

Engaging With the Board: Talent & Succession Planning

NAHR Meeting
October, 2021

Succession Panel... 60+ Years of Collective Senior Executive and Director Experience

- Kevin Cox (General Electric, American Express and Pepsi; Kraft Heinz, CEB, Chef's Warehouse and Virgin Mobile)
 - 23 Years CHRO
 - 11 Years Board Director
- Susan Suver (Aptiv, US Steel and Arrow Electronics)
 - 16 Years CHRO
- Rich Floersch (McDonald's and Kraft Foods International)
 - 15 Years CHRO

Board: CHRO Engagement

Expectations That Board Has For CHRO

- Leads Human Capital Strategy; the “S” in ESG
- Develops Sound Executive Compensation Programs
- Supports CEO to Drive Company’s Culture and Purpose
- Mitigates Organizational Risk
- Operates As A Trusted Advisor and Coach
- Plans/Supports CEO and Executive Succession

Succession Planning

More than 90% of surveyed Board members rate CEO succession as “critical” or “important”

“Succession represents probably 80% of the value Boards of Directors deliver...If the choice of the CEO succession is superb, all subsequent decisions become easier.”

– Ram Charan

“Lessons Learned”

- Full Cycle, Beginning to End Succession
- Emergency Succession for Key Positions... In Particular the CEO
- What to Know When Succession Planning Goes Wrong

Succession

Beginning to End

Critical Considerations

1. Defining and clarifying roles of the key players:

- **Incumbent CEO:** Ultimately responsible for the internal bench of successor candidates
- **Lead Director/Nom & Gov Chair:** Ultimately responsible for the succession process and outcome
- **CHRO:** Manager of the succession process, on behalf of CEO and (if agreed upon) BOD
- **External Advisor:** Optional, but provides subject matter expertise at vital points in the process
- **Search Firm:** Optional, but provides Market Scan intelligence, and if required, conducts a search
- **Other Players:** General Counsel/Corp Secretary/Public Affairs & Communications

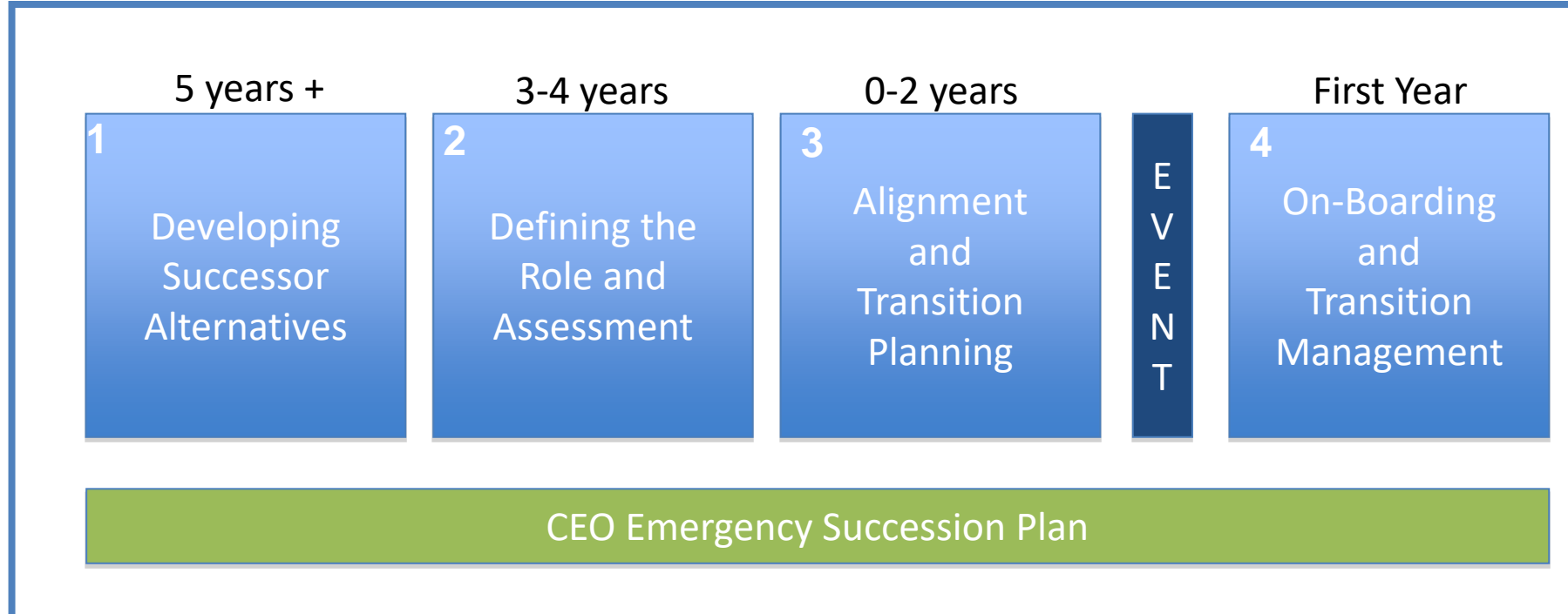
2. Dedicating right amount of time on Board docket

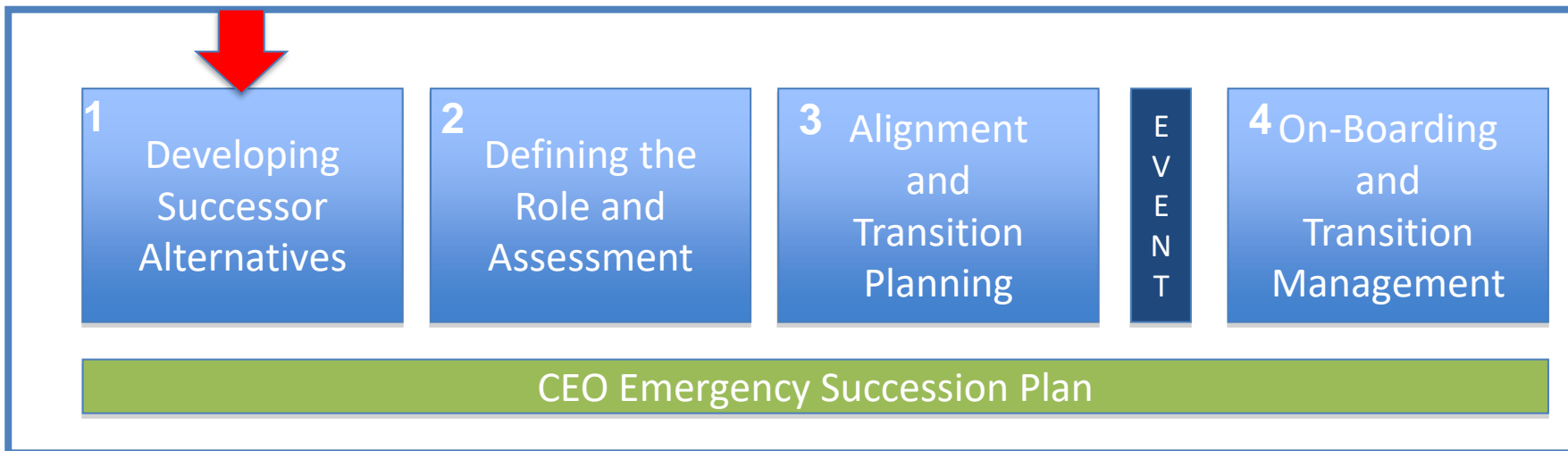
- Minimum: Annual discussion of CEO Succession, led by CEO and CHRO
- Best to integrate it with your existing Talent Review process
- Time spent on subject grows in proportion to proximity of likely transition event

3. Gaining Board alignment on process to be followed

- Topic elicits enormous energy from the Board – requires discipline/patience to keep BOD together
- Some sense of “likely timing” is required to manage director energy/focus
- Expect substantial 1:1 conversations; important for CEO and CHRO to be on same page constantly
- Repetition, repetition, repetition

Ideally, CEO succession occurs in 4 distinct phases...





Phase 1: Developing Successor Alternatives

- Underway constantly, but at a minimum, 5 years from expected transition date
- Focus on developing multiple potential successors (2-3)
- Exists as a quiet phase – no pronouncements made
- Expect to test candidates in two separate roles prior to successor decision
- Important to begin dialogue with board at this stage
- External coaching/assessment most valuable now
- Ideal: At least one candidate from the “rising stars” class (i.e., longer runway/hi-po)



Phase 2: Defining the Role and Assessment

- Gaining Board alignment on Successor CEO requirements is extremely challenging:
 - *Comparisons to Incumbent CEO are inevitable, but ultimately unfair to successor(s)*
 - *Directors views not necessarily aligned as to strategic future of company*
- Ultimate goal is to produce a “CEO Scorecard” – against which successors will be coached and evaluated
 - *CEO Scorecard will evolve over duration of succession process*
 - *Important to begin with a stake in the ground, for purposes of Board alignment*
 - ***Tip: Ask “What are the 5-10 most important questions the next CEO must answer?”***
- Individual interviews with Directors provide both content as well as process and decision ownership
 - *CHRO and/or External Advisor conducts Director interviews, ideally in person*
- Aggregate results of interviews shared with CEO, Chair of Nom & Gov, then full Board
 - *Verbatims, without attribution, are useful*

COMPANY CEO SCORECARD

STRATEGY & VISION	
BUSINESS LEADERSHIP	
STAKEHOLDER MANAGEMENT	
PEOPLE LEADERSHIP	
OPERATING & FUNCTIONAL EXCELLENCE	

Content Developed by CEO, CHRO, Board, and External Succession Advisor

CEO Succession Framework

(Draft – Illustrative Only)

	<div> <div>Demonstrated Strength</div> <div>Developing Area</div> <div>Unknown/Concern</div> </div>			
	A	B	C	D
Age	53	51	46	45
Strategy & Vision				
Vision				
Intellect				
Entrepreneurial				
Digital Knowledge				
Business Leadership				
Focus/Clarity				
Alignment Skills				
International Acumen				
Stakeholder Management				
Board Alignment				
Regulatory Acumen				
Financial Markets Acumen				
People Leadership				
Talent Development				
Inspirational Ability				
Integrity & Values				
Operating/Functional Excellence				
P&L Acumen				
Innovation Track Record				
Business Model Familiarity				
Global Experience				



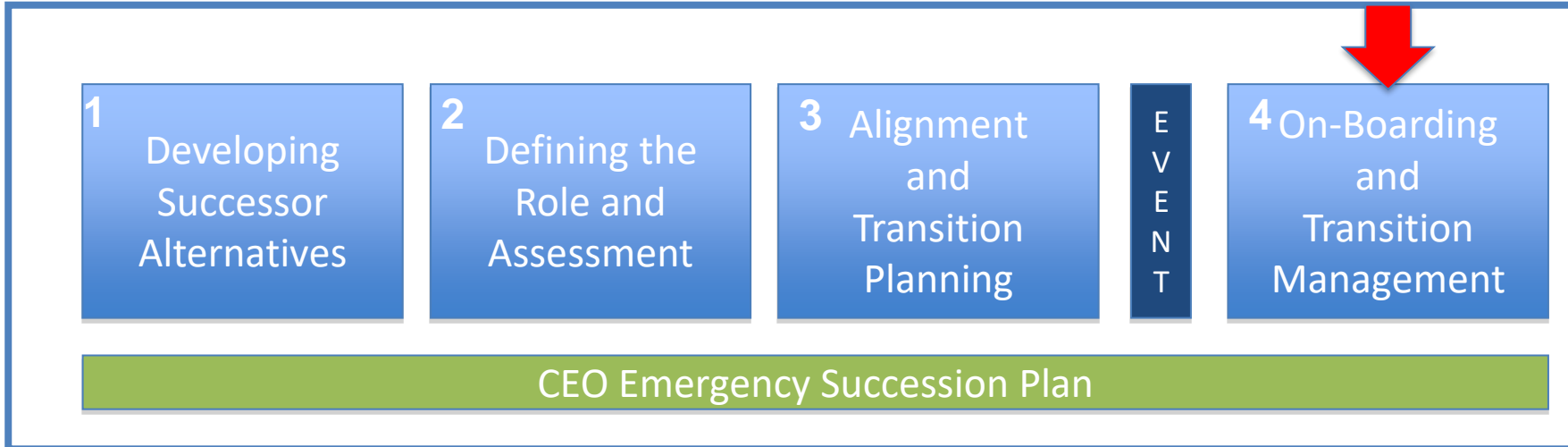
Phase 3: Alignment and Transition Planning

- Frequency of BOD dialogue increases
- Frequent reports and updates by Incumbent CEO/CHRO to BOD on successor development
- Successor candidates placed in their final evaluation roles during Phase 3
- Transition Planning must include a plan to deal with consequences of decision
 - *If retention plans are seen as valuable, they should be developed and at the ready*
 - *Managed transitions, or searches in place to close critical gaps in successor organization*
- Proposed timeframes (scenario plans) need to be discussed repeatedly with BOD
- Governance considerations (e.g., splitting Chairman/CEO role) must be agreed upon with BOD
- Decision dates, communication plans developed during this phase



Phase 3: Alignment and Transition Planning (cont'd)

- Boards increasingly interested in external candidate benchmarking (Market Scans)
- Although general trends indicate internal candidates are preferred, many Boards view an external comparison as an important aspect of due diligence
- Consider retaining a Search Firm during Phase 3, and including search firm in discussions of the CEO Scorecard, as well as evaluations of internal talent
- Consider having Search Firm prepare a Market Scan, and share results of scan with the Board during Talent Review/Succession discussions
 - *Have Market Scan updated frequently (more than once/year)*
- Ideally, the external benchmarking process runs parallel (as part of) the overall CEO succession process
 - Board should be able to quickly pivot to a full search if internal candidate(s) fall short



Phase 4: On-Boarding and Transition Management

- Transition Management is a continuation of Phase 3
- Important to resolve Incumbent CEO/Successor CEO handoff and overlap
- Shorter overlap and transition periods are becoming more prevalent
- Key “supporting cast” considerations must be addressed
 - *Knock-on effect behind the selected CEO, if internal*
 - *Structure change, managed transition exits must be agreed upon and executed quickly*
- Any ongoing advisory/coaching support should be agreed upon before the transition
- CHRO/Advisor provides frequent updates to Board for 12 months following the succession event

9 Concepts Drive Better Outcomes

1

Important for the CEO and CHRO to have a direct and trusted partnership.

2

Strongly consider retaining a non-search External Advisor to the Incumbent CEO and CHRO.

3

Ideally, begin scenario and development planning 5 years from likely succession event.

4

CHRO should establish a trusted relationship with Directors; 1:1 site visit/interviews are ideal ways to achieve these relationships.

5

If internal candidates are to be compared to external candidates, a search firm should be retained to run evergreen Market Scans.

6

The CEO, CHRO, and External Advisor should develop the first draft of the CEO Scorecard, which will be used to select successor.

7

Within 36 months of a likely succession event, a timeline and project plan should be developed and shared with the Board.

8

Specific coaching, development, and role deployments should be in place. Consider external resources as necessary.

9

Board reviews with External Advisor become more frequent as transition date nears. Plan is adjusted accordingly.

Learnings/Closing Thoughts

1. Managing the role of the Incumbent CEO is challenging, but essential

- No one better understands the Company, or the requirements of being its CEO. However...
- Governance and Board dynamics require strong ownership of the process by Board Leadership.
- The partnership between the Incumbent CEO, the Process Owner from the Board, and the CHRO is vital. If an External Advisor is selected, the partnership should include that resource.
- Incumbent CEO must walk a fine line between preparing and developing successor(s) and “selling” or “advocating” on their behalf. Board must own the outcome, on its terms.

2. Horse races are polarizing and destructive, and should be minimized

- Possible to have multiple candidates, but de-emphasize the winner/loser aspect of a horse race
- Great care should be taken to avoid the optics of succession, both externally and internally
- How candidates handle themselves during this process is in and of itself, telling

3. Keeping the circle as tight as humanly possible is useful

- Candidates should focus on development and improvement, not “running for office”
- Resist the temptation to be overly inclusive – everyone has a confidant, and leak consequences are significant
- Ensuring well-intentioned Directors don’t confuse candidates with advice, etc. is critical
 - *Best to centrally manage a “Get to Know” program, and coach both sides of the conversation before and after*

“Lessons Learned”

- Emergency Succession for Key Positions... In Particular the CEO
- What to Know When Succession Planning Goes Wrong

APPENDIX

Thoughts on Interviewing Directors

Objectives:

1. Each Director provides unfiltered input into “the Board’s most important job”
2. Gauge where alignment exists, and where gaps must be closed
3. First step to the Board’s ownership of the process, and the outcome

- CHRO (or External Advisor, or both) meets individually with each Director
 - Ideally, first of several conversations
 - No attribution of comments [building/retaining trust is paramount]
- Summarize Director comments, and share them with:
 - CEO
 - Chair – N&G Committee
 - Full Nominating & Governance Committee
- CHRO shares the summary with the full Board at the annual Talent Discussion
 - Unattributed verbatim comments serve a useful purpose

12 Sample Questions

1. What do you believe to be the 2-3 biggest challenges facing [Company] over the next 5-10 years?
2. What do you believe are the most important attributes for the next CEO of [Company]?
3. What experiences do you believe [Incumbent CEO's] successor should have prior to becoming the [Company] CEO?
4. Do you believe any particular cultural change is required over the next 5-10 years?
5. If/when you've experienced a successful CEO succession, what factors most explained that success?
6. If/when you've experienced a less than successful CEO succession, what are the lessons learned that we can apply at [Company]?

12 Sample Questions

7. What role do you want/expect [Incumbent CEO] to play in the CEO succession process?
8. What role do you want/expect the Board of Directors to play in the CEO succession process?
9. Do you have a particular point of view on the merits of an internally developed successor, vs. an externally sourced successor for the CEO role?
10. (If applicable) As part of a succession transition, what are your thoughts around separating the role of the Chairman from the role of the CEO?
11. What are the biggest concerns you have around the CEO succession process, and what could be done to minimize your concerns?
12. Any other thoughts/suggestions on how to strengthen this CEO succession approach?