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New CEO and Board Research from Heidrick & Struggles and Stanford's Rock Center Reveals Serious Gaps in CEO Succession Planning

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51% of companies cannot name a CEO immediately if needed; 39% have no internal candidates whatsoever
"Serious threat to corporate health and a risk management problem"

NEW YORK and STANFORD, Calif., June 16, 2010 /PRNewswire via COMTEX/ --More than half of companies today cannot immediately name a successor to their CEO should the need arise, according to new research conducted by Heidrick & Struggles and Stanford University's Rock Center for Corporate Governance. The survey of more than 140 CEOs and board directors of North American public and private companies reveals critical lapses in CEO succession planning.

"The lack of succession planning at some of the biggest public companies poses a serious threat to corporate health - especially as companies struggle toward a recovery," says Stephen A. Miles, Vice Chairman at leadership advisory firm Heidrick & Struggles and a global expert on succession planning. "Not having a truly operational succession plan can have devastating consequences for companies - from tanking stock prices to serious regulatory and reputational impact."

Stanford Graduate School of Business **Professor David Larcker** adds, "We found that this governance lapse stems primarily from a lack of focus: boards of directors just aren't spending the time that is required to adequately prepare for a succession scenario." Professor Larcker is a senior faculty member of the Rock Center for Corporate Governance, a joint initiative of Stanford Law School and the Stanford Graduate School of Business.

The **2010 Survey on CEO Succession Planning**, conducted this spring, surveyed CEOs and directors at large- and mid-cap public companies in the U.S. and Canada, with 10% of respondents also from large private firms. Key findings from the survey include:

- **While 69% of respondents think that a CEO successor needs to be "ready now" to step into the shoes of the departing CEO, only 54% are grooming an executive for this position.** "This statistic, combined with the finding that more than half couldn't name a new permanent CEO if the current chief became incapacitated tomorrow, is a total disconnect," says Mr. Miles. "It's hard to imagine that the CEO would be 'ready now' if he or she is not being groomed today."
- **A full 39% of respondents cited that they have "zero" viable internal candidates.** "This points to a lack of talent management and not paying enough attention to your 'bench,'" says Mr. Miles.
- **On average, boards spend only 2 hours a year on CEO succession planning.** "The full boards of respondents' companies meet, on average, five times a year. Succession planning is discussed at only two of these meetings, at one hour apiece," says Professor Larcker. "The nominating and governance committee - who often take primary responsibility for succession planning - did not fare much better; respondents reported that only four hours of meeting time is typically devoted to this topic each year."
- **Only 50% have a written document detailing the skills required for the next CEO.** Professor Larcker thinks this seems rather low: "If nothing is written down, how do we know that the board really understands what these skills should be?"
- **Seventy-one percent of internal candidates know they are in the formal talent development pool, but there is regular communication (typically yearly or bi-yearly) for only 50% of these internal candidates.** "There is a large communication gap, which can cause retention issues," says Mr. Miles. "Executives who don't know they are even in the running to be CEO might be easily lured elsewhere, where they believe they have room for advancement."
- **The majority of firms - 65% - have not asked internal candidates whether they want the CEO job, or, if offered, whether they would accept.** "Many firms simply assume that their top choices want the job, but that is not always the case," says Mr. Miles. "More and more, we see executives who don't want to be in the spotlight as the CEO, given the extreme public scrutiny associated with the position. Making this assumption without checking can cause real problems down the road."
- **Once viable internal candidates for the CEO job are identified, 60% of firms think that the external search should continue at the same pace.** "This is a big mistake," Mr. Miles warns. "Companies lose strong candidates when they keep the outside search open too long even though they have perfectly capable internal talent."
- **While 69% of respondents think they have an extremely strong or very strong understanding of the capabilities of internal candidates, only 19% have extremely or very well established external benchmarks to measure their skills against.** "It is another disconnect between perception and reality," says Professor Larcker. "How do you know that a candidate is strong unless you compare him or her against the marketplace?"
- **Only 50% of companies provide on-board or transition support for new CEOs.** "This is the most important job at the company," Professor Larcker observes. "Not having the support in place for on-boarding the executive can put the entire organization on unstable ground."

With companies still at risk due to their lack of succession planning, Mr. Miles and Professor Larcker offer these top-line suggestions for boards:

- **Recognize that succession planning as practiced by most companies gives a false sense of security.** "Even though boards have made progress in this area in the post-Sarbanes-Oxley world, most companies' succession planning still isn't even close to being good enough. Make sure that the board devotes meaningful time to this exercise, rather than simply checking off the box of a meeting agenda. Boards need to ask themselves: could they really name someone today, or is everyone in the succession plan always 1-3 years out from being viable?"

- **Focus on making succession plans operational.** "Companies need to move from the 'names in boxes' approach that gives them a false sense of security to truly developing 'viable' candidates. Plans aren't worth the paper they're printed on unless there is a robust inside/outside process that ensures they are both developing and knowledgeable of all candidate pools - internal and external."
- **Demand experience from board directors.** "Regulators such as the SEC are recognizing the importance of a rigorous succession process, and firms should seek lead directors and/or nominating and governance committee chairs with sufficient experience in this area to ensure that it is adequately addressed. We are typically better at the things we have practiced before, and this is no place for someone to be 'practicing' for the first time."
- **Pay attention to your bench.** "Open lines of communication with potential internal candidates minimizes surprises down the road. When it comes time, you don't want your #1 contender to turn down the job."
- **Keep the "runners up" happy.** "We see otherwise terrific executives who may not have been chosen as the CEO's successor left hanging with no explanation. If you want to retain these executives, tell them why they weren't chosen at this time and why they are still valuable to the company."

If you would like to speak with Stephen Miles or David Larcker, please contact Davia Temin or Suzanne Oaks of Temin and Company for Heidrick & Struggles at 212-588-8788 or news@teminandco.com, or Helen Chang at Stanford Graduate School of Business at 650-723-3358 or chang_helen@gsb.stanford.edu.

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About Stanford University's Rock Center for Corporate Governance

The Arthur and Toni Rembe Rock Center for Corporate Governance is a joint initiative of Stanford Law School and the Graduate School of Business at Stanford University. The Center was created to advance the understanding and practice of corporate governance in a cross-disciplinary environment where leading academics, business leaders, policy makers, practitioners and regulators can meet and work together. Please visit: http://rockcenter.stanford.edu/

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