



Continuity and Succession

How not to lose the baby with the bath water

Praesta Partners is the UK's premier firm of executive coaches, based in London and operating both nationally and globally. We coach senior leaders and executive teams in the private and public sectors, including FTSE 100 and 250 companies, private equity owned businesses, leading professional services firms and all areas of financial services.

All members of Praesta's team had senior level business careers before becoming coaches. Thorough initial training, continual professional development and regular supervision are integral to how we work. As well as one to one coaching, we conduct team coaching and board effectiveness reviews.

Praesta Partners LLP
43 Berkeley Square
London W1J 5AP
United Kingdom

Tel: +44 (0)20 7907 2450
Email: info@praesta.co.uk
Web: www.praesta.co.uk

Continuity and Succession

How not to lose the baby with the bath water

The purpose of this Insight document is to prompt thinking and action that de-risks chief executive succession. It is informed by our knowledge of what happens before and after a change of guard at the top.

It is aimed at those who have a big stake in how succession impacts the organisations for which they have a duty of care. These include board Chairs; non-executive directors, especially members of Nominations Committees; Chief Executives who are interested in the fate of the organisation that they will, one day, leave behind; members of executive teams whose working lives will be affected by who their next boss might be and how he/she will impact the success and nature of the business they work for; and the HR professionals who support all of these constituencies.

Ne'er his like again?

*“When great trees fall, rocks on distant hills
shudder, lions hunker down in tall grasses,
and even elephants lumber after safety.”*

Maya Angelou, *When Great Trees Fall*

It takes years – often decades - to implement a successful strategy; not least because it takes time to build the kind of distinct, coherent culture that delivers sustainable competitive advantage. So the current regime can be tempted - and encouraged - to stay too long as they, and those around them, fear a future without them.

Yet everyone moves on eventually. Appointing the wrong chief executive is often the crack that becomes a fatal fault line in a patiently executed strategy. New people want to make a mark and are usually expected to do so. That's fine when what's in place isn't working as well as it should as it usually takes a clear head, a new set of skills and different attitudes to make the fundamental changes that lead to a sustainable, quantum increase in performance. It can be folly when what is in place is working just fine.

‘...I spent a huge amount of time researching this issue of CEO succession. In companies that are doing well and with a culture that is successful, you tend to find that the internal candidate is much more successful than the external candidate. It is where the culture is broken and the performance is in tatters that it needs a change in direction from the outside.’

Gareth Davies, Chairman, William Hill

Quoted in The Daily Telegraph, July 5th 2014

How, then, do organisations that operate successful strategies, that know what they're doing, avoid the chief executive becoming "irreplaceable"? And when they do, how do they avoid risking their hard-won success when he/she retires? In short, how do boards and chief executives assure continuity of strategy and execution through succession?

Be prepared

*"But we're talking kings and successions,
Even you can't be caught unawares"*

Tim Rice/Elton John, *Be Prepared*

The day a new chief executive assumes the role, one thing is certain: someone, some day, will succeed him. It follows there should always be credible potential successors to the chief executive, even if none of them is the perfect article. After all, someone has to do the job!

A well-run enterprise will always have someone who can step into the breach, with support, if an emergency arises. And it is a poorly run enterprise that cannot develop credible, attractive internal succession candidates, given a few years.

That said, the universal rule about succession plans is they usually don't happen as described. Sometimes the chief executive moves on earlier than expected. Sometimes the planned successor is lured somewhere else. The most robust foundation for both planned and emergency succession, therefore, is to ensure the business is not critically dependent on one individual. It should have sufficient direction and momentum to carry on in the chief executive's absence. This permanent state of practical preparedness is enabled by having:

- A stable, effective executive team in place, that leads and runs the business. The chief executive must create a constructive environment in which people can blossom individually and work together effectively. This requires him/her to operate first and foremost as a team builder, rather than an autocratic hero or virtuoso performer.
- An engaged board, whose Chair and non-executive directors will mould around a new chief executive, interim or otherwise, to mitigate his inexperience and build his confidence if required. Whatever the Chairman and board did before, they will have to do things differently whilst a new chief executive gets his/her feet under the table.
- A practical contingency plan. Who would chair the executive committee pro tem? Who, if anyone, could become interim chief executive? Will the Chair fill the gap? Is there a non-executive director who could help out? If your board's answers to these questions are unconvincing, then it has got some more work to do!

Be careful what you wish for

BADGER: *Toad Hall is now Weasel Hall, I'm afraid*

TOAD: *They can't do this to me. They just can't do it. Toad Hall belongs to a long line of Toads, and I intend to have it back.*

Kenneth Grahame and Alan Bennett,
The Wind in the Willows, Act 2, Scene 3

Most organisations have strategies that are fit for purpose, that have been guided by and are supported by their boards. They are executed according to plans that are regularly refreshed and renewed, that their boards have also supported. There is a commonly-used name for this happy, yet hard to achieve, condition: "business as usual", "BAU".

It is therefore stunning how often succession triggers wholesale reform and revolution, rather than nurtures continuous improvement and evolution. Whilst few external appointments to chief executive are made without good reasons, they are always attended by significant risks to BAU.

A well run mutual business with a strong tradition and culture had groomed a successor to its long-serving chief executive. Two non-executive directors hi-jacked the succession process, turning it from a validation exercise involving benchmarking into a full-blown market search. The internal candidate did not make the short list of two. The incumbent chief executive argued successfully against the preferred external candidate, who was obliged by the regulator to stand down from his own job shortly afterwards. The default candidate, who had no history in the sector or in running mutuals, was appointed: an outcome with a very different risk profile to what the company intended.

Why does this happen? Sometimes, nominations committees are impressed by candidates who shine brighter than those close at hand, with whom they have dealt for some years; familiarity can breed some form of contempt. Sometimes it is because a cadre of non-executives, whose ambitions for the organisation have been frustrated by the cogent “steady as she goes” arguments of a strong executive, scent the chance for getting their way through appointing a new broom who will sweep clean. Sometimes the board just underestimates the capability of people inside the business.

Succession as a team game

*Revolution is no solution we ought to realise
(Now!) Now is the time to set things right*

Jimmy James and the Vagabonds

Imagine the top team sat around its table in five years time. How many current members will not be sat there then? Who will be there, who currently is not? And, of those new members, how many are in the organisation already? Who might be chairing the meeting? Who might exercise influence?

Stabilising the top team de-risks the transition from one chief executive to another. So:

- Take great care with appointments to the top team. Aim for the sweet spot, defined by “someone we respect, someone we like, someone who brings things we value, someone others can work with.”

The board’s nominations committee usually considers and approves appointments to the executive top team. Directors must get to know executives who are two or three years away from joining it. Attempts to appoint people simply because they are high achievers and good at managing upwards should be resisted: these are necessary but insufficient conditions. Directors should also take an active interest in how these executives walk and talk the organisation’s espoused values and thereby reinforce its culture; and so avoid putting a rotten apple into the team’s barrel.

“The top leader...could more or less choose to stay in power until he died, appoint anyone he favoured to any powerful position, and depose anyone who he disliked or deemed incompetent.”

- European Union Institute of Strategic Studies:

China’s leadership succession: new faces and new rules of the game

- Insist the top team manages its own refreshment and renewal.

Assuring continuity by building resilience in the top team isn't "job and finish": the team is a living entity. Its members deserve to devote care and attention to picking, mentoring and preparing prospective new members; and then to welcoming and involving them properly when appointed, encouraging them to have their own voice whilst also putting their shoulders behind the team's shared enterprise; and ensuring they are no-one's "yes men".

- Don't rock the executive boat needlessly.

It takes time and care, by all involved parties, to create the conditions whereby an appointment to the top team is viewed by others as natural and deserved. In the meantime, avoid beauty contests and creating false gods: they both encourage dysfunctional behavior.

As a lot of his/her time will be spent on the corporate agenda, an executive who steps up to the top team will need to change how he runs his own direct reports. It follows that the continuity agenda has to comprehend and address the capability of executives two and three levels down, not just the top tier. This knock-on is best anticipated and planned for.

As a result, the whole process of developing a new member of the top team is best started at least a year or two before promotions to it happens.

The law of unintended consequences, often cited but rarely defined, is that actions of people—and especially of government—always have effects that are unanticipated or unintended.

Rob Norton, The Library of Economics and Liberty

Even when a stable, well-functioning top team is in place, the succession agenda is often disruptive. It fires personal ambition in those who think they are in with a chance, or who might benefit from the change in guard. It usually prompts team members to consider how their own fates will fare when someone else – perhaps a close colleague - is installed in the chief executive's role. All this has the capacity to immobilise and destabilise the business without really trying.

Planned succession at a savings and loans business went badly awry when the board sent mixed messages to some senior executives shortly before the chief executive's long-telegraphed retirement was announced. As a consequence, all but one member of the top team formally expressed interest in the job. Although there was a preferred internal candidate, none of the executives had been well prepared to step up to the job of leading his/her peers. As the succession process played out, several executives were disappointed, in some cases angry, as they failed to make even the short list for reasons that seemed at odds with the feedback they had received in the past. Others travelled the same route when it became clear that the board preferred – and had, perhaps, always sought - an external candidate. Succession could and should have been conducted a lot better.

Now what do I do?

If I knew then what I know now, I'd be different, I would slow down I would not be running around, if I knew then what I know now

Lyfe Jennings

Many clients who have stepped into the chief executive role admit privately to experiencing mini-crises of anxiety, panic and self-doubt. How did I get here? Am I good enough? Will I be found out?

Often they don't get much help or constructive, timely feedback. They have to navigate using their own magnetic north. For people who find themselves in this position, we have found two things are especially helpful:

- Timely self-assessment. A balanced score-card informs a chief executive as to what to focus his/her energies on, enables him/her to check out how things are progressing and can inform an open discussion with the Chairman where appropriate. We have evolved a check-list for this purpose, that can be found at www.praesta.co.uk/page/What-We-Do/Chief-Executive-Resources
- A personal support team provides a safe space in which the chief executive can share inner thoughts, conundrums and challenges in absolute confidence. The team is a virtual one. Its members may not even know of the others' existence and are usually drawn from different parts of the chief executive's life – family, old friends, past colleagues, professional advisors and so on. They not only respond to the chief executive, they're also close enough to raise points of interest and concern that help him keep his feet on the ground, for example, you're driving yourself too hard, you are getting a bit carried away, you're neglecting your family.

Two tips for...

If you don't want to throw your business continuity "baby" out with the chief executive succession "bathwater", then here are our some tips for the key players involved. We make no apologies for the motherhood and apple pie.

Chairmen

- Get close to three or four people inside the organisation who could become chief executive one day. Find out how they tick.
- Work hard with the CEO to ensure possible successors get the experiences and guidance they need to become impressive succession candidates.

Nominations Committees

- Make sure that people promoted to the top team operate in ways that reinforce the organisation's espoused culture.
- Ensure detailed knowledge of internal succession candidates doesn't put them at a disadvantage to external candidates about whom very little is known.

Chief Executives

- Make top team effectiveness your personal priority. No-one else can!
- Don't keep a dysfunctional executive on the top team, however effective he/she may be.

Top team members

- Always put the health of the business ahead of your personal ambition.
- Build constructive relationships with your peer group colleagues. Be as willing to help them as you are for them to help you.

HR professionals

- Encourage the CEO to invest in his direct reports and to treat team effectiveness as a priority.
- Always arrange for someone to speak to a range of people who have worked with and for an external succession candidate before he/she is offered the job.

Praesta Insights pull together thought and experience of topical leadership issues in an accessible and digestible way. This publication has been researched and written by one of our partners, Steve Wigzell, who would like to thank Dr. Peter Shaw for his insightful editorial input.



Steve Wigzell

steve.wigzell@praesta.com
+44 7810 756485

Other Praesta Insights:

Beyond 2020

(Steve Wigzell, 2013)

Coming into Leadership

(Heather Dawson, 2010)

Living Leadership

(Peter Shaw, 2011)

Riding the Rapids

(Peter Shaw, 2008)

Seizing the Future

(Peter Shaw, 2010)

The Age of Agility

(Peter Shaw and Steve Wigzell, 2012)

The Power of Coaching Top Teams

(Jacqueline Scholes Rhodes and Hilary Lines, 2009)

Thriving in a Faster Faster World

(Heather Dawson, 2007)

Praesta London UK

Tel: +44 (0)20 7907 2450

Email: info@praesta.co.uk

Web: www.praesta.co.uk

© Praesta Partners LLP

