



The Boardroom Lens on Succession

How has the role of directors in succession planning evolved? How do high-performing companies handle succession today? What are the X factors that directors look for in succession candidates? Adam Bryant, Directors Roundtable Editor, interviewed three prominent executives with deep board experience on the changing dynamics of succession. Their comments were edited for space.

Participants

Robert Eckert, Director at McDonald's, Levi Strauss, Amgen and Uber. Former CEO of Mattel.

Dambisa Moyo, Director at Chevron and 3M. Author of *How Boards Work: And How They Can Work Better in a Chaotic World*.

Georgia Nelson, Director at Cummins, Ball Corporation, Custom Truck One Source, Sims Limited.

People + Strategy: How has board directors' approach to succession changed over the years?

Georgia Nelson: It depended on the company, but it was much more informal. It was not structured. In my experience, there were few companies at that time that were doing assessments of talent and leadership skills. So it was a little loose. Some of the early successions were more about a director saying they know so-and-so, or an incumbent CEO saying “this guy is the best—he’s great and deserves a shot,” and it was always a “he.” Some of it was just that simple.

But after some lessons learned, including the financial crisis of 2008, the process started becoming more sophisticated. I believe it’s the most important role of the board—if the board doesn’t do a good job of CEO selection, then the directors are not doing what you’re there to do. The sustainable profitability and success of the company is in their hands.

Dambisa Moyo: There is much more emphasis on broadening the metrics by which we judge candidates. For many years, boards tended to focus on noncontroversial areas like financial acumen and operational experience. Those remain important, of course, but there is greater scrutiny of ethics and morality.

In just the last 18 months, we have had over 400 CEOs and senior business leaders lose their jobs specifically because of #MeToo infractions. Boards have tended to rely very heavily on references and perhaps have not done enough due diligence in terms of morality and broader responsibility beyond just the financials.

This is an area where there’s a lot of scope for improvement. How might we think about doing more ethical probing? One approach would be attestation, which is something that is popular in the UK for politicians. They are asked to attest in writing that they have not done anything or said anything in the past that could come back to embarrass the party. It’s just an additional hurdle that, as part of the due diligence exercise, could be useful.

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you’ve done to another human being?” There’s no right or wrong answer, but in a very complex world where there’s so much ideological change, and social, cultural and ESG (environmental, social and governance) challenges, it’s another approach for getting an understanding of how a candidate thinks about the complex world.

I’m very big on ethics. We are seeing more executive compensation being tied to ESG metrics, such as progress on climate change and diversity. It’s no longer enough to just consider the two hurdles of whether something is profitable and legal. It also has to be ethical.

And that includes being able to navigate trade-offs. For example, climate change is an urgent and important issue, but we can’t overlook the fact that 1.5 billion people still don’t reliably, sustainably and cost effectively have access to energy. How do we think about energy poverty as we pursue a greener world? I’m not looking for someone to say, “Here’s the right answer,” and the box is ticked. It’s more about looking for sensible and thoughtful reflection on some very complicated situations.

Robert Eckert: When I first started, succession, particularly at the CEO level, was event-driven and led typically by the CEO. Today, it’s strategic. It’s a process led by the independent directors. It’s probably the single biggest change I’ve seen in the boardroom in the last 20 years.

When you think about the duties of a board, chief among them is recruiting, selecting, engaging with, supporting and motivating the management team, starting with the CEO. And the sporadic, occasional, haphazard, hope-you-get-lucky approach is insufficient today.

There is a better way to go about it,

and succession is one of the three pillars of a company’s planning efforts. First is the strategic plan, which might have a three- or five-year time horizon. Second is the financial plan, which is a one-year time horizon. And third is the talent or succession plan, which also has to take in account unanticipated change.

P+S: What does succession planning look like when it’s done well?

Eckert: The process entails five steps. It starts with the board defining as best it can what good looks like. Second is assessing internal candidates, along with their development plans, which might include rotational assignments and external coaching. The third step is to review external candidates. The fourth step is to make a decision, and the fifth step is to onboard the new CEO.

It’s about trying to anticipate the future, what the needs might be, who the candidates might be, and how we’re going to get from here to there.

Nelson: It starts with strategy and an alignment of the board on what the strategy looks like and what the likely future demands are going to be for the top leader on the leadership team.

Then it’s about getting clarity on the characteristics and skill sets that you want the team to have. And I would stress that it’s a process that has to engage the collective strength of the team. The CEO is at the center, but the team as a collective body has to have all the things you need because life is too complex. There isn’t one person that’s going to jump in and solve all those issues and fill all those gaps. We’ve become much more sophisticated about bench strength and focusing on

Directors Roundtable

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succession around that entire C-suite table. And then the CEO is the person who can best orchestrate, communicate and lead.

The pandemic tested folks. Some people did extraordinarily well, and others didn’t do so well. The pandemic has altered the future of some companies, and the leadership teams in some cases need to change. Things are moving so much faster. The pandemic accelerated progress that never would have happened before, so you have to step back and ask if the people you were betting on before are still the right people.

P+S: What are the X factors for you that you’re looking for in CEO candidates?

Moyo: At the top of the list is people who use mixed mental models, an idea that was popularized by Charlie Munger. It’s this idea of road-testing their thinking using different paradigms. So if, say, an investment looks quite attractive from a financial perspective, it might look less attractive through a geopolitical or environmental lens. Given the world that we live in now, people who think about complex problems in a more versatile way have an advantage.

I also really like people who are focused on capital allocation. One of my favorite books is *The Outsiders* by William Thorndike. He talks about how companies that perform better than the stock market and their peers over long periods have CEOs who are obsessed with capital allocation.

Everything else, like operations, com-

pliance or legal, is ceded to someone else. But the CEO is waking up every day and thinking about, “Where do I put this marginal dollar to work to generate value?” I like that kind of conversation, and I do worry that in the more than 10 years that I’ve been on boards, we’ve lost a lot of that, as there can easily be a tendency to focus on the urgent but not the longer-term important.

The third point is that I really like people who have a good understanding of historical context because I think it’s easy to be seduced by the here and now.

Nelson: It’s the ability to communicate in a clear and concise and confident way that inspires and motivates people. As directors, you get these glimpses of different leaders in action. They might be fielding some tough questions or making a presentation. Can they do that in a calm way, handle controversy and engender confidence?

You also learn a lot when there’s a crisis swirling around someone. Are they a steady, thoughtful hand and not just reacting? Finally, you look for people who have constituencies, both internal and external, including suppliers and customers.

Eckert: I winnow that down to the three things that I believe make a successful CEO. First is defining today’s reality correctly—not the reality of the last CEO, but what’s actually happening in the competitive environment today. The second element is articulating a clear vision for the company to win, and the third thing is being able to lead

many people to execute and achieve that vision.

The first step as it relates to succession is that boards have to spend time thinking about what tomorrow’s reality might look like. So when we think about the next leader of the company, we’re doing it through that lens of what we’re going to need many years down the road, and not what we need today.

P+S: What are some of the traps that boards fall into that leads to unsuccessful transitions?

Eckert: Boards might make an assumption that the current No. 2 is probably the best bet, particularly if the company has done well. It’s the idea that someone is the anointed successor, and there’s just a shared sense that it’s natural for him or her to be promoted into that next job. That’s the easy way, the lazy way and often the ineffective way to get the job done. This has to be treated as a rigorous process.

P+S: What should boards do to move the needle on diversity?

Moyo: There are a lot of things that can and should be done. First of all, the narrative is critically important for companies, and this is an area where we might not be getting it completely right. We need to make sure it’s transparent and it’s consistent for all employees.

Related to that, there’s a lot of work the companies can do on optics. We shouldn’t be giving the impression that we’re fighting discrimination with discrimination. Clearly there’s a lot of benefit to having diversity beyond the societal benefit, whether it’s a return on investment capital or return on equity. But it’s important that as we pursue that narrative, we don’t lose the high-performing white guy because he feels like he’s being alienated or that this is an us-versus-them culture.

There’s also a lot more work that companies can do in terms of transparency for succession. A lot of positions

are still quite opaque in terms of what the organization's leaders are looking for and how you get those positions. And if somebody doesn't get the job, how do you make sure they get the requisite coaching and information to have a better shot next time?

Many people who look like me, whether they are Blacks, women, Asians, Latinos, et cetera, are not looking for favors. What we are looking for is an equal chance at these opportunities, and there's no doubt about it that if you use a narrow lens and say, well, all I want is directors who have been CEOs, then you are going to be quite limited in that respect.

Nelson: Intentions are not enough. It's about outcomes. And if they aren't there, it's the board job to ask why not. What are the roadblocks? I've chaired a lot of HR committees in my tenure over the last 25 years, and it's incumbent on boards to review systemic issues that block very talented and good people from the main highway, so to speak. People are taking a new look at these issues with fresh eyes.

Boards are diversifying, too, and that has led to a huge change in the conversation. When I started out as a director, I was usually the only woman on a board, and now there are usually two or three other women on the board. That changes the conversation. People have different points of view. The same is true with people of color, with ethnicity and with geography. It just enriches and broadens that discussion.

The key for directors is to push to get down to what the facts are. You have to be transparent. And it's quite remarkable that, even in the best of companies, you find pockets of where there is not enough transparency. Then it's not unlike an audit. You've got to fix it.

Eckert: Boards are more diverse than they've ever been. We still have a ways to go, but one of the benefits of having a diverse board is that it leads to a much richer conversation about diverse candidates. And directors are bringing more scrutiny to the talent pipeline discussions.

Many directors have seen the phenomenon of management showing

slides of the same diverse candidate being considered for multiple jobs, but then, fast forward two or three years, and they have left the company. The old approach of check-the-box isn't good enough anymore, and the board's role is to engage in a deeper discussion and to push back.

What I've found to be a helpful exercise is to have line managers and the executive leadership team talk specifically about succession in their respective parts of the business so that this is not just an HR drill. By having the line managers lead the conversation, that allows directors the opportunity to test and challenge and deeply discuss candidates.

P+S: What is your message to HR leaders about what they can do better in terms of succession?

Moyo: There is so much energy spent in companies and by their directors on financial audits. But there is a growing interest in the idea of "worker audits," and the SEC is working on guidelines for them. It's a complex business, but the point is to do a deeper dive into your workforce—it's not just about how many women you have versus men or Black versus white employees. There are other issues, like mental health, work from home, access to technology, etc. There's going to be a lot more work done around the issue of worker rights. All this falls squarely on HR.

And finally, I mentioned the issue of ethics. How are we judging ethics?

Are we just relying on a reference from somebody? To me, it's a wide-open space. We should be as granular and rigorous in this area as we are on financials and operations. This is an area where HR could be the tip of the spear.

Nelson: We really rely on them to be the honest broker on assessment—to find the most objective way to present the most transparent and objective data around people and their experiences. CHROs are the keeper of the truth in terms of being objective. As CHRO, you try not to be the person with the editorial comments. You try to be the person that just presents it in its fairest and rawest form so that people can make good judgments.

It's important to have the courage to do that. You have to keep your own values strong, and you have to be the honest broker.

Eckert: They need to be the independent voice in the boardroom. They're not there to promote a specific individual. The HR leader can act as independent referee and advisor in these discussions. And if the conversation starts moving into more subjective judgments about a candidate, they can steer the conversation back to more of a rigorous approach.

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