

AGENDA

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What Are Some Succession- Planning Missteps?

By Dora Vell

The following question was proposed by a senior executive at a Fortune 500 company. For an answer, we reached out to Dora Vell, CEO of Vell Executive Search, who was previously a partner at Heidrick & Struggles.

Question: In cases where the wrong candidate was chosen, what missteps contributed to the failure? How do you avoid making similar mistakes?

Answer: Understanding what has gone wrong with past selections of executives and directors is critical to avoiding missteps in the future. Never before have boards been under such pressure to get these appointments right the first time around. The financial crisis has shown us how swiftly regulators can act to remove CEOs and board members when they feel a firm's mismanagement is putting the greater economy at risk.

CEO Searches

I was witness to the missteps that can occur with CEO succession planning while working with a board to replace a chief executive who had built the company. A principal mistake this board made was giving the CEO, who was also on the board, too much influence over the search process. The board created a situation where the CEO was the first person to interview candidates and was able to add additional job criteria. This led to a complicated search with a narrow pool of candidates. Ultimately, due to the board's inability to exert full control over the search process, the exhausted directors ended up promoting the CFO to the position. The company, already falling on tougher times, ended up having many problems and was eventually sold.

Indeed, a CEO's over-involvement in the process and the executive's failure to develop bench strength internally, often due to fear of losing control of the company, rank high as the top

ways searches get jeopardized. However, there are many simple things that boards fail to do on their own that can handicap succession planning efforts.

There are cases where boards fail to be very specific on core competencies, including details that will apply to candidates who have intricate knowledge of industry sectors. Board members will also try to merge together their different ideas of who the CEO should be. For example, one director may want a person from a particular industry with CFO experience and the other may want an executive from another industry with sales experience. Both backgrounds may be appropriate for the position but the merging of the backgrounds leads to counter-productive results. What the board is left with is a candidate profile built by consensus. This strategy leaves them with a prospect pool that is way too narrow.

Further, there are boards that still don't do enough rigorous due diligence on the candidate set that gets to the interview level. When they find the right candidate, many boards don't go the extra mile needed to woo that individual. I have had situations where one board member holds back the best candidate because of compensation. They end up settling for someone who will take a 25th percentile compensation package. Finally, many boards don't do enough to monitor and facilitate the development of internal bench strength.

Director Searches

At one public company where I was conducting a director search, the process was hindered by the difficulty board members had in communicating with each other about the type of candidates they wanted for the position. They settled on an approach where there were multiple buckets for the candidate, instead of a clear, focused description.

Some board members were looking for a director with a CFO background. Others were looking for an "industry expert." There were different opinions

on which industry it was the new director needed to be an expert on. Still others felt the board needed a minority candidate. This lack of clear focus led to a search that lacked direction on occasion.

Further, the directors overseeing the search carried an inflated view of their own talents. They also failed to fully gauge their weaknesses. As a result, the candidates they were envisioning were not the best reflection of what the board really needed.

Despite a national search, the board ended up selecting a local white male candidate who only partially complemented the criteria initially outlined for the position. He was an excellent executive but a mediocre choice for the board.

What is fortunate is that boards don't have to settle for such an outcome. They can set aside time to discuss what is needed and relate it to their company strategy. Then, they can assess the current situation openly and frankly and understand the gap.

Keep in mind that finesse is critical. Board members may avoid open discussions about each other's skills to keep civility. But as they set out to develop a list of required skills, they should hold one-on-one meetings and confidential discussions with each member and consider all opinions.

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