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BOARD PRACTICE

The Courage to Change:

Enhancing CEO Succession
Through Stronger
Board Leadership

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The Courage to Change: Enhancing CEO Succession Through Stronger Board Leadership

It has become nearly impossible for boards and their directors to deny the importance of effective succession plans for their CEOs.

The topic has been studied, researched, surveyed and case-studied to death. All this work has arrived at the same conclusion: succession management is a critical contributor to business success.

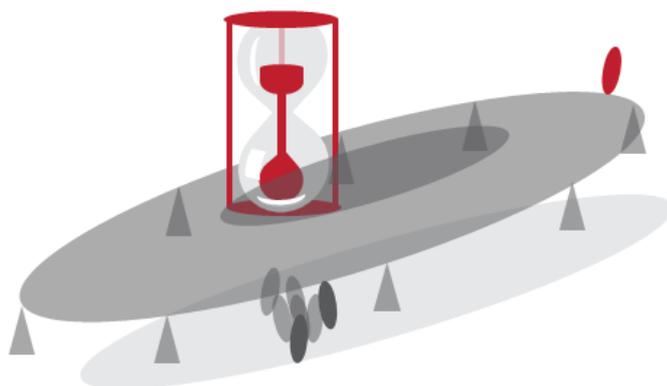
It certainly makes you wonder why, in the face of so much data, analysis and consensus, so many boards are still struggling with succession?

Consider Microsoft. CEO Steve Ballmer, under pressure to help the company regain its dominance in the digital age, told the *Wall Street Journal* late in 2012 that a decade after he took over from founder Bill Gates, he had no immediate plans to step down.

“I love my job,” Ballmer said. “I’m happy doing what I’m doing, I’m energized. I will serve as long and no longer as both the board wants me, and I feel like I’m adding value and/or until somebody better should come in and take over.”

It’s impossible to know exactly what was going through the minds of Microsoft directors as they read a comment like that. The boardroom is still among the most secretive of forums. However, media and industry analysts were asking openly whether Microsoft’s Board would have the courage to broach the succession issue with Ballmer.

In August 2013, to the surprise of analysts and investors, in a move that drove shares skyward, Ballmer finally announced that he would retire within twelve months, stating “there is never a perfect time for this type of transition, but now is the right time.” Ballmer’s reign would continue until a successor was found by a small committee - including Board Chairman Bill Gates. Nearly twelve months on, the debate surrounding Ballmer’s succession – and the precise nature of Gates’ future role, was still alive and kicking.



The Microsoft scenario is proof enough that the boards of some of the world's most important companies still struggle with the basics of succession. However, there is evidence that directors are not only becoming more knowledgeable about succession, they are also showing new-found courage that is allowing them to confront, and talk about, the succession challenge.

To better understand the current thinking of directors when it comes to succession planning, we interviewed and sought out the opinions of a number of directors¹ around the world. These interviews revealed clues to the current thinking of directors when it comes to succession planning. This is particularly important at a time when the terms served by directors are, in general, getting longer. Thankfully, the interviews indicated a growing awareness and expertise when it comes to making succession more effective and meaningful.

View From the Board: Struggling With the Same Old Problems

The directors did not mince words when it came to the enduring challenges that boards face when trying to affect a CEO succession. These included CEOs in denial or working actively to discourage succession, boards that were afraid to challenge the authority of a charismatic CEO, and a willingness to abdicate responsibility rather than do the heavy lifting of succession management.

¹ 8 interviews were conducted -- and information gathered through discussion forums from 19 Directors from Canada, United States, Switzerland, United Kingdom, and Australia

Put succinctly, many believed that far too many boards are still their own worst enemies when it comes to succession.

Some of the directors felt that boards are still reluctant to initiate difficult conversations around succession with a CEO. The reasons for this can be quite varied. However, in general, boards are living in fear that the conversation itself is not worth the risk. For example, it was believed that the succession conversation was difficult to broach if the current CEO was doing a good job, or was well liked. Or, if the CEO simply makes it clear they do not want to have that conversation. "The CEO him or herself can be a major barrier," said one long-serving director. "They often think they are infallible. Or, they can be threatened by succession talk."

Another conceded that far too many boards fear that any attempt to raise the subject of succession will be perceived as an attack on the CEO. "There is always reluctance in case it might appear as if there is not full confidence in the current CEO. So, board members will question why we need to talk about succession at all."

In some instances, the problem stems from a board that is too closely associated with a CEO. "The collegial view must not stand in the way of doing succession management. But sometimes it does," a veteran director said.

The directors also conceded that politics within the board defeats the best intentions when it comes to succession management. "Politics on the Board, interpersonal dynamics or just how they interact with each other and the CEO can cause tensions," another director said. "When you have factions on the Board, it can cause a lot of problems."



1

“To further evolve CEO succession in the future, CEO’s need to be deliberate about hiring and building exceptional leadership deeper into the organization. We need leaders to be thinking like CEOs and demonstrating resilience, perseverance and optimism.”

Advice from Directors:

How to Overcome the Succession Hurdle.

On the positive side, the directors interviewed displayed growing awareness of the importance of CEO succession, and considerable growth in the expertise around succession management. This confirms our belief that many directors are contributing to a growing inventory of succession-leading practices, and pressing their boards to put them into practice.

Not surprisingly, opinion-leading directors believe that courage is key to getting succession right. As one director said: “Boards need to identify CEO Succession at the highest level as part of a balanced scorecard and strategic plan – and measure themselves against that.”

Have the Courage to Drill Deeper

Chief among leading practices was an admission by some of the directors that CEO succession must be more closely related to leadership succession and talent management throughout the organization.

In many organizations, CEO succession and leadership succession had formerly been viewed as separate issues. Even in companies where the board was engaged on CEO succession, there is often a disconnect with leadership succession at other levels. Forward-thinking directors understand these two challenges are more closely related.

“Effective CEO succession planning is the natural outcome of talent development and succession planning much deeper in the organization,” said Gail Cook-Bennett, former Chair of Manulife Financial and Corporate Director for more than 35 years. “The ideal process constitutes a continuum with today’s young high potential employees being seen as one source of tomorrow’s CEO candidates. It is not an ‘add-on’ process to which the Board turns its attention eighteen months before a retirement date.”

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Have the Courage to Recruit Directors With the Right Skill Set

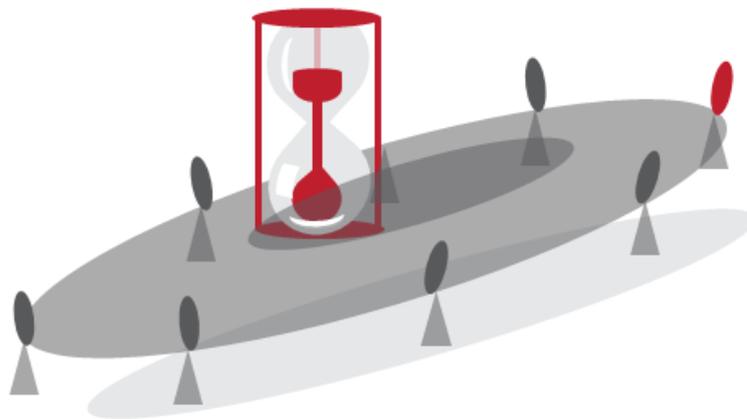
To create seamless succession, what are the qualities that directors need to possess?

“Effective CEO succession comes down to a cocktail of experience, intelligence and not infrequently, guts,” said Sir Graham Day, a former CEO and long-time member of the boards of British and Canadian companies. “It can be an unpleasant process especially when relationships get too cozy. No one wants to stand up and rock the boat.”

Good directors need courage and conviction to overcome the succession dilemma. That might mean being the only person in the room to bring the subject up, and the person who keeps bringing it up until the board fully engages.

Directors should be leaders but far too often, appointments are not based on leadership qualities. This can create a problem if there is no one on the board who is willing to confront the “elephant in the room” of succession. “Establish early-on that the performance of board members and importance of the processes is open for discussion,” one director said. “You can’t permit board members to coast along, especially if they fill the roles you need them to play.”

The directors we interviewed were in agreement that good directors need courage and conviction to overcome the succession dilemma. That might mean being the only person in the room to bring the subject up, and the person who keeps bringing it up until the board fully engages.



3

“It is always the right time to talk about CEO succession, even when you have an excellent CEO in place. Having open and candid conversations on a regular basis will help the Board to manage potential risks and look out for the best interests of the organization.

CEO Succession should never be an elephant in the room.”

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“You need to have a plan and be ready because it could catch you by surprise at any time.”

Have the Courage to Start Early

One of the most common messages from the directors interviewed was to start the succession process early, and make it a topic of conversation as often as possible.

This will necessitate a courageous conversation with the CEO. Many of the directors interviewed believed that the board chair and the CEO needed to be on the same page about the ongoing need to plan for succession.

If the succession conversation is built into normal processes, and connected directly with performance reviews, then there is less of a chance that a CEO will take offence or feel threatened by the subject. “Don’t deal with CEO succession two years before retirement,” another director noted. “Do it early, often and deep into the organization; it’s a continuous process. This can reduce some of the problems. It should be viewed by employees as a natural part of the development process.”

The trend is clear – directors are becoming more knowledgeable about effective succession management, and more willing to press their fellow board members to adopt new practices for securing the next CEO. Although some of the traditional hurdles still exist, there is a growing constituency of directors who are demonstrating the courage to take up the challenge.

The question is, how can we accelerate this trend? Acknowledging the need for change and starting a new conversation about some of the challenges and barriers is a good place to start. Boards have a tremendous opportunity to question their current dynamics and practices, re-define board leadership, and play a proactive role in creating a highly effective CEO succession process.

All it requires is a little bit of courage.



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About Amrop Knightsbridge

Knightsbridge is a human capital solutions firm that integrates the expertise of finding, developing and optimizing an organization's people to deliver more effective solutions maximizing their investments in people and delivering better performance.

Knightsbridge brings together teams of specialists with an integrated perspective across recruitment, leadership and organizational development, learning, and career and workforce management. These specialists challenge assumptions and work as a team to diagnose the underlying issues limiting organizational performance.

The result is more objective advice and effective solutions that are customized and implemented to fully meet a client's specific needs achieving greater people and team productivity. Knightsbridge works with clients across North America, the UK and Australia. Our executive search practice, **Amrop Knightsbridge** is a member of Amrop.

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About Amrop

With 84 offices in 56 countries, Amrop provides context-driven services in Executive Search, Leadership Assessment and Board Consulting. The largest partnership of its kind, Amrop helps clients build their businesses by finding Leaders For What's Next - top talent adept at working across borders, in markets around the world.

Amrop works with existing Boards as well as helping start-up organizations ensure that their Boards of Directors are appropriate to the aims and core business of the company and compliant with Governance rules and regulations. Our ability to do so is based on three fundamental strengths: contextual knowledge, senior attention and a global network that is cohesive, quality-driven and agile.

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