

The Benefits of CEO Succession Planning

Planning for CEO succession is one of the board of directors' most important responsibilities. Despite its importance, there is great variability in the degree to which companies engage in succession planning activities. Recent research in the *Academy of Management Journal* explores succession planning activities to better understand whether such activities lead to better succession planning outcomes. The researchers collected information from Chief Human Resource Officers of 218 companies over three years about the succession planning practices the board was engaged in at the time.

Key Takeaways:

- Firms whose boards engage in more succession planning best practices consider multiple successor candidates, are more likely to promote a ready candidate from within, and are more likely to use external help in the process.
- When CEOs have greater influence in selecting a successor, companies are less likely to use external help in succession planning.

The researchers used a list of 13 succession planning best practices identified through prior research and conversations with CHROs and found that when boards engaged in more of the 13 activities, such as creating developmental roles for candidates, the company had better succession planning outcomes. Specifically, best practices promoted the consideration of multiple successor candidates, the likelihood of inside successor being appointed CEO, the readiness of candidates to assume the CEO position, and the use of external help in the process. Additionally, the researchers found that a CEO's expected influence in picking his or her successor vis-à-vis the board was negatively related to the use of external help in the process. The authors suggest these outcomes are important intermediate effects which should ultimately affect the subsequent performance of a new CEO.

In summary, the authors suggest that effective board engagement in identifying, developing, and evaluating successor candidates positively influences succession planning outcomes. The authors suggest it is important for boards and management to ensure appropriate time and attention is given to planning for succession.

Source: Schepker, D.J., Nyberg, A.J., Ulrich, M.D., & Wright, P.M. 2018. Planning for future leadership: Procedural rationality, formalized succession processes, and CEO influence in CEO succession planning. *Academy of Management Journal*, 61: 523-552.

