



New Rules CEO Succession Management Part 1

Interviewer: Rachel Moody, Marketing Communications Consultant, DDI
Thought leader: Matt Paese, Vice President of Executive Solutions, DDI

Rachel: Welcome. I'm your host, Rachel Moody and today I'm joined by Matthew Paese, Ph.D. Matt is Vice President of Executive Solutions for Development Dimensions International and he has helped design and implement talent initiatives in many top domestic and global companies including Nissan, Sysco Systems, and Coca-Cola. He's the co-author of the book, *Grow Your Own Leaders*, and the recent article, [The CEO Pipeline: New Rules for Filling the Top Post](#). He joins us today to talk about common mistakes and best practices around CEO succession management. Thank you for joining us, Matt.

Matt: Thanks, Rachel. Glad to be here.

Rachel: Matt, in your recent article, you cite that in the last decade we have witnessed a 59 percent increase in the overall rate of CEO turnover and a 318 percent increase in performance-related departures. You predict that there will continue to be major mismatches between CEO capabilities and the demands of the job. What are some of the reasons for this?

Matt: Well, Rachel, if we pick up the newspaper on any given day is there's a tremendous amount of scrutiny and critical looking at CEOs and Presidents of organizations, not just in the US but around the world. I think there's been a great deal of attention on whether or not organizations are making not just the right decisions about who the next CEO is, but whether they're putting in place the right kinds of processes so that when a decision comes up they're ready to make it. In other words, were the Directors recognizing that one of their key roles is to ensure the stability of the CEO role? They prepare a subcommittee or a small team of people to make a quick decision when a CEO either retires or, in the more urgent situation, when a CEO departs suddenly, is fired, or heaven forbid, is taken ill or dies; all of which are circumstances that we've watched happen even in the recent news. So some of the biggest reasons why mismatches are taking place and why mistakes are being made are because one, organizations haven't treated CEO succession as a process that should always be underway. So one of our basic premises at DDI is that CEO succession is not a decision, CEO succession is a

process that lives all the time. One of the other big mistakes that organizations make is that there's a lack of rigor in the decision making process. The history of succession at the CEO level and, in fact, at senior levels throughout many, many organizations is that the best way to make a judgment about a person and their readiness to take on a more senior-level role is to use your gut rather than to use good, sound, objective information meaning specifically good, solid, validated assessment information. So another premise of our position at DDI is that there is a place in CEO succession to assist board members or senior team members in making decisions by helping them with good, solid, objective assessment data.

Rachel: Matt, when reading your article I was struck by the fact that many organizations have a more structured approach to selecting their front-line leaders than they do their CEOs. And as you explained, most organizations rely on their Board of Directors or in the case of private companies, the Operating Committee, to tackle CEO appointment and CEO succession management. Now where are these Boards or Operating Committees going wrong?

Matt: Well it's certainly true that the senior most leaders in most organizations tend to steer clear of highly structured processes. So it is true that we see more structure at lower levels and less structure at higher levels. Of course this is ironic since the highest risk and the most cost of bad decisions comes at the most senior level. But I guess the question that you asked can be answered with really two primary mistakes that organizations are making. The first one is that organization's senior leaders and boards, in particular, tend to rely too much on their instinct and their gut feel to make decisions. And second, they seldom take action to build a developmental pipeline so that leaders below the level of CEO or below the C-suite are systematically developing and increasing their skills and developing toward that C-level or CEO target so that when a position comes open or someone leaves, whether it be planned or suddenly, they're not just ready with the name of a person, they're ready with the name and the development of a person. So to the first point around gut instinct and gut feel, it's important that organizations begin to think about ways to create more structure in the process. It's very common for a CEO selection process to go like this: the CEO job comes open; there's no internal replacement to fill the job; the organization picks up the phone and calls a recruiter; the recruiter surfaces several candidates; those candidates are interviewed by a number of board members or senior players; and then there's a roundtable discussion after a set of informal interviews and perhaps one or

two dinner meetings where they make a decision about whether or not that person is the right person. This is a very unstructured process. The problem, of course, is that with that little structure and with that much opportunity for individual opinions, agendas, and beliefs to color the process, the lack of objectivity produces a lot of error. There's one example in which a client of ours, years ago, had an opportunity where they were discussing a very senior-level replacement. They brought a candidate in and six people from the senior team interviewed that candidate and after a day of interviews and an evening of dinner with a number of folks and the candidate, the next day they sat down, all six interviewers in a room, and they said, well what do we think. And the opinions about this individual were completely on opposite ends of the spectrum. Some people thought this person was a perfect fit for the job, some people thought this person could possibly do the job with maybe some more development, and some people thought there would never, ever be a possibility for this person to do the job, terrible fit. So how is it that people who work in the same organization, have the same set of business objectives interview one person and have a completely different set of opinions about that person's readiness. The reason is typically because the criteria that are being sought, the characteristics of the leader that are needed, are not discussed and vetted formally rather it's done informally and so the interview process is just as informal and introduces a lot of error in to the judgment.

So the second point then being about development is equally important because we mentioned in that first scenario that there was no internal candidate available. And often we find that the absence of an internal candidate is because there's been a missed opportunity to grow people's capabilities against that C-level or CEO target. Some of the best examples of CEO succession in the world have been cases where the incumbent CEO has identified a small group of people and begun to aggressively grow their capabilities beyond their current roles and share the CEO assignment with those C-level leaders so that they begin to understand, practice, get exposure to and be seen by the organization and the public as people who are part of the senior leadership cadre and are taking on key leadership assignments. Of course when those kinds of developmental paths are created you do get more of a leadership pipeline which reduces a lot of risk.

Rachel: Now Matt, over the years you've helped many top companies around the world with their executive talent needs. From your experience, what are some of the other mistakes that are being



made when it comes to executive succession management?