



HARCOURT BOARDROOM RESOURCES

THE CEO SELECTION PROCESS



Selecting a CEO is one of the most important tasks of a board. As such it must be carried out carefully and professionally.

There will be many variations on the basic process outlined below, depending on the culture of the company and of its board, the maturity of the CEO succession planning process, the situation of the company when the selection is made, etc. But all processes will follow, more or less rigorously, the following steps.

1.

Prior to starting the selection process, a board will generally ensure that it knows the top management of the company, in order to have internal candidates and not only external candidates. This can be achieved, with the support of the existing CEO, by having top management present at board sessions or retreats, or even by having an external firm assess the top management team over a period of a few months before the CEO search process formally starts.

A board will also have decided on whether the search will be conducted with or without the current CEO's knowledge, and the extent to which the board will want him involved. It is not the CEO's job to choose his successor, but a board may find useful to have the current CEO's views at certain stages in the process.

2.

Once these pre-requisites are well in place, the board will decide whether it appoints a special committee of the board to prepare the board's decision, or whether the standing nomination or governance committee does the job.

The committee (either special or standing is often called the "search committee" – or "SC") does not decide for the board, but prepares the final decision of the board. It is for the board to determine the way it wants to be briefed by the SC during the search process, and how many candidates it ideally wants to interview in the final stage.

It should be noted that most potential candidates, particularly external ones, will not want to be part of a CEO search process if their name is given to a large number of people (e.g. a full board), as they have positions in other companies or institutions and will worry about

breaches of confidentiality and leaks. The board and the SC therefore have to be clear about what names are given to the full board and at what stage.

Whilst it is now rare for the chairman to conduct the CEO search process without the support of a committee (either special of standing), the chairman is almost always a member of the search committee and generally chairs it.

The board must also decide whether it will appoint an external search firm to assist in the process, or whether it relies on the individual network of each board member and of the CEO. In recent years – basically since the financial crisis - external firms have increasingly been used. There is little downside in doing so, and actually a lot of benefits.

3.

The first task of the SC is to propose to the board the criteria to be used for the selection of the candidates. This done by asking all the directors what they think the company needs. The questions can be wide-ranging from current situation, to competitors, to strategy, to culture, to challenges ahead, to personality. The interviews of each of the directors can be conducted by the external search firm (to ensure objectivity and confidentiality) or by the chairman or a member of the SC. The various contributions are discussed in the SC, and a list of criteria is drawn from these discussions. The final list of criteria is put to the board for formal approval – generally between 5 to 10.

4.

The universe of potential candidates is then put together, with the assistance of the external firm and/or with the help of individual board members if necessary, out of which a “long list” of potential candidates is extracted. The SC then reviews the “long list” – anywhere between 10 to 40 candidates, as an order of magnitude.

On the basis of the criteria defined by the board in Step 3 above, the “long list” is reduced to a shorter list of, say 10 to 15 potential candidates, internal and external. At this stage nobody has been talked to or interviewed, and not all potential candidates will accept, or be in a position, to become formal candidates.

5.

One of the members of the SC (often the chairman) and/or the external firm then reaches out to the potential candidates to gauge their interest or availability for the job. This stage is very sensitive, as – on the one hand - it has to be kept absolutely confidential, and – on the other hand – the job opportunity has to be described in an attractive way. Generally the person reaching out to the potential candidate knows him or her, which facilitates the discussion.

Potential candidates often ask for some time in order to reflect on the offer, and for a further one-on-one meeting if they are interested.

As the process with people outside the company can take a few weeks, it is generally only after the list of external candidates is determined that calls are made to internal potential candidates. Their interest for the job is assumed to be there, and has in any event been assessed if the board got to know the top management of the company, as suggested in Step 1.

6.

Those potential candidates who accept to become candidates constitute the “short-list”. The SC interviews these candidates. The interviews follow the same pattern and are conducted over a relatively short period of time of a few days to a small number of weeks.

The objective of the SC, depending on its terms of reference defined at the beginning of the process, is to select one to – optimally – three candidates to be presented for interviews with the full board. Not all candidates accept that type of procedure, and the process should be discussed clearly at the outset of the engagement with them, in order to avoid bad surprises and setbacks.

7.

The final stage in the CEO selection process is the interview of the “final list” of candidates by the full board, and the board’s final decision. This generally takes place in two steps.

First, the board decides on its preferred candidate, but withholds its formal decision (for listed companies, such a decision would have to be announced shortly after it is made).

Second, the board hears the result of an “integrity report”. It is now common practice to initiate such a report on either the final candidates, or only on the candidate that the board prefers after the interviews. It is conducted by an external firm and/or by Internal Audit. The results are presented to the full board, and the final decision is formally made and announced shortly thereafter.

8.

In the best situations, a transition phase has been agreed with the current CEO. Generally the hand-over of responsibilities is quick.

9.

A few final observations on the CEO search process, as described above.

- A well prepared and managed process can take approximately three to four months. But there can be many delays along the way, from the time potential candidates need to think about the opportunity, to simply coordinating the agendas of all involved.
- Confidentiality at all stage of the process is paramount. As a result, what the full board gets to know about the details of the process is a sensitive issue with many external and internal potential candidates.
- There is no need for the CEO in place to play a role in this process, but the chairman and/or the SC generally ensures that he or she gets to contribute views a various stages of the process.
- As indicated at the beginning of this paper, most search processes follow this pattern, but certain steps are collapsed into others, or skipped in their entirety.

Summary:

Step 1: Board gets to know top management and decides on role of existing CEO

Step 2: Search committee is selected, and decision is made on assistance from external firm. Terms of reference of SC defined

Step 3: Selection criteria defined

Step 4: "Long-list" selected

Step 5: "Short-list" selected

Step 6: "Short-list" is interviewed by SC. "Final list" is selected

Step 7: Board interviews "final list", makes final decision after hearing "integrity report", and announces decision