

CEO Succession Planning Considerations

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1. Background

Preparing for the planned or unplanned vacancy of the CEO will be treated separately from other staff succession management efforts, as it is the sole responsibility of the board to manage this position. This report outlines possible scenarios of CEO vacancy, and planning steps the board of directors should consider for these various scenarios. This report is not intended to obligate the board to any particular plan of action; it should be considered as a guide for planning in this area. Any course of action with regards to the replacement of the CEO should be a decision involving the entire board of directors.

CEO vacancies can be planned or unplanned. In either scenario, by the time a succession plan is needed, it is far too late to start building one, and it is incumbent upon the board to make succession planning a priority, even in the face of more immediate and tangible issues. In addition to mitigating risk, succession planning brings with it several beneficial byproducts:

- It provides a framework that drives senior executive development, aligning leadership at the top of the enterprise with the strategic needs of the Cooperative.
- It gives the CEO, through an ongoing analysis of the job requirements, the opportunity to adjust his/her role in light of changing business conditions and strategic imperatives.
- It strengthens the relationship and information flow between the board and senior management through the regular contact that is part of the board's review of candidates.

2. Board Role in Succession Planning

Succession planning usually is directed by the governance or compensation committee or occasionally by a special ad hoc committee. The current CEO's involvement varies (depending on whether the succession will be planned or unexpected) with primary responsibility being the development of internal candidates. The lead director often acts as the single point of contact between the board and the sitting CEO on succession matters. The Board should consider at a minimum developing the following components of a CEO succession plan:

- Contingency plan for the unplanned vacancy of the CEO positions
- Documented critical competencies and success factors, for the current CEO and candidates for consideration.
- Search plan for replacing the CEO in the event of either a planned or unplanned vacancy.
- Transition plan and strategy for a planned vacancy.

3. Planned Vacancy

In the event of a planned departure of a CEO through normal retirement, planning should begin after official announcement of a retirement date. Replacement planning ideally should begin a minimum of nine months before the planned departure date. This will give the Board of Directors adequate time to determine appropriate transition strategies, and conduct a search for a replacement.

4. Unplanned Vacancy Short Term Strategies

In the event of an unplanned vacancy, boards often begin their discussion of emergency CEO succession by considering who could jump into the executive office. The board should also consider the possibility that the best person to step in a crisis, and the person best suited to succeed the CEO, may not be the same person. To determine who should fill this short term role, the board should consider four or five criteria most important to the board for an interim leader. Critical competencies and success factors are addressed in the qualification criteria section of this report. Three different approaches are commonly used in cooperatives to fill the role of CEO after an unplanned vacancy:

- Acting CEO
- Interim Management Services
- Director as Interim Manager

The Board should develop contingency plans to be used for the most likely scenario at any given time. The most appropriate short term strategy may change depending on current conditions, and personnel in place at the time of the vacancy.

4.1 Acting CEO

In this scenario, the Board of Directors appoints an existing staff member to be the acting CEO, until a permanent replacement is found. It is made clear from the beginning that this appointment does not necessarily mean that the staff member will be appointed as permanent CEO. If anyone in your current senior management ranks is qualified to be interim CEO, this is a highly desirable approach. Utilizing a current staff member helps maintain continuity of operations as current senior management should be familiar with company operations.

4.2 Interim Management Services

All across the country there are a multitude of retired Cooperative managers who still remain very qualified and productive. Many of these managers stay active in the cooperative program on a part time basis by participating in various Interim Manager Programs. These managers can be brought in to fulfill the day to day responsibilities of the CEO. The level of authority delegated to the interim manager would be determined by the board of directors. The Interim Managers are paid on a fee for service basis, and are generally guaranteed a minimum time period for appointment. Interim managers can be procured through NRECA as well as other consulting firms specializing in the Cooperative market.

4.3 Director as Interim Manager

In some cases a current member of the Board of Directors may be appointed as Interim Manager. This should be a decision that has the consensus of the entire board. If considering this scenario, the Board should take into consideration the same criteria used to select as staff member as an interim manager. While acting as an interim manager, the director should temporarily vacate their director seat to avoid any conflict of interest. Upon selection of a permanent CEO replacement, the director would return to their respective seat on the board.

5. Executive Search

5.1 Who should conduct the search?

Who conducts the search is ultimately the decision of the Board. Although they can be accomplished with in-house resources, most cooperative utilize outside firms. Internal resources may lack the time or expertise to conduct a search. Additionally using internal resources may be seen by some employees as a biased and unfair process. Outside search firms report directly to the board of directors and are not influenced by internal politics or other considerations.

5.2 Components and Timelines of an Executive Search

Conducting an executive search is a multistep process, with many practical and legal issues to be considered. The entire process can take up to six months from initial planning to placement of a candidate. Searches generally include the following components:

1. Development of competencies and success factors of the candidates
 - Accomplished through a Board committee or the full Board.
2. Development of the text for print and on-line advertising
 - Will be developed by recruiter in collaboration with the board.
3. Placement of advertising
 - RE Magazine requires an average of six weeks lead time before publication.
 - Print and Online advertisements should generally be available to candidates for a minimum of 60 days before the due date for resumes.
4. Acceptance of resumes
 - Resumes will be collected throughout the advertising period.
5. Collection of EEO data for compliance reporting
 - This is usually a concurrent process with the acceptance of resumes.
6. Screening of resumes
 - Depending on the amount of resumes received this process will take a few days to several weeks.
7. Selection of first round candidates
 - The Board will review the package submitted by the recruiter, and decide who should receive an interview.
8. Interview of first round candidates
 - First round candidates are notified, and generally need at least two weeks lead time for scheduling of interviews.
 - The first round interview is can is usually conducted by the recruiter, Board representatives or both.
9. Background investigations
 - This process will require one to two weeks to gather information and speak to references.
10. Selection of final candidates
 - The recruiter or designated board members presents recommendation to the full board
11. Interview of final candidates
 - Finalists should be interviewed by the entire board of directors.
 - Generally at least two weeks lead time is required for logistics
12. Selection of candidate
 - The full board must reach consensus on the selection
13. Salary / relocation negotiation
 - The recruiter or the board committee negotiates starting salary, relocation assistance, and any other considerations for placement.
14. Placement of Candidate
 - As a start date is determined, generally the minimum time between selection and placement is 6 weeks.
15. Notification to unsuccessful candidates
 - The recruiter will notify all unsuccessful candidates.

6. Transition Strategies

For planned vacancies of the CEO, there are three common approaches utilized in our industry, each has its own benefits and drawbacks. The ultimate approach decided by the board of directors will depend on comfort level of the board, and available funding.

6.1 Chief Operating Officer

In this approach, the cooperative selects an “heir apparent” for the position of CEO. It is expected that the person selected for this position will transition to the position of CEO upon the departure of the current CEO. The search procedures for this position would be identical to those used in selecting a CEO.

Prior to the planned departure of the CEO, the cooperative creates the position of Chief Operating Officer. This position will be responsible for the day to day decisions that are currently incumbent upon the CEO. These decisions would include such things as routine personnel actions, approval of expenditures, and delegated authority of operating decisions. The current CEO will then be able to concentrate on more strategic matters and special projects as decided by the board. As the planned day of departure becomes closer, delegated decision making authority is increased until all authority is transferred. This allows for a smooth transition and departure of the current CEO.

6.2 Dual Incumbency

In this scenario the selected candidate is brought on board before the departure of the current CEO. This could be a period of only a few weeks to as long as six months. Decision making authority is gradually transferred to the new CEO according to a schedule mutually determined by both parties and the Board of Directors. This allows for a smooth transition and opportunities for knowledge transfer between the incoming and outgoing CEO's.

6.3 No Overlap

In this scenario, there is no overlap of incumbency. The new CEO is brought on board after the departure of the current CEO. It may be advantageous to retain the departing CEO on a consultancy basis. This allows opportunities for knowledge transfer between the incumbents. Retiring CEO's are also often retained to manage “Special Projects” which began under their administration, and have not been brought to completion.

7. Qualification Criteria

In either case of an unplanned or planned departure, the Board of Directors should reach consensus on the criteria essential in a successful replacement. The Board should determine what it sees as most important for success in the position now, and for the foreseeable future. To begin the conversation, consider those competencies and qualities held by the current incumbent, that the board considers essential. Below are sample competencies and success factors for your consideration.

7.1 Vision and Strategy

- Demonstrates agility in challenging, complex or ambiguous situations and is able to integrate material from a wide range of learning and thinking
- Develops a “core” understanding of issues that challenges assumptions and the superfluous and distills the complex
- Displays both optimism (expects success, frequently identifies potential/opportunity, never feels a victim and takes calculated risks) and realism (is practical and assertive, evaluates the situation and clearly identifies problems)
- Anticipates problems and opportunities and is both reflective (considers multiple “angles” and understands the short- and long-term ramifications of decisions/actions) and decisive

7.2 Ensuring Tactical Success

- Manages situations and teams appropriately—in a hands-on or hands-off manner, depending on the situation
- Sets high standards for self and others; competes with self
- Actively manages performance, drives execution by clarifying priorities, and confronts problems and problem performers
- Hires, develops and retains excellent talent

7.3 Relationships and Communication

- Applies experience and insight regarding others
- Demonstrates empathy and effective listening
- Communicates effectively with internal/external constituencies

7.4 Motivation

- Demonstrates desire and motivation to be CEO; willingness to put in time and effort

7.5 Business Acumen

- Has the candidate created and maximized success in more than one area of operation.
- Have they served with distinction in current or previous positions, are they seen as leaders or placeholders
- Established reputation leading to credibility with board, members and employees

7.6 Fit to Situation

- Fit to current and upcoming business stage/scope/scale strategies and tactics
- Fit to current and aspired organizational culture
- Fit to and/or actual experience in industry/market