpected will be in a better position to maintain continuity and profitability over the long term.

Dayton Ogden is chairman of Spencer Stuart. He is a frequent commentator on key trends and issues affecting CEOs and boards, both in the U.S. and internationally. He serves on the board of the American Business Conference and is also secretary and a director of Project HOPE, a leading healthcare foundation based in Washington, D.C. He recently completed seven years of board service with Advanced Tissue Sciences, a NASDAQ biotech company. In 2000, he co-authored the book *CEO Succession* (Oxford University Press). Before joining Spencer Stuart, Ogden was a principal of an executive search firm located in Washington, D.C. Previously, his military career included two years as gunnery officer on a U.S. Navy destroyer, followed by a tour in Vietnam, where he served with distinction as officer in charge of a river patrol boat in the Mekong Delta. He is a graduate of Yale University.