Successful steps for CEO succession

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Guido Stein and Álvaro San Martín recommend having a CEO succession plan in place in order to minimize the risk of a potential gap in the company's leadership.

In business, choosing a CEO is one of the most important decisions to be made by a board of directors, since the continuity of the organization is at stake. It is probably the decision with the single greatest impact internally and externally.

Finding a suitable successor to the incumbent is occurring with greater frequency: Between 2000 and 2005, 470 of the *Fortune 1000* companies changed CEOs. It also represents one of the biggest threats for good corporate governance, with two out of every five new CEOs failing within their first 18 months.

For this reason, IESE Prof. Guido Stein and researcher Álvaro San Martín, in their study "La sucesión del CEO" ("CEO Succession"), recommend having a CEO succession plan in place in order to minimize the risk of a potential gap in the company's leadership. In addition to explaining the typical stages of this process, the authors offer a series of recommendations for both those in charge of choosing the new CEO and the new executive stepping into that position.

Succession processes

Under normal conditions, it is recommendable to start the succession process at least four years *before* the current CEO expresses his or her desire to leave the post. Traditionally, there are two main succession processes. In the "executive relay," the company's second in command is predestined for the top slot some time before the departure of the current CEO, and the baton is duly passed. The other type is the "horse race," in which numerous candidates vie for the position within the framework of a meritocratic culture, and first past the post wins. Knowing which model works best for you depends on the particular situation of your company.

In principle, the authors prefer internal succession, or promoting from within. They argue that insiders take far less time than outsiders to fully assume the position, since they already know and have assimilated the organization's values, and have had more exposure to the board of directors and the outgoing CEO. This kind of succession sends a message of meritocracy, which ultimately fosters talent retention. The choice of an outsider indicates that the board seeks a radical change. When going this route, it is highly advisable to hire a headhunting firm.

In the case of General Electric, after 15 months and some additional hurdles, three of the seven candidates interviewed were eventually promoted, one as CEO and the others as board directors. The four candidates not chosen left to become top executives at other important American companies. It is to be expected that some very qualified candidates may be lost along the way, and those internal candidates not chosen for promotion may opt to leave the company altogether. Given this fact, transparency and fairness are vital for ensuring the legitimacy of the candidate ultimately chosen, and to avoid unpleasant surprises for the others.

Learning from the predecessor

Once the future CEO has been identified, the process doesn't stop there; rather, it is only just beginning. Next comes a transition period, where it is recommendable to have the outgoing CEO and the incoming executive work together, since the latter must learn as much as possible from his or her predecessor. Having a smooth relationship between the two is mutually beneficial, although it is advisable to set clear limits to prevent the outgoing executive from growing unduly attached to the position he or she is leaving.

In the case of General Electric, a year into the selection process, one candidate was selected from among the three finalists: Jack Welch, who four months later would assume the post of chairman and CEO. When it comes time to announce the decision to the organization and society at large, the authors advise that the company properly manage the information. It is important to communicate clearly the motives for the departure of the former CEO, and the reasons behind the choice of successor. It is best to stay one step ahead of the media, they add, in order to ensure the veracity of the information that gets published. Rumors or misconceptions, if not nipped in the bud, could damage the company's reputation or prevent the leadership transition from going smoothly.

Guidelines to facilitate adaptation

Once the new CEO finally takes the helm, the new leader is generally faced with three challenges: handling the expectations of the board and upper management; securing commitment to the company's strategic advancement; and earning the trust of the entire staff. Although each succession process is unique, the following 10 guidelines can facilitate the new CEO's adaptation:

1. Maintain an attitude of constant learning.
2. Decide which aspects of the organization should be understood first.
3. Adapt the strategy to the company's current situation.
4. Secure some early victories so as to gain credibility.
5. Engage in an ongoing dialogue with the company's board of directors and collaborators.
6. Adapt the organizational structure to the new business strategy.
7. Build a team.
8. Develop coalitions.
9. Keep a balance in the organization.
10. Facilitate the adaptation of all collaborators.

After getting past the settling-in phase, the CEO is then ready to begin thinking about a successor. And so the process returns to its starting point, true to the culture of succession, which should be inculcated in all organizations to ensure continuity of leadership.

Family companies

This paper also takes a brief look at the particular case of succession in family businesses, where a distinction should be made between ownership and management. Following the departure of the CEO, if there is consensus regarding the management of family assets through the business, it would be wise to ensure that any possible candidates have the necessary talent and full support, as well as establishing clear rules about joining the company and performance evaluation.

It is important to convey the idea that working for the family business is not an acquired right, but rather a wonderful opportunity to contribute to the creation of wealth for both the family and society. If these requirements cannot be guaranteed, then the authors recommend separating ownership from management and professionalizing the company's administration.

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