Abdicate from the CEO position

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- 25th August 2016

Resigning from the CEO role is a vital decision when you are the principal owner of the company. You must accept the handover to an outsider of not only the control of the business but also your life's creation and the management of the family fortune. I have, for example, met family business owners, and entrepreneurs, who had their entire lifelong savings in only one share, i.e., in the stock of their company.

To step down from the top position of a business is complicated and will need time for those concerned to process, accept, and enforce. A prerequisite for the successful exchange of the CEO is the understanding, trust, and respect from all parties involved. All shareholders, the board of directors and the top tier management need to be aligned. It is even more challenging when the resigning CEO also is a principal owner and perhaps the founder of the company. It requires rigorous mental, emotional, and practical preparations that take time. It is a life-changing decision, and it's hard to see all the future implications fully. One of the most important matters is finding out what to do next.

In this blog post, I will focus on a CEO replacement with an externally recruited new CEO. I will not explicitly address the opportunities and challenges of a CEO replacement through an internal promotion or a generation shift (i.e. when someone in the family assumes the CEO role). However, there are obviously many general similarities between the two situations.

A challenging task

The successful replacement of the CEO in an owner-led company is, unfortunately, as common as a failure. The successful external recruitment of a CEO will, for example, bring in new ideas, a new way of thinking, and a refreshed management style. A new CEO is expected to revamp the business plan and bring the business to a new strategic level that results in the increased value of the company. On the contrary, an unsuccessful change of the CEO will lead to a severe negative impact on the entire business, the organization, growth rate, and shareholder value. A failed recruitment will for sure give the main shareholders and the board of directors a major problem to address.

In my previous blog post, "Replace the CEO of an owner-led Company," I shared five (5) CEO replacements in privately owned companies with the fallout that three out of five failed. I concluded that the significant difference between the two successful and the three failed cases was that the in successful cases, the new CEO had been recruited internally.

In hindsight, the three cases failed because the board of directors had been too rash.
When the principal owner resigned from the CEO position, they had not fully understood the consequences. Indeed, the preparation time was too short.

Start preparations early

You should start preparations with a sufficient time frame. If you are the primary owner of a company and are a resigning CEO, you should work with the major shareholders and the board of directors to prepare your resignation in good time — preferably 2 to 3 years — prior to stepping down.

When you are assessing your understanding of personal and practical consequences, it is good advice to talk to people you know who already have made the change. This way, you can learn from their experiences.

In the five companies in my example we started preparations 9-12 months before the replacement of the CEO should take place. This was obviously too short; we should have doubled the time frame for proportions.

Why change?

The first question to answer is why a replacement of the CEO would be beneficial for the business:

- Is it because of strategic reasons?
- Will the value of the company increase if it becomes independent of the principal owner?
- Is there an external pressure from your family or other stakeholders?
- Have you lost your sparkle and strength?
- Or is it for reasons of age?

In the five cases I shared in my previous blog post, a replacement was the next logical step in the strategic development of the business. One the objectives was also to make the company independent of the principal owner (and founder) in preparations for the sale of the company (an exit).

When?

When you have the answer to the “why” question, the next step is to determine when a replacement should or has to be carried out. The length of time you have available will affect how much preparation you can do.

What should you as the resigning CEO expect from the new CEO?

A key topic is, of course, to determine what to expect from a new CEO. To formulate your vision in writing is a useful exercise to structure your thoughts, and you need an updated business plan to communicate your mission, vision, and strategic plans. Among other things, you have to give your view on the growth of the business, products to be offered, which markets to serve, the business model, the route to growth, potential acquisitions, and what organization it takes to deliver the plan.

However, don’t be too detailed since you expect that the new CEO (after a certain time) to give his/her view on the company’s opportunities and challenges and how to grow the business.

Use the board of directors

When building your view of the company’s future, do not hesitate to use selected members of your board to get input and advice (external members of the board may be particularly helpful). It may also be necessary to get advice from a business consultant, and it may be well worth the cost to get an independent outside view.

In the five companies in my example, a business plan was already in place prior to the CEO’s recruitment, and the expectations on the new CEO were well defined. Still, the shareholders and the board expected the new CEO to revise and update the plan. It has to be his, or her, business plan to enforce and to feel responsible for the execution.

Owner's directive

If there are several principal owners in the company, you will need a documented shareholder's directive to guide the board of directors. The directive should, in essence, explain the shareholder's view of the business and the reason you are a shareholder and investor in the company. For example, it makes a huge difference if the shareholding in a company is considered an infinite holding in a livelihood company versus a business that should be dressed up for a sale.

External board members

If the company does not already have external, independent board members, there is a great opportunity, during the preparatory phase, to expand the board and recruit external members. My recommendation is to assign at least two external, non-executive directors and appoint one of them to chair the board. There is, of course, a cost to the company to bring in and pay external board members, but they will add substantial value when sharing their knowledge, experience, and large network of influential people.

If you have the role of CEO and chairperson, a good first step to begin to let go of control is to step down from the chairman position and appoint an externally recruited chairperson. But, for this to work, you must, of course, find the right person with the right skills, experience, and values. My view is that it is of particular importance that the new chairperson has experience with owner-led companies. Do not hurry. Give the process of finding the right person enough time and get to know each other prior to an appointment. You are going to share the company's opportunities, challenges, and ups and downs for a number of years.

Down the road, it is the chairman's responsibility to start, manage, and finalize the process to find a new CEO. The chairman needs to have enough time to allocate to the company and to lead the board. He or she will also become the new CEO's boss and therefore needs to have time available in the calendar and to be capable of and guiding the incoming CEO.