

WHAT LIES BELOW CEO SUCCESSION

CPOs need to know that planning and process are not enough

Effective CEO succession necessitates more than planning and process – CPOs require courage, tact, and confidence.

One of the most important moments in a CPO's career is managing a change in CEO. Done well, it is a source of value, it is a retention tool for the rest of the Executive and an opportunity for organizational renewal. Done poorly, the process disengages the rest of the Executive team leading to unwanted instability despite good candidate choice. Or worse, the Board chooses the wrong candidate resulting in loss of value for shareholders and for the company. The power and influence a CEO exerts is never as strong as it is in their entries into and exits out of an organization. For better and for worse, the occupier of the CEO title affects share price, customer sentiment and employee engagement. CPOs have a pivotal role in ensuring that CEO succession leads to positive organizational change. Planning and process can create a sense of control, but they often overlook the people dynamics that can make or break the plan.

The increased scrutiny of CEO performance means there is a growing pool of advice around early planning, identification of talent and regular candidate reviews. CPOs have a clear role in identifying future potential and talent development leading up to a change in CEO. However, the greatest opportunities for CPOs to add value are not about plans and process, but about the human element. Humans are complex. Throw in an opportunity for a powerful position, played out in a landscape of ambition and personal preferences, and things get even more complex. Egos can grow, motives get cloudy and derailers spike. CPOs should follow planning advice but they can add unique value by proactively addressing these three underlying human elements:

- > DIALING DOWN THE POLITICAL MANEUVERING BY INCREASING OBJECTIVITY AND TRANSPARENCY
- > REDUCING BIAS IN THE SUCCESSOR TALENT POOL
- > ORCHESTRATING ACCELERATED EXPERIENCES TO INCREASE READINESS



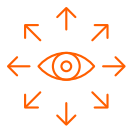
DIALING DOWN THE POLITICS

CEO succession will always have a dose of politics, but the CPO can determine whether the politics is a bit of noise around the edges or whether it becomes a destructive force that blows up the process. Succession plans advise Boards to have an objective and transparent processes. The reality of human decision making is that biases play out even when hard data is presented. People pick the data that supports their position. Disentangling our emotions and our motives in such a personal decision is near impossible. So rather than expecting the Chair and Board to be objective, CPOs can increase the use of data – using different sources at different points in the process to reveal blind spots or unfounded assumptions. Highlighting subjectivity can only be done if CPOs have the credibility and courage to challenge the Board. They need to do so in a way that is underpinned by data, otherwise they become complicit in the politics or risk a tick-box exercise.

Credibility is both earned and assumed. CPOs often get caught between being seen as an ally of the incumbent CEO and their preferred internal successor – or an informant for the Chair. To decouple themselves from the Chair, CEO or a candidate, CPOs must set the expectation that they are the facilitator of the right 'inputs' to get to the right outcome. It is not uncommon for Board members to base their judgements on internal candidates solely on their Board presentations. The key ingredient here is courage. Courage to hold the mirror up to the Board when individuals are blatantly locked on one candidate despite data that suggests alternatives. Courage when Directors are placing undue weight on one source of information.

TO MAXIMISE YOUR IMPACT AS A CPO:

- **Remove any ambiguity.** Regularly revisit Board expectations, roles and responsibilities, and how best to partner with the nominations committee. Ambiguity is a breeding ground for political play. Directors often hold multiple Board positions with varying expectations, so remove any guess work.
- **Hold the Board accountable to use the data.** Agree the candidate decision-making criteria early. Identify different sources of data to periodically share as inputs in the process and have the courage to challenge Directors who only attend to data that reinforces their view.
- **Don't make assumptions.** Discuss and agree your role with the Chair, to own your contribution with confidence and clarity, and to align on the incumbent CEO's involvement.



REDUCING BIAS IN SUCCESSOR TALENT POOL

Succession plans advise Boards to ensure there is a strong bench of internal talent. This is good advice - our research shows that internal candidates are over three times more likely to be successful than an externally sourced candidate. But Boards are still captured by the lure of an external candidate. This challenge is three-fold: homogenous candidate pools limit variability in leadership, fixed views based on minimal candidate exposure and partiality to the incumbent CEO profile. Increasingly Boards hold a commitment to bring greater diversity into the Executive team and yet they continue to fish from the same shallow or limited pool. CPOs should ensure they are bringing diverse talent into the Executive early enough so that they have an impact and the right experiences to demonstrate CEO readiness. CPOs need to help their Boards and incumbent CEO go beyond tokenism on the Executive team and their respective teams by identifying meaningful reasons to bring in different leaders.

On a different note, internal candidates have the biggest challenge on their hands as Board members have likely formed fixed views based on limited exposure. Unfortunately, well-meaning CPOs often exacerbate this by trying to convince the Chair or NEDs to look at a candidate in a new light. Often, when we present people with alternative data in an attempt to change their view, it results in individuals becoming more fixed in their original position. Rather than trying to convince Board members, providing candidates with new or different forms of exposure over the cycle of CEO succession can help to shift perspectives. Flush out differences in opinion early and be curious to understand these, rather than making judgements about the Board's judgements. CPOs may think Board members are biased, but it is likely they are biased too. Use Board concerns to identify the developmental opportunities that can be orchestrated for the candidates - whether that is putting individuals in front of the Board in different contexts, or a role change to cover off experience gaps.

Lastly, it is hard to envisage a new leader in the role when the incumbent is performing well. Succession plans tell Boards to create a preferred leadership profile. Most people struggle to decouple future leadership needs from the present-day role. CPOs can encourage the Board to start with future context - what are the macro changes in our world that will influence this sector, this market and therefore opportunities to create value for customers and other stakeholders. What will that future business demand of a leader that is different from today? This crucial step will force the Board to articulate a future leader rather than a current day replacement.

TO MAXIMISE YOUR IMPACT AS A CPO:

- **Ensure the pool is refreshed.** The changing pace of our world is rapidly changing the asks of our leaders. Loyalty to highly experienced leaders who are not adapting to current leadership needs impedes your ability to bring in greater diversity in your Executive team.
- **Flush out differences early.** Make differences in opinion a source for further candidate exposure to provide Board Members with multiple data points.
- **Focus on future context.** Start with an external lens, to ensure the profile and criteria for success is based on anticipated business needs rather than incumbent profile.



ORCHESTRATE DEVELOPMENTAL EXPERIENCES

There is no point in having a process to identify internal successors unless you are going to do something instrumental to accelerate their readiness. CPOs can ensure candidates are developed through crystal clear feedback on their perceived gaps and giving them the right experiences to grow. Senior leaders often lack honest feedback. Meaningful development requires robust feedback from multiple stakeholders to create a picture of growth opportunities, followed by a mix of support and challenge to act on the feedback. Secondly, candidates need real workplace challenges that stretch them out of their comfort zone to test their leadership ability or acumen in different contexts. Set your successors up with enterprise-wide changes such as digitisation or sustainability. Truly testing their leadership growth usually requires the incumbent CEO to take a risk by moving internal candidates out of their current roles in which they are no doubt performing well. CPOs can partner with the CEO to take a bet on identified successors to lead effectively elsewhere in the business where there is less of a natural fit.

The degree to which a leader can evolve their leadership style is crucial data in itself. This becomes more important when you let a potential successor know they are being considered. Their developmental experiences have clear purpose and tracking progress is significant for them individually and for the Board. Here lies another human challenge to navigate - once you tell people they are a successor, they can become single-minded in their career focus. Discussing other future Exec roles, such as lateral moves, as an option alongside CEO potential can help your candidates to think more broadly around their future career path. Exploring different options helps your Executives to envisage themselves in roles other than the CEO position in the future, aiding retention if they are not the appointed one.

TO MAXIMISE YOUR IMPACT AS A CPO:

- **Make bold people moves.** Take a bet on your internal successors with lateral moves to provide them with unorthodox challenges. It gives you and the Board more data.
- **Identify partnership opportunities.** Provide your leaders with learning challenges that expose them to novel problems to solve, new stakeholders to influence and require a flex in their leadership. The need for agility is not going away. More practice dealing with 'wicked' problems builds leadership muscle.
- **Track the change over time.** Not all development is equal. Humans vary in their ability to change. Self-awareness, the degree of change and growth in internal successors is a powerful data input when assessing CEO readiness.



A CPO's responsibility for the people agenda takes on a whole new meaning when it comes to CEO succession. Plans and process are a step in the right direction to bring in greater objectivity and transparency but focusing on the human factor is pivotal. The human factor brings a whole lot of messiness and many grey zones to navigate. CPOs need to get themselves ready to get CEO successors ready. The best starting point is for them to be clear on the value they can add and to set themselves up with a 'commercial-in-confidence' sounding board to help them have the courage to challenge through data, the tact to navigate the politics and the confidence to partner with the Chair and steer with the Board.

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