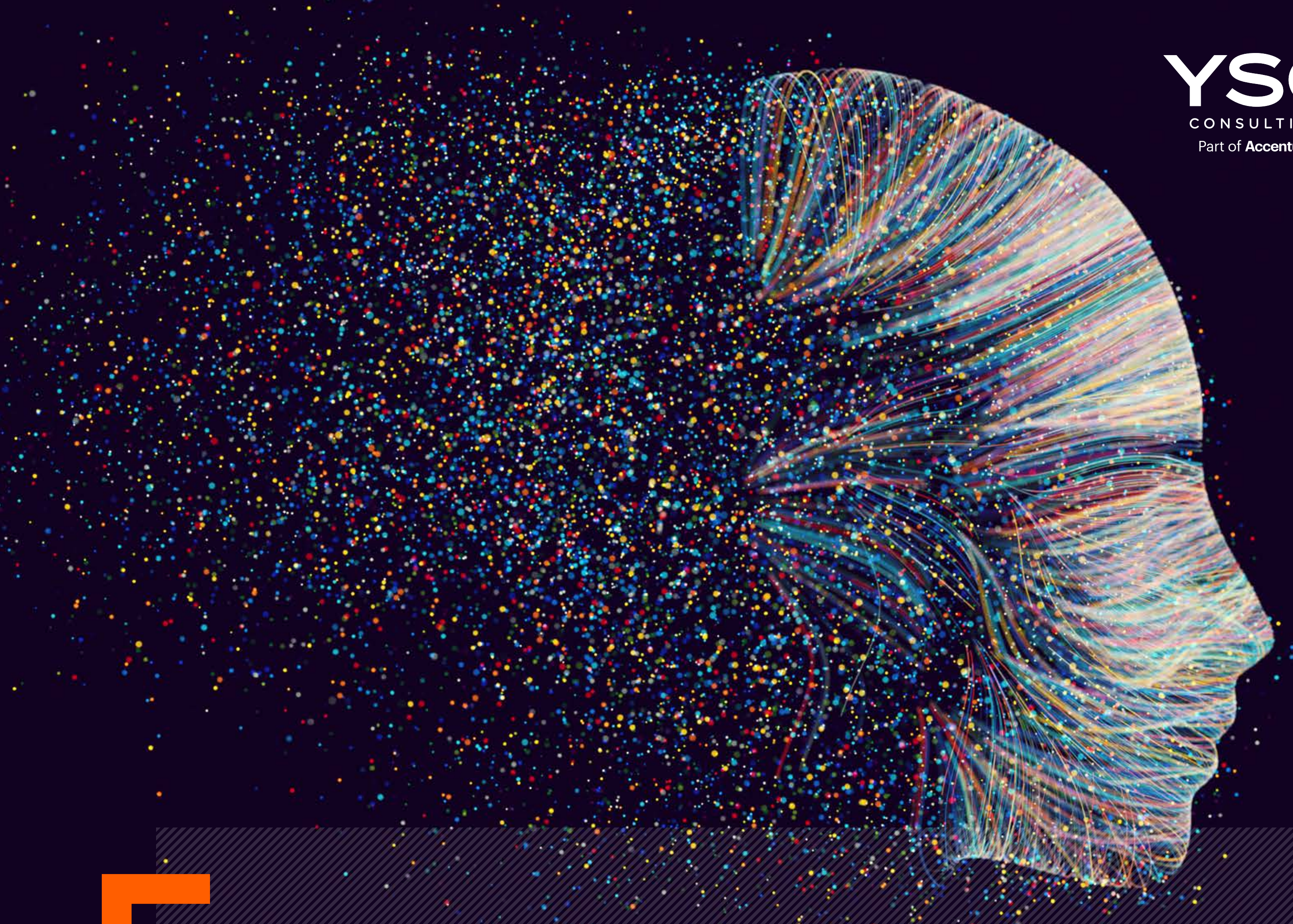

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CEO SUCCESSION: A VERY HUMAN TRANSITION WITH EXTENSIVE COMMERCIAL IMPLICATIONS

CEOs can make or break their own succession process. Succession planning is a high-stakes, complex chain of events and interactions. It affects an entire organization from its strategy to its culture, and ultimately its shareholder value. Chairs, Boards, CHROs and CEOs often focus on getting the 'process' right at the expense of the human element. Yet this human element is arguably the most critical for successful outcomes.

Most CEOs underestimate their own personal transition. It is difficult to detach oneself from the role and the organization, after living and breathing the strategy, the brand and the culture for so long. Even when they feel the time is right to move on, there can be competing assumptions about their legacy that get in the way. Too often CEOs inadvertently become blockers to a successful CEO succession process, only realizing the part they played and the emotive nature of the transition with the benefit of hindsight. We have captured three critical lessons we frequently observe working with CEOs across the FTSE 100, Fortune 500, ASX 100 and PE-backed businesses:

- **Over-attachment to one's own view of leadership**
- **Ignoring the inevitable experience of loss**
- **Failing to set the next chapter up for success**

If you are a CEO, or a Board member – by taking these factors into account you can manage the personal transition that too often disrupts the business transition.

BE AWARE OF YOUR OWN VIEW OF LEADERSHIP

CEOs ideally play a pivotal role in their own succession planning. Developing a strong and diverse bench of internal long-term successors is a hallmark of a good succession process. Studies show that internal successors are more likely to have an effective transition and maintain organizational performance than external hires.

However, developing potential successors also presents challenges around objectivity. It is human nature to value and invest in leaders who mirror your own image, while the impetus to leave a legacy is a breeding ground for unconscious biases. CEOs tell us that they find it hard to picture someone of a different style leading the business. Intellectually they know that a different leader might be needed given shifting demands and the evolution of a business. Still, it is hard to spot potential successors amongst those with different backgrounds, career paths, leadership approaches, or expertise. Like it or not, research indicates that our idea of great leadership predominantly reflects our own image and values. Even when the pool of successors is differentiated, CEOs can favor certain types of individuals. They can unduly influence Board perceptions around who the 'right' next CEO is and bias a process, and ultimately limit the opportunities for potential successors to demonstrate their readiness for the role.

To complicate matters, the evaluation of one's legacy can cloud judgment and planning. Pressures on the business can leave a CEO feeling uncertain of the legacy they are leaving behind and the impact their years of decision-making will have on future success of the business. Global economic and environmental factors and the speed of technological advancement will continue to impact all business contexts for the foreseeable future. Gone are the days of leading a steady and onward business, making one's legacy even more difficult to parcel out from progress and the constant demands of agility in business.

This rapidly changing context makes it all the more important for a CEO to step back and work with the Board to define the business's on-going transition, and likely future leadership requirements. Partnering with the CHRO and Chair and drawing on objective insights helps to create a fair, future-focused and effective process. It can help CEOs to balance out the preferences they may hold and create the conditions for future contenders to succeed.

ANTICIPATE THE INEVITABLE LOSS

CEOs refer to 'preparing' for their eventual departure, but they do so in practical ways. These include identifying and building a strong successor pool, tracking their respective development to close gaps and working with the Board to create an assessment process. With hindsight, CEOs realize that they inadvertently suppress the ground swell of emotions in the lead up to the final transition. CEOs that ignore the conflicting emotions often find that rather than going away, they just grow in strength and invariably come out at the wrong time.

Often what underlies this is a sense of grief at their own 'mortality'. The fear that with their exit, part of themselves 'dies'. Great leadership is personal; and stepping down as CEO is public, deeply personal and emotive. CEOs' identities and sense of purpose are so often intertwined with leading the organization. Yet, they can underestimate the sense of loss the final transition period can evoke. We have seen it manifest in different ways from reluctance to let go, to holding onto power and control, to fear of their successor's success or failure. The impact can be far-reaching – not only in terms of top team effectiveness and Board dynamics but on decision-making, culture, strategy formation and ultimately business performance.

CEOs who are aware of their own personal journey go beyond just managing the process; they think through the personal and organizational change that underpins a successful transition. Ask someone you know who has transitioned out of a CEO role – what did they underestimate for themselves or for others? What impact did that have on the business? What would they do differently next time?

SET THE NEXT CHAPTER UP FOR SUCCESS

CEO succession planning involves multiple transitions and can be emotive not just for the incumbent CEO but for the other key players – from a Chair who bears the ultimate weight of the final decision, to the potential contenders. The interplay of these psychologies can manifest in many ways from power-plays, to misalignment, to lack of clear leadership, to a Board unconsciously colluding with delaying a transition. Not only can this affect the effectiveness of a CEO succession process, ultimately it can affect company performance.

CEOs who are aware of these dynamics agree with the Chair/Board the role they play at different stages of a CEO succession process. They are aware of their own shadow and create sufficient space for potential internal contenders to create and articulate their own visions for the future. They step back to enable the Chair and Board to create clarity, and define expectations and measures of success.

In the final phase, a handover process between the incoming and outgoing CEO often leads to the best outcomes. However, if it is not well-managed, it can create a deferential dynamic between incoming and outgoing CEO, and confusion about decision-making. To make a handover work, CEOs need to align expectations and timelines with the Chair. They agree the transference of power and positioning between themselves and their successor. This sets up the next CEO for a new phase of business growth.

CEOs who successfully navigate the final transition period redefine how they add value to the business and the Board. They seek out the right support and challenge. Indeed, many outgoing CEOs find that working with a coach supports their own and the incoming CEO's transition and the related individual and organizational change process.

A CEO's departure is the most visibly personal leadership transition there is, bound up in identity, legacy and purpose. There is no short-cut to navigating it. However, creating individual and collective psychological readiness helps CEOs and the organization prepare for the next chapter. It ensures a smooth final transition, and sets the new CEO up for success.

To summarize the advice that outgoing CEOs wish they had been told – or were told but didn't take heed:

- **Know that your ego is likely to get in the way**, and ask your Chair and CHRO to call it out for you
- **Accept that the transition is a form of loss**; identify the right forum to process your emotions rather than let them fester and escalate at the wrong moment
- **Trust that a different style of leader is needed** for different phases of business growth; this is not personal but is likely to be a blind spot

Supporting your own succession process is critical yet complex. Above all, it relies on acknowledging the psychological and personal nature of a transition that starts well before the handover period and continues beyond it. Of course, you want the business to succeed in the future – but by holding on too hard, you may be doing more harm than good. Pause to listen to this advice your future self is likely to give other CEOs. By understanding and anticipating the human transition, you help to mitigate risk and optimize the business transition.

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