



NAVIGATING HIGH STAKES DECISIONS

NEDs and CEO Succession Planning



CEO succession is one of the most important responsibilities of a Board – a decision-making process that can make or break an organization's future. Successful CEO transitions can accelerate performance, enable transformation, and increase engagement. However, the complex and emotive nature of the process means more often than not, succession planning is fraught with difficulties, biases and unpredictability. Opinions often outnumber data and the dynamics between the outgoing CEO and Chair often influence the candidature. Added to that, it is a surprisingly unique context, due to the relative infrequency of CEO role placements – those who are making such a high stakes decision often come with little experience of CEO succession. This can lead to a lack of clarity around roles, responsibilities, and best practice.

Given the known challenges, it is not surprising that a survey of NEDs shows that 56% feel there is room to improve their organizations' CEO succession planning. Rather than waiting for the Chair to start a process, NEDs can take a more proactive approach to encourage a planned process with an emphasis on informed decision-making within the Board. Firstly, understanding the key challenges and the changing context of CEO succession helps to identify how NEDs can add the greatest value.

A changing context

The disruption of COVID has added to the tensions around planning for changes in leadership, for many reasons. Most organizations are feeling a sense of urgency to accelerate their succession plans, either because the current CEO is no longer the right fit for a significant pivot in strategy or because the CEO is ready to move on after a year of crisis leadership. As a result, Boards are grappling with the need to balance pace against the risk of premature decision-making, given the desire to have an identified successor.

OUR RESEARCH IDENTIFIES FOUR CORE RISKS FOR BOARDS, ALL EXACERBATED BY THE CURRENT CLIMATE:

- **A short-term approach** – leaving it too late, resulting in insufficient time to align around the required leadership profile, let alone find the right candidate internally or externally.
- **Missed opportunities with internals** – identifying potential candidates but not investing consistently across the whole pool of candidates.
- **Changing external context** – understanding how the business context translates into changes in the required leadership profile.
- **Decision biases** – influencing individual preferences as well as group decision-making, ranging from a default based on the current CEO's legacy, to strong individual preferences around the profile, which limits the diversity of candidates considered for the role.

Although the Chair is ultimately responsible for leading the process, there has been a shift away from the decision resting primarily with the Chair (who can often be influenced by the incumbent CEO) to a collective Board decision. Whilst a whole Board decision may be the intent, this will not happen in practice, unless marked changes are made to the succession plan and processes.

NEDs can play a vital role in optimizing CEO succession processes, minimizing the above risks and enhancing decision-making. Key to this is being intentional around the role they play on the Board at different stages of the CEO succession process.

Four ways that NEDs can add value and ensure effective CEO succession processes:

1 TAKE A LONG-TERM AND SYSTEMIC APPROACH TO GOVERNANCE AND PROTECTING SHAREHOLDER VALUE

Create foresight and optionality and manage risk in a systemic way

Despite a long-term approach being identified as the most essential way to improve the effectiveness of CEO succession planning, many Boards do not have a plan in place. Rather than waiting for a planned departure, Boards can prepare themselves for disruptions such as COVID by creating a long-term succession pipeline internally. As a FTSE 100 CHRO states "as soon as the CEO takes up the post, you should start to plan for their succession instantly".

NEDs can enable this by separating out two elements – the long-term succession architecture and related talent development from the more immediate short-term "event" of assessing final candidates and making an appointment. If this is not happening, NEDs can encourage the Board to start a process that:

- Builds foresight and adaptability into succession – anticipating challenges and identifying contingencies.
- Is a rigorous, fair process that supports the D&I agenda.
- Includes the systematic identification and review of potential internal successors.
- Anticipates how the subsequent selection event will be conducted and how the transition will be supported.
- Prepares the incumbent CEO from the outset for their own departure.

2 SUPPORT THE ACTIVE DEVELOPMENT OF TOMORROW'S LEADERS

Ensure that a robust and inclusive process is developed which builds the bench and leverages internal talent

A key part of long-term succession planning is ensuring that potential successors are not just identified but given the development opportunities to increase their potential readiness for a CEO role. NEDs can improve decision-

making down the track by taking an active role in the development process. In doing so, NEDs need to have equal knowledge and exposure to the top talent. They need to ensure that:

- The process puts due emphasis on potential as well as experience.
- If Board members are mentoring potential successors, that it is an equitable process.
- Exposure to the Board is orchestrated in a constructive, consistent and developmental way for high-potential leaders.
- They are cognizant of biases that can affect their perceptions of potential candidates.
- The process will be communicated to the candidates in a way that is fair and creates engagement and anticipates/mitigates risks of subsequent turn-over.

3 CHALLENGE THE BOARD TO ALIGN AROUND THE LEADERSHIP REQUIRED FOR THE STRATEGY

“When the current CEO is decent, Boards get fixated on the current leadership styles and strengths and are likely to want more of the same” (CHRO, FTSE 250).

Alignment has been identified by NEDs as the second most critical factor to increase the effectiveness of succession planning. All Boards need to align on the definition of success in the CEO role, and therefore what capabilities are critical. Yet leadership success criteria need not only to be agreed – they have to be the right ones. Crucially, many Boards risk identifying criteria that are in the image of the current CEO, rather than based on the future needs of the business. It is vital to create clarity around the strategic drivers, priorities and stakeholder expectations relating to the succession process, before outlining the required characteristics of the future CEO.

Boards need to use the business's strategic plan, or equivalent, as a critical reference point to:

- Define CEO capabilities which are relevant for the transition period as well as anticipated future leadership requirements.
- Create a future-focused leadership strategy that is used to build the long-term succession pipeline.
- Create alignment around decision-making criteria, if some leadership capabilities feel more important than others.

4 OPTIMIZE THE GROUP DECISION-MAKING PROCESS

While NEDs don't lead the decision process, they can still ensure that a diversity of perspectives are brought to the table. NEDs can support and constructively challenge a Chair to ensure a robust and transparent decision-making process. They can help to create a psychologically safe environment in which diverse

perspectives can be voiced, issues debated and strong opinions and blockers surfaced. Many succession processes focus on the 'task' but fail to attend to the underlying, less visible factors that sit under the surface and which are critical to ensuring alignment around such a crucial process. Operating as partners to the Chair requires the confidence and insight to raise sometimes difficult conversations.

NEDs play a critical role in ensuring the fairness and efficacy of decision-making by:

- Encouraging the Board to agree in advance how a decision will be made.
- Ensuring judgments need to be based on objective, measurable data and assessments. This is critical at a personal and collective level. Equally, by forming judgments over time and being willing to change those views if subsequent data warrants it, NEDs can help to improve the accuracy of those insights.
- Ensuring that their diverse views are articulated, the implications and trade-offs of decisions are considered in relation to the pre-defined criteria, and that data is triangulated. There is often a risk of strong opinions forming prematurely; by remaining open-minded, NEDs can balance providing their own independent view, based on the data, with the need for a shared decision.

IN SUMMARY

The disruptions of the COVID pandemic have taught us, not only that we need to have a plan B, and a plan C, but more importantly, that Boards need to build foresight into their succession plan and leverage diverse perspectives in the face of complex challenges. Finding a CEO successor is not a quick decision and there is likely to be an increase in turnover at the top over the next few years. Savvy Boards are seeing the importance of long-term succession planning and the need to redefine the right leadership for a different world. NEDs can play a critical role in ensuring successful outcomes of CEO successions, irrespective of their level of experience of similar processes. They can add value by ensuring the Board is thinking in a future-focused and systemic way that helps to ensure the right talent is developed and assessed against the right criteria. Early and ongoing input from NEDs can improve the quality of the decision-making process, thereby increasing alignment and confidence in the decision. They can build personal and collective awareness – what to attend to, how to mitigate biases, how to create alignment, and how to get the right data and evaluate it.

These are the hallmarks of a successful CEO succession process in which NEDs play a vital role.

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