# A Focus on Succession Planning and Leadership Development: American Crystal Sugar Company
# CAB CS 08.1

*What could be more crucial to your organization's performance than the choice and cultivation of its future leaders? Why, then, do traditional succession plans so often fail? Because great leadership at the top of your organization actually begins in the middle, where your high-potential managers acquire the broad range of skills they need to succeed in more senior roles. You build the strongest leadership bench when you practice succession management — combining succession planning and leadership development in a comprehensive process for finding and grooming future leaders at all levels of your organization. Effective succession management comes when you adopt a talent mind-set:*

- *You make time for in-depth talent assessment.*
- *You differentiate between strong and weak performers.*
- *You give challenging assignments to inexperienced but high-potential managers.*

*Developing your leadership pipeline is labor-intensive. The reward for your efforts? The right skills at the top — and everywhere else in your organization.*

Excerpt from 'Developing Your Leadership Pipeline,' Jay A. Conger and Robert M. Fulmer, *Harvard Business Review*, December 2003. (Article in its entirety is attached.)

Based on a study of best practices, Conger and Fulmer provide practical and tangible guidelines that can be used for building a leadership pipeline throughout an organization. Resources for talent management strategies are critical, considering that about

This case study was prepared by Michael Boland, professor of agricultural economics at Kansas State University, as a basis for class discussion and represents the views of the author, not the university. The author would like to thank Mike Astrup, David Berg and Brian Ingalsrud for participating in this case; Betty Jones-Bliss who helped develop the vision for the case and its use; and Pete Hammett for working to link his presentation with the case. 

60 percent of companies report not having a succession plan of any kind, according to a survey polling several thousand Society of Human Resources Management members (Appendix A). As the Baby Boomer generation exits the workforce and creates a more significant gap in the available talent pool, companies are re-examining their strategy for identifying, maintaining and developing high-performing employees.

The following case study outlines the process for hiring a new CEO at American Crystal Sugar Company (ACSC). It serves as a real-world example of how one company approached succession planning and will be a base for discussion about organizational processes in succession management, which includes leadership development.

## Succession Planning at American Crystal Sugar Company

Mike Astrup sorted and pulled files in his office, trying to decide what to keep or shred, on a frigid January morning at his farm near Dilworth, Minn.

A folder near the back of the cabinet caught his eye. Its tab read "CEO Succession Planning 2006."

"That was a good hire and a good process," Mike remembered.

An ACSC board director since 1996, Mike was heavily involved in hiring the new president and CEO, Dave Berg, when Jim Horvath retired. The transition had worked well, and Mike had been satisfied with the process.

Now, after being elected as board chairman at the December 2007 annual meeting, Mike wondered if he would handle the process any differently in his new role guiding this sugar beet processing cooperative.

## Background Information on American Crystal Sugar Company

ACSC is a sugar beet processing cooperative that was formed from a sugar beet processing firm established in 1899 as the American Beet Sugar Company. Nestled in the Red River Valley, it has plants in Crookston, East Grand Forks and Moorhead, Minn.; and Drayton and Hillsboro, N.D.

Using a value-based marketing system, ACSC encourages production quality. This system, introduced in 1979, pays member-owners based on the amount of recoverable (e.g., extractable) sugar their beets produce. It also fosters the innovation and dissemination of best management practices for growing, producing, storing and processing sugar beets.

ACSC purchases all of its sugar beets from members under contract. All growers have five-year contracts with the company. In addition, each grower has an annual contract specifying the number of acres he is obligated to plant during that year. This program has led to increased plant efficiencies and increased grower income. All company costs are shared among members on the basis of the net tonnage of sugar beets delivered by each member.

The company also owns or is co-owner of several other entities. Sidney Sugars Incorporated (Sidney Sugars) owns two sugar beet processing facilities in Montana (non-member growers) and Wyoming. These facilities are leased on a long-term basis to another sugar producer. ACSC controls members of ProGold Limited Liability Company (ProGold), which owns a corn wet-milling plant in Wahpeton, N.D., leased to Cargill. ACSC owns Crystech LLC, which, in turn, owns the molasses desugarization facility adjacent to the Hillsboro plant.

ACSC's sugar marketing agent, United Sugars Corporation, is a cooperative owned by ACSC, Minn-Dak Farmers Cooperative and United States Sugar Corporation. ACSC's agri-products are marketed through the Midwest Agri-Commodities Company, which is a cooperative owned by ACSC, Minn-Dak Farmers Cooperative, Southern Minnesota Beet Sugar Cooperative and the Michigan Sugar Company.

The company has 1,380 full-time employees (1,130 hourly and 250 salaried). In addition, ACSC employs more than 750 hourly seasonal workers (about 60 percent work during sugar beet harvest and the remainder during sugar beet processing). During harvest, ACSC also contracts with third-party agencies for about 1,300 additional workers.

Historically, ACSC paid little formal attention to succession planning for its employees, and it is sometimes difficult to recruit employees from outside the Red River Valley region. Attracting people to the harsh climate and lifestyle in the area can be challenging. Employees are sourced from three educational institutions in the Fargo-Moorhead area and eight other four-year or two-year educational institutions within two hours of the region. Plus, the unemployment rate in that area is relatively low.

Seasonal labor is becoming increasingly difficult to find. Machinists, welders and similarly skilled laborers are harder to employ due to the developing energy industry in the western North Dakota and eastern Montana region. Thus, ACSC attempts to develop its talent internally wherever possible.

**Overview of the CEO Succession Planning Process**

Jim Horvath, a native of Milwaukee, Wis., joined ACSC in 1985 as vice president of finance. In 1998, he became CEO, achieving his lifelong goal of becoming a company president. Jim's management trademark was being open and honest with the cooperative's shareholders.

Jim earned a bachelor's degree in finance and a master's degree in business from the University of Wisconsin in Milwaukee. He started his career in 1969 with the Miller Brewing Company, for which he served as director of treasury operations, director of accounting and, finally, director of information technology.

The board evaluated Jim annually and that he have a formal succession plan for himself and key management personnel. This was a request they hadn't challenged CEOs within the past (Exhibit 1). In 2003, Jim began a formal process in anticipation of his retirement within the next four years.

With a strong reputation and convenient location to the ACSC headquarters, Jim hired Personnel Decisions Inc. (PDI) in Minneapolis, Minn., to assess each ACSC vice president as an internal candidate. PDI's assessments measured certain characteristics of these vice presidents and focused specifically on the areas that Jim and the board determined to be essential for a successful CEO. The evaluations consisted of multiple-day sessions at the PDI offices.

After the assessment, each vice president met with PDI representatives and Jim to receive feedback. They left the meeting understanding their performance weaknesses and how Jim thought they could improve.

## ACSC Vice Presidents in 2004

The vice presidents that PDI assessed in 2004 were Thomas (Tom) Astrup (Agriculture), David (Dave) Berg (Operations), Brian Ingulsrud (Administration) and Joe Talley (Finance and Chief Financial Officer).

Tom was 35 years old in 2004 when he was named vice president of agriculture. He became the vice president of administration in 2000 after previously serving as corporate controller, assistant treasurer and assistant secretary from 1999 to 2000. From 1997 until 1999, he was controller for Midwest Agri-Commodities Company. He had also served as the corporate accountant for ProGold Limited Liability Company from 1994 to 1997.

Dave Berg was named vice president of operations in 2004 at age 50, during which he also served on the ProGold Limited Liability Company's board of governors. Previous experience included serving as vice president of agriculture since December 2000 and vice president of administration from October 1998 to December 2000. From 1994 to 1998, Dave was in various roles, including the company's vice president of business development, vice president of strategic planning, director of market information, manager of marketing and analysis and manager of economic research.

In February 2004, 41-year-old Brian Ingulsrud was named vice president of administration 41. From 2000 to 2004, he served as the corporate controller, assistant secretary and assistant treasurer. Brian was also director of agriculture strategy and development from 1999 to 2000, financial planning manager from 1997 until 1998, and factory offices manager from 1995 until 1997.

Joe Talley was named vice president of finance in 1998, chief operating officer of Sidney Sugars Incorporated in 2002 and chief financial officer of the company in 2003. He served as the company's treasurer and finance director, assistant treasurer and assistant secretary from 1996 until his appointment as vice president of finance. Joe was finance director of ProGold Limited Liability Company from 1994 through 1996 and served on their board of governors in 2003. Prior to his tenure with ProGold, Joe was a partner with the accounting firm of Eide Helmeke & Co. He was 44 years old in 2004.

## Organizational Planning at ACSC

Historically, ACSC had not undertaken any formal organizational succession planning activities. Many employees worked at ACSC for their entire career, and it had been possible to hire talented employees from the region, except at the CEO level. James Horvath was the first long-term CEO that had been hired internally.

Of the possible internal candidates, Dave's career path was the most broad and extensive within the ranks of ACSC's senior managers. Tom was the youngest manager, and he had worked to broadened his experience beyond his original accounting. Joe's responsibilities were fairly specific to finance, although he was becoming exposed to other functions as operations manager at the Sidney facility. Brian had undertaken different opportunities within ACSC as they arose, but neither Tom or Joe or Brian had the broader variety of experiences within ACSC.

ACSC did not have a formal program that dictated specific career moves at specific times. Rather Dave's path was a result of leaders who saw potential in him and his willingness to take on new responsibilities as opportunities arose. Obviously, ACSC and Dave benefited from these experiences, and the roles helped him understand the organization's broader issues.

Dave was hired in 1988 as an economist in the marketing department. He initially focused on sugar industry trade and policy issues; however, he was soon given the opportunity to manage a sales account portfolio and develop customer relationships. As a result, Dave learned how customer's perceive ACSC.

When Joe Famalette became CEO in 1992, he established the Market Data Survey. It was an all-consuming effort for the organization to better understand its place in the industry relative to both customers and competitors. It required almost half of the management employees to gather data, and Dave was responsible for implementing the process. The Market Data Survey was the largest market research activity that ACSC had undertaken.

After his success with the Market Data Survey, Dave was promoted to a vice president in 1994 and took on a newly formed strategic planning function. He developed skills related to creating business plans and assessing potential growth opportunities.

Dan McCarty, who became CEO in 1996, challenged Dave to again broaden his cross-functional background by gaining operational experience, an area in which he needed to grow. Dan allowed Dave to spend a year working at the Moorhead factory, including six months as a shift supervisor, the lowest line-level management position at ACSC. He learned first-hand about the beet sugar refining process and the day-to-day work done by union employees in the factory.

Jim Horvath created the position of vice president of administration when he became CEO in 1998. Dave soon moved into that role and took on responsibilities, such as human resources, packaging and warehousing, public affairs and public relations. His tasks were so widely varied that one day he would be negotiating union contracts for ACSC's factory employees and the next day helping to negotiate Farm Bills with Washington, DC, leaders.

In 2001, Jim named Dave the vice president of agriculture. At this point, the agriculture department was the only area of the company Dave hadn't been exposed to. The vice president of agriculture was required to interact with the company's shareholders who supply it with sugar beets for processing. Dave quickly learned what issues affected the shareholders. Plus, it gave the shareholders an opportunity to get to know Dave.

Dave assumed the responsibilities of the vice president of operations in 2004. Since he had already worked in the operations department as a shift supervisor, he knew what the department needed to run efficiently. As the vice president, Dave used his previous knowledge of the entire company to improve interactions between all departments.

## Jim Announces His Retirement Plans

In March 2006, Jim met with Brian and told him of his plans to retire within the next 18 months. Jim wanted to prepare the board for the selection process.

The first step Jim and Brian took was to read several articles from the *Harvard Business Review* and the Corporate Leadership Council concerning best practices for the CEO selection process. These articles were helpful in providing tips for what to focus on during the selection process. Several ideas emerged from those readings and were incorporated into a general plan and timeline (Exhibit 2).

## Compensation Determination

The board hired Towers Perrin to help determine the appropriate pay levels for the CEO and other executives. Towers Perrin reviewed and analyzed compensation levels at other companies in the $500 million to $2 billion gross revenues range to create applicable comparisons of CEO and executive pay. Examples of companies included in the Towers Perrin analysis were Actuant Corporation, Ameron International Corp., Arctic Cat Inc., Barnes Group Inc., Brady Corporation, Constar International Inc., Donaldson Company Inc., Gardner Denver Inc., Graco Inc., Herman Miller Inc., IDEX Corporation, Imperial Sugar Company, JLG Industries Inc., Magellan Midstream Partners L.P., Milacron Inc., Mine Safety Appliances Co., Minn-Dak Farmers Cooperative, MSC Industrial Direct Co., OMNOVA Solutions Inc., Packaging Corporation of America, Rayonier Inc., Schweitzer-Maudit International Inc., Stewart & Stevenson Services Inc., Sybron Dental Specialties, The Toro Company and Thomas & Betts Corporation.

Exhibit 3 describes ACSC's base pay, short-term cash incentive compensation, long-term incentive compensation, perquisites and retirement.

## Summary of the Board Planning Process

In May 2006, Jim and Brian developed a plan and timeline for review with the board chairman. During the May board meeting, it was announced that Jim planned to retire within the next 18 months and that the board would be holding a workshop in June to more fully discuss the process. The board members were given the same articles that Jim and Brian had read and were asked to review them prior to this CEO succession workshop.

Mike remembered that the board developed a series of questions to think about prior to the meeting.

"Would the board follow the same process today in the unlikely event that a CEO was needed?" he wondered. "As the new chairman, would I do anything differently?"

## Discussion Questions

The hiring of the ACSC's new CEO was a successful venture. If you are the ACSC board chair reflecting on the CEO succession planning process:

- What might ACSC have done differently?
- What did they do right?
- How would you have prepared for the board meeting and interview process?
- What in Dave Berg's career path prepared him for the CEO position?

In terms of the organization's succession planning and professional development process:

- Using the ideas and concepts you have read on this topic, as well as discussions thus far in the seminar, how should ACSC address the development of talent and a succession planning strategy that considers all levels of management in the organization?

**Exhibit 1: List of ACSC Presidents/CEOs and Board Chairmen, 1973 to 2006**

| President/CEO | Year Started |
|---|---|
| Jack Tanner | 1973 |
| Freeman Winstanley | 1978 |
| Charles Shamel | 1978 |
| Ron Hayes | 1986 |
| Al Blomquist | 1990 |
| Joe Famalette | 1992 |
| Marcus Richardson (interim) | 1995 |
| Daniel McCarty | 1996 |
| James Horvath | 1998 |

| Board Chairman | Year Started |
|---|---|
| William Brekken | 1973 |
| Arnet Weinlaeder | 1974 |
| Clark Ewen | 1978 |
| Pat Benedict | 1983 |
| Clark Ewen | 1987 |
| Fred Born | 1989 |
| E.N. “Cactus” Warner | 1993 |
| Robert Nyquist | 1994 |
| Wayne Langen | 1997 |
| Robert Vivatson | 2001 |
| Terry Stadstad | 2005 |
| David Kragnes | 2006 |
| Mike Astrup | 2007 |

## Exhibit 2: Harvard Business Review Articles and Summary

Harvard Business Review articles used for background information included:


Charan, Ram. "Ending the CEO Succession Crisis." *Harvard Business Review*, 83, 2 (February 2005): 72-81.

Lorsch, J. and R. Khurana. "Changing Leaders: The Board's Role in CEO Succession." *Harvard Business Review*, 77, 3 (May-June 1999): 96-105.

Sorcher, M. and J. Brant. "Are You Picking the Right Leaders?" *Harvard Business Review*, 80, 1 (February 2002): 78-85.

Bennis, W. and J. O'Toole. "Don't Hire the Wrong CEO." *Harvard Business Review*, 78, 3 (May-June 2000): 171-76.

"CEO Succession Planning Imperatives," Corporate Leadership Council, Arlington Virginia

"CEO Competencies," Corporate Leadership Council, Arlington Virginia


Ideas that were obtained from the articles and summarized for the board included:

- 80 percent of the board's true value is choosing a CEO wisely.
- There is a need to allow time for rational, emotional and political dynamics that will accompany the process.
- The process is collaborative between the outgoing CEO and the board, but the decision must be the board's.
- Succession planning must be driven by strategy. What does the company plan to do strategically and who can best implement those strategies?
- The company needs the right leader at the right time. These factors include industry dynamics, the company's health, competitive position and culture. There needs to be a choice.
- Considering only one candidate is inadvisable.
- The process will influence employees, shareholders, the industry, etc.; therefore, it must be rigorous, careful and defensible.
- It is difficult to know how someone will act at the very top of the organization.
- Reasons why CEOs fail include illegal or improper behavior, lack of execution, personality clashes, poor communication, shareholder revolution and strategic blunders.
- The outgoing CEO needs to not have an ongoing role with the company following retirement.

## Exhibit 3: Compensation Summary

The base-pay midpoint for CEO and executives was projected to represent less than the median of the market. Total direct compensation was projected to be near the lower quartile of the market. In addition to market-based information, individual roles and responsibilities, performance, reporting structure and internal pay relationships were used by ACSC for setting executive pay.

The compensation for the CEO and executives included a base salary, short-term cash incentive compensation, long-term incentive compensation, retirement and other benefits, perquisites and severance pay (for the CEO). The board of directors approved the base salary and other compensation for the CEO, while the CEO set the salary for the other senior executives.

Short-term cash incentive compensation rewarded the executive team for their individual performance and the financial performance of the firm in the most recently completed fiscal year. This compensation was paid in cash following the close of the fiscal year and was expressed as a percentage of base salary. This served as 45 percent of the base salary for the CEO and 35 percent for the executives.

The actual award was determined on the different performance levels. The potential for short-term cash incentive compensation ranged from 0 percent (unsatisfactory performance) to 70 percent (outstanding performance) for the executives and 0 percent (unsatisfactory performance) to 90 percent (outstanding performance) for the CEO.

The CEO's performance objectives were weighted with 50 percent of the potential award based on overall financial performance and 50 percent based on the individual objectives in the CEO's evaluation as set by the board. For the executives, the weights were 60 percent (individual performance) and 40 percent (firm financial performance).

The financial performance of the firm was dictated by the final gross payment of sugar beets to the producers and on-farm profits, which is calculated by taking the gross payment less total production costs (acres multiplied by costs per acre). The individual goals for the executives were derived from the strategic initiatives of ACSC. These goals were linked to trade and farm policy leadership, cost and revenue management, agricultural gold standards, beet storage excellence, balanced and maximized slice and recovery, maintenance excellence, product quality, safety, training, and technology and automation.

Long-term incentive compensation included the opportunity to receive an additional 40 percent of base salary (CEO) and 20 percent (executives) who were evaluated based on the overall performance of the entire group. The potential for long-term cash incentive compensation ranged from 0 percent (unsatisfactory performance) to 40 percent (outstanding performance) for the executives and 0 percent (unsatisfactory performance) to 80 percent (outstanding performance) for the CEO. For the group, the award was based on 45 percent of the performance and on the fiscal year's actual on-farm profits relative to historical levels. An additional, 55 percent was based on an assessment by the board regarding achievement of specific long-term performance objectives set by the board. These payments were made in the form of contract rights and their value was set by the board to approximate the value of the company's preferred shares of stock. The contract rights vested over a three-year period and once vested, they earned the same profit per acre as shareholders earned for each of their preferred shares.

Retirement benefits were an additional component of the compensation. The CEO and executives had a supplemental plan that included a defined benefit and defined contribution plan, which could have been received in lieu of Code 401(a)(17) and 402(g). All of the short-term, long-term and supplemental plans could be deferred.

Other perks included a car allowance, cell phone, minimum of four weeks' vacation accrual, reimbursement for income tax preparation and executive physicals.

## Appendix A

**THE WALL STREET JOURNAL**
**IN THE LEAD**
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**THEY PONDER LAYOFFS, BUT EXECUTIVES STILL FACE GAPS IN TALENT**

Companies typically shed talent rather than search for new or additional employees during periods of economic slowdowns. That could change, though, as hiring managers prepare themselves for an uncertain year. Even as they contemplate layoffs, many companies also are hunting for new hires to fill management gaps.

One reason for the hunts: Companies haven't been grooming and training enough employees for promotions and now have a mismatch of talent for open positions. In the past, top managers would plan far ahead to fill a position. Today, every vacancy seems to be treated as unique — and even as a surprise, despite the long-term trend of frequent job changes by employees. "Workplaces are filled with frustrated people who want to advance but haven't gotten training or broad enough experience," says Peter Cappelli, a management professor at the Wharton School and director of Wharton's Center for Human Resources. "In coming months, we'll likely see companies laying off employees but also crying that they can't find people with the skills they need."

Instead of complaining, they should acknowledge that they've dropped the ball on talent development. Some 60% of companies have no succession planning of any kind, according to a survey by the Society of Human Resources Management of several thousand of its members.

There are newly named outside chief executives at financial-services giant Merrill Lynch, telecommunications firm Sprint Nextel and retailer Zale, and CEO searches are under way at H&R Block, Marsh & McLennan and Children's Place. Other companies are looking outside their ranks for top finance executives or managers who can oversee business units.

Nearly half of 20,000 employees surveyed at 100 large global companies by YSC, a

London-based corporate-psychology consultant, said they don't receive enough feedback from their managers to help them improve their performance. At one large financial-services company that YSC worked with, a senior executive talked with his eight staffers about their performance just once a year, says YSC director Miriam Javitch.

Employees who lack guidance and opportunities to advance are more likely to quit and look for jobs elsewhere, even during shaky economic times when as the last hired they may be the first fired. A marketing manager at a New York consumer-products company plans to make a lateral move to another employer where he thinks he has more chance of getting promoted in a year or two. In three years at his current job, "my boss has never talked to me about what job I might do next, or encouraged me to learn anything new," he says.

No manager, of course, has time for constant hand-holding, but that isn't what is required to nurture future managers. The most important need is to identify which subordinates want to advance and keep them growing by rotating them through jobs — trusting that if they've done one thing well, they'll be able to learn something entirely new.

Bob Zito, communications chief, Bristol-Myers Squibb, encourages the 250 employees he supervises to raise their hands when openings occur and change jobs frequently to get more experience. He recently had an employee from Singapore spend several months at the company's New Jersey office and suggested that an employee in a corporate staff position swap jobs with someone who had spent several years working in the pharmaceutical business.

"I want to keep people excited — and to be nimble and grow we need lots of employees who have had lots of different experiences," says Mr. Zito. He thinks managers who claim they're too frenzied to groom employees are misusing their time. "The more I delegate to employees and ask them to stretch, the more I have time to work with them."

Jeff Henderson, finance chief for Cardinal Health, Dublin, Ohio, last year reshuffled more than 20% of his top 230 finance managers within the department to create new learning opportunities for them, which resulted in improved performance and strengthened loyalties. He does succession planning for his staff twice a year, "looking at the entire talent pool and seeing who is best for what job," he says.

Until four years ago, Cardinal was a holding company with disparate units and little employee mobility. Now, as one integrated operating company, executives want employees to shed their "silo-based mentality" and be willing to move between staff and line jobs in various departments and at different locations.

"If we go elsewhere to find talent whenever openings occur, we're telling our people to be free agents, too, when we need their loyalty," says Mr. Henderson.

Cardinal still has had to search outside to fill some key spots, such as the head of its health-care-supply unit. But this should change as veterans advance up the ranks.

Next to the stock market, what CEOs talk about most is their lack of bench strength, says executive recruiter Peter Crist of Crist Associates. "Their inefficiency at succession planning is keeping me very busy," he says.

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## Appendix B

**Management: Best Practices In Succession Planning**
By Stephen A. Miles and Nathan Bennett
Forbes.com, Nov. 9, 2007

Over the past two weeks, two iconic companies, Merrill Lynch and Citigroup, have seen their CEOs unexpectedly depart. Equally surprising is the fact that neither company has demonstrated that a strategic approach to succession planning was in place.

Because the board of directors has responsibility for governance, the development and execution of a thoughtful succession-planning process must receive its full consideration. Unfortunately, such efforts are too often underdeveloped, unevenly executed and sometimes simply ignored. When boards permit a happenstance approach to succession planning, they have effectively abdicated one of their most crucial responsibilities.

Our review of succession efforts reveals the four best practices that can be implemented at any company and can help ensure that directors have an effective succession-planning process in place. These practices protect the interests of board members, employees, shareholders and other constituents, and also give everyone confidence in the company's long-term prospects.

### 1. Analysis

The first practice involves developing a solid understanding of the most significant challenges the company and its industry are likely to face over the next four to six years, and the skills and experiences the chief executive will need to lead the company past those hurdles. Directors must fight the tendency to think the answer is to find a younger version of the incumbent CEO.

Only in the rarest cases will future challenges require the same skills that worked in the past. For example, GE's past three CEOs (Reg Jones, Jack Welch and Jeff Immelt) are starkly different people. In leadership succession, GE has done a good job of looking "through the windshield" rather than "in the rear-view mirror" to understand the leadership skills required of the next CEO. Investing in a credible forecast about the future makes it possible to understand the skills and capabilities a CEO will need.

**2. Development**

The best practices in development are different for internal and external candidates. For internal candidates, development begins with the identification of a small number of people who could be made ready in two to four years. Though there is a strong bias for “ready now” candidates, directors must recognize that such individuals exist only in theory.

The odds that the “perfect” person finds his or her way to a leadership opportunity at just the “right” time are so improbable that planning for it is ludicrous. However, a great deal can be done in two to four years to develop an executive, whether it involves rotations in different functional areas, international assignments or something else. A caution regarding internal candidates: When succession planning is cavalier about timing, candidates are either too quick or too slow to develop; those ready too soon become targets for headhunters, while those not yet ready are of little use.

External candidates are usually identified with the help of an executive search firm. Normally, these executives lie beyond the company’s reach in terms of development, but in a best-practices approach to succession planning, companies actually bring potential CEO successors in through other positions. This allows the company to make a strategic investment in the new executive’s development, as the board not only increases its company’s bench strength but also has a chance to explore the executive’s likely effectiveness as CEO. Both Jim Donald (Starbucks) and John Chambers (Cisco) ascended to CEO positions this way. The opportunity for the executive and the board to develop their relationship greatly reduces transition risk.

**3. Selection**

As the transition approaches, the internal candidates should be ready. The scanning for external candidates should be updated. The best selection practice involves inviting all internal candidates to give presentations to the board in which they describe their vision for the company’s next five years. After a presentation and discussion, the likelihood is--if the development of internal talent has been successful — that a clear winner will be revealed. If none emerges, then it is time for the board to consider external candidates. The risk with external candidates is high — not only do they present an incomplete picture to directors, but the company is an incomplete picture to them.

The uncertainty runs both ways. Whenever risks are high, however, returns are also expected to be high. This means the board must see tremendous upside potential in an external successor, and it also means there is tremendous pressure on the individual selected for the job.

**4. Transition**

A best-practices transition focuses on both the on-boarding process and first 12 months of a new CEO's tenure. Internal and external successors experience on-boarding differently, but a critical presumption is that before the successor's first day, the board has made certain that he or she has begun to develop relationships with board members, had sufficient time with the outgoing CEO to complete appropriate hand-offs and has a sense of the areas that represent burning fires requiring immediate action. On-boarding itself refers to the process of getting up to speed on the job.

Again, internal and external successors will experience this differently, but the two most critical practices here are for the board and the successor to agree on a plan for the first year that includes measurable metrics and milestones and the active engagement of the entire leadership so as to be sure everyone is working from the same playbook. Finally, a coaching plan for the entire first year should be in place. Providing a coach offers a supportive and apolitical resource that, in the end, helps the successor continue to do the personal work he or she began when the company initiated the succession-development process.

**Conclusion**

Hand-offs from one leader to the next are tricky because of the politics and intrigue that surrounds them, the complex nature of the CEO position and the dynamic nature of companies. For that reason, they represent a time when the company is vulnerable. By crafting a thoughtful, strategic approach to succession, the board fully addresses its governance responsibilities and sets the new leader on a firm course toward future success.

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