

## Chapter 16

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# CEO Succession Planning

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**A**S CEOs NEAR THE END OF THEIR CAREERS, THEY MUST NAVIGATE THE SUCCESSION process in a way that is beneficial for themselves, their successors, and their organizations. It can be difficult to navigate this course and to pass the baton of leadership, and not every CEO does it successfully. I am a behavioral change expert. I do not advise leaders in the strategic and technical issues of succession. My expertise is on the human or *behavioral* elements of transition. This is the focus of this chapter.

Let's begin with an overview and then delve into the particulars of each topic. There are four basic steps of successful transitions:

1. Prepare for the transition.
2. Choose a successor.
3. Coach the successor.
4. Pass the baton.

From my experience, much of what has been written about succession has been academic, while little has been written about the drama that occurs at every step of this process. CEOs, like the rest of us, including their successors, are human beings. During the transition process, many of the soft issues of humanity—relationships,

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ego, self-interest, and feelings—come into play. As humans, we may find the steps outlined above are strategically simple concepts to grasp in the objective, but they can be emotionally difficult to navigate in the subjective.

Not alone in this identification, CEOs are very personally identified with their jobs. It's not just what they do; it is a very large part of who they are. This makes the transition process very personal. Further, it is not only personal for the CEO; it is personal for the successor, the other executives, the board, and the stakeholders whose lives will be impacted.

So how do CEOs proceed through the transition process with dignity and perhaps even pleasure? How do they ensure that their successor is in a good position right from the start? Let's go back to the steps outlined above.

### Prepare for Transition

Transition is challenging and very few leaders realize how difficult it will be. If the CEO has done a great job of carrying the baton of leadership, the organization may last long after he or she is gone. This longevity is highly dependent on the success of the leadership baton pass between CEO and successor. Both leaders must be ready for the pass or the organization will suffer.

During the process of succession, the rest of the world will continue revolving. Competitors will compete with the organization; short-term and long-term results will need to be produced. In addition, the rest of the world will be watching as the CEO slows down and the successor speeds up and the handoff is made. If the handoff is successful, the CEO will quickly disappear from view as everyone cheers the next baton carrier. The CEO has to be prepared for this. It can be hard on the ego.

In preparing to depart, leaders might ask themselves, "What legacy do I want to leave?" "Do I want to be remembered as someone who did a great job of developing my successor?" and "Who worked to ensure that the organization would be successful after I departed?" While still carrying the baton and preparing for his or her departure, these considerations will help focus the process in the right direction.

Sometimes people don't want the CEO to quit. When this happens, it can be nearly impossible to let go. Sometimes the CEOs competitive drive won't let him or her leave; this person wants to stay just a little longer to put the organization over the top.

These are traps that CEOs fall into when facing the final challenge of great leadership: passing the baton. Is the CEO ready for succession? The answer to this question may be the determining factor in the organization's success after he or she departs.

Why is letting go of the CEO position so difficult? Simple. In addition to the adoration and accolades that success brings, there are a few basic reasons that this position is so hard to let go.

1. *Wealth*. Money can easily become a personal scorecard. It may not seem hard to walk away from making money, but when making much less as "civilians," some CEOs feel as though they are failing.
2. *Perquisites*. Perks like private jets, sporting events in the company box, and a dedicated staff of professionals are hard to give up.

3. *Status.* Being a CEO brings with it status, and a fear of successful people is becoming a “used-to-be CEO.” It just isn’t the same—and people know it.
4. *Power.* The sudden loss of power, the potential to influence and achieve big results, that accompanies leaving this position can be hard to take.

Leaders throughout history have had difficulty letting go of money, status, perks, and power. Without making peace with letting go, the CEO will not be able to hand off the position to his or her successor.

Then there are the softer perks that can be so hard to give up:

1. *Relationships.* CEOs enjoy most of their close coworkers, or they wouldn’t be close coworkers. These people are practically family, and the more they have been through together, the harder it can be for the CEO to leave.
2. *Happiness.* The CEOs I have met love being CEOs. They love everything about the job, from the people to leading to the challenges. CEOs will have to find new ways to achieve the happiness they felt as CEOs.
3. *Meaning.* CEOs are important. With direct impact on people and products, their work is not trivial. CEOs who pass the baton will need to find meaning in other ways after they leave the organization.
4. *Contribution.* CEOs develop people, create jobs, and generate economic benefit. They are most proud of these things. Not making a contribution can lead to emptiness. CEOs may crave contribution and will probably need to find another way to contribute when they are no longer CEO.

## Choosing the Successor

One of the most important accomplishments any CEO can achieve, the development of a great successor, starts with an important decision: Should the successor be chosen from inside or outside the organization? Hiring from outside can be very expensive, especially if the new CEO fails. And while the damage outside the organization can be severe when an external CEO fails—in negative press, company embarrassment, and so on—it is worse inside the company. The dismissed employees and cut resources that happen in order to pay off the external bad hire only reinforce the growing perception that CEOs are overpaid and board members are self-interested. The reputation of the former CEO, likely a major part of the selection process, will be tarnished by this failure, and that is not a great legacy to leave.

Another reason to hire from inside the company is that it sends a strong message about the organization’s leadership development program. It says that leaders are developing their people. It says that there are strong possibilities to grow into positions of leadership at the company, and that those supporting chosen successors will have opportunities for promotion as well.

CEOs who develop internal successors can be more assured that those successors will carry on their company vision—with a fresh perspective—as they may have spent months or years understanding and working within the current leadership vision.

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Yet sometimes it isn't possible to hire from inside the company. For whatever reason, the business environment may eliminate this possibility. For instance, the board may need to send a message to investors and customers that the organization is headed in a new direction, and they choose to do so by hiring an external CEO with credibility in the new area that no internal successor can match. Or perhaps the CEO must exit immediately and there isn't time to develop a high-potential candidate quickly. Sometimes there just isn't time to wait for the internal leader to develop.

### Coach the Successor

When the succession process requires an external coach, the CEO should be involved to make sure the coaching process is successful. Before starting the coaching process, the CEO should ask him- or herself three qualifying questions:

1. Does he or she really want this person to be the next CEO? If there are any doubts, if the CEO doesn't really want this person to have the job, then he or she will not be very helpful in the coaching process and the transition will probably not be successful.
2. Will this person be given a fair chance by key stakeholders? The CEO may think this person is perfect for the job, but if the board doesn't think so, it won't matter. If the answer to this question is no, the time spent coaching and developing this person will have been wasted.
3. Does the person want to change? The motivation for change has to come from inside the successor; it will *not* happen because the CEO is a great coach. No one gets better because of the coach; they get better because they are willing to and work toward change.

Hiring an external coach is fairly simple. The CEO should ask the coach to describe his or her area of specialty and then analyze whether it fits the coaching needs of the successor. Is the successor in need of development in strategy, tactics, or behavior, or is the need in personal development or productivity? The coach should specialize in the area in which the successor requires development.

It's important to involve key stakeholders in the coaching process and in determining the successor's strengths and areas for growth. These are the people who will be involved with the successor long after the CEO has passed the baton, so it's important that they be on board for a number of reasons.

1. The new CEO will need their support to turn the succession into a success; help, especially early on in the position, to ensure a graceful transition will be required.
2. Stakeholders have ideas and perceptions of the company and what the next leader should be like that the current CEO may not have considered. These ideas will offer the incoming CEO a more well-rounded view of his or her role.
3. The CEO is not the only one whose input matters. The successor will learn a lot more when he or she gets coaching from key stakeholders. Stakeholders should

represent a variety of different perspectives—board members, peers, direct reports, and in some cases customers and suppliers. The CEO should list the relationships most important to ensuring success in leading the company, and then make sure that these names are on the feedback list for a successor

4. Stakeholders who are involved in the coaching process are more likely to become psychologically invested in helping the new CEO succeed. In addition, it helps the successor and stakeholders build effective relationships that will be in place long after the previous CEO departs.
5. Positive indications of change from many key stakeholders are much more valid than a positive indication of change from one person—even if that one person is the CEO.

When reviewing feedback, which is often in the form of 360 assessments, the CEO should look for trends. If areas of improvement show progress, the candidate may be a person who will work to get better. If the scores don't improve, the person may not be the best candidate.

The CEO should consider the business environment when these assessments were taken and feedback given. Was it during a difficult turnaround when decisions had to be made that didn't please employees? In these cases, 360-degree feedback scores may well suffer.

The CEO should look for key patterns. What areas of strength and areas for improvement will make the most difference in bringing the candidate into the best position to become a great CEO?

Personality tests and organizational surveys can be useful. Anecdotal feedback can also be used, though a very common error CEOs make can be over-reliance on this type of feedback. The CEO should consider the source when accepting this type of feedback and be careful not to let one event negate years of evidence.

After gathering feedback and suggestions, the CEO may start the coaching process with a goal-setting session. Working together to determine key areas for behavior change will help make the most of the transition and will help the successor candidate develop the skills and build the relationships for becoming a great CEO.

The most important variable in achieving positive, lasting change is follow-up. And the most important follow-up is not the CEO following up with the successor; it is the successor following up with key stakeholders (Goldsmith and Morgan 2004). The successor will acknowledge areas of development and then ask stakeholders for ongoing suggestions for future improvement. The CEO coach can reinforce these ongoing dialogues by asking the successor who he or she talked with, what he or she learned, and what he or she is going to do about what was learned.

## Pass the Baton

When the successor is ready to move into the role of CEO, the CEO will finally have to go. The CEO may be tempted to stay on the board or in some other capacity. It is best to just go if the successor is going to be successful. Hanging on is not helpful.

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The best thing the CEO can do is show integrity on the way out by doing everything possible to ensure that the next CEO is successful. That means not talking with the press disparagingly about the successor, especially if he or she ultimately is not successful. It's best to exit gracefully, and even if other people don't recognize it, the successor will. In turn, this fortunate person will have been taught one final lesson from his or her predecessor: How to pass the baton of leadership smoothly and successfully when the time comes.

### References

Goldsmith, M., and H. Morgan, 2004. Leadership is a contact sport. (Fall). *Strategy + Business*.