“The Plan’s the Thing...”

For Clendenin, succession planning is job No. 1, and getting boards to buy into a plan is his top priority.
John Clendenin has succession plans on his mind. An experienced director with years of boardroom service, Clendenin is on his third CEO at The Kroger Company. He is on his fourth at Coca-Cola Enterprises — the big bottler, not Coca-Cola Company, the soft drink company that has become the poster child for bad succession planning.

He is in his third at Acuity Brands, his second at Home Depot, and as chair of the governance committee at Equifax, he is embarking on the search for his fourth.

And that is only a partial list.

"I've been involved in so many companies that the minute I arrive on the board of directors I start pressing them for what happens if the CEO gets hit by a bus," says Clendenin, the former chairman and CEO of BellSouth Corp.

"John stresses that directors have a responsibility to be prepared for any eventuality," says Louis Sullivan, fellow Equifax director and former U.S. secretary of health and human services. "Sometimes this can be quite tricky." Human nature being what it is, not all CEOs want the board to focus so consistently on their replacement. Clendenin has made a difference by always keeping it on the table.

For example, he began pressing the Equifax board to plan for the company's future leadership long before CEO Thomas Chapman, 61, publicly announced his plan to retire late next year, reports Sullivan. This meant regular reviews of senior executives in the pipeline. "If you have an organizational structure that includes a second in command, it's logical to assume that the second in command is being groomed to take over those responsibilities," says Clendenin. "But it's just as important to recognize and plan for when potential leaders aren't developing as the board expected them to."

Events at Equifax illustrate the wisdom of Clendenin's words. The succession plan calls for Chapman to stay on until the board finds an experienced outsider to replace him, and then to stay on for a year as chairman to ensure a smooth transition. But recruiting from outside wasn't always the plan. The board had pegged a couple of executives as potential chief executives, and for a short time, Equifax did have a second in command. But 17 months after creating the post, the board eliminated the No. two spot in a reorganization of the credit reporting company into six separate businesses.

"Having a director who can have these discussions go forward and have it not be disruptive to the ongoing business is quite an art. I'm on several boards, and in my experience, John has done this better than anyone," Sullivan sums up.

Clendenin brings his insight into the succession process from his own years as a CEO at BellSouth — the telecommunications giant he led after the 1984 breakup of AT&T. When he stepped down in 1997, he passed the reins to his handpicked successor, Duane Ackerman. But the seeds for his succession were planted much earlier. In an article published two and a half years before his retirement, here's what Clendenin had to say: "My ultimate responsibility, the most important thing I can do, is to vest this company with several layers of very capable managers, and the minute they are ready to take over, I'm out of here."

Six months later, Ackerman was named vice chairman and chief operating officer, a position he would hold until he replaced Clendenin.

"I think it's a fundamental responsibility of the board to continue to plan for succession at all levels, not just the CEO job," says Clendenin, noting that some divisions are multibillion-dollar companies on their own. "We have a lot of division-level leadership that needs to be replaced if something happens, and you've got to go through a process in all of these levels of identifying who's going to take the reins in that particular division as well."

This philosophy is evident in the CEO succession at Kroger, the retail grocery chain. The board pursued a deliberate process that resulted in the June 2003 election of David Dillon as the new CEO. Clendenin headed the corporate governance committee, so "implementation of the succession planning process really fell into John's hands," says former CEO Joseph Pichler.

When Pichler told the Kroger board five years ago that he wanted to retire before he turned 65, it had already been grooming internal candidates for several years. Dillon had already been named president and chief operating officer in 1995, and he, along with a promising team of executives, led the development of a strategic growth plan announced in December 2001. The board, meanwhile, identified developmental activities that would help potential successors grow into the job. Two years prior to Pichler's retirement date the board began conducting more detailed reviews of how those executives performed and what might help them develop further. Each committee had a contact in senior management — other than Pichler. This gave directors an opportunity to get to know a wider circle of potential officers. And throughout most of this process, the board kept open the possibility of recruiting the next CEO from outside the company.

When it comes to evaluating candidates to lead a company, Clendenin cuts quickly to each person's strengths and weaknesses, says Ken Langone, co-founder and lead director of Home Depot, which went through a contentious succession of
its own. After Home Depot's astounding growth stalled in 2000, the board replaced CEO Arthur Blank, one of the original founders, with Robert Nardelli, a longtime GE executive who had just lost the succession race for Jack Welch's job. "John certainly had strong points of view on everyone we talked to, and whether or not everyone had that point of view didn't matter," Langone says. "He is willing to have an open mind, but you don't have to worry about John straddling the fence on an issue."

Even under intense pressure, Clendenin won't compromise diligence for speed. Just weeks before the planned spin-off of Acuity Brands from its storied parent, National Service Industries, Robert Jepson — the turnaround expert tapped months earlier to lead National Service — backed out of the job. Jim Balloun, chairman and CEO of National Service, was slated to take over the nascent lighting and chemicals company, with Brock Hattox as his CFO. When Balloun recommended Hattox take Jepson's place, Clendenin balked. "John was initially skeptical of my thought about where we ought to go with the leadership," says Balloun, who recently retired as Acuity's chairman and CEO. "He pointed out possible flaws in my thinking and the unanswered questions, and then he and I and other board members designed a way to get at those issues." Clendenin spent two hours interviewing Hattox, probing at the issues that concerned him, before backing him for CEO.

Colleagues are quick to say, however, that Clendenin's contributions to corporate boards go beyond just succession planning. "At any given time there are a thousand issues facing a company," Balloun says. "John has great judgment, and he will raise the visibility and urgency of the handful of issues that are truly important but may not be getting the proper emphasis they should."

It might be succession at one company, audit issues at another and environmental compliance at a third.

As chairman of the audit committees at Home Depot and Acuity Brands, for example, Clendenin pressed to beef up the quality and resources devoted to the internal audit functions. At Home Depot, "there was little to change in the audit committee to conform to Sarbanes-Oxley," says committee member Bonnie Hill, president of the consulting firm B. Hill Enterprises. "We were five years ahead of the pack."

Clendenin's board portfolio of six companies can rattle governance purists. But the people who serve with him disagree, saying he rarely misses meetings and is always extraordinarily well prepared. "John is always in the game," Pichler says.

The criticism irks Clendenin, especially since some boards have lifted their mandatory retirement ages to keep him. "I don't think they would do that if I were shirking my responsibility," he says. "I've approached this as my job, and if I reach a stage where I'm not doing my job, I'm not going to stay on."

Because of Clendenin's broad background, intelligence and reputation for integrity, when he raises a red flag, people listen.

"He's not a bomb thrower and he doesn't speak for effect or make a big show of himself," Balloun says. "He will independently raise issues to a higher level and points out the flaws in arguments, but he's also extremely loyal and supportive. That's a priceless combination."