Pearl Meyer

ADVISOR BLOG | NOV 2022

# Succession Planning and Leadership Development: Unique Challenges for Private Companies


Susan Sandlund, PhD

MANAGING DIRECTOR


Editor's Note: This blog appeared in NACD's Private Company Directorship publication.

Ensuring effective future leadership is a primary role of any board of directors. In fact, executive succession planning and leadership development are becoming increasingly important topics for boards and specifically, compensation committees. This is coming at a time when myriad external pressures are putting talent at all levels front and center on the board's agenda.

But are these topics as robustly discussed with private boards as they are with public boards? The answer is likely no. While public boards have clear guidelines regarding the duties and responsibilities of directors, private boards—whether they guide family-owned companies, VC-backed/pre-IPO start-ups, small businesses, or global enterprises—have more leeway and their governance practices can vary widely. Furthermore, they can operate without the pressure of shareholders and SEC regulations. Consequently, there is a higher likelihood that potentially difficult succession planning conversations can be avoided or are only addressed late in the game by the board.

This is not to say that all privately held companies are at a disadvantage in this area. Many savvy CEOs of private companies have taken the time to lay the right foundation for the future of their companies through robust succession and leadership development programs. These CEOs have engaged their boards' expertise and guidance. They have clarified the role of the board in driving executive succession and have involved their boards in a multistep process over time to ensure effective succession planning and an associated focus on the development of leaders, ensuring that the right future leadership capabilities will be in place to drive organizational success.

For those companies where the management team or CEO has not been as proactive, the board can approach the conversation from a business continuity perspective. This will be particularly compelling at a time when risk aversion and labor constraints are acutely felt, no matter the ownership structure. Optimally effective private company boards will create an open dialogue between the board and the CEO about the importance of having both long- and short-term plans for CEO succession, as well as a process for ensuring continued organizational performance by developing future leaders. Here is a high-level roadmap for directors who want to get started—or refine and improve their board's current processes.

## CEO Succession Planning

- Prepare for an emergency. This is the first step. A clear emergency succession plan should name an emergency CEO and an alternate if possible.

- Create and refine a long-term plan. A long-term, robust CEO succession plan that begins three to seven years in advance of an anticipated succession event can take shape after your emergency plan is in order. This should be driven by the compensation committee and the current CEO with clear roles and processes for reporting back to the full board over time. It should include the following steps:
    - Clarify CEO requirements for the future state of the business and agree on the overall skills and character profile needed for the next leader.
    - Identify, assess, and develop internal CEO candidates against the future CEO profile. If there are no internal candidates, consider bringing leaders in from the outside to seed the future leader bench.
    - Ask the CEO to provide the board with periodic updates on internal candidate development progress.
    - As the actual succession event approaches (about 18 months prior), the CEO and board together narrow the field to one or two final candidates and ultimately make a choice, ensuring other key shareholders (e.g., owners) have input into the final decision.
    - Create and implement clear transition plans to ensure the success of the new CEO and a graceful exit of the current CEO.

## Developing Broader Leadership Bench Strength and Diversity

- Ensure there is a plan to develop leaders and determine if there are processes in place to actively execute the plan. If not, suggest to the CEO and chief human resource officer that this be addressed. Share what other organizations have done as a starting place.
- Ask for twice-yearly board reviews of the top two to three levels of leaders across the company, with a focus on identified high potentials as well as retention risks and weak performers.
- Ensure that the diversity of leaders is addressed and ask to review leadership diversity statistics, focusing a conversation on areas for improvement.
- Get to know individual leaders through board exposure.
- Suggest that leaders be provided with coaching and enrichment experiences that can accelerate their development.

A visionary private company board can help differentiate its organization through these important governance steps.

## About the Author

Dr. Susan Sandlund is a managing director at Pearl Meyer and leads the firm's leadership consulting practice. For more than 30 years, Susan has worked with boards, CEOs, and multiple levels of management on planned organizational changes at public and private companies and not-for-profit entities across numerous industries. As an organization psychologist, her work includes initiating and leading large-scale change to drive new business strategies, culture change, clarifying governance and decision-making, board and executive team effectiveness and coaching, organization design, executive assessment and development, and CEO succession planning processes.

## About Pearl Meyer

Pearl Meyer is the leading advisor to boards and senior management helping organizations build, develop, and reward great leadership teams that drive long-term success. Our strategy-driven compensation and leadership consulting services act as powerful catalysts for value creation and competitive advantage by addressing the critical links between people and outcomes. Our clients stand at the forefront of their industries and range from emerging high-growth, not-for-profit, and private organizations to the Fortune 500.