

SUSTAINING SUCCESS IN A CHANGING WORLD

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# THE ART OF SUCCESSION

**TELOS**  
PARTNERS

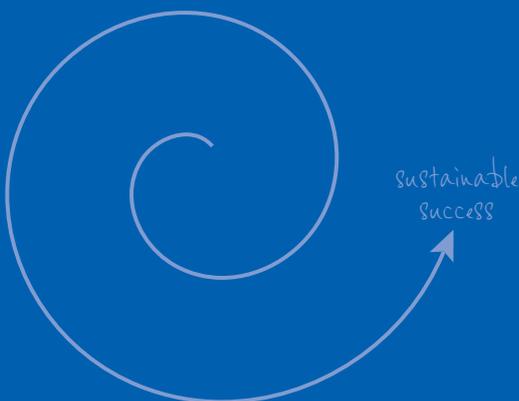
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# THE ART OF SUCCESSION

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Leadership succession is fundamental to the ongoing success of an organisation and, while applying to all leadership positions, it is particularly important when addressing Chief Executive succession.

The appointment of a new Chief Executive is one of the most important decisions an organisation makes. Nevertheless, it does not take much searching to find examples of organisations that have made hasty decisions and poor appointments. Too often we have seen organisations undertake formal selection processes with little thought as to what sort of leader is required and how best to induct them into their new role. Our view is that a successful succession process must embrace both rational and emotional factors. Chief Executive succession is an art rather than 'just' a process, and getting this right requires preparation, planning and strong execution.



### **Can it be true that the answer to a succession issue is a certain class of candidate? Either external or internal?**

Some surveys would have us believe that an internal candidate is almost always the answer, others that it usually should be an external candidate. But it is always the case that you need to test internal candidates against the market to ensure that you have the best.

But we believe that 'the best' needs to be assessed on a case by case basis. Boards need to be bold enough to back their judgement and stand by their chosen candidate having conducted a rigorous process appropriate to their organisation, not necessarily as prescribed through common practice.

Organisations are complex human systems with a unique combination of relationships and circumstances and demand a tailored approach to most critical people decisions. And arguably, the most important people based decision will be the leadership succession.

A rigorous process will be important, but relying on process alone may not get the right answer. We believe that, as in most decisions, a mix of 'soft' (emotional) and 'hard' (rational) elements will deliver a properly risk managed solution.

Getting the art of leadership succession right is the most important task for which the board of directors is accountable. To achieve the best outcome the board needs to get the fundamentals right and answer certain critical questions long before a new Chief Executive is appointed:

### *Questions*

1. What do we need from our leaders?
2. Do we have the succession foundations in place?
3. What succession attributes do we need from our Chief Executive?
4. To what extent do we require continuity or change?
5. What sort of succession process fits with our organisation's needs?
6. What timescales should we set for succession?
7. How does this fit with corporate governance requirements?

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# 1. LEADERSHIP FUNDAMENTALS

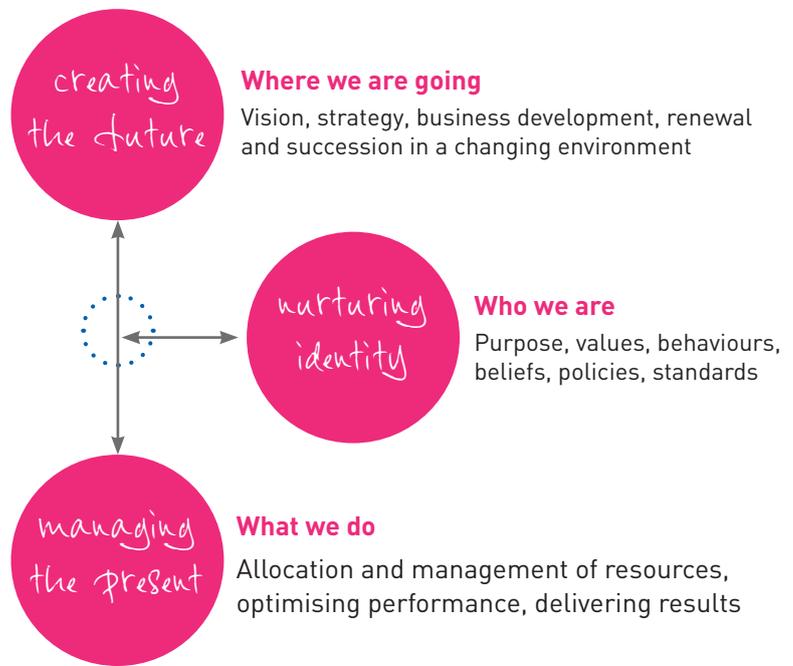
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## What do we need from our leaders?

We believe there are three functions of leadership (see Diagram 1 below) and that these need to permeate the whole organisation. Leaders need to have an understanding of these dimensions and how they should influence every decision.

Diagram 1

### Functions of Leadership



### Managing the present

Results matter! Customers need their expectations delivered on time, suppliers need to be paid, people need to be retained and investors need to be rewarded. A clear understanding of how the operating model works and the discipline to deliver against expectations must remain a key factor for any leader. While necessary, this is not sufficient.

### Creating the future

There was a time when 'the future' was seen as remote and something for which there would be adequate time to prepare. Now, with product cycles shortening and customer expectations becoming ever more demanding, and with the constant threat of new competitors and corporate predators, having a well-developed sense of future opportunity and risk is fundamental to the success of a leader. And finally...

### Nurturing identity

Research over many years has been staggeringly consistent. Those organisations that succeed over time have a clear sense of purpose and a set of values, principles and beliefs that guide their every action. Assuring the emotional engagement of stakeholders, rather than purely trading for a financial result, is now (if it wasn't ever the case) an essential component of a leader's portfolio of skills.

We will return to these leadership fundamentals when looking at the capabilities required.

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## 2. SUCCESSION FOUNDATIONS

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### Do we have the succession foundations in place?

Succession planning requires constant consideration as to how to ensure the organisation can deal with the unexpected departure of key individuals. It also requires tough questions to be posed to ensure the organisation continues to survive and thrive.

#### Is there a succession mindset in the organisation?

Take the example of a company that, on appointment, asks the newly elevated Chief Executive to nominate their successor on day one. They require a name to be inserted into a sealed envelope, only to be opened should there be an abrupt end to the incumbent's reign. This name can be changed as often as needed, but there must always be a name in the sealed envelope. Too early? Unnecessary? The impact on the new leader is worth reporting:

*"It made me realise that I was only a steward of an ongoing organisation and that I had a responsibility to keep my successor in mind".*

Another piece of succession wisdom: 'always remember that you are your successor's predecessor'. This is a call to ensure that nothing is left for the next person to have to deal with; a responsibility to ensure the ongoing health of the organisation.

We believe it is now even more important to have succession in the corporate mind-set, in an environment where a reputation can be sullied for many years because of a poor succeeding candidate. No longer is it enough to say: 'well it was fine while I was in charge' when it becomes clear that a successor is unable to continue the success.

#### Is the organisation worth saving?

Does the organisation have a life beyond the current leadership? There is no reason why any organisation should last forever, and just because an organisation has been around for many years, this does not mean that it will survive in the future.

Does it still have a valid purpose and is it continuing to make a difference? If so, succession is both important and multi-dimensional. Even if it is just a financial play, it will be worth saving but might do so through a change of ownership rather than a carefully constructed succession plan. How important is its continuing independence?

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## 3. SUCCESSION ATTRIBUTES

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### What succession attributes do we need from our Chief Executive?

Just as there are some vital succession foundations, there are some key attributes that a Chief Executive needs to demonstrate or develop:

**1. Confidence.** They will see their appointment as a fixed term appointment, not one that will 'see them through to the end of their career'. Many will see their tenure as two terms of three to five years, the first term to make the changes that they believe are needed and the second to deliver results and secure their successor. Their career plan will envisage them moving on and so will see succession as a personal imperative.

**2. Humility.** They will always be on the look-out for a candidate better than themselves. Their teams will be populated by people that in their own way are better at doing their job than the leader would be and, as a result, provide options when succession is needed.

**3. Inspiring.** They will be able to motivate multiple candidates and will help each with their own career planning. While there will only be space for one chief executive, there may be a need for a leadership 'pipeline' that will provide development opportunities for many with potential.

**4. Transparent & Open.** Of course, succession is a delicate subject, but if all know that there is an ongoing process and what they need to do to be part of it, there is the basis for honest conversations based on the needs of both the organisation and individuals.

We return to more specific attributes later in section 5.

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## 4. CHANGE OR CONTINUITY?

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### To what extent do we require continuity or change?

An important step in defining the succession process is to determine the context. Do we need a change in style, or should we signal such a need? Is the organisation on the wrong track with a correcting hand needed? Or have we seen a successful CEO ready to give way to a well-qualified candidate that is equipped to continue on the agreed and chosen path?

A need for change is likely to lead to an externally recruited candidate, with the possible inclusion of an internal candidate known for their belief in a change in direction. But a need for continuity may signal a preference for an internal candidate and a successful preceding CEO, mindful of legacy, should have this planned. Without such a candidate there would remain the challenge of finding an external candidate who will commit to an already agreed future for the organisation (see Diagram 2).

But of course, this is not a binary issue. There will be continuity situations that will require a degree of change and change situations that will need a discerning eye to detect the essentials that need to be kept.

Diagram 2

## Change or continuity?

|                      | Change  | Continuity  |
|----------------------|---|---|
| Internal or external | <p><b>Possible internal</b></p> <p>Is there anyone internally who has the skills to deal with the situation where the need for change has been identified? Will they be credible to shareholders and external audiences as well as internal audiences? Will they have the authority to make the change?</p> | <p><b>Probable internal</b></p> <p>Have we developed people to take the company forward? Have we considered the changing external environment when considering internal candidates? Have we been able to create a rigorous selection process to demonstrate that we have the best, and not just convenient, candidate? Have we considered the impact of the internal candidate on others in the organisation?</p> |
|                      | <p><b>Probable external</b></p> <p>How attractive is the proposition? Will they be able to get up to speed quickly enough? Will they be able to discern elements that need to be kept as well as those that need to be changed? Will key executives stay?</p>   | <p><b>Possible external</b></p> <p>Are we selecting candidates on the basis of a future agenda? Will this candidate unnecessarily disrupt a successful culture? Have we considered the impact of the candidate on the executive team?</p>   |
| Responsibility       | <p><b>Chairman</b></p> <p>Chairman exercising oversight determines that new appointment needs to be led by the board.</p>   | <p><b>CEO (supported by Chairman)</b></p> <p>Successfully led organisation and therefore has taken responsibility for succession. Takes candidates and process for agreement by the board.</p>  |
| Timing               | <p>As rapid as possible, given constraints on locating the right candidate.</p>   | <p><b>Phased response:</b> preparation for the change (can be two years).</p> <p><b>The change:</b> handing on the baton (can be six months).</p> <p><b>Post change:</b> available for consultation for as long as needed (see below).</p>  |
| Role of past CEO     | <p>Unlikely to be available other than for 'hygiene' matters.</p>   | <p>Space for ongoing advisory role (within restrictions imposed by governance regulations and practice).</p>  |

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## 5. SUCCESSION PROCESS

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### What sort of succession process fits with our organisation's needs?

The selection and the process of assessment are generally well covered through in-house expertise and supported by external management and search consultancies. But that does not mean that there is not room for further insights.

#### Capability & Behaviour

Does the selection process embrace the behaviours that are expected for success in the role? Too often interviews and assessments test capability but leave behaviour unexplored. And yet it will be the behaviours of the leader that will have most impact on the organisation.

#### Future Orientation

Does the selection process embrace the reality of a rapidly changing world, a world where flexibility and pace will determine success? Odgers Berndtson have developed some future learning criteria and we have incorporated them into the criteria in Diagram 3.

#### Purpose & Principles

Does the selection process examine the likely compatibility with the driving purpose of the organisation? Is the importance of time honoured trading principles tested? This is not an excuse to avoid challenging existing principles but an invitation to frame change within a cultural context.

#### Consideration of Informal Roles

Too often important but less well-defined roles are omitted in a selection process. The incumbent will fulfil coaching, influencing, mentoring and supporting roles in a variety of circumstances and for different individuals. Some could continue post succession, but this is difficult to achieve if they are not identified and understood.

#### Impact Assessment

The impact of the change needs to be considered.

*In my experience, board members who are adept at picking CEOs do four things others don't: they work painstakingly to clarify the essential qualities needed to succeed in the job; they keep an open mind about where the best candidate will come from; they go deep to understand which candidate is the best fit; and they allow for imperfections in the chosen candidate.*

Ram Charan, The Secrets of Great CEO Selection,  
Harvard Business Review, December 2016

'Allowing imperfections'. It is unlikely that the outgoing CEO will have been perfect on every dimension and it is equally unlikely that the new CEO will be comprehensively equipped in all dimensions. It is also likely that the new CEO will have qualities that will differ from the old. We have developed an impact assessment as a tool to ensure that post the change all the qualities required are acknowledged and are present in the executive team, even if not in a single individual<sup>1</sup>.

**Leadership attributes for an uncertain world**

With thanks to Odgers Berndtson 'Becoming a Leader in a "VUCA to the power" World', for contributing most of these attributes.

*Managing the Present*

| <b>Intellectual horsepower &amp; commercial acumen:</b>   | <b>Inter-personal capabilities:</b>   | <b>Inspiration &amp; ambition:</b>  |
|---|---|---|
| <p>The ability to absorb, process and conclude on issues of multiple complexities and resolve complex paradoxes at pace, focusing on the outcomes rather than the plan. This includes taking risks on investment decisions to achieve greater returns, identifying internal and external levers to deliver more value and a full understanding of stakeholders' expectations and needs.</p> | <p>The commitment towards colleagues and the business, delivering on priorities, joint objectives and expectations. This includes collaborating to support initiatives for the 'greater good of the organisation', bringing in valuable insights and relationships from the individual's network, and being prepared to stand-in for peers.</p> | <p>The ability to set the pace, raise the bar and deliver on the individual's promises. This includes empowering others whilst also holding them to account, being transparent and objective when drawing boundaries or admitting mistakes, as well as the emotional resilience, physical fitness and ability to pace the use of resources.</p> |

*Creating the future*

| <b>Stewardship:</b>   | <b>External orientation &amp; intellectual flexibility:</b>  |
|---|--|
| <p>The ability to deliver short-term performance and invest in the long-term success of the business. This includes taking personal responsibility for implementing the future vision, generating the energy, emotions and behaviours to drive for change and improve performance, investing in others, celebrating success and learning from failures, harnessing (but not being limited by) heritage, and the willingness to openly discuss succession and build a talent pipeline.</p> | <p>The knowledge and ability to interpret relevant implications of economic/geopolitical/market trends, see new patterns to identify opportunities for growth and prevent risks. This includes the individual's approach to addressing new, complex problems, cultivating different perspectives and pushing the boundaries, and the individual's ability to capitalize on the unique strengths of the organisation.</p> |

*Nurturing identity*

| <b>Inspiration:</b>   | <b>Understanding &amp; living identity:</b>  | <b>Emotional intelligence &amp; self-awareness:</b>   |
|---|--|---|
| <p>The ability to inspire, provide direction and instil confidence, pride and loyalty in spite of uncertainty. This includes proactive sponsorship of the organisation and moral courage that's aligned to the organisation's core ideology/values.</p> | <p>The ability to live the purpose, clearly articulate why the organisation exists and is important to all stakeholders. This includes building the organisation's brand through the individual's influence, role modelling and mentoring others, and revisiting/rearticulating the purpose and values, engaging key stakeholders.</p> | <p>The ability to navigate and influence diverse perspectives and personalities, humbly invite feedback and flex their contribution/impact. This requires operating in an open, honest and transparent way.</p> |

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## 6. TIMETABLE

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### What timescales should we set for succession?

#### 1. Pre-handover: anticipation and planning

In many cases this starts on day one of the previous appointment. Systematic succession needs constant and regular attention. But if there isn't a clear successor emerging with two years to go, there is cause for alarm.

#### 2. Execution of change: handover and impact management

A short but well-planned period to ensure that the impact of a new leader is understood and managed, that the new leader is inducted and the team settles into a new style.

#### 3. Ongoing support

A variable term according to circumstance but involving access to the past leader (where appropriate), Chairman and others to ensure that the new leader settles into the challenge.

Sitting behind these three phases will be the need to manage the transition itself:

- On-boarding an external CEO – how to help them with nurturing the identity given they are unlikely to fully understand that identity at the outset.
- On-boarding an internal CEO – how to free an internal candidate so that they can bring enough of the change to bear, as well as bringing continuity.
- How to deal with the 'unsuccessful' internal candidates – what to do about unsuccessful internal candidates (as there will always be some) so that the organisation can help them grow and develop, be it internally or externally. Celebrate what they bring and make them feel the business values them (even if that value is shown by helping them become a CEO elsewhere).
- How to deal with the knock-on impact through the organisation: positions left vacant through internal promotions.

**Succession timetable**

An example timetable illustrating the sort of activities under three specific and sometimes overlapping phases:

|                               |  |
|-------------------------------|--|
| <b>Day One of appointment</b> | <ul style="list-style-type: none"> <li>▪ Who is my successor?</li> <li>▪ Target exit date</li> <li>▪ Definition of two terms</li> </ul>  |
| <b>End of Term One</b>        | <ul style="list-style-type: none"> <li>▪ Review of internal candidates</li> <li>▪ Strengthen team if necessary (better than current leadership): external search</li> <li>▪ Set challenges to test/broaden candidates</li> <li>▪ Create specific development plans</li> </ul>  |
| <b>One year to go</b>         | <ul style="list-style-type: none"> <li>▪ Review candidate progress: commission support for any development needed</li> <li>▪ Rehearse 'core ideology': our purpose and the way we do business. The principles by which we live. Still valid? Need for change? Need for re-expression?</li> <li>▪ Assess impact: incumbent leaving. Successor taking over</li> <li>▪ Manage stakeholders. Develop relationships for candidates</li> <li>▪ Consider destination for incumbent</li> <li>▪ Determine any ongoing role for incumbent, post resignation. Develop any skills needed</li> <li>▪ Decision on succession made</li> <li>▪ Plan for management of team and other internal moves</li> </ul> |
| <b>Impact Day -180</b>        | <ul style="list-style-type: none"> <li>▪ Management of team</li> <li>▪ Initial announcement planning</li> </ul>  |
| <b>Impact Day -90</b>         | <ul style="list-style-type: none"> <li>▪ Detailed handover and announcement planning</li> </ul>  |
| <b>Impact Day</b>             | <ul style="list-style-type: none"> <li>▪ Announcement</li> </ul>   |
| <b>Impact +30/60</b>          | <ul style="list-style-type: none"> <li>▪ Retiring leader leaves</li> </ul>   |
| <b>Impact +one year</b>       | <ul style="list-style-type: none"> <li>▪ Advisory role as necessary/desired</li> <li>▪ Support for new leader in place</li> </ul>  |

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## 7. SUCCESSION AND CORPORATE GOVERNANCE

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### How does this fit with corporate governance requirements?

Corporate governance is high on the priority list for most countries and increasingly companies are adopting convergent policies and guidelines to promote the transparency and integrity of business.

In the United Kingdom, for example, the UK Financial Reporting Council published in July 2018 its revised Corporate Governance Code to apply to all companies with a premium listing, whether incorporated in the UK or elsewhere. Using this as a guide to current best practice it includes provisions on the composition, succession and evaluation of boards (see Box 1). And as the CEO will be a board appointment any succession process needs to acknowledge the Corporate Governance implications.

Our views are completely compatible with the Code as it stands. We agree with the Code's emphasis on the need for a 'diverse pipeline for succession':

*Appointments to the board should be subject to a formal, rigorous and transparent procedure and an effective succession plan should be maintained for board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.'*

Similarly, in earlier guidance (Code 2011) encouraged the development of internal candidates.

*Executive directors may be recruited from external sources, but companies should also develop internal talent and capability. Initiatives might include middle management development programmes, facilitating engagement from time to time with non-executive directors, and partnering and mentoring schemes.*

If your succession pipeline produces reliable internal candidates and they are developing a healthy regard for change where needed and an understanding of where continuity is necessary, then they will be well prepared to compete with any external candidate, should market benchmarking be undertaken.

Furthermore, the Code encourages a 'comply or explain' approach rather than to follow a mechanical tick box exercise and this sits well with what must be seen as a transparent process designed to get the right candidate for what is always going to be a challenging position.

**The UK Corporate Governance Code July 2018 Chapter 3**

Letters are per the original report

## Principles

- J.** Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for board and senior management.<sup>[4]</sup>

Both appointments and succession plans should be based on merit and objective criteria<sup>[5]</sup> and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.

- K.** The board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed.
- L.** Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.

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### Endnotes

- [4] The definition of 'senior management' for this purpose should be the executive committee or the first layer of management below board level, including the company secretary.
- [5] Which protect against discrimination for those with protected characteristics within the meaning of the Equalities Act 2010.

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## FINAL THOUGHTS

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We see too many succession processes run on a formulaic basis, painting by numbers if you like. But if the outcome is to be really successful - the right candidate in the right context and welcomed by all stakeholders - it will take mastery. Those organisations that really give thought and practice to making sure that the art of Chief Executive succession is effective make sure that succession is not seen as traumatic but rather as part of the natural cycle of the organisation. They find and develop potential Chief Executives to display the right attributes. They are clear on what degree of continuity and change they require. And they put in place a process which will deliver a subtle combination of emotional and rational energies over time.

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**The author:**

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THE ART OF SUCCESSION

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BELIEVE  
ACT

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