Viewpoint

Reflections on Succession

Frank Popoff

Succession planning plays a key role in an organization's ability to pursue its long-term strategies and achieve lasting results. Clearly, good management doesn't happen by itself, and succession planning is critical to its continuation, Year in and year out, succession planning is recognized as serious stuff. It's one of the top three responsibilities of corporate boards, along with strategy review/ratification and the evaluation of management performance and compensation.

The good news is that the importance of succession planning is getting a lot of attention. The bad news is that too many companies just aren't getting it right.

Ben & Jerry's, in their challenge to Haagen-Dazs in the great American ice cream wars, actually considered the issue of CEO succession through an essay contest dubbed „Yo, I wanna be your CEO." Cooler heads prevailed, however, and Ben & Jerry's is now headed by an experienced executive.

But today's business headlines are all too full of corporate embarrassments in the form of:

• CEOs staying on too long and stifling potential successors or rivals

• Divided – and sometimes packed – boards, often out of touch with shareholders' interests

• Internal power struggles, leading to excessive exits of talent when a new CEO is finally selected

• Damage to shareholder value as an all-too-public search impedes business operations and erodes employee and public confidence

This article is based on a presentation Mr. Popoff made to the Chief Executives Club of Boston on April 3, 1996.

For good reason or bad, some great companies have drawn adverse publicity – and even gone so far as to shake the faith of their investors and damage shareholder value – by their handling of executive succession. The fault need not lie with the CEO. It may rest with the board, individual directors, activist shareholders, or self-styled heirs apparent – to mention just a few sources. Whatever the cause, the publicity and the damage are a matter of record. Just ask American Express, Chrysler, Eastman Kodak, Eh Lilly, Ford, GM, IBM, Kmart, Sears, or W.R. Grace. And if I went back to the '70s, I could add Dow Chemical to that list, as well as a host of less visible enterprises in which turbulence at the top has seen a CEO replaced or board relationships severely strained.

I should note that many of the companies mentioned have bounced back from adversity, benefited from the experience, and become better equipped to deal with the future. Besides – a number of these enterprises are Dow's excellent customers and suppliers. And, it's all too easy to identify problems and fix blame after the fact, as onlookers revel in yet another corporation publicly ripping its britches.

But that's not my objective. In this article, I want to share some ideas on how to address succession planning so as to preempt problems and ensure a continuation of good management. First, we must recognize the importance of the task. If CEOs haven't, their boards and investors will. Second, we must overcome today's tendency to look for a one-size-fits-all solution born of conventional wisdom.

Since I'm addressing readers of *Prism,* I'll assume that your organizations are very well-managed. What's less certain is that they will continue to be so well-managed under the guidance of a successor.

Helping to choose the right successor must be regarded as the ultimate obligation of a CEO. While this is done in concert with the board of directors, the responsibility for the *quality* of candidates and the *attractiveness* of the job rests with current management.

Of the many responsibilities of corporate boards, assurance of a sound succession process is second to none. *Yet* among the key tasks addressed by boards, succession is, by nature of its relative infrequency, the most neglected.

Having just gone through the process of what I'm confident time will confirm as a successful exercise in succession planning, I'd like to share with you some thoughts on CEO succession *and* the development of candidates for management positions throughout the company.

The secret is to make succession planning through people development a core value in your corporate culture. In so doing, you not only establish a process for succession planning for all levels, including that of CEO, but you also ensure a continuous supply of qualified candidates.

So succession strategy in most organizations must make six transitions:

• From an *annual event* to a *continuous process*

• From a short-term *replacement* strategy to a long-term *development and retention* strategy

• From an emphasis on *whom* we have to an emphasis on *what we need*

• From *position blockage* to *appropriate turnover* in key positions

• From *insufficient bench strength* to a *pool of ready talent*

• From *subjective evaluation* to an emphasis on *results and metrics*

From an Annual Event to a Continuous Process.

Organizations need to create an environment of continuous succession „thinking," instead of annual succession „planning." This can be done by increasing attention to:

• More frequent senior management meetings, instead of annual or semi-annual reviews

• Greater time devoted to follow-up at regular staff meetings

• Emphasis on people and succession issues in business planning

• Greater incorporation of succession objectives into performance evaluation and management (for example, managers should be developing at least one successor as their potential replacement)

From a Short-Term Replacement Strategy to a Long-Term Development and Retention Strategy.

The imperative here is a balance between the need for immediate replacements and the need for a steady supply of ready talent. The clear benefit is reflected in employees' appreciation of their development and continuous improvement.

From an Emphasis on Whom We Have to an Emphasis on What We Need. Companies must create an atmosphere in which external talent can be hired to fill critical skill gaps, independent of job openings. Corporate cultures vary. While Dow is predominantly a promote-from-within organization, the benefit and vigor that accrue to us in matching an outside hire with a clear internal need is not lost on employees, managers, or shareholders.

From Position Blockage to Appropriate Turn-Over in Key Positions. Since we all recognize that people are our most important asset, it's critical that we promote and reward capable people managers, rather than emphasizing technical over managerial skills. If all our managers are good at managing people, they can routinely assess the potential of incumbents in key positions, develop appropriate action plans, avoid position blockage, and generate appropriate turnover.

From Insufficient Bench Strength to a Pool of Ready Talent. Again, the involvement of line management in creating specific development plans for designated individuals and the establishment of their accountability for follow-through is vital to creating bench strength. At Dow we've created the Genesis Award to recognize people development. In an environment of highly competent technical and professional people, the Genesis Award program is giving us insight into who's „walking the talk" on people development. I might add that the Genesis Award is also our most sought-after award. We introduce Genesis Award winners at our annual shareholders meeting.

From Subjective Evaluation to an Emphasis on Results and Tangible Metrics. We've established specific measurements to evaluate succession results. Some that have proven useful are:

• The percentage of key positions that have at least two ready successors

• The percentage of key positions filled externally

• The percentage of developmental action plans implemented

• The extent to which the process contributes positively to business results

In Dow's 99-year history, we have had nine CEOs. The founder was followed by three members of the Dow family, each of whom had a relatively long and successful tenure. During the last four decades, we've had four nonfamily CEOs. Our fifth, who assumed the post last November 1, is off to an outstanding start.

Historically, we've also had a predominantly inside board. While that has changed significantly, those management directors left us a thoughtful legacy regarding CEOs' and directors' terms of office.

Dow has a policy that has served us very well, which says all management directors, including the CEO, must relinquish their management positions at age 60 *or* five years subsequent to their last significant promotion, whichever is later, while remaining on the board of directors.

We call these former management directors „decelerating directors“ – an inelegant term for a useful concept. Our policy states that over the remaining five years of their board tenure, until they reach age 65, these directors have no line management responsibilities *and* their compensation is stepped down annually to their retirement salary at age 65 (incidentally, they receive no directors’ compensation).

These former members of management are some of the best, toughest, most knowledgeable, best intentioned, and hardest-working directors I have come to know. They have also, over their careers, become considerable shareholders.

After years of service with the company, individuals such as the former CEO, CFO, Director of Research, Director of Manufacturing, or Head of International Operations know where all the bodies are buried. They are familiar with all the facts and myths of the organization. Along with the outside directors and the chairman (who may or may not be in the decelerating mode), they play a key role in ensuring an appropriate selection from the talent pool, not only for the CEO succession but also for other key executive posts.

They can also bring to the board internal knowledge of the enterprise that is simply unavailable to outside directors – just as outside directors bring perspective, as well as knowledge of external issues important to corporate performance.

These decelerating directors, along with the CEO, have a special ability to test the internal heirs apparent and work with them to ensure a smooth transition or to look outside objectively if the internal talent pool is lacking. Fortunately, looking outside has never been necessary at Dow – nor will it be if we follow the succession transition strategy I’ve outlined.

Conclusion

Managing change is the first responsibility of any management. Since change is ever more dynamic, good management – and a process to ensure its continuation – must be constant. *To* make it happen, analyze your organization’s management needs and communicate them to those who are instrumental in selection decisions. Then implement a continuous program to ensure that those needs will be met.

I could (and perhaps I should) stop here – but there’s another reason to make sure that the very best people are at the top of the world’s corporations. As each decade goes by, business seems to be seen in a dimmer light by the general public. Today too many people, including members of many governments, have the perception that „business is *bad*, and the bigger the *badder*“

Business bashing has reached record levels. In the United States it appears to be escalating in this election year. Not only the media and self-styled consumer advocates, but elements of government, labor, and education, as well as popular authors and even some members of the clergy, are taking potshots at corporate America.

Surely some elements of corporate America aren’t helping themselves. As justifiable as such measures may be, outsourcing, downsizing, lavish executive compensation, and directors’ pay and benefits add fuel to the populist fire that’s singeing America’s corporate coat-tails. Cries of corporate welfare and special interests are at an all-time high. In a word, business is seen more and more as part of today’s problems, not as the basis for solutions through a strong economy.

Too many folks, it seems, have forgotten that the greatness of America was founded on a unique cooperation between Jeffersonian democracy and free-enterprise economics, with good people and solid leadership at the helm.

This brings me back to my subject. Today’s business leadership is facing a host of new challenges. As we move into an increasingly global economy, it is more important than ever to ensure a solid succession of outstanding executives and managers. Our successors will not only serve the interests of their enterprises and their stakeholders but also address key issues vital to the creation of a strong climate for business, individual nations, and the world.

Frank Popoff is Chairman of the Board of Directors of The Dow Chemical Company, in Midland, Michigan. He was named Dow’s Chief Executive Officer in December 1987 and served in that capacity until November 1995, when he relinquished that post at age 60, consistent with company policy. He was named Chairman in December 1992. Mr. Popoff was previously Executive Vice President with management responsibility for the international areas of the company, the global operations/manufacturing function, and global employee relations.