



PLAN NOW
FOR A SMOOTH
TRANSITION IN
ANTICIPATION OF
A STEADY FLOW
OF CEO TURNOVER

The fallout of Covid-19 is likely to result in a high degree of CEO turnover over the next year, if for no other reason than that CEOs are simply exhausted due to the pandemic, and boards will need to act now to have the best candidate ready.

Increased pressure and heightened attention on board governance has sharpened the spotlight on CEO succession. Chairs have the unenviable role of needing to facilitate an informed and astute process that leads to the “right” decision. And yet, there is no such thing as an accurate CEO succession decision — there are too many dynamics and complexities for there to be one definitive answer. There is however, the opportunity for boards to make the best possible placement based on the organization's performance to date, the present market context and future strategic aspirations. Our recent research shows that internal candidates are often better placed to successfully transition into the CEO role, and so the boards have direct access to their succession pool. Sounds straightforward — but it is not, due to a combination of board inexperience and decision-making biases.

The composition of boards means that members often come into a CEO succession process with little experience of assessing and placing a new CEO. In many appointments there will be several board members for whom it is their first placement. A high-stakes decision — no one wants to put their hand up and say they don't know what to do with succession planning. Not only is inexperience an issue at play, the significance of this decision and the personal nature of a placement amplifies inherent biases we all have when forming a view. When one is making big life decisions, such as buying a property, for example, most people seek to educate themselves — get all the data inputs they can. To avoid buyer's remorse, here are five steps boards can take to improve the quality of their collective decision making.

1 START EARLY BEFORE YOU NEED TO MAKE A DECISION

Similar to buying a property, CEO succession evokes many emotions. There is a pressured time window, the context might change and the different stakeholders all have their own agendas. Not an easy decision-making environment. What's worse, the overwhelming significance of the decision can lead one to overly focus on one aspect of a candidate and overlook any concerns. Returning to the property analogy, you no doubt know someone who has been captured by a magnificent view or enamored by the neighborhood and overlooked fundamental practical concerns such as suitable layout or access. Pressure and ambiguity create a ripe breeding ground for subjective or predetermined decisions loaded with bias. Long-term succession planning is the best antidote to buyer's remorse — provided the chair and other directors can maximize the effectiveness of planning early for future placements.

2 TRANSLATE BUSINESS CONTEXT INTO A PREFERRED PROFILE

It is easy to say, “We need the right leader for our business context.” However, translating the context dynamics into a profile of a preferred CEO candidate is not easy. Three mistakes that boards make when evaluating potential successors:

They articulate the business context, but then create an extensive list of leadership experiences and capabilities that is not tailored and that no one individual could meet.

They are biased by the incumbent's leadership profile and style, particularly when the business is performing well. As one FTSE 100 chair observed: “When the current CEO is decent, boards get fixated on the current leadership style and want more of the same.”

An exercise is carried out to articulate required leadership capabilities, but the board does not align around the profile — they still come with their own candidate preferences.

While the disruption of Covid-19 has underlined a level of uncertainty when forecasting the future, placements still need to happen within a framework of anticipated context and related strategic priorities. Progressive boards know that being definitive around the most significant context dynamics provides them with sharper decision-making principles. They create a candidate profile based on the current context of the role and the future strategic ambitions — not on the incumbent's leadership profile. After articulating which leadership capabilities really matter, boards need to consider how to weigh those criteria, given that a perfect candidate does not exist. Weighting needs to be done at the outset, if not this can open boards up to personal biases of weighting the elements that align with their preferred candidate — or their own personal strengths.

3 LEARN ABOUT YOUR SHORTCUTS (OR HOLD UP A MIRROR)

All decision-making is subject to shortcuts. Successful executives are particularly well practiced; with the volume of information they encounter, and the number of decisions required on a day-to-day basis, mental shortcuts are essential for quick judgments. Thus, it is to be expected that board members come with prejudgments about candidates. They will each have their own shortcuts when it comes to assessing candidates — whether it be a weighting on industry experience, a preference for a leader similar to the incumbent, or, most often, a candidate most similar to themselves. The neuroscience research into decision

shortcuts shows that contrary to belief, we are not making quicker connections between data points, we are in fact skipping a step in making sense of the data.

Board members need to first be aware of their own shortcuts and then take the time to challenge their evaluation of the data. To enable this, progressive boards are creating more transparent, objective decision-making processes by surfacing individual biases early in their planning process. This is not about naming and shaming, but deliberately engaging with an unspoken part of the decision process. A chair emphasizes the importance of facing individual preferences early: "If people aren't fully declaring themselves, no succession process will overcome that. Biases need to be surfaced, otherwise it is too late to deal with them." Lobbying and board power plays can be minimized by dealing with personal biases in a systematic way. A chief human resources officer notes, "We need to surface issues and biases, have open conversations about candidates — warts and all. So much value rides on the placement decision, your share price rides on it, so the consequences of getting it wrong are huge." But the value does not lie in knowing that a bias exists; this is just the starting point to unlock better decision-making.

4 PROVIDE BOARD MEMBERS WITH ACCESS TO DIFFERENT AND OBJECTIVE DATA INPUTS ABOUT THE CANDIDATES

Awareness raising is the first step. We know from diversity and inclusion training that awareness does not lead to changes in mental shortcuts — biases remain unless a different decision-making process is explicitly introduced.

Our proprietary research shows that internal candidates often outperform an external hire, but are overlooked due to a focus on known risks. Too often, internal candidates are only seen in board meetings, which only showcase one aspect of leadership. Seeing leaders in different contexts can help to mitigate the perceived risks. Board members need to use the information to inform an engagement plan with potential successors.

Progressive boards encourage nonexecutive directors to see leaders in different contexts, giving them exposure to the breadth and depth of their leadership impact. This increases the evidence-based data for boards to evaluate candidates against a role profile, and often decreases their concerns. Formalizing this process also helps to create a level playing field. Varying levels of experience of succession processes, and different approaches taken by different boards, leave board members unsure what is appropriate. Ensuring board members have equal access to potential internal successors takes the guesswork out of choosing the type of interaction for nonexecutive directors.

5 USE THE DATA AND AVOID THE HYPE

Too often the data is collected and a process is carried out, but the decision remains an emotive, subjective one. Confirmation bias means our brains seek evidence to confirm our original view, and as alluded to earlier, an affinity bias means we overrate people who have had similar careers or have a similar style to our own.

The anticipated pros and cons of each candidate need to be laid out alongside each other and used to inform a robust debate. It is easy to rationalize a preempted decision if the known data is not laid out for all to see. More often than not, there is an existing front-runner, or the incumbent CEO has a clear preferred candidate. It is easy to get caught up in other people's assumptions around individuals and use this to home in on data that supports the preferred person. When board members have their own interactions with candidates, they need to look for contradictory data to consider against the role profile and challenge themselves to apply consistent objective criteria.

A facilitator who will not be affected by the decision can aid the process by ensuring the board is giving data due consideration. Progressive boards are not only engaging in an early and transparent decision-making process, they are taking this a step further by tracking the changes in perceptions as a result of surfacing previously held biases.

Ultimately, boards need to fully embrace their corporate governance role by mitigating potential biases and addressing the variability of experience in such a high-stakes process. Robust CEO succession planning and assessment processes surface issues and bring them to light in a way that is constructive and encourages a different form of engagement, rather than turning it into personal accusations. We are likely to see a lot of movement in CEO roles and their teams, due to fatigue or a need for a new phase of leadership. Boards need to anticipate this movement now and move with transparency and speed for a smooth transition of power.

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