8

CHIEF EXECUTIVE SUCCESSION PLANNING

Kit Bingham

Choosing the chief executive is arguably the most important task facing any board of directors. It follows that planning for the moment when one chief executive hands over to their successor is equally critical. A smooth and seamless succession process allows an organisation either to continue executing its strategy without unnecessary distraction or to send a decisive signal that change is underway.

Conversely, a muddled or mishandled succession can undermine the organisation's leadership, rupture key relationships, prompt unhelpful politicking and gossip, and deflect management from other core priorities. So how can boards be sure they get it right?

This chapter seeks to provide a short list of questions that any board should ask themselves as they tackle one of their central responsibilities of hiring the right CEO.

Internal or external?

Question one for any board considering chief executive succession is both straightforward and momentous: do we make an internal promotion or look outside?

In a perfect world, a chief executive hands over to a knowledgeable and trusted lieutenant who has been developed for the role over several years. But business life is seldom perfect, and not every board will have a bench of ready-and-waiting chief executive candidates at hand. The decision to look externally should not be determined solely by whether there is a credible internal successor, however. It is more important to ask what the organisation needs from its next chief executive.

Boards should ask themselves:

- What is our vision for the business? What are our strategic goals, and what skills do we need to deliver them?
- What are the principal business challenges we will face over the short and medium term (for example, managing growth and achieving scale, cutting costs, conducting M&A, engaging in internationalisation, commercialising a new technology, dealing with culture change, and so on)?
- Does our leadership team have the experience to enable them to meet and overcome those challenges?
- What values do we wish to represent as a business, and what kind of character and personality is required to take the business forward?

Much will be determined by the state of the business. A well-performing organisation facing relatively “steady state” markets may be better placed to appoint an internal successor. But if “change” is the organisation’s priority, then staff, shareholders, and other stakeholders will be reassured by the appointment of a chief executive from outside.

How do we evaluate the pool of external candidates without destabilising the incumbent chief executive?

Before pulling the trigger on a change of chief executive, boards may wish to establish the breadth and depth of the external candidate pool.

This must be done carefully as any leaks will only undermine the incumbent chief executive. Executive search and recruitment firms can be useful in delivering a “mapping project,” namely a desk-based research exercise that provides a broad overview of potential candidates, their track record and notable achievements, informal references, and intelligence about a candidate’s willingness to move.

Conducting this type of research professionally ensures that no hares are set running inappropriately, and it reduces the risks of leaks or unhelpful chatter. A map of potential external candidates should be an ongoing “living” document, maintained and updated over months or even years as part of a long-term succession plan.

When do we start?

As James Bond says about a game of golf: “It’s never too early to start winning.” A thought-through succession plan may evolve over several years; indeed, many chairmen say it begins on the first day of a new chief executive’s tenure. A chairman should tell an incoming chief executive that one measure of the success of her tenure will be whether, when she leaves, there is at least one (or preferably more) credible internal successor(s). The same discipline should be applied to annual appraisals. Done well, chief executive succession is a “painting the Forth Bridge” exercise that never really stops.

Do we involve the chief executive?

Yes, but this requires a mixture of tact and toughness from the chairman and the board. A confident chief executive will recognise that succession planning is one of their key responsibilities, and a topic that requires their engagement and input.

More insecure types may fear that any talk of chief executive succession undermines their own position and hastens the day of their departure. This is a further reason why succession planning should be a continuous conversation. If succession is a regular topic for review, then the discussion can occur without heat. Conversely, if chief executive succession is seldom or never discussed, and is then suddenly tabled for debate, even the most self-assured business leader may hazard a guess that the countdown clock on

their tenure has just been started. Over-communication of the plan to the chief executive and the cadre of potential successors is vital.

Chairmen should engage in a robust and frank discussion with the chief executive about their strengths and weaknesses, and what the company may require in future. The questions outlined above about strategic direction, the pace of expected change, and the skills needed at the head of the company in the future should be central to this discussion. The incumbent chief executive is arguably better placed than anyone to advise on the strengths and weaknesses of her top team and should be a vital source of intelligence on who is best placed to step up to the top job.

Equally, incumbent chief executives will have a desire to shape their own succession. No leader wishes to see their work undone or undermined by their successor, and it is only human to wish to be followed by an individual who commits to the strategy they have inherited. A wise board will have the common sense to distinguish between the unique insights that an incumbent chief executive can provide versus a natural instinct to shape their own legacy.

How do we ensure we have a strong internal contender?

Large organisations may have a greater range of internal candidates. In a multinational group, it can be easier to retain future chief executives by giving them a substantial division or business unit to run. Smaller companies may find that high-calibre individuals are unwilling to wait for the top job and are therefore more easily poached. Boards should ensure that potential internal candidates are allowed the necessary development to prepare them as much as possible for the top job. One concrete step is to invite that individual on to the board as an executive director. The advantages are clear: it gives an individual access to all aspects of the business, not just their own patch, and immerses them in the realities of working with and through a board. The disadvantages are equally obvious: the modern preference is for smaller boards with fewer executive directors. There may be several internal candidates, and a chairman must either have all of them or create division by selecting only one or two.

Finally, it is not a step that is easily reversed; if an internal candidate does not make the grade as a potential chief executive, then perhaps they are not worth their board seat. Potential future chief executives can have their horizons and abilities stretched in other ways. Regular exposure to the board, by making presentations or attending board dinners, is essential. A formalised one-to-one mentoring relationship with an existing non-executive director can also be useful, as can supporting them to take an external non-executive position. Aspiring chief executives can be given a project outside their normal executive responsibilities, such as leading the integration of an acquisition, overseeing an IT overhaul, or leading entry into a new market.

Internal contenders should also be exposed (if they are not already) to external stakeholders, particularly investors and financial analysts. Giving them a prominent role in an annual general meeting or capital markets day is a good option. In conversations with chief executives, many say the aspect of the top job that most surprised them, was the amount of time spent engaging with investor audiences. Familiarisation with this part of the job is one element in maximising the chances of a new chief executive being successful in the role.

To what extent should we rely on psychometric assessment?

A board may feel it has a good grasp of a candidate's past performance, backed up through interviews, reference taking, and so on. But assessing an individual's leadership "agility," their ability to adapt to new challenges and apply past skills to new problems, is less easily discerned through conventional methods.

This is where targeted psychometrics and assessments should be deployed. These evaluate not only a candidate's past performance but can empirically test their potential to adapt to new situations. This is vital where boards are considering candidates who are stepping up to a bigger role with challenges where they have not been previously tried or tested; or transferring sectors or firms where there are different operating models, stakeholders, or cultural expectations.

If we don't appoint our internal candidate, how can we retain them?

It may not be possible (or even desirable) to retain an unsuccessful internal contender for chief executive. And a board should probably work on the assumption that an unsuccessful internal candidate for chief executive will probably leave to fulfil their ambition elsewhere.

However, a well-planned and executed succession can maximise the chances of retaining valued talent, and also provides room for contingency planning, should internal candidates choose to leave.

People are more likely to stay in an organisation that has offered them opportunities for development, given them every chance to succeed, and made their final judgement based on thorough analysis. A rushed or knee-jerk appointment is a sure means of telling an unsuccessful candidate that they are not valued.

What happens when my succession plan falls apart?

A board of directors can put in place the most seamless and well thought-through succession plan. Sadly, real life intervenes. In the words of Mike Tyson: "Everyone's got a plan until they get punched in the face."

In the somewhat more prosaic phrase of one chairman: "Succession planning only works when you know when someone's going to leave. Everything else is contingency planning." Any good succession plan involves the nomination committee (or similar) regularly asking itself this question: if we needed a new chief executive tomorrow, what would we do? In many cases, the chairman will step in as an interim chief executive or executive chairman, and a wise board will ensure that the chairman has the time and capacity to do so.

The likely requirement to respond to the unexpected underscores the need to have a permanently "live" succession plan, involving both internal and external candidates. At any given point, the board should have a clear view of the strength of internal candidates and their stage of development. And a board that has maintained a regularly updated mapping project will have a sense of how internal candidates stack up against those who may be available externally.