

# Two top leaders talk succession

*We asked them for lessons learned and key factors in making executive transitions successful.*

**BY RANDALL S. CHELOHA AND COLLEEN P. O'NEILL**

**I**T USED TO BE that a board member might encounter a CEO succession only once a decade or so. Today, that pace is accelerated by the aging of the executive ranks. In addition, the current corporate governance environment leads to high turnover at the top, as directors now recognize the significant business risks they face if they fail to identify and develop appropriate executive leadership talent. Indeed, acquiring and retaining the right leaders has become every bit as vital as having the right business strategy.

Effective succession planning requires board commitment and skill. But the conventional wisdom of succession planning tends to pale before the complicated realities of actually going through the process — and there's no substitute for experience. Jack Michaels and Richard Teerlink are among today's boardroom leaders who possess an intimate knowledge of the process and what it means for their organizations, so we sought their perspectives on CEO and executive succession.

In both cases, these executives know how high the stakes are: Jack Michaels is currently the CEO and chairman of Snap-On Inc. and sits on the board of Ipsco Inc., while Richard Teerlink is the former CEO and chairman of Harley-Davidson Inc. and sits on the boards of Snap-On and Johnson Controls Inc. Together, they represent many decades of corporate command; they share a commitment to succession planning done well. We asked each to

consider the lessons of the successions in which they've taken part and to highlight some of the key factors they believe boards should address in succession planning. The accompanying checklist, developed by Mercer Delta Consulting and Mercer Human Resource Consulting, is part of a blueprint for board success in succession planning, and builds on the real-world observations of CEOs such as Richard Teerlink and Jack Michaels.

## Culture and values

"In the successions I've been involved in, the companies have had really strong cultures," observes Teerlink. "We've always found strong internal candidates in those organizations. Boards can go astray if they bring in candidates from the outside who do not understand the culture, and so it's equally important that the corporate culture be understood by the boards themselves. And I'm not sure all boards take the time to consider the organization's culture, since they are generally faced with serving the interests of the shareholders, and that means a focus on the financial numbers. But if you believe as I



**Randall S. Cheloha** (at left) is a consultant with Mercer Delta Consulting, based in the Philadelphia office. He specializes in succession planning and has advised many of the nation's leading organizations. **Colleen P. O'Neill** is a consultant with Mercer Human Resource Consulting, based in Atlanta, with extensive experience in talent management and leadership development.



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do that those financial numbers come from your people, then you start to worry about culture. In the most successful successions I’ve seen, the

candidate came from the same culture and was able to build on that culture.”

Says Michaels: “Boards need to clearly articulate both the culture and the values of the corporations in any succession, and decide if they want to maintain them. If they do, then that has got to be a part of the skill set and attributes that the next CEO must bring to the job. I feel very strongly that any succession must support an organization’s beliefs, values, and strategies, and there must be alignment within the board around that. Companies that don’t possess that alignment risk bringing in a CEO who will provide no continuity, and the corporation becomes like a pendulum, swinging back and forth very fast. To avoid that, the board

must articulate culture and strategy for each of its businesses, each of its divisions, from their current state to future state. This provides a framework for the incoming CEO.”

### The leadership pipeline

“A core question in succession planning is, ‘What is the leadership development program within the organization?’” says Teerlink. “When a board asks for succession planning information from its company, it gets all the names and faces, but it doesn’t necessarily get a feel for how that talent is being developed. One indication of how effective that leadership pipeline may be is to look at how many people a company brings in at high levels. To me that’s a failure in the development system. It doesn’t mean you don’t bring in people from the outside, especially as your business strategy is evolving and you may have to bring in someone with a different skill set. But to bring in a lot of outsiders at high levels is a high-risk game. The more an organization can develop people from the inside the better off it is in terms of succession.”

“From the board’s perspective, there had better be strong leadership development in place for all the key roles in the company,” adds Michaels. “There has to be good back-up leadership in place should a key executive leave — almost to the point of contingency or emergency planning. That means an organization must have the courage to move people into different roles, to take risks in developing talent. The organization’s structure must be taken into account. There may be a few operating groups, and a dozen or more divisions, in which

## Board checklist: Oversight of successful leadership development and succession planning

### Do

- Make succession planning and leadership development a high and ongoing priority
- Periodically (annually/biannually) attend a formal talent review as part of the board’s oversight accountability
- Ensure that the succession strategy is married to the business strategy
- Have an understanding of both the quality and quantity of talent available to replace individuals in mission-critical jobs
- Insist on meaningful business interactions over time to develop first-hand observations of key talent
- Keep track of how placement decisions (both from the inside and the outside) have worked out
- Provide oversight and a “real world” perspective on leadership capabilities and the competitive market

### Do Not

- Underestimate the time and commitment involved
- Try to do the job of the CEO or human resources function
- Assume that leadership requirements are the same for all companies
- Allow cursory reviews of capabilities to substitute for dynamic “give and take” discussions about the availability of talent for critical roles
- Insist on meeting all high-potential candidates in person
- Assume, all things being equal, that a senior-level outside candidate will “work just as well” as an insider in the existing culture
- Ignore senior-level failures without conducting a post-mortem to understand what happened

Source: Mercer Delta Consulting and Mercer Human Resource Consulting

case each division president is running his or her own business. There may be one of them who is doing a great job but, for whatever reason, isn't going to move up. They may have to be moved aside for the long-term good."

### The process

"Very often, the most difficult thing for boards to do is agree on a well-defined planning process," says Michaels. "Boards must decide on the timeline, the milestones, the specifics, and approve the entire process before going forward, otherwise directors have a tendency to say things like, 'It shouldn't take us very long, let's just do it in three months.' But it may take two years or longer. Successful succession planning will identify the major steps of the process, and that includes activity at board meetings, between board meetings, the creation of any special committees, processes for internal and external candidates. Remember, it's often very difficult for the whole board to get together, so an approach by which the chairman of each board committee takes specific responsibility in the succession process may be necessary."

Observes Teerlink: "The opportunity to have the internal candidates think more deeply about the possibility of becoming CEO provides the board with meaningful insight into those individuals. A succession process should take advantage of peer review, such as having 360-degree surveys done on the candidates, along with psychological testing and interviews with psychologists, and should ask the candidates to draft strategy statements or white papers addressing what they would do if they were CEO. In addition, the value of psychological profiles like the Myers-Briggs test is that they can help the board members to better understand the personalities they're dealing with — as well as each other!"

### The intangibles

"There are many intangibles that affect the process, it's true," says Michaels. "There are directors whose minds are made up at the outset about who should

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succeed the CEO, so it's important that every director get their point of view out on the table and speak about the candidates in the boardroom and not outside of it. I've seen directors change their minds about candidates as a result of that discussion. It also makes sense for the CEO to be the last to speak about the candidates, so as not to sway anybody beforehand. And there's no question the board needs to bring in outside experts to help them in the process, to keep them on track, to help develop the protocols."

"The value of management consulting is very real," agrees Teerlink. "That external influence helps boards to better understand what their responsibilities are in the succession process. Outside experts can test you, in a way, to think of things you would not have otherwise. You see, all board members approach the process with their own agendas, and it's a matter of how well will those agendas be handled within the board. Some directors come with a bias toward change, or against change, or with a perspective about, say, the audit committee. The challenge lies in utilizing those biases and perspectives to provide insight for the entire board — and not to come out at the same place where it began." ■

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## Delta Organization & Leadership

### About Oliver Wyman – Delta Organization & Leadership

*Mercer Oliver Wyman, Mercer Management Consulting, and Mercer Delta Consulting have joined forces under the name Oliver Wyman, creating one of the world's leading management consultancies.*

Oliver Wyman is building the leading global management consultancy, combining deep industry knowledge with specialized expertise in strategy, operations, risk management, organizational transformation, and leadership development. Delta Organization & Leadership works collaboratively with CEOs and senior executives to meet the challenges of building talent, accelerating organizational performance, and driving business success. Our Executive Learning Center provides top-tier executive education around the world, designing and implementing customized programs that develop the leaders you need to compete and grow. We bring deep expertise and a track record of high-impact solutions that minimize business risk by:

- Maximizing CEO and senior team effectiveness
- Making your strategy work
- Building an effective board
- Managing the business of change
- Redesigning your organization
- Developing a pipeline of the right leaders for your business
- Securing commitment through communication and engagement
- Bringing meaningful data to decision-making

To obtain further information about Oliver Wyman – Delta Organization & Leadership, please contact us at [deltainfo@oliverwyman.com](mailto:deltainfo@oliverwyman.com) or the telephone numbers below.

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