Boards And Retiring CEOs As Partners In Transition

by Paul W. H. Bohne

If the most essential role of a board is to select the company's chief executive, the next most important is to ensure a smooth, effective transition between the retiring and incoming CEO. Some outgoing CEOs may not want to leave, while others may contribute too little to choosing a good successor. The board must then be the honest broker that drives the succession process.

In his book *The Hero's Farewell,* Jeffrey Sonnenfeld theorizes that there are four distinct typologies among retiring CEOs. There is the *monarch* who must be forcibly removed. The *general,* who leaves reluctantly and plots a return. The *ambassador* leaves gracefully, yet still lends support. Finally, there is the *governor,* who willingly departs and moves on to other pursuits.

In CEO transitions today, fortunately, we mostly see ambassadors and governors. Yet even for the most graceful and accommodating CEO, Sonnenfeld points out, retirement is a time of turmoil. It involves relinquishing a great deal of power and status, and redefining one's self-perception. This is a process many CEOs will find difficult or stressful, and thus they may postpone or resist it. A CEO's personality and even leadership style can seem to change as retirement nears, Sonnenfeld notes.

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CEOs would be wise to consider these ideas as they approach retirement and corporate boards should take them to heart as well. The responsibility for succession planning and a smooth transition is on both parties.

Planning for a CEO's retirement is a true partnership. Yet, research conducted by my firm suggests that, at least in the healthcare field, fewer than half of CEOs and their boards have undertaken formal succession planning. My guess is that this statistic would be fairly consistent across all industries, with larger corporations often having the scale, tools and precedence to more easily support succession practices.

Do some CEOs and boards just not know the right steps to take? Probably not. Our research suggests that a majority of healthcare CEOs nearing 65, the traditional retirement age, feel that they are too young to retire. Moreover, only a small fraction feel burned out, or that they have accomplished all that they want to.

It is clear that CEO transitions involve not just forethought and planning, but also tactfulness and an appreciation of the human element of retirement. Strategy must be balanced by a sensitivity toward the individual and his or her goals and circumstances.

There are rules of thumb that boards and CEOs can follow to ensure that they become partners in transition:

- ☐ Appreciate the complexities of what the CEO is going through.
- ☐ Understand that his or her agenda and leadership style may change as retirement nears.
- ☐ Ensure that the board drives the process.
- ☐ Work together to establish parameters for the transition.
- ☐ Embrace the opportunity for change.
- ☐ Value the retiring CEO's role as trusted advisor and identify what role the CEO should and should not have in a selection process for a successor.
- ☐ Work to minimize the overlap between CEOs.

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A CEO's retirement is not business as usual. It is a time for the board to step up while the incumbent, gracefully, steps away.

☐ *Fear and hesitation.* Retirement can be a time of anxiety for departing CEOs, no matter how in control they may appear. For a leader who has spent years focused on helping a company succeed, there is a natural, and sometimes emotional, process of reflecting on one's legacy. There is no on/off switch for a leader who has a high degree of ownership, passion and commitment.

Many CEOs say "the board doesn't want me to retire." That may be true—or it may be assumed or wishful thinking. CEOs fear going from "Who's Who" to "Who's that?"

For most CEOs, there is still much work to be done before retirement. They feel that they have not yet achieved everything they want to in their roles. There is no shortage of on-the-job challenges to be addressed, from advancing the corporation strategically, to leaving a permanent mark on its culture. Other CEOs nearing retirement believe they must do more to identify, mentor and prepare successors.

For many, staying on is a matter of professional responsibility. I often hear from these CEOs that "the board doesn't want me to retire." While that may be true, in many cases it may be assumed or wishful thinking. The retiring executive's ego can also take a hit. As many of these CEOs will say, they fear going from "Who's Who" to "Who's that?"

Studies regularly rank retirement ("the ugliest word in the English language," Ernest Hemingway once said) as one of life's most stressful moments. Thus, it should not be surprising that a succession process, a sign of an imminent ceding of control, can create anxiety for a CEO. As one retiring CEO told me at the end of the search for his successor, "I can't believe how similar this process felt to the time just before my daughter got married. I was excited, but also felt like I was losing something. I had to work at letting go."

Exacerbating the problem is that high-performing CEOs cannot envision a life in which, essentially, every day is a day off. As a result, many "retiring" CEOs plan to continue to work (perhaps in a consulting capacity), serve as a community volunteer or board member, spend time with family, travel, take up new hobbies, and so forth. Chances are, however, that these goals are still vague, and the CEO has no concrete (or comforting) plan for the next stage in his or her life.

☐ *Departure styles.* Anxiety can keep CEOs from doing their best. How a CEO engages during his or her final months can vary, with dominant leadership tendencies sometimes becoming amplified.

Risk-averse leaders might avoid difficult decisions, so as not to be viewed as unpopular as they depart. One CEO I know approved a weak budget that her successor had to quickly revise because the projections were not aligned with decreasing volumes and other market shifts. Sometimes just the opposite occurs. Aggressive, results-driven leaders who move quickly, sometimes hastily, in wanting to "clean everything up" for their successors.

However, departure styles do not always correlate to leadership styles. Leadership style during a transition will be shaped by the specific agenda, the leader's plans (or lack thereof) for retirement, and the leader's view of his or her personal identity, as

Smooth vs. Rocky Transitions
Weak Boards Bring Weak Succession

Smooth	Rocky
The board's search committee shows clear, powerful leadership.	The departing CEO drives or overly influences the search for his or her successor.
The CEO and board acknowledge what is needed in a new leader.	The board overly embraces the past in deference to the departing CEO.
The retiring CEO is available for questions but does not overlap with the new leader.	The retiring CEO hangs on and interferes with the new leader's decisions and authority.

The Board Role
A Succession That Succeeds

☐ Understand the psychology of the retirement situation and the natural fears and anxieties that can surface during a transition.

☐ Clearly demonstrate the board's leadership and active engagement in the transition.

☐ Clarify the role of the departing CEO very early in the search process.

☐ Identify specific ways to enlist help and wisdom from the departing CEO.

☐ Suggest or provide coaching support to help the retiring leader manage transition issues and plan for a productive future.

opposed to the institutional identity. For many, these roles have intertwined over many years.

It is important that the board acknowledge this tenuous time and maintain the greatest respect for the departing CEO and his/her legacy. It can do so by recognizing the leader's work and helping him or her to achieve a sense of closure for a job well done. Similarly, the retiring CEO must continue to focus on what is best for the company and the fact that this will ultimately enhance his or her professional legacy as part of a healthy transition.

☐ *Board leadership: driving the transition.* Selecting leaders is one of a board's most important governance responsibilities. When a CEO announces a retirement, it is crucial that the board demonstrate leadership and communicate to stakeholders that it has its hands on the wheel. Internal and public communication on the transition and selection process should be board-driven, under the authority of the board and search committee chair with support from the CEO.

Among the many tasks at hand for the board is to oversee an internal audit of the current organizational culture and overall state-of-the-state. This includes the development of a position profile for the next leader that provides a clear inventory of the leadership competencies that matter most to the organization.

It is critical that these competencies align with the current strategic plan, which presupposes that a robust, clear strategic plan exists. This comes with the understanding that a new CEO will want some guarantees that he or she will be allowed to help shape and drive strategy, as opposed to being just a "hired hand" to implement an existing plan.

Boards must lay the groundwork for the next CEO, but some boards are passive, especially when the CEO is strong or long tenured.

In this process, shareholders and other key stakeholders share their input on the company's culture, strategic vision, leadership capabilities, and prerequisites for future success. These findings offer a valuable blueprint for developing the new CEO's job profile. Should the incoming leader have a tendency toward risk-taking? Does he or she need to be steeped in business, or law, or technology, or community relations, or all of the above?

Quite simply, the board must lay the groundwork for the next CEO. This does not always happen, unfortunately. Some boards have a tendency to be passive, especially when the CEO is strong or long-tenured. Other boards feel unprepared, and may naturally look to the incumbent leader for answers.

The board needs to actively avoid this imbalance. It should have a transition plan in place and clearly communicate it at the time of the retirement announcement. A rule of thumb is to announce a CEO retirement nine months in advance of the change and begin the search process immediately thereafter. Announcing too soon creates an unwanted "lame duck" situation for the departing CEO. Announcing too late puts the search committee under pressure and could result in a time-pressured selection process.

☐ *Establishing parameters.* No doubt the board and the departing CEO want the very best for the organization and its new leader. However, whether the transition is smooth or rocky depends on the type of people involved, the corporate culture, the state of the board/CEO relationship and their mutual level of trust.

If the board and the CEO already enjoy an open and productive relationship, planning a healthy transition should be smooth. However, if the relationship shows strain, then it behooves everyone (especially the search committee and the retiring CEO) to respect boundaries and support each other's goals. Most importantly, the search committee must be in full command of the search process.

Planning a graceful transition demands open and candid communication. Sometimes a CEO will withhold opinions when his/her ideas would be most helpful. One CEO I worked with fixated on not wanting to give any comment on finalist candidates: "It's not my place," he said. "What I say will bias some board members, and I won't be the one to live with the outcome."

☐ *Embracing change.* Boards can use a planned CEO transition, such as a retirement, as a strategic opportunity to evaluate the company's future direction and goals. Does it need a similar type of CEO or someone who brings different skills? Are there potential obstacles to a new leader being successful that should be identified and addressed?

Embrace the transition as a season of change, a natural part of the organization's evolution and a time to select a leader with skill sets ripe for new challenges. Choosing a different type of leader does not repudiate the incumbent's accomplishments. The board can honor the departing CEO's legacy while setting the stage for a new era of leadership.

As Sonnenfeld suggests, the retiring CEO also faces a personal season of change and needs to let the company move on without him or her. An individual's readiness for retirement influences how engaged he or she is during the final months and weeks serving in the CEO role. The psychological impact of the retirement milestone, especially for high-achieving CEOs, cannot be underestimated.

Some retiring CEOs turn to executive coaches to clarify how they view their careers as well as their plans for the future. They need to learn how to use "new muscles" (intellectual, not just physical) to flourish in the post-retirement stage, an area where an experienced coach can offer direction.

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☐ *How the departing CEO can help.* It is not productive when a retiring CEO simply checks out; his or her insights are still needed. While the board leads the transition, there are still plenty of opportunities for the incumbent to provide value. The CEO is not a member of the search committee, but forums for open conversation should be established and used.

To start, the CEO should provide insights on future organizational needs, market changes and his/her view on how these issues can help shape the competencies that may be important to address these issues. Often boards overlook this step because they are uncomfortable discussing someone's successor.

A board and search committee ultimately need to shape the criteria and drive the selection. They can use this time to dig deep into market dynamics, examine financial issues and mine information from the departing leader so he/she has a truly meaningful role in this process.

On the other hand, the CEO should not get overinvolved. One search committee invited the retiring CEO to several search committee meetings. Although the board had good intentions about enlisting his ideas and suggestions in the very early stages, his unabated presence as the process advanced restricted dialogue. Candid conversations concerning key challenges for the incoming CEO—including issues left over from the previous regime—need to take place without the incumbent in the room.

Unless circumstances are strained, the departing CEO should meet with finalist candidates. The incumbent can serve as a resource to answer questions and provide helpful information to finalists. In turn, the candidates look forward to this discussion as an invaluable opportunity to learn about corporate issues, including CEO/board alignment. After the interviews, the CEO should share meaningful feedback and observations with the search committee chair, not others.

☐ *CEO overlap?* The retiring CEO is a font of information and wisdom for the newly arrived leader.

Yet tapping into this resource must be done carefully and quickly. Other than in situations where internal successors are being groomed, any overlap between the retiring and new leader should be extremely brief. Plan on no more than one week of *on-site* presence by the departing CEO, where time can be spent with introductions to key stakeholders. The board should help design this plan, taking inventory of where the retiring CEO's strongest relationships exist, and where he/she can help provide introductions.

Once the on-site overlap concludes, the retired and new leaders can choose to stay in touch through lunches and phone calls as they mutually determine. The new leader needs to assume rightful control and authority. The board can respectfully ask the departing leader to be available through phone and e-mail, but not to drop in unexpectedly. Nor should she/he discuss ongoing business issues with staff or board members in ways that could inadvertently create issues for the new leader.

One of the greatest values is for the new CEO to be able to pick up the phone and ask, "I was hoping you could give me context on why you made that decision."

Talk through the CEO's post-retirement intentions, and how he or she may want to remain involved. A CEO is usually embedded in the local community and philanthropic efforts and can continue to play an influential role in these distinctive areas.

☐ *A satisfying change for all.* Prior to a CEO retirement, the outgoing leader and the board are bound to feel anxieties about the transition, especially if a leader has been perceived as successful over a long tenure. Taking purposeful steps in the board-driven search process, and constructively asking for and using the CEO's input, will go a long way toward alleviating concerns and orchestrating a graceful transition. ■

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