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MAKING
SUCCESSION WORK

*a guide for companies
and individuals*

Manchester Square Partners

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We act as a sounding board, primarily to CEOs and Executive Directors, working with our clients in making good decisions about their business, which consequently protects and enhances their reputations as leaders.

Alongside this, we offer advice and help to Chief Executives, Board and Executive team members and Partners of professional services firms on their career management - often at critical junctures.

We are leaders in gender diversity, and more than 30% of our clients are senior women.

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Our work is tailored to each client and our advice is wholly independent. We are pragmatic and practical in everything that we do.

Introduction

Why is it so hard to plan successfully for executive succession?

The question of how to plan succession well is a frequently trodden path in academic, professional and governance circles, with good advice and checklists for how to run a process. However, achieving a good outcome is all too often an elusive goal; success is not guaranteed even where good process, planning and judgment are present.

We set out to investigate, posing to more than thirty contributors the simple question "Why is it so difficult to make succession work?" The contributors were mostly Chairmen, but there was also a range of other key participants who shared their perspectives: CEOs, Senior Independent Directors, Non-Executive Directors, HR Directors, Company Secretaries and Headhunters.

There is, of course, no silver bullet – planning and managing succession well is tough and will remain so. The stakes are high, financially and reputationally, and there are many factors required to succeed that cannot be controlled or even anticipated.

We have uncovered a range of insights around mitigating the problems that can derail an otherwise good outcome. These include:

- recognising the value of good process in generating discussion and debate;
- dealing with untimely external pressure from shareholders;
- helping CEOs to come to terms with their own mortality in role; and
- handling the internal candidates that 'fail'.

It is also clear that a major challenge for Boards may be to embrace change early and proactively. This is not surprising because Boards tend to be conservative. Throw into this mix the fact that much of top-level succession is played out publicly, and the result is that Boards have a rich cocktail of issues to manage. All in all, it takes high levels of experience, resilience and maturity, combined with a little luck, to sail smoothly through the choppy seas of succession.

Our research focuses on succession for the CEO role, but many of the observations could be applied, to a greater or lesser degree, to other roles of the Board and Executive Committee. The report also concentrates on succession in publicly listed companies. However, many of the insights could also apply to succession at private companies, government bodies, charities and not-for-profit organisations, where the issues are often equally challenging.

Dealing with the unexpected will always be one of the challenges. When we started this research in 2016, the UK was a fully committed member of the European Union and David Cameron was Prime Minister – a clear example, if ever there were one, of how circumstances can shift and the timing of leadership change can deviate from the plan in a remarkably short space of time. It is impossible to control the uncontrollable. Nevertheless, we hope that the insights are sufficiently persuasive to convince readers that there is value in our observations around how to navigate succession.

We would like to thank all of the contributors for their time and valuable insights.

Cathy Turner and Adam Middleton

Executive Summary

These ten points, posed as a series of questions, encapsulate the issues which contributors judged of great importance when considering how to make succession management as effective as possible.

1. The Chairman's role is evolving

   Is the Chairman using their emotional intelligence as much as their analytical intelligence? And, helping to avoid creating too many walking wounded? Are the Nominations Committee and Senior Independent Director supporting and advising the Chairman effectively?

2. Boards are naturally conservative

   Is the Board letting the CEO stay for too long, because it is afraid of departing from the status quo? Should the Board consider, at the outset, how long it thinks a new CEO should stay?

3. The profile of a CEO is changing

   Has the Board taken account of the fact that the requirements for a CEO may be changing, towards a lower-profile public servant model? Has it considered the potential benefits and pitfalls of appointing a first-timer?

4. The Chairman/CEO relationship is complex

   Is the relationship between our Chairman and our CEO healthy? Are they too close to each other?

5. CEOs rarely want to consider their mortality

   Should we prepare our CEO for their departure by raising the subject of their succession? If so, when? Have we considered the right incentives to make CEOs contribute helpfully to their own succession?

6. The dynamics around people are unpredictable

Have we considered the personality of our CEO, when considering how to manage their succession? If we have an obvious internal successor, are we preparing them for their future role as well as possible?

7. Great support can make all the difference

Are the HR Director, Company Secretary and Nominations Committee good enough to support the Board in succession management? Does the board have strong external advisors to aid the succession to a new CEO?

8. Excellent processes do not guarantee success – but process is important

Does the Board have the right processes in place for succession planning, while being aware that events may force an abrupt change in process? Does the Board realise the value of having discussion and debate early?

9. Good succession planning creates losers

Are we prepared for the damage, when all the internal candidates who did not get the top job are left disappointed and restless? Can we limit the damage by coaching the unsuccessful internal candidates, hoping that they stay, or to help them leave appropriately?

10. Culture is complex

Are we ready to assess whether every candidate fits with corporate values and culture? Do we have the capability to judge what each candidate's true values and priorities are? Does this include the right external support to help us do this?

Our Findings

Whilst succession is unique to the organization concerned, the individuals involved and the specific business environment, there is general agreement about the most challenging issues. Being aware of the potential pitfalls, and giving early thought to how they might be facilitated, will not guarantee success; but it can mitigate some of the risks.

Many contributors testified to the complications of managing all stakeholders effectively given the sensitivities and emotion involved in succession planning. It requires sophisticated tactics and communication skills to navigate each step successfully.

The remainder of this report provides detailed thoughts on the ten most pertinent observations distilled from our discussions. They broadly address the:

- implications for the Chairman;
- challenges for incumbent CEOs;
- opportunities and limitations of process; and
- increasingly important issue of dealing with cultural change.

1. The Chairman's role is evolving

The Chairman's role is developing significantly, and succession planning is an area where this change is keenly felt. We were given numerous examples of the different ways in which the chairman has to be the 'Great Communicator'.

It is, however, extremely difficult to get this right. Moreover, the skills involved can be quite different from those which Chairmen need in many other more technical aspects of their role. Good succession is as much about EQ than IQ. "Succession planning is a combination of art and science". When rejecting both internal and external candidates, "it needs EQ management by the Chairmen and sophisticated communication to get the best chance of not having too many walking wounded".

We were wisely advised that it is "not the recruitment aspect of succession that is hard – that requires a big judgement call. It is managing the departure of the incumbent that is hard". What is clear is that to be effective, a Chairman needs to spend considerable time, probably a lot more time than expected, anticipating and facilitating the negative aspects of succession.

The Chairman can be quite isolated, as well as exposed, given their close relationship with the current CEO. The Nominations Committee and Senior Independent Director can provide significant support and sound advice, and the Chairman should not be afraid to seek their input.

Counterintuitively, some Chairmen are surprised at how infrequently they are questioned about succession. "Stakeholders, like shareholders and regulators, ought to be more curious about CEO succession than they typically are".

2. Boards are naturally conservative

All too rarely are companies seen to be acting or thinking radically: Boards are often inherently conservative. This generates a huge bias towards maintaining the status quo - particularly if matters are going well. However, this can lead to poor decisions in succession planning, because it can often mean that CEOs stay too long.

CEOs may outlive their useful corporate life precisely because they are good. “If an organization is doing well the CEO is often kept on too long as it is hard for CEOs to go when all is good”. Making the judgement call on timing is harder when all is going well. “When you have a failed CEO it’s easier because it is clear that change is required. When you have a functioning CEO it gets left too long”.

If a CEO is good, surely they remain good? Not so – several contributors pointed to the natural life cycle of CEOs, which tends to make them less effective after a while. We explored how long a CEO should be in place. “It’s hard to be prescriptive, but the CEO should constantly challenge the business and not accept the status quo”. One describes the “critical criterion” for judging whether the CEO should still be around as “their ability to keep transforming”. At some point, naturally, the CEO will start accepting the status quo, largely because having stayed so long as CEO, they have created it.

One Chairman put it neatly: “As a rule a CEO needs at least five years, and most cannot transform their own approach after 10 years. You do get the odd Maoist type who can, but that’s rare”.

One possible solution to this issue is fixed-term contracts. Most suggested that about seven years, give or take a year or two, is optimum. Other views were less rigid – warning against excessive CEO tenure, but without wishing to set a number in stone.

3. The profile of a CEO is changing

Boards' ability to pick the right CEO is all the harder because they are in a dynamic situation: the required skill set for CEOs is changing, as companies' priorities and the landscape in which they operate both alter. One contributor referred to the need for Executive Directors to have more of "a public servant attitude". This suggests a lower-risk and lower-profile style, very different from the conventional expectation of the CEO as a high-performance hero. Boards have seen far too many examples of heroes whose reputations have been ruined after making decisions that destroy value.

The complexity of the modern CEO role, coupled with its inherent stresses, makes it difficult for a first-time CEO candidate to have proven experience in all aspects of the position. For this reason, a first-time appointment will always be highly risky for both the individual and the organisation. "The final jump from Divisional CEO to Group CEO is a very big one".

Several respondents say they carefully observe how the incumbent CEO manages succession, including how they respond emotionally. This is because it tells you much about the emotional maturity of the CEO; it is also a good indicator of their overall capability.

Society as a whole, including shareholders, also has different priorities that have to be considered in succession planning. The Board needs to have "more of a feel for the public mood". There is now greater focus than before on Director pay, which is, by definition, part of the negotiation for all incoming CEOs. "Pay needs to be tempered. Comparisons showing high multiples relative to the pay of the rest of the population are not going away". Comparison is becoming higher-profile, with the rise of research by groups such as the High Pay Centre, coupled with pressure from politicians of all persuasions.

4. The Chairman/CEO relationship is complex

The relationship between the Chairman and the CEO is as complex as those between the central characters of the world's great literature. This arises partly out of an inherent tension in the relationship: the Chairman has to be as supportive of the CEO as they can. However, they must also be prepared to change the CEO if that is in the best interests of the company. When one adds to this relationship the other Board members and their individual views on CEO performance, there is the potential for pressure to build around the Board table – "Dissatisfaction with either the Chair or CEO creeps up on Boards. You can see it in behaviours: they become niggly".

Contributors were more likely to observe that Chairmen were sometimes too nice to the CEO rather than to deem them too harsh. "Perhaps the Chairman sometimes thinks 'this is my CEO'", says one. "Is there a feeling of wanting to protect them? Chairmen can be too nice". That said, the interplay between the two can sometimes be downright unpleasant "The relationship between the Chair and CEO is usually very good and amicable, or not amicable. It is rarely in between".

This circle can be squared, perhaps, by backing the CEO to the hilt in public, while recording a continuously open verdict in one's own mind, or among a small cadre of people, about whether they are still the right person. That said, "You cannot have continuous discussion at the Board level about the CEO" "You support the CEO until you fire them" – although it can be useful to "talk about one's concerns with the Senior Independent Director in private".

Chairmen are on trial almost as much as the CEO these days. Their tenure is unlikely to span more than two CEOs. They have a vested interest in finding their winner CEO and backing him/her through thick and thin. The absolute judgement on CEO capability is often an extremely tough call. Without doubt though, a modern Chairman needs a high level of both IQ and EQ to operate with the level of sophistication expected by shareholders, candidates, the media, politicians and the general public.

5. CEOs rarely want to consider their mortality

It is hard for many CEOs to confront, let alone embrace, the concept of natural tenure: the idea that after a particular length of time has elapsed, they should think about leaving.

This is partly because of their rather peculiar career path. "Part of the difficulty is that a CEO is rarely going to get another CEO role, so they are contemplating life on the golf course or a plural existence". The data backs this perspective; it is quite unusual for an executive to be CEO of two different companies (particularly for listed companies).

However, contributors were split over the issue of preparing the CEO for their departure by raising the subject of their succession – a sign of just how difficult the judgement can be. "The Chair should speak to the CEO on day one. Usually, when you have an open discussion the CEO will say when they want to go". Some warned against doing it too soon. Another acknowledged how finely balanced the question was: "The subject of when to speak to a CEO about succession needs careful consideration. It might not be right to do so early on, as CEOs are fragile at this stage and you don't want to make them insecure".

That said, Chairmen do need to raise the subject of succession with the CEO, and to find a way of doing so that does not make the CEO "paranoid". "The Chairman should start succession planning with the CEO within a year. They can talk about emergency cover, start medium-term planning and get a regular rhythm to discussions".

CEOs' helpful contribution to the process of their own succession can be reinforced through incentive structures and their own performance management. One Chairman makes CEO succession part of the incumbent's key performance indicators. Equally important, however, there must be protection against the risk that an existing CEO will often look to recruit in their own image. Beware, in particular, of 'command and control' CEOs; the consensus is that they are rarely good at their own succession.

It is becoming common practice for succession to be an ongoing topic for the Chairman and the wider Board as a consequence of the requirement to comply with good corporate governance practice. This is an example of where the compulsion of compliance adds value and is lifting standards at the systemic level.

6. The dynamics around people are unpredictable

Synchronizing the process of succession management with the people involved is hard and unpredictable. Even if the organisation appears to have judged the timing right and followed a pre-defined process perfectly, circumstances can change so rapidly that processes and plans must constantly be adapted. “It’s important to have a plan, but you cannot mitigate the effect of all sorts of events that happen and mess up the plan”.

The unpredictability of reconciling processes and people arises partly because no other aspect of business is as intense and personal as the drama of winning, failing to win or losing the top job. “You see the best and the worst of people through these processes”.

Ultimately, boards have to use their collective judgement to decide the right approach for the different personalities involved. “Judgement is important: there is no one size that fits all. Characters, business context, Board dynamics, external stakeholders, all differ by situation. I had one case where the CEO did not want to go, so the Board did it all in one day because they judged that it would be disruptive if the CEO stayed around once told”.

It is also a challenge to get the timing just right, particularly for the development of internal candidates. Such development is rarely synchronized with the timeline for the incumbent CEO. As one so aptly commented, “It is a serious business. The baby is never born easily. It is a tough labour every time”.

In the rare instance where there is an obvious internal successor it can be beneficial to promote that individual into a Deputy or President role or perhaps even onto the Board, to accelerate their development. Such moves and the associated signaling can also be helpful to the organisation in transitioning to a new appointment.

7. Great support can make all the difference

Boards need the help of high-quality advisors both internally and externally, to give themselves the best chance of selecting a good CEO and to understand the new challenges facing the business.

Chairmen would love, in the ideal world, to have a good HR Director, to help with the process of succession planning for both internal and external candidates. "When it comes to evaluating people, a high-calibre HR Director can manage the internal tensions brilliantly and keep a CEO in the real world".

They also value good Company Secretaries. "A secretary should have a strong sense of when to speak and when not to". They should be "a good reader of people". Finally, they should also "know the technical detail – but that is second order (and a given) in adding value to this type of debate".

Another important body in the process is the Nominations Committee. "NomCos should address succession planning for the CEO at least once a year, and probably more often", says one Chairman – establishing a regularity that both ensures good planning and desensitizes the CEO's paranoia that they are to be replaced imminently.

However, these sources of internal support are often found wanting. "Company Secretary capability is pretty variable in general. The technicians are rarely able to jump up to Board level". Similar comments were also made regarding the calibre of HR advice on succession.

The executive search partner is a critical external party, not only in bringing their technical expertise but also in managing the company's brand with an incoming CEO and, just as critically, with the other candidates within the process. It was broadly agreed that search should be separated from assessment and that the latter should be conducted by an independent specialist.

8. Excellent processes do not guarantee success

Even if the Board follows the processes of succession planning extremely carefully and wisely, it can still all go wrong. “The process is straightforward; it is the execution that is hard”. Indeed, the dynamic nature of corporates and the continuously changing environment means that the landscape is never stable for long. “What are the chances that you can predict what the organization is going to require two years in advance?”

One observed that despite the increased focus there is still not sufficient planning. “The harder the task, the more planning should be done. Succession is very hard”.

However, many believe that the inherent difficulties of a process should not stop Boards from being enthusiastic and determined about it – it is valuable and beneficial. “Defining and doing process forces conversation and reflection”. “You can consider what you need in the next CEO, the way the industry is developing, the culture the company needs, and so on. Making enough time to do this helps”.

Another makes a similar point: “Process is important. The non-executive director’s role is about judgement, and process enables this. A process weakness is that not enough is done in the early days on the elements of ‘good process’”.

One contributor sets out the value of process persuasively, while at the same time acknowledging its limitations: “A problem with succession planning is that people expect too much from the process. The benefit of the process is that it forces you to think, to ask questions and to reflect. It cannot and does not operate like a manufacturing process where you can guarantee the outcome”.

What is good is that the process is now a long way from the “tap on the shoulder” that used to be common practice. And whilst it is right to continually challenge UK capability in managing succession, we should note “Our leading global position in corporate governance standards. Others internationally have consistently looked to us”.

9. Good succession planning creates losers

Whether a company hires internally or externally, it is naïve to think that life can carry on unchanged in managing succession, because it creates losers: candidates who hoped for the job but did not get it. A FTSE 100 company should be able to generate internal candidates. It is harder for smaller companies, where broadening roles are not always available. Ironically, the better a company has been at generating multiple credible internal candidates – the sign of good succession planning – the more losers it creates.

"It's quite troublesome when you run with two or three internal candidates, because it affects working relationships. It is a terrible situation afterwards when one gets appointed. But you cannot run with just one candidate because of the inherent risks in doing so. It would be good if those who did not get the job could stay on to avoid massive loss of talent, but they tend to become corporate terrorists".

Whilst a Board would like multiple candidates to consider, best advice is never to put forward a candidate who definitely will not make it through the process. Integrity must underpin the decision as to who goes through the full course of the selection process, not least so that the "losers" can be told with sincerity that they are top quality.

"In theory any internal 'losers' should be able to stay on, but in practice it rarely works, so succession is an expensive exercise in burning human capital if you succeed in developing multiple good internals". One contributor advised that including appropriate thought and actions around collateral damage should be part of the overall plan. Another encourages Chairmen to consider coaching internal 'losers' to stay on, where it is possible and appropriate for individuals.

There are suggestions for reducing the damage, "Don't make firm promises to internal candidates". We are warned against starting the process of succession planning too early: "A big issue is to know when to kick off a process, because firing the starting gun changes behaviours". Also, "Processes take a long time and can be intense for individuals, so it's a tough judgement to get the starting point just right".

10. Culture is complex

It is important to consider the culture to which the company aspires in the future, and the candidates' fit to this culture. For example, when considering what kind of CEO is required, "What you need to consider is business context: steady state or change?" One Chairman observes: "I take into account candidates' behaviours when assessing cultural fit. Having inherited CEOs with whom I had an issue, I have minimum requirements around the treatment of others: working together, and listening".

Character is, in many cases, more important than expertise: "Unless the field is very technical, CEO assessment is less about technical skills, and much more about personal traits and behaviour, including leadership and followership". "You want a CEO who can leave a legacy".

However, emphasizing culture is also fraught with difficulty, because it is the hardest area to evaluate and judge. It is difficult to understand how technically brilliant a candidate is; it is even trickier to understand what their true values and motivations are. This is an area where some form of external input is deemed to be valuable.

One reflection was that although a corporate culture needs to evolve, in successful companies the culture endures: "Personality CEOs have not helped in this context".

In a climate where trust in business is challenged, we should expect the emphasis on values and culture to feature more prominently in the specification and evaluation of CEOs for the future.

Looking to the future

After exploring the harder aspects of succession planning, our conclusion is that it is always a difficult area and will continue to be so. However, this is not a reason to lose heart. The dedication of time, attention, practice, and support is increasing all the time, and so too is capability and experience; this trend will hopefully continue. However, we should perhaps modify our expectations of what all these efforts will deliver. Sometimes it will work perfectly and smoothly. At other times, despite the Board's best efforts, there will be such disruption that some stakeholders and observers may be overly harsh critics of the effort expended.

Looking forward, what should we focus on, with an eye to future trends? We suggest four areas for Chairmen and Boards to bear in mind:

1. Recognise that succession requirements are as much about EQ as IQ. Factor in time to ensure the engagement is right and provide support to candidates to help them work through the emotional and practical aspects of their candidacy.

2. Respect the succession process and seek to improve it continually. Recognise that the greatest value is in the discussions and transparency it facilitates rather than just the outcomes it produces.

3. Do not be too judgemental or overly self-critical if things do not work out quite right. It is a fine line between success and failure. Work hard to excel in those elements that can be controlled and recognise that having to deal with the unexpected along the way is highly probable. Good planning and preparation will help with managing curveballs.

4. The bar is going to continue to rise as further professionalisation of succession management occurs. Embrace this as a positive development and keep succession as a top priority, no matter how early in tenure the CEO might be and how strong current performance happens to be.

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