

# MITIGATING RISKS

## What Happens When CEOs Leave?

BY STEPHEN XAVIER

*The departure of any CEO, even a modestly effective one, causes a disruption in operations, slows forward momentum, and creates problems on many levels.*

The risks to the company are much greater if the CEO was highly effective and popular because he or she clearly articulated a great vision for the ranks below. When such a leader leaves, it demoralizes people and often causes the bottom line to suffer, especially while a successor goes through the learning curve.

The risks can be compounded (particularly when the successor is an unknown quantity) as investors become concerned about the company's health and withdraw their support. Whether a CEO leaves expectedly or unexpectedly, not being prepared for the departure, increases these risks many times over.

### THE BOARD'S ROLE

The baby boomer retirement crisis, which is no longer just looming but well under way, makes CEO departures an increasing reality—a reality that apparently has yet to sink into the minds of those responsible for making succession decisions. This is evident because companies are still not creating the adequate bench strength they need behind aging (or retirement-eligible) CEOs.

Since boards share responsibility for organizational health, governance, and succession, it is part of their job to guide succession planning—not in the sense of micromanaging but as partners with the leadership team. A prerequisite for succession planning is a board whose

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contribution is balanced—neither taking a hands-off, onlooker approach nor meddling, which will be perceived as a lack of trust in the CEO. A board that takes its governing role seriously and has candid, honest communications with senior leadership will stay alert to:

- ▶ An impending departure of the CEO
- ▶ Growing dissatisfaction within the senior leadership team
- ▶ A CEO who is getting off track or is making mistakes reading the company's markets

## **BUILDING BENCH STRENGTH**

The need to build a strong bench extends companywide, not just at the top tier. Leaders and managers at all levels have an imperative to aggressively develop their people. First, they need to identify who the top talent is. Second, they need to create a two-to-five-year development plan for these individuals, including formal education (degree programs, professional association certification, etc.) as well as mentoring, cross-training, and stretch assignments to develop these individuals into future leaders. Third, they need to provide effective on-boarding assistance to those people who are new hires or recently promoted.

But there is more to it than this simple three-step process for individual development and advancement. The biggest mistake companies make in developing leaders is a one-track approach when they move one individual from position B to position A. What if the individual who has been carefully developed takes those new skills to another organization?

A better solution is to create pools of candidates. A large western-states power utility company, for example, uses a highly innovative and effective method to build bench strength. Its Transmission Distribution Business Unit, rather than developing high-potentials on single tracks, has been developing talent pools of 20 to 50 people from where it can draw individuals to fill a dozen jobs over the next five years. As an added benefit, the process of developing the pool caused a cross-pollination of ideas and solutions that has led to further innovation.

## **SUCCESSION IS NOT A BEAUTY CONTEST**

When an internal candidate is selected for promotion (in the absence of a pool of potential possibilities), the danger is that the individual selected is someone who simply “won the beauty contest.” The candidate appears successful on the surface and, through superb presentation skills, has cast a spell on superiors. Soon after the promotion, however, it becomes apparent the individual lacks the most critical leadership skills. If that person happens to be the CEO, it can be fatal for the company.

Two actions can prevent promotions due to this “enchantment factor.” One is creating a talent pool. The other is thorough assessments. When a dynamic executive waves a magic wand, which leaves everyone enchanted, say “Time out!” First evaluate the individual’s entire repertoire—not just technical abilities, but leadership and people skills—through objective assessments such as a 360-degree feedback instrument and careful observation. The strengths and weaknesses identified in the assessment guide the creation of a realistic development plan as part of a comprehensive succession planning process to build meaningful and sustainable

bench strength. Again, keep the advancement process competitive by identifying and developing all similarly talented individuals, not just one who happens to stand out.

Equally important, don't limit leadership development to book learning; nor should training stop when the school bell rings and class is out! Once high-potentials have completed their formal training, give them an opportunity to spread their wings. Let them experiment with what they have learned. Also, encourage them to take on new roles and stretch assignments; allow them to have failures and learn from them, and provide them with wise mentors.

## **RECRUIT FOR BALANCE**

Provided “enchantment factor” promotions are avoided, the risks associated with a leadership transition are usually lower with a known entity—someone who has come up through the ranks. In the absence of an internal candidate, board guidance—but not micromanagement—is required to ensure an external candidate fits not only with the job description, but also the organization's values and culture. Will the new leader be able to relate to the new environment or be unable to work with the senior team, causing people to resign and bring further disruption? It is one thing to bring in an outsider with a fresh perspective, but quite another to hire a leader who has to do everything “my way.” “My way” is a red flag because such leaders are often “one-trick ponies” who go from organization to organization doing the exact same thing. The ideal scenario is to hire a leader who balances an innovative and creative approach with the ability to work cooperatively with the senior team to maintain forward momentum with minimal disruption within the company's current cultural structure.

## **BACK TO ON-BOARDING**

Many organizations miss the final critical step of a leadership transition—on-boarding. C-level executives often leave within the first year because they never fully made the transition into the new environment, failing to establish the networks and close working relationships that ensure effectiveness. Once a new leader has taken the reins, consistent constructive feedback, ongoing professional development, and board support are crucial for ensuring long-term success. *MW*

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