Succession in a Time of Crisis

By Donna J. Bear

Selecting and preparing tomorrow's leaders is an initiative that often requires a long timeline. But good succession planning also considers the companys needs within a more immediate window that of crisis response. History shows that it's all too possible for organizations to unexpectedly lose essential personnel to fatal accidents, diseases, scandals, political turmoil, terrorism, or a number of other calamities. Such incidents can call succession plans into play at a moment's notice.

Negative chain of events

Companies that are unprepared for a crisis can suffer a chain of events that have negative implications well beyond the initial event, suggests Helio Fred Garcia, executive director of the Logos Institute for Crisis Management & Executive Leadership, in a recent interview. Ineffective responses to an emergency can have an impact on employees, management, customers, investors, regulators and even competitors. Employees productivity and loyalty tend to decline during times of trauma, and managers often become distracted and unfocused. Customers and investors may shy away, affecting the bottom line. And regulators may involve themselves more closely during a crisis, adding to the disruption of business. In addition, competitors may try to capitalize on a companys troubles by pursuing its most talented employees, its customers and its share of the market, warns Garcia (Garvey, 2006).

Delays are costly

The case for emergency succession preparation is strong. For example, a firm that suffers the sudden loss of a CEO may find itself reeling both emotionally and financially, especially if it is unprepared to name a successor quickly. According to an academic study presented in the *Journal of Managerial Issues*, if a CEO dies, financial performance and equity value decrease when there is a delay in naming a successor and when that successor comes from outside the organization. Bruce K. Behn of the University of Tennessee, David D. Dawley and Richard Riley of West Virginia University, and Ya-wen Yang of the University of Miami researched firms that had experienced the death of a CEO and found that as the number of days until a successor is named increases, future firm net income performance decreases. Those firms that immediately named a successor experienced better performance than those firms that did not, for a period of up to two years. The researchers also found that firms with insider successors outperformed those who chose successors from outside the organization (Behn et al., 2006).

Vacuums created at the midmanagement level, too, are problematic, especially when vacancies last for months at a time. A study from MRINetwork, a search firm, found that HR directors and senior executives in both the U.S. and the UK agreed that vacancies lasting three months or more in middle-management positions negatively affected morale and job performance. These midlevel management jobs are crucial to the firms success and provide an important link between team members and executives. According to William Olson, MRINetworks president and CEO, When that link is interrupted, the repercussions are sudden and far-reaching. Documentation of the three-month time frame should serve as a significant wake-up call to business leaders, said Olson (Pomeroy, 2006).

Averting chaos

Some high-profile examples demonstrate the need for emergency succession plans. When Kelly Services chairman and CEO Terence Adderly suffered a cardiac crisis in February 2006, the firms succession plan allowed it to avert chaos. Carl Camden, executive vice president and COO, stepped up to take on the responsibilities that Adderly had held for nearly two decades. Kelly Services planning helped avoid some of the disturbing fallout that often occurs when a chief executive is suddenly lost management power struggles, stock depreciation and employees who feel directionless. Since predicting catastrophes or the timing of a death or health crisis isnt possible, some experts recommend that organizations groom multiple candidates as potential successors. In 2004, McDonalds CEO Jim Cantalupo succumbed to a sudden heart attack; then his successor, Charlie Bell, died of colon cancer in 2005 (Ruiz, 2006).

>Steps to prepare for crisis

Regardless of whether a long-standing CEO or an emergency replacement is at the helm, how leaders respond to a crisis is a "critical test of their stewardship", according to Garcia. Boards are expecting more transparency in crisis response plans, both because of uneasiness concerning personal liability and for reassurance that the firm is prepared to handle operational glitches. A company can gain a first mover advantage, says Garcia, if it is prepared to act quickly. "If a corporation is able to demonstrate that an operational setback is exactly that, it declines adversaries the opportunity to interpret the crisis as they wish", Garcia explained in the interview.
Following are some of his suggestions on how organizations can prepare for a crisis.

- Define what a crisis is, what the early warnings are and which senior executive is responsible for the preparation and response. Ensure this person has full authority to mobilize resources.
- Test the crisis response plan through activities such as war games, exercises and other ways to practice quick decision-making.
- Stay in control of the crisis response agenda so that "media, adversaries or the rumor mill" doesnt take over the definition of the situation. Develop response tactics and messages that provide stakeholders with what you want them to think, feel, know and do (Garvey, 2006).

A cool response to a crisis situation is difficult enough. If the loss of a CEO is part of that crisis, the challenge is multiplied. Succession planning needs to become part of both a firms talent management initiative and its emergency plan.

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