

# Exit Strategy: Flipside of Succession Planning

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Insights2Talent

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BP chief Tony Hayward 'negotiating exit deal'

BBC, 7/25/10

BP is “deeply saddened to lose a CEO whose success over some three years in driving the performance of the company was so widely and deservedly admired. BP remains a strong business... But it will be a ***different company going forward, requiring fresh leadership***”

BP press release, 7/27/10



“Seen as an unlikely candidate ...  
the first American to lead the British  
oil giant.”

The Columbus Dispatch, 8/1/10

Hurd's surprise resignation on Friday sent HP's shares plunging 10 percent in after-hours trade.

HP said its search committee is moving as quickly as possible to find a new CEO

Reuters, Gabriel Madway, 8/9/10

# CEO Succession: McDonald's

- April 2004
  - CEO Jim Cantalupo dies after one year
  - Charlie Bell named CEO
- May 2004
  - CEO Charlie Bell steps down
  - Jim Skinner named CEO
- 2009 CEO of the year: Jim Skinner

# CURRENT SITUATION

# CEO succession: Have we got it right?

- 43% have no formal succession plan
- 61 % have no emergency CEO replacement
- 61 % have no internal candidate development plan
- 67% have no long-term succession plan

National Assoc of Corporate Directors NACD 2009 study



# CEO succession: Have we got it right?

- 54 % have internal candidate for CEO
- 50 % could not name successor tomorrow if something happened
- 39 % have NO viable internal candidates
- 50 % have detailed description of skills needed for CEO

Heidrick & Struggles and Stanford University

# CEO Succession Planning

## Bank of America

“speculation about the bank board’s bungling of its CEO succession responsibilities”

“crisis of confidence “

Bloomberg Businessweek, 12/1/09

# Shareholders and the CEO

- No-action Shareholder Proposals
- Under Rule 14-a-8(i)(7)
  - Evaluation of risk as relating to company's ordinary business operations
  - The management of the workforce, such as the hiring, promotion, and termination of employees relate to ordinary business matters

# Shareholders and the CEO

- SEC Staff Legal Bulletin 14E (CF) regarding Shareholder Proposals
  - Adverse effects due to vacancy in leadership
  - Significant policy issue regarding the governance of the corporation

# Disclosure of CEO Succession

- Should publicly-held companies have to disclose CEO succession plans?
- Why or why not?
- What information could they disclose?

# Disclosure of CEO Succession

- Risk management
- Assurance of business continuation
- Competitive threats
- Loss of key executives
- Inability to recruit

# CHALLENGES

# Challenges

- No succession management
- Not following succession plan
- Lack of Board engagement
- Internal versus External Successor



# Internal CEO Candidates

- Know business and key players
- Knows business strategy
- May not have competencies required to change business direction
- Has anyone asked them if interested?
- May be stuck in same old mindset

# External CEO Candidates

- Bring new perspective especially if business strategy is changing
- May have experiences that could not have been obtained internally
- Doesn't know the key players
- Takes time to understand culture
- Does the company have an executive on-boarding process?

# EXIT STRATEGY

# Succession Transition

## Critical success factors:

- CEO's commitment and engagement in process
- Board's commitment and engagement in process
- Trust between incumbent and successor

# Board of Directors

- CEO succession planning
- C-suite succession planning
- Executive recruiting
- Development and retention plans
- Building bench strength

# Questions for the Board

- What does our next CEO look like?
- Where is our next CEO now? And where are there two more?
- How do we begin to develop our next CEO?
- What else do we need to do as a board?

# Replacement Planning

- Emergency planning
- Intermediate planning
- Long-term planning

# Interim CEO

- Board Chairman
- Other board member
- Retired Board Chairman
- Retired CEO



# CEO Transition

## CEO and Board

- Decide on successor
- Inform the successor
- Identify time period for transition
- Set ground rules for the transition
- Inform Key Stakeholders

# CEO Transition

## Prepare Successor

- Learn from incumbent
- Build network of relationships – internal and external to company
- Transition support
- Executive Coach

# CEO Transition

## Prepare Incumbent

- Executive Coach
- CEO networking group
- How can incumbent ready him/herself to exit position
- How can incumbent help successor

# Successful Transition

- Begin intensive knowledge sharing
- Communicate with stakeholders
- Develop a written transition plan
- Share the transition plan
- Strengthen relationships with the board

Russell Reynolds Associates, 2008

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