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## CEO Succession: Keeping Your Company in the Game

Written by Michelle Ronco

### Article Highlights:

- Talent development becomes both more difficult and more important with success.
- The success of the organization depends largely on who is left in the room when the CEO walks out.
- Data gathered from board exercises significantly enhances the board's dialogue on succession.

There is nothing like being fired the day after your last game. Whether it is football, basketball, baseball, hockey or any number of other sports, the clock hits double zero, the last out is recorded, and you look at the coach and wonder if he (in professional sports it is almost always a he) will be back next year.

We are in the midst of this annual ritual in which popular and valuable basketball franchises such as the Lakers, the Clippers and the Knicks are all looking for new leadership. It is a high-stakes frenzy of talent poaching, wooing and subterfuge that keeps the media and fans attentive for weeks.

This custom was on my mind when I recently attended a Rock Center for Corporate Governance event centered on CEO Succession. As a governance specialist in the board succession business, I see boards too often neglect leadership development in the C-suite, becoming vulnerable, and relying too heavily on free agents. Boards often do not make high-potential executives a priority and do not put enough emphasis on the fact that finding his or her replacement is the most important job that the CEO has. Finally, boards do not always have the proper resources for creating a robust process for this intuitive goal.

As the members of the panel discussed their personal experiences with CEO succession, I contemplated the similarities between professional coaches and CEOs. Both are famous, or at least well-known to their constituents. Both run large organizations and answer to stakeholders. They have performance metrics and in most cases their past successes or failures are well known by the public. They answer to bosses and have broad responsibility for retaining the right talent, developing the right products and winning. Both have to consider diversity and brand, and the long-term success of the organization will center on how well they, with the help of their leadership team, strategically plan for the future.

These similarities extend to succession planning. A CEO change is not always a bad thing, but

like in sports, many times it is due to poor performance. A CEO's poor performance over time will attract attention. Low stock prices, a poor product move or the availability of a superstar might prompt the board to reevaluate whether the CEO meets the organization's needs. Sometimes, of course, the board or the team does not have that luxury and the decision is not theirs. In that case, the bottom line is that the success of the organization depends largely on who is left in the room when the CEO walks out.

The panel made several comments about what determines a good or bad succession plan. I fundamentally agree with the points made at the event. However, I also recognize that even with the best of intentions, boards do not value the succession process equally. Four points in particular spurred my thinking.

***A company should almost always replace the CEO with an internal candidate.***

It is very attractive to attract a shining star from a different firm, and outsiders can be right for the job. We have seen outsiders positively transform companies many times. However, when a board hires an outside candidate, it signals an inefficient succession plan or that the plan is being implemented ineffectively. I believe boards do this far more effectively than professional coaches. Boards choose internal CEO candidates nearly 70% of the time, whereas in professional sports, with fewer opportunities and long tenure, most coaches are poached by other organizations before they take the top role.

***The CEO's job is to find his or her replacement, and this is one of the CEO's top two responsibilities.***

Although this is true, in many cases CEOs do not want to find their own replacement (we are human, after all), do not have the training to do so and/or are not incentivized to do so by the board. Some companies pay little attention to the process for developing talent in the organization. Developing key talent only to lose it is a common suffering in sports and



"Although in business there is no trophy to be won at the end of the season, increased shareholder value does not go unnoticed or unrecognized."

business. Assistant coaches, CFOs and other talented individuals move around all the time. This does not make people development any less important; rather, it becomes more difficult and more important as the organization becomes more successful.

***The right CEO will be the one who has core values that match that of the organization.***

Although there are a number of important criteria for selecting a CEO, who that person is and how that relates to the business and the culture of the organization will often determine the success that he or she finds. There are plenty of examples in which a successful coach with a proven track record was just the wrong fit for the organization. Stan Van Gundy, the former coach of the Miami Heat, who was just hired to coach the Detroit Pistons, is an excellent example.

As a partner to boards in the recruiting and succession planning arena, I know that fit is often the most important factor. A smart and experienced CEO whose style and personality does not mesh well with the board or the senior leadership team will likely create a challenging environment.

***The key to success is grooming successors that can lead the business in the future.***

A young team with a talented superstar may require a specific coach, just like specialized markets and/or products may require a certain CEO. The board is responsible for cultivating several talented people with different backgrounds, ages, experiences and skills to best match the future of the enterprise. Phil Jackson is known for his triangle offence, and has successfully employed this strategy through his illustrious coaching career. However, we know that it only works with the right players and doesn't work against all opponents. In business, the industry, business cycle and maturation of the company will largely dictate who has the right skills, experiences and methods to best serve the organization.

With so many burning bridges, the board may not always focus on the talent within the organization and spend time on the succession plan. Leadership development often falls to the bottom of the list of important issues and accordingly, does not receive the time that it should.

At XCEO, we encourage our clients to evaluate both the leadership and organizational performance of the CEO and leadership team. We provide our clients the resources to assess board risk as well as overall effectiveness. By doing so, our clients

gain an understanding of the knowledge and engagement of the key players that helps them understand where additional training and development is necessary in order to create actionable goals.

In my recruiting efforts, I have seen that having a detailed, yet flexible CEO succession plan is critical. Our CEO, Dr. Curtis J. Crawford, always says, "What doesn't get measured doesn't get done." CEO succession often falls into this trap, as boards commonly make the mistake of relying solely on dialogue to determine the appropriate plan.

The CEO succession plan can be significantly improved by using data gathered from calibration exercises that allow the board to base discussions on thoughtful feedback.

Our clients who have ultimately found success with their leadership team have employed specific processes, including a detailed assessment of skills, experiences and attributes of not only where the leadership team is, but where they want it to be. Meaningful dialogue that encourages action, measurement and execution is helped significantly by statistics, records, and secure and anonymous feedback. This is how an organization does not find itself vulnerable to the departure of one or two key people in the organization.

Although in business there is no trophy to be won at the end of the season, increased shareholder value does not go unnoticed or unrecognized.

Great succession planning is largely affected by the design of, and commitment to, leadership development within an organization. The board therefore has the lead on making sure that all levels of the organization have the right talent on the court, in the office as well as in the D-league, to ensure that the season is long and that their fans go home as winners.

C.E.O.

## About the Author

### **Michelle Ronco, MBA**

Program Director, Corporate Governance & Board Leadership Development



As the Program Director of Corporate Governance & Board Leadership Development, Ms. Ronco led the development and release of XCEO's Online Extreme Personal Leadership Tools. Ms. Ronco also designed and created XCEO's Enlightened Corporate Governance Board & Director Evaluation Program intended for use in corporate boardrooms around the globe. A completely Web-based program with over forty different on-line evaluation exercises, the program provides a reflective and creative evaluation process.

Ms. Ronco is a member of XCEO's executive team in addition to being the principal publisher of the books *Corporate Rise* and *Compliance & Conviction*. For the past 10 years, she has participated in many facets of the XCEO organization including idea creation, research, sales and marketing. Michelle is frequently sought out regarding board portals by leading governance advocates and groups, as well as influential board governance publications such as *Board Secretary*.

Currently, Ms. Ronco is responsible for the development of, and oversight of XCEO's LinXsus Elite®, Executor®, Select® and Premiere® Programs. These programs are intended for newly appointed directors, committee chairpersons, seasoned directors and high-aspiration individuals seeking board service opportunities and support. With each program, we serve as a lifeline for directors. These programs include XCEO's professional mentoring services, inclusion in XCEO's Search for Development program, an Individual Director Risk Module, as well as other personal brand concepts to provide a comprehensive experience to directors seeking improved boardroom effectiveness.

Previous to joining the XCEO team, Ms. Ronco worked for Morgan Stanley as a Financial Advisor and was Assistant Web Master for Santa Clara University's Leavey School of Business website.

Michelle earned her MBA with an emphasis on Finance and International Business from Santa Clara University in Santa Clara, California. She also holds a Bachelor of Science in Commerce (BSC) in Economics and Operations and Management Information Systems from Santa Clara University. She previously served on the board of directors of the Mexican American Community Services Agency (MACSA), and was a member of the National Society of Hispanic MBAs and National Association of Women MBAs.



## About Our Organization

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At XCEO, Inc., we believe individual leadership is the driving force for inspiring creativity and ultimately maximizing intellectual capacity. We provide individual and corporate development in the principles of *Extreme Personal Leadership*®. We call this *X-Leadership* and it is the touchstone of our company.

In today's globally competitive world, intellectual property is a key indicator of long-term success. Corporations and individuals are seeking knowledge intensive solutions to sustain a competitive advantage. At XCEO, we offer *Professional Mentoring and Personal Leadership Development* programs, as well as *Corporate Governance and Board Leadership Development* programs, for high-aspiration individuals and forward-looking corporations.

Through our *Professional Mentoring and Personal Leadership* programs, we assist individuals in developing personal career and development plans to achieve senior executive-level positions. We also support corporations that recognize the need for a broad array of development options for their high-potential employees being groomed for senior leadership responsibilities.

As part of XCEO's pursuit of enlightened corporate governance, we have created the *Enlightened Corporate Governance Board Performance Evaluation Program* to support boards and directors in their pursuit of excellence. Through our program, we are leading the movement past compliance, toward principled action which maximizes shareholder value. We have designed a set of eight individual and board evaluation exercises which provide an exceptional opportunity for directors to take their boards to a whole new level of effectiveness.

XCEO is a unique research, development and consulting firm. We are committed to excellence and the pursuit of *Extreme Personal Leadership*®. We specialize in inspiration, and endeavor to inspire highly enlightened executives and high-aspiration individuals to pursue maximum personal achievement. We have a leadership team of highly trained and highly motivated colleagues who are eager to serve our clients. Excellence is our goal. We are located in the heart of Silicon Valley and we stand ready to help our clients achieve extraordinary levels of performance and success.

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