

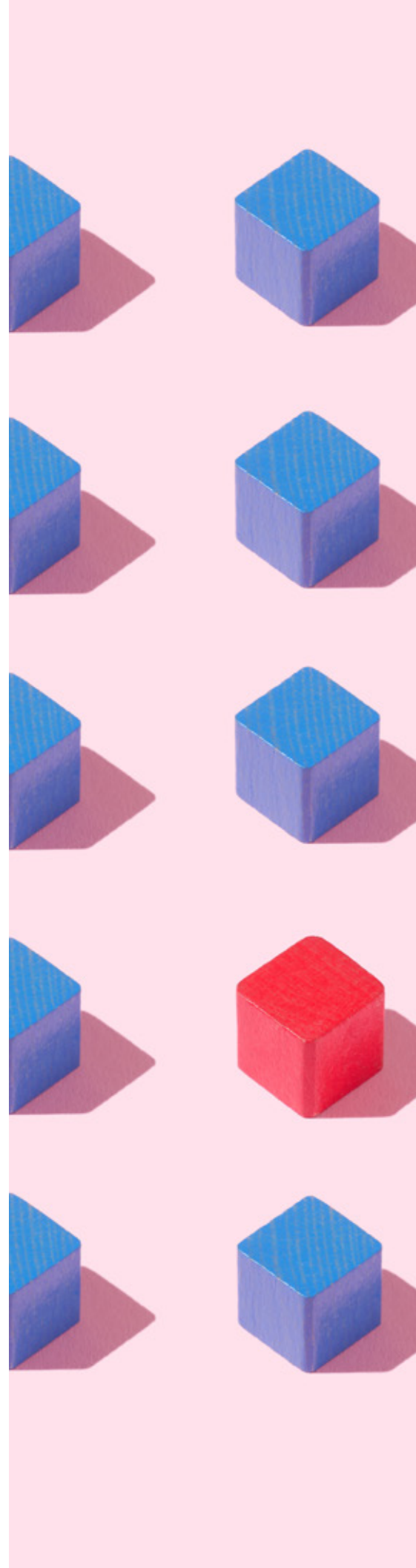
## Don't Wait to Prepare for an Emergency Succession

### Leadership Continuity is Essential for Business Continuity

Most boards address emergency CEO succession in some way, even if it's just discussing the "name in the envelope" who could be quickly tapped for an interim period of time. The COVID-19 crisis underscored the importance of having a robust, formal emergency succession plan and raised questions about how prepared most organizations really are.

In this article, we highlight best practices for developing an emergency succession plan, including:

- » Defining the criteria and responsibilities of an interim CEO
- » Aligning on the "name in the envelope"
- » Maintaining a view of relevant external talent
- » Codifying the plan



## Define the criteria for the interim successor

Boards historically have prioritized continuity and the likely investor reaction when selecting an interim CEO successor — someone who can give investors confidence that the company is in good hands until a permanent successor is selected. Not surprisingly, the most common interim leaders in emergency successions are the board chair, another board director, the CFO, the COO and, occasionally, a division president or general counsel.

In a crisis, the board may prioritize different criteria depending on the context and stakeholder needs: a “culture carrier” or leader with significant followership who can calm the organization and maintain continuity in the short term; an executive who is able to rally the leadership team; a highly effective communicator; or the CFO, who is closest to the financials and may be best positioned to manage through a cash crunch.

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It's also important to consider the range of skills and characteristics a leader can bring to the situation. An interim CEO must have a deep reserve of personal energy and resilience to lead under pressure. They will be called upon to make difficult decisions for the greater good. Communications skills and traits such as clarity, empathy and authenticity also are highly valuable in a crisis. The ideal interim can balance the short-term demands of the crisis with the long-term strategic agenda.

Boards also should consider potential successors' availability — and their longer-term aspirations. Some directors who might be hesitant to serve as interim CEO under normal circumstances may become willing to serve in a crisis, for example. Boards that have recently completed external benchmarking also may consider whether anyone identified as part of that exercise could be tapped in an emergency.

## Delineate the responsibilities of the role

An emergency succession plan should delineate a set of responsibilities for the interim CEO and other key leaders during the transition. An interim CEO's emphasis is typically around strategic continuity, communications and leadership. This is distinct from a longer-term successor, whose focus may be on strategy or driving change.

Depending on the situation and how long the interim need is expected to last, consider what support the person may need in the interim role — which could include exposure to the board or other key leaders or coaching in areas such as communications and investor relations.

## Evaluate the potential pool of interim candidates

Unless the company is in the final stages of long-term CEO succession planning, the interim successor is typically not the person who will become the permanent successor. The board needs to consider the following for each potential interim succession candidate, including internal candidates, board members, former company executives and even potential outsider candidates:

- » How well they meet the established criteria for interim leadership
- » How long the appointment is likely to last
- » How they will be received by internal and external stakeholders

Once the board has aligned on the critical experiences, competencies, responsibilities and other relevant considerations for the interim CEO, they need to confidentially designate and document a primary and secondary individual to be asked to serve as the emergency CEO successor.

## Consider the domino effect

Emergency succession plans typically identify an interim to lead for a defined period, under the assumption that the incumbent will return or be replaced by a permanent successor. The most robust plans not only identify an interim successor, but also articulate how the interim's responsibilities will be handled — whether someone will cover some or all of the interim leader's current responsibilities or the interim leader will double up responsibilities. The plan should also consider what additional help the interim may need, and from whom, to lead through the crisis.

## Understand the external talent market

A best practice in longer-term succession planning is to have a view of the external talent landscape in the event of an emergency situation when an outside CEO is needed. An emergency interim successor most often comes from inside the company or the board. However, in cases when there is no ready internal permanent successor, the board will need to look outside. Maintaining a regularly updated view of potential successors outside the company with relevant experience for the future direction of the company can shave months off the search process in an emergency scenario.



## The critical role of the CHRO in emergency succession planning

One of the most important responsibilities for the chief human resources officer (CHRO) is driving emergency succession planning for the organization. As much as boards' engagement in CEO succession planning has increased in recent years, directors still very much depend on the CHRO to guide a thorough, thoughtful process and ensure that the organization is ready to respond if and when the time comes. For this reason, the CHRO must be a thought partner with the board on succession and serve as an advocate for a best-practice approach. This includes ensuring the CEO and the board are aligned on emergency succession plans, and that those plans are codified by a formal board vote. Traditionally, emergency plans are reviewed annually, but the recent COVID-19 crisis suggests that, to be most effective in a crisis, the emergency succession plan needs to be a living, breathing document that evolves as the context changes.

The CHRO and the general counsel are likely to be key drivers of many of the immediate activities in an emergency transition. These can include the communications plan, a plan for the interim's compensation, SEC reporting requirements, contingency planning for other key roles, and the launch of a search for a permanent successor, if needed. As in other succession planning, the CHRO often serves as the chief of staff to the board in architecting the plan.



## Ensure confidentiality

We advise boards not to discuss emergency succession plans outside of the boardroom. Advising someone on the executive team that they have been tapped as an interim successor, especially if the person aspires to be CEO, can place undue pressure on the executive and can be disruptive to the team. It also can exacerbate bad feelings if circumstances necessitate a different choice at the time of a transition.

## Make the plan formal: Vote on it and put it in action

It's not uncommon for directors to assume they have an emergency successor for the CEO, but have no formal plan in place. This can lead to misalignment among directors and delay the board's response in an emergency situation.

Things need to move quickly in an emergency, and there will be many other issues to deal with, so being able to put an interim successor in place immediately and having a scripted action plan in place is critical to a smooth handover in an emergency. Boards do not want to find themselves disagreeing about who could step up in during a crisis.

In addition to naming primary and alternate emergency successors, the emergency succession action plan should outline the sequence of activities that needs to happen immediately in an emergency transition and who is responsible for those activities. These include:

- » Who gets notified when and by whom
- » The process guiding the appointment of the interim
- » The development of required regulatory disclosures
- » Protocols for internal and external communications
- » A process for determining the compensation for the interim CEO
- » Protocols for launching a search for a permanent successor, if needed

The importance of providing a timely and consistent message to stakeholders is a key reason boards should be prepared with a crisis communications response plan. Ideally, press releases for a variety of scenarios should be drafted and ready to finalize for an emergency situation.

As we saw during the pandemic, business continuity in the face of crisis is critical and preparation is key. To that end, boards and management teams should also consider building out succession action plans to include other activities, such as contingency planning for various scenarios, knowledge-sharing, shadowing and any other steps they plan to take to increase their readiness. Codifying these activities in a formal plan will help the team to ramp up quickly in an emergency and hold team members accountable for preparation.

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## Emergency succession planning checklist

### **Define the criteria for the interim successor.**

When thinking about the right interim, consider the primary stakeholders and the soft skills that are critically important in a crisis.

### **Delineate the responsibilities of each role.**

Identify a set of responsibilities for the interim CEO and other key leaders during the transition, including what knowledge-sharing is needed.

### **Evaluate the potential pool of interim candidates.**

Consider potential candidates against criteria and responsibilities outlined and align on a primary and secondary emergency successor.

### **Consider the domino effect.**

When possible, identify multiple possible interim successors and make contingency plans to address the potential cascading effect of leadership absences.

### **Understand the external talent market.**

Maintain a regularly updated view of potential successors outside the company who could be considered when there is no ready internal permanent successor.

### **Ensure confidentiality.**

Emergency succession plans should not be discussed outside of the boardroom to preserve flexibility and avoid potential disruption of “signaling” within a leadership team.

### **Make the plan formal: Vote on it and put it in action.**

Review and vote on the plan regularly so the board is ready to act immediately in an emergency. In addition to identifying interim successors, the plan should outline activities for the immediate response.

## Conclusion

Leadership continuity is essential for business continuity. History has proven that unplanned leadership vacancies do occur, so it's critical that boards stay vigilant in reviewing the company's succession readiness. A well-thought-out plan will avoid the need for directors to improvise in the midst of an emergency that attracts immediate and intense stakeholder scrutiny. The board and the CEO should together establish a strategy in advance and codify the procedures that will take effect if an emergency occurs. The threat to leadership continuity in any crisis suggests that organizations should revisit their emergency succession plan regularly and consider newly relevant issues, such as contingency planning for multiple leadership vacancies.



# SpencerStuart

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