IN THE LEAD

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Too Many Companies Lack Succession Plans, Wasting Time, Talent

IT'S A BASIC RULE of management, yet one that more and more corporate directors and chief executives seem to be ignoring. Only about half of public and private corporate boards have CEO-succession plans in place, according to a survey by the Center for Board Leadership with Mercer Delta Consulting. This is the case even at giant global companies that have thousands of employees and spend millions each year to recruit and train talent.

Succession plans for the corner office are best made long before they're needed. At Citigroup, however, directors didn't start hunting for a new CEO until Charles Prince stepped down earlier this month. Their search leaves the company rudderless at a time when it has fallen behind rivals and suffered huge losses in mortgage-related securities.

By Carol Hymowitz

Similarly, Merrill Lynch's directors didn't begin interviewing candidates to replace former CEO Stan O'Neal until they pushed him out the door late last month. Just two weeks later, they chose outsider John Thain, the former head of NYSE Euronext. But this required them to keep their list of candidates short and speed up a decision that boards typically mull for months or longer.

"Succession planning isn't an event, it is a process that is best managed over three, five, even 10 years," because it involves building a pipeline of talent, says Joseph Bower, a Harvard Business School professor and author of "The CEO Within: Why Inside Outsiders Are the Key to Succession Planning." Yet, "a lot of CEOs are focused mostly on getting through the next quarter, and they ignore the hard work of grooming future leaders," he adds.

Directors often look the other way when CEOs don't groom successors or when they purge talented subordinates rather than prepare them to take over. When such CEOs depart, directors must turn to outsiders, who may understand the markets and the need for a new strategy, but need time to get to know employees and a company's culture. "External candidates need to be at least one-and-a-half times better than internals to take on the transition risk," says Stephen Miles, managing partner, Americas, Heidrick & Struggles' leadership consulting practice.

SO WHAT DOES IT TAKE to manage succession planning? It starts with a sitting CEO who understands the importance of this task and makes it a priority.

Mary Sammons, chairman, president and CEO of Rite Aid, spends time identifying and advancing high-performing managers. "If you're really doing your job as a CEO, you are working with the board and putting candidates in front of them," she says.

Procter & Gamble CEO A.G. Lafley and General Electric CEO Jeff Immelt (who underwent a three-way, two-year-long race to succeed his predecessor Jack Welch) spent a lot of time reviewing the work of their top executives and mulling whether they need new challenges. At both companies, managers at every rank are graded in performance reviews on whether they've retained and advanced their most talented employees.

CEOs who want to identify the best talent in their ranks shouldn't surround themselves with executives who are afraid to criticize them or offer differing perspectives. They must be willing to share power with potential heirs and give them the authority they need to grow.

At Xerox, Chairman and CEO Anne Mulcahy this past April named Ursula Burns president and heir apparent. But she still had to figure out how much more responsibility to cede to Ms. Burns, an engineer who for many years has overseen Xerox's operations and research, and wanted more responsibilities as president.

MS. MULCAHY ultimately decided to add marketing, human resources and other areas to Ms. Burns's portfolio. She also agreed that they would both handle a variety of challenges and decide who would handle problems as they arose. So while Ms. Burns has been tackling how to centralize Xerox's IT business in Europe, Ms. Mulcahy has had more time to spend with major customers.

CEOs elsewhere use the job of chief operating officer to groom successors. Software maker Adobe Systems this month promoted president and COO Santanu Narayen to the corner office after CEO Bruce Chizen announced he wanted to step down after seven years. The two men have worked closely together for almost a decade.

Mr. Chizen made sure his heir got to know directors well, and was involved in setting strategy and making important decisions at Adobe. Similarly, at Starbucks, Chairman Howard Schultz and former CEO Orin Smith brought in Jim Donald as president of the company's U.S. business and promoted him to COO and then CEO when Mr. Hatch retired.

Yet another challenge for boards and outgoing CEOs when picking successors is to focus on their companies' future needs and not their past accomplishments. In today's changing business landscape, companies need leaders with strengths and talents that are different from those of their previous CEO—no matter how successful he or she was.

"Succession planning is often done looking at the rear-view mirror," says Mr. Miles, "when it should be done looking out the front windshield."

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