CEO Succession

Overcoming the Challenge of 'Mismanaged Agreement' Among Directors

By John T. Thompson

Imagine that the board of a successful company, facing no apparent crisis, approaches the date of a long-planned CEO succession and finds, to its surprise, that no internal candidate is fully ready to assume the top job. A board member steps in as interim CEO while an external search is conducted for a successor or the most promising internal candidate gets up to speed.

Not surprisingly, investors don't like this scenario and punish the stock accordingly. What *is* surprising is that not a single director desired this outcome, and yet here they are.

How is it possible that well-intentioned and certainly intelligent directors could somehow collectively fail at CEO succession planning when each one of them would attest in private to its importance?

The answer lies in what a former business school professor of mine, Jerry B. Harvey, famously identified as the "Abilene Paradox." On a hot, dusty day in Texas, someone in a family proposes a trip to Abilene, 50 miles away, for dinner. Everyone agrees to go, but when they return home—after a bad meal and many hours in the car (in the days before air conditioning)—they all grudgingly admit that they really had not wanted to go in the first place, including the person who had proposed the trip. In another of Professor Harvey's memorable phrases, they had "mismanaged agreement."

Although each director knows how important succession planning is, all of them go along in putting it off whenever it comes up. They might ritually concur about its importance, even as they are pushing it to the next meeting's agenda, where it will once again be tabled. In the meantime, internal candidates fail to get comprehensive development, no benchmarking against external talent takes place, and the succession planning mentioned in the proxy is no more than a hope.

There are almost as many reasons for directors not recognizing this hidden agreement on succession planning as there are directors. For example, an active operational executive whose plate is already full may not speak up, fearing she will be tasked with spearheading the effort. A newer member of the board might shy away from seeming overly assertive. Other directors might feel that pushing the issue could embarrass or otherwise discomfit the CEO. Still others may lack the interpersonal skills to spur the board to act. When someone brings it up, a particularly strong personality on the board might say, "Yes, it's certainly important, and we should take it up in the future," effectively shutting down the discussion. And sometimes the board lets more urgent priorities—risk, compliance, perhaps a pending acquisition—crowd out the seemingly less urgent issues, including identifying the right CEO candidates.

As a result, directors often fail to communicate their misgivings about deferring the issue of CEO succession, and the group winds up in a position diametrically opposed to their best interests and the best interests of the company. Yet with increasing pressure from investors and regulators for greater accountability and transparency in CEO succession processes, boards can ill afford to continue to defer the issue. As Ned Barnholt, lead director at eBay and Adobe Systems as well as independent chairman of the board of directors of KLA-Tencor, says, "Succession planning is a critical imperative for boards today, given the current business climate. It is easy to table because it may not be of immediate concern; however, as directors, we should strive for succession planning to be an integral and actionable component of the board's agenda."

How to Break the Impasse

Privately addressing the individual reasons directors fail to insist on action is unlikely to be effective. Mismanaging agreement is a group problem that can be solved only in a group setting. It requires just one director with the courage to explicitly point out the dynamic and be willing to shoulder an equal share of the blame for participating in it.

Forthrightly addressing the group dynamic may not only break the impasse on succession planning, but also provide a useful tool for pre-empting hidden agreement on issues where the real obstacle is not managing conflict but managing agreement. The group dynamic can be paralyzing if left unattended. Once directors are able to recognize this and get in front of the behavior, then the dialogue and productivity of the board will improve dramatically.

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