



CEO SUCCESSION MANAGEMENT

INSIGHTS FROM
THE BOARDROOM

*“The trouble with our times
is that the future
is not what it used to be”*

Paul Valéry

J G R C U P Λ

FOREWORD

At the time of our last report, “Leaders on Leadership: the New Normal”, the world had entered a new phase, a “new normal”, a turbulent world of continual change and challenge. Opportunities have become harder to find and more essential to exploit, old assumptions are no longer viable and predictability is more ephemeral than ever. Just as a more flexible, adaptable model of leadership is required to survive and thrive in this environment, so too is there a need to be more flexible and adaptable when searching for new leaders.

In some ways, leaders of the future will need to be very different from those of the past. They will need to conquer the challenges of the new normal and the new normals that will follow, understanding the successes, as well as the failures, of the past and taking full advantage of the transient opportunities of the future. They will need to be more values-oriented, more understanding of technology and more collegiate. Now, more than ever, the right kind of leadership is critical for success. Acknowledging and embracing the unpredictability of the future is the first step in the never more important task of choosing the new leaders.

This report is based upon conversations with nearly 100 Chairmen, CEOs, CFOs and Group HR Directors who have shared with us their thoughts on planning for a CEO succession, how best to manage the process and the common pitfalls. We have taken their views and reflected them back as faithfully as we can.

All of the partners at JCA Group are enormously grateful to each contributor for taking the time to talk to us and we hope that the insights, advice and recommendations that follow offer stimulating reading for those planning for or considering CEO succession. Readers will have their own thoughts on CEO succession management and we would welcome your views. If you are happy to share them with us, please do send them to jcagroup@jcagroup.net.

EXECUTIVE SUMMARY

THE NEEDS OF THE ORGANISATION

- Be as clear as possible about the future direction and longer term strategy of your company and ensure your CEO requirements are linked to this
- Expectations of leaders will be different; future generations will demand authentic, inclusive and values-led leaders who can manage uncertainty
- Appointing a CEO who is an excellent chemistry fit with the Chairman and Board is critical
- Don't leave it too late to plan CEO succession; determine the right planning timeframe for your organisation
- Ensure the planning process is flexible and can accommodate changing requirements
- CEO succession is most effective when there are clear timelines; encourage the CEO to be as open as possible about their future plans

MANAGING THE SUCCESSION PLANNING PROCESS

- Make sure the Board is committed to real discussion and debate over succession
- Determine how open and transparent the CEO succession process should be, but avoid a horse race
- Benchmark internal candidates against the best the market has to offer
- Developing a pool of candidates can enable you to accommodate changing CEO requirements and timeframes more effectively
- Give direct and honest feedback to individuals in the CEO succession process
- Make full use of your Group HR Director and clearly define your current CEO's role in the CEO succession process

MAKING THE RIGHT CHOICE

- Be prepared to make tough decisions
- Understand the pros and cons of selecting internal or external candidates
- Look forwards when determining your company's needs and assessing the potential of candidates; what has made the company or the individual succeed in the past might not be right for the future
- Be clear about your CEO requirements; keep the process tied to reality but do not settle for less than you need
- Fully assess and reference internal candidates rather than relying on internal reputation
- If hiring externally, ensure proper referencing is undertaken and a thorough induction put in place
- Deal carefully with disappointed internal candidates

CONTENTS

CONTRIBUTORS	07
THE NEEDS OF THE ORGANISATION	11
• The company's strategy and future	11
• Future leaders will be different	11
• Chemistry fit with the Chairman and the Board	12
• Timeframe for planning	13
• The importance of flexibility when preparing for an unknown future	14
• The need for CEOs to be open about timeframes	14
MANAGING THE PROCESS	16
• The succession planning process	16
Rigour of process	16
Discussion and debate	16
Board commitment	17
• Having a pool of candidates	17
• External talent	18
Benchmarking internal talent against external talent	18
Tracking external talent	19
• Openness and transparency	19
• Avoiding a horse race	21
• Giving feedback to candidates	21
• The role of the Group HR Director	22
• The CEO's involvement	23
MAKING THE RIGHT CHOICE	24
• Common pitfalls	24
Recognising a company's past may not be its future	24
Differentiating between future potential and past performance	24
Fully assessing internal candidates	24
Timing	25
Being clear about what is required	25
Keeping the succession process realistic	25
Not settling for less	26
• Deciding between internal and external candidates	26
Internal candidates	26
External candidates	27
• Making external hiring work	28
• Dealing with disappointed internal candidates	28
• Communicating the decision externally	29
• Making tough decisions	30
JCA GROUP	31

CONTRIBUTORS

Dame Helen Alexander Chairman, UBM and Port of London Authority Deputy Chairman, Esure NED, Rolls-Royce	Patrick Cescau Chairman, InterContinental Hotels Group SID, Tesco NED, International Airlines Group
Doug Baillie Chief HR Officer, Unilever	Ian Cheshire Group CEO, Kingfisher Lead NED, UK Department for Work and Pensions NED, Whitbread
Deborah Baker Director for People, BSKyB	Graham Chipchase CEO, Rexam NED, AstraZeneca
Robin Baliszewski Director for People, Pearson	Vittorio Colao CEO, Vodafone Group
Sandy Begbie Group Operations Officer, Standard Life	John Connolly Chairman, G4S and Amec
Alita Benson People Director, easyJet	Richard Cousins CEO, Compass Group NED, Reckitt Benckiser
Andrew Bonfield CFO, National Grid NED, Kingfisher	Tanith Dodge HR Director, Marks & Spencer
Philip Bowman CEO, Smiths Group SID, Burberry Chairman, Miller Group NED, Berry Bros & Rudd	Liz Doherty NED, Delhaize, Nokia and Dunelm
Samir Brikho CEO, Amec NED, Skandinaviska Enskilda Banken	Andy Doyle Group HR Director, WorldPay
Alison Carnwath Chairman, Land Securities and Isis Equity Partners NED, Paccar and Zurich Insurance	Enrique Dupuy de Lome Chávarri CFO, International Airlines Group
Sir Roger Carr Chairman, Centrica and BAE Systems SID, Bank of England	Jan du Plessis Chairman, Rio Tinto SID, Marks & Spencer
	Kath Durrant Group HR Director, Rolls-Royce

CONTRIBUTORS

Jenny Duvalier

EVP, HR, ARM Holdings

Guy Elliott

Former CFO, Rio Tinto

NED, Royal Dutch Shell and SABMiller

John Evans

Group HR Director, FirstGroup

Stuart Fletcher

CEO, Bupa

Douglas Flint

Chairman, HSBC

Faye Frater

VP, Organisational Development, InterContinental
Hotels Group

Evelyn Gardiner

Group HR Director, Kingfisher

Karen Geary

Former Chief People Officer, Sage Group

Sir Chris Gent

Chairman, GlaxoSmithKline

NED, Ferrari

Giovanni Giordano

Group HR Director, British American Tobacco

Peter Goerke

Group HR Director, Prudential

Andrew Gould

Chairman, BG Group

Andrew Griffith

CFO, BSkyB

Chris Grigg

CEO, British Land

NED, BAE Systems

Tony Habgood

Chairman, Reed Elsevier, Whitbread and Preqin

Sir Philip Hampton

Chairman, Royal Bank of Scotland

NED, Anglo American

Paul Harrison

CFO, WANdisco

SID, Hays

Simon Henry

CFO, Royal Dutch Shell

Steve Holliday

CEO, National Grid

NED, Marks & Spencer

Matt Huckin

Group HR Director, IMI

Jean-Marc Huët

CFO, Unilever

Jackie Hunt

CEO, UK & Europe, Prudential

NED, National Express

Rakesh Kapoor

CEO, Reckitt Benckiser

Carol Kavanagh

Group HR Director, Travis Perkins

Justin King

CEO, J Sainsbury

NED, Staples

Gerard Kleisterlee

Chairman, Vodafone

NED, Royal Dutch Shell, Dell and Daimler

Pauline Lafferty

Group HR Director, Weir Group

Sam Laidlaw

CEO, Centrica

NED, HSBC and UK Department for Transport

Martin Lamb

CEO, IMI

NED, Severn Trent

Simon Lee

CEO, RSA Insurance Group

Lord Livingston

Incoming Minister for Trade and Investment

Former CEO, BT Group

NED, Celtic

Simon Lloyd

HR Director, Santander UK

Nick Luff

CFO, Centrica

NED, Lloyds Banking Group

Rob Luijten

EVP, HR, Tate & Lyle

Graham Mackay

Chairman, SABMiller

NED, Philip Morris International

Deirdre Mahlan

CFO, Diageo

NED, Experian

John Martin

CFO, Wolseley

Sir Charlie Mayfield

Executive Chairman, John Lewis Partnership

Carolyn McCall

CEO, easyJet

John McFarlane

Chairman, Aviva

NED, Westfield Group

Richard Meddings

CFO, Standard Chartered

SID, 3i Group

Steve Mogford

CEO, United Utilities

NED, Carillion

Simon Nash

SVP, HR, Reckitt Benckiser

Nic Nicandrou

CFO, Prudential

Terry Nolan

HR Director, Smiths Group

Archie Norman

Chairman, ITV

NED, Lazard London

Sir John Parker

Chairman, Anglo American

Vice Chairman, DP World

NED, Carnival and EADS

CONTRIBUTORS

Roberto Quarta

Chairman, IMI
Partner, Clayton, Dubilier & Rice
NED, Foster Wheeler

Sir Simon Robertson

Deputy Chairman, HSBC
NED, Economist Group

Sir Nigel Rudd

Chairman, Invensys and Heathrow Airport Holdings
SID, Sappi

Ronald Schellekens

Group HR Director, Vodafone

Tim Score

CFO, ARM Holdings
SID, National Express

William Serle

Group HR Director, Amec

Rupert Soames

CEO, Aggreko
SID, Electrocomponents

Richard Solomons

CEO, InterContinental Hotels Group

Ben Stevens

CFO & CIO, British American Tobacco

Tim Stevenson

Chairman, Johnson Matthey

Robert Swannell

Chairman, Marks & Spencer

Lynn Tetrault

EVP, HR & Corporate Affairs, AstraZeneca

Claire Thomas

SVP, HR, GlaxoSmithKline

Dorothy Thompson

CEO, Drax Group
NED, Johnson Matthey

Helen Thornton

HR Director, International Personal Finance

Warren Tucker

NED, Reckitt Benckiser
Former CFO, Cobham

Cathy Turner

Former Chief Administrative Officer, Lloyds
Banking Group
NED, Countrywide

Tony Van Kralingen

Director, Supply Chain and Human Resources,
SABMiller

Hans Vestberg

CEO, Ericsson
NED, Thernlunds

Adam Walker

CFO, Informa

Tim Weller

CFO, Petrofac
NED, G4S

Mike Westcott

Group HR Director, National Grid

Nigel Wilson

CEO, Legal & General

THE NEEDS OF THE ORGANISATION

THE COMPANY'S STRATEGY AND FUTURE

The most crucial consideration in CEO succession planning is having clarity of the company's needs as well as short and long term objectives.

"Be clear on what you are looking for. Understand the role for today and tomorrow including skillset, industry knowledge, experience, behaviour and appetite for success."

"Look at the company's strategy and plan and extrapolate from that where the gaps are and what needs to be done. Then identify where the succession will come from. Where are the capabilities within the company? Try and ensure that there is a succession plan that fits with the strategy. You really need to try to understand, from a strategic point of view, what are the big capability and succession issues."

"You have to think about how the strategy and environment align with the requirements for a new CEO. If, for example, a business is growing at 20% per annum then the company will look different in three years and you have to consider what this means for succession."

FUTURE LEADERS WILL BE DIFFERENT

The leaders of the future will be different and companies will need to ensure their succession planning takes this into account:

"The world has become flatter, less hierarchical. There is more open communication and less structure. The next generation of CEOs will need to be able to navigate in that world. It is not about sitting in an office, looking important."

This means 'command-and-control' leadership is a lot less desirable: *"Great leaders were previously*

THE NEEDS OF THE ORGANISATION

very hierarchical and controlling in the way they dealt with the tens of thousands of people who worked for them but the world has moved on. Now it is about empowering the next generation and the people below you. It's a move from directive management to empowering leadership."

Leaders will be more values-oriented: *"The younger generation has been born in a very different time. They have high moral standards – I sense our children have much wider expectations for society, sustainability and responsibility. They will be a different breed – they will be more people-centric than previous generations. I think they will be better. Their bar is higher and that will be good for society."*

CHEMISTRY FIT WITH THE CHAIRMAN AND THE BOARD

It is critical that the CEO has a strong working relationship with the Chairman and the Board. The destructive potential of poor cultural fit or dysfunctional relationships was touched on by many contributors.

"What was most important to me was how crucial it was to get the right combination of Chairman and CEO rather than the best two individuals – it's far better to have people who work well together than two brilliant people who correspond via their assistants."

"You need to recognise it is all interconnected – the type of CEO you have drives the type of Chairman you need and vice versa."

"The relationship between the Chairman and the CEO is critical. A more hands-on Chairman and a very controlling CEO might be difficult as you would have run-ins. The chemistry and what they bring needs careful balancing."

TIMEFRAME FOR PLANNING

The leaders we spoke to had differing views about how soon succession planning should begin in advance of a planned CEO transition, but all agreed: *"You don't want to do it with six months to go, or, indeed, overnight!"*

"A business should plan succession with a sufficient timeline to have the opportunity to search externally if that is the better answer. The most important thing is timing. You should start before you think you should."

For many, the timeframe for planning succession was between three and five years before the CEO's departure: *"I think it should be at least three years before the transition. It takes time to plan and watch potential candidates' development. It takes time to move them, see them in a move and evaluate how they cope with it. It takes time to get candidates onto a Board, if this needs to be done."*

Other contributors believe the process should be ongoing: *"I think that the identification process should be a continual one. We look at who would be ready now, who in two to three years and who in three to five years. It's genuine succession planning as opposed to risk management. You then need to invest in their development and help them plug the gaps."*

However, the increasing unpredictability of the future led some to feel that planning too far in advance might be counter-productive: *"You don't know what you are going to need until you are facing it and you don't know the circumstances in which the CEO will leave. It might be a performance issue or resignation, it is seldom retirement. I wouldn't plan too far in advance. What you can do is identify and develop internal candidates on the basis that they would be one of the people to be considered and ask search firms to work with you periodically on the external talent pool."*

THE NEEDS OF THE ORGANISATION

THE IMPORTANCE OF FLEXIBILITY WHEN PREPARING FOR AN UNKNOWN FUTURE

The need to accommodate flexibility in succession planning was seen as key: *“I think a succession plan is a bit like the flight plan from Apollo 13. It seldom happens like that and you are often victims of timing and circumstances. You need to keep your bets wide, particularly in such a fast-changing world.”*

“You have got to decide what capabilities are needed for the future in a world that doesn’t exist today and then make sure you are developing them. You need to reserve the right to change and evolve the profile of the CEO you require.”

THE NEED FOR CEOs TO BE OPEN ABOUT TIMEFRAMES

Effective CEO succession planning ideally means the CEO being prepared to talk about succession and to be open about their plans. A company also ideally needs a clear view of the Chairman’s timeframe so that the roles are not transitioned too close together.

“You have got to have a really open conversation with your CEO about what you – as Chairman – and they are planning for. You have got to know the timescales and that needs to be discussed with the Nominations Committee. Being candid is a good thing.”

“I definitely think Boards should talk about succession planning in a very open way. You must take the emotion out of it. Some Chairmen would say ‘I couldn’t possibly ask my CEO’. I think it is the first thing you should talk about with your CEO. If, as a Chairman, you can’t talk to your CEO about succession, then your relationship is not as strong as it needs to be.”

However, there was recognition that it is not always straightforward: *“Some CEOs are open to having that conversation, but the risk for others is that it can be emotionally disruptive or even signal failure.”*

In PLCs great care needs to be taken around disclosure: *“Technically, as a CEO, I cannot agree with the Board what my plans are as the Board would have a duty to externalise that, even though it’s actually not in the interest of shareholders to externalise it!”* Confidentiality is also absolutely crucial.

MANAGING THE PROCESS

THE SUCCESSION PLANNING PROCESS

Rigour of process

There were many differing views on how exacting the succession planning process should be.

For some, rigour was crucial: *“You almost have to be military-like with systems and processes that are followed and operated regularly, so you have rhythm and are content- and data-rich. Having a process, reporting and methodology is critical to the framework to be able to articulate and provide good governance around succession planning.”*

Others that we spoke to, however, were less convinced by the value of process itself: *“The content is much more important than process. People can get bogged down in process. The most important thing is that in whatever form, you have a meaningful, content-rich approach.”*

“The focus needs to be on quality versus quantity. People want to be able to show they have succession plans, but when it comes down to it, can the candidates really do the job?”

Discussion and debate

A key part of a good CEO succession process is making time for discussion and debate as a Board and a Nominations Committee: *“Meaningful time should be spent really thinking through what is needed in the role and where the business is going. You should create space for sharing views and thoughts.”*

The pool of potential successor candidates needs to be presented and debated regularly: *“You need a tough and detailed debate. Too many businesses give it lip service. You need to set two to three hours aside to go into detail with the NomCo or Board on a regular basis. There is a time component that needs to be got right.”*

Board commitment

All highlighted the importance of engagement and commitment to the CEO succession process: *“The Chairman and the CEO need to make sure the Board really gives it proper attention. The Chairman and the CEO need to be behind talent management more generally. It needs to be the way you do business – Diageo, Pepsi and GE are good examples – if you don’t, there will be real consequences.”*

“Good CEO succession planning calls for great commitment from the Chairman and the NomCo and deep involvement from the Board.”

“As part of the NomCo, you need to spend time with succession candidates to understand the profile yourself and to have the right checks and balances. You need the leadership courage to challenge organisational thinking.”

HAVING A POOL OF CANDIDATES

Almost all agreed it is necessary to have a variety of options in mind for the CEO’s successor rather than a single nominated individual: *“You need to have several irons in the fire. You need to have several options and several dimensions covered, depending on where and how events unfold.”*

“I think it is important to have a pooled approach to CEO succession planning. Companies have a tendency to say ‘Here is our succession plan, here are the individuals, these are the people who are ready now, these are the people who will be ready later’, but in fact, it is very hard to predict. Things change. Maybe thinking about a pool of candidates is better. Sometimes candidates leapfrog. Some will move slower or faster than others. Some will leave the company. Circumstances are unpredictable and if you have a pool of candidates to choose from this provides more options.”

MANAGING THE PROCESS

“It is important not to put all your eggs in one basket. I am someone who likes to think and operate an approach with the greatest level of optionality – I don’t let myself get locked into a plan of what we are going to do too early. It is always good to have options.”

A number commented that the Chairman’s view on CEO succession will have a big influence on the process: *“It is important to understand that there are very different philosophies on CEO succession planning and it depends on how the Chairman sees it. Some like the horse race and think it should be a very visible process. Some prefer to focus on one individual and some on a pool of candidates. The Chairman’s view on this is very important when deciding how best to approach CEO succession and it is helpful for this to be clear to those helping him or her.”*

EXTERNAL TALENT

Benchmarking internal talent against external talent

Most believed it was best practice for internal appointments to be benchmarked against external candidates and this should almost always happen: *“Validation of succession can and should be done externally. Objective external validation of internal candidates is important. Wherever possible, they should be benchmarked against external candidates. Otherwise how do you know what good looks like? The emphasis needs to be on external validation. Without this, it’s difficult to tell who is right and if they are the best talent available.”*

“Internal CEO successors should definitely be benchmarked against external candidates. Good succession planning is not just an internal or an external activity, it is both. It is useful to be able to scan externally. If we had to appoint someone today, who do we know that we could tap on the shoulder? Who is out there in the market that has potential for a couple of years’ time that we may want to get to know now?”

However, external benchmarking, though necessary, needs careful management, especially with respect to internal candidates: *“You need to think through how you want to manage the benchmarking process. If it is not an open process, there can be issues if it is clumsily managed and internal candidates find out.”*

Some believe that benchmarking should not be just an academic process and that external candidates should always be met and interviewed even if there is a strong slate of internal candidates: *“It’s important for the internal candidates to meet, talk and gain exposure to the Board. External candidates should also be met – it shouldn’t be a ‘paper exercise’. There should always be external candidates to benchmark against your internal candidates. Then if one of your internal candidates gets it, they really know that they were the best person for the job which is very good for their self-esteem.”*

Tracking external talent

For many, tracking external talent was seen as crucial: *“A Board should do frequent external benchmarking and benchmark the top team every two years.”*

This might involve tracking potential external candidates over a number of years. One contributor commented: *“We are going to focus on external talent intelligence. The whole environment in this industry is so dynamic. We need to look outside and broaden our thinking. We need to have a pool of external candidates ready as well as internal ones. This is where search firms can really add value.”*

OPENNESS AND TRANSPARENCY

There were significant differences of views on the level of openness and transparency seen as appropriate for CEO succession planning and talent development.

MANAGING THE PROCESS

Many advised being open and honest: *“Transparency is a better model in the long term than a kind of grey atmosphere, if it is possible.”*

“You have to have a climate of honesty and openness to achieve transparency. People try to make succession planning into a black art – it shouldn’t be a black art.”

Some emphasised: *“Succession planning should not involve collective transparency but one-to-one transparency with the people on the succession plan.”*

“The danger is that when a number of parties know they are all vying for the same position, it can be distracting for the business. The openness in my view should really be limited to NomCo, the NEDs and the CEO, as well as the Group HR Director from an enabling perspective, but no wider than that.”

Equally some felt less inclined to have an open discussion: *“It comes down to the culture of the company. In some it may work to be open. For our culture, it is more subtle – you don’t want to close out conversations before you have to. For us, subtlety works. If you can afford to let time play out, the runners will make themselves clear.”*

“In our business, it is about keeping your head down and then you get tapped on the shoulder – nothing is guaranteed.”

Whichever approach is taken, all agreed that: *“Succession is a very sensitive subject. If these things aren’t done right it can make for a very tense environment. How you position it and manage it really matters.”*

AVOIDING A HORSE RACE

There was general agreement that excessive competition among potential internal successors could be destructive. As one Chairman put it: *“Three or four successors who all appeared in lights and had to compete with one another was not good.”*

“You do not want a public horse race, so keeping it low key and part of the beat of how the organisation functions is important.” It is really desirable to have: *“A short sharp process, so you don’t have different executives jockeying for position.”*

GIVING FEEDBACK TO CANDIDATES

Giving direct and honest feedback to internal candidates in the succession plan was seen as very important: *“I am a big fan of honest feedback. You have to have regular and candid dialogue so that there is trust and the internal candidates feel that it’s been an open process and that they get really good quality feedback.”*

All agreed that it is crucial not to make promises: *“The individual needs to have clarity that they are a succession candidate. However, you should never promise anything.”*

Many felt it is equally important to be honest with those who are unlikely to make it: *“People are often put on the succession plan even though nobody really believes they will make it there and that is not fair on anyone.”*

“If they aren’t ever going to make it, you need to have honest conversations with them to discuss this. Handling these conversations in a very delicate way is key.”

MANAGING THE PROCESS

THE ROLE OF THE GROUP HR DIRECTOR

Most agreed that the Group HR Director can play a crucial role in CEO succession: *“Succession should be a combination of all – the Chairman, the NomCo, the Board and the Group HR Director.”*

“A strong Group HR Director has the experience and nous to be the right hand person to the Board and can hold their hand through succession.”

“Great HR provides significant underpinning to great succession planning and delivery.”

The level of involvement of Group HR Directors differs from company to company with only a handful being included in Nominations Committee meetings. A number were fervent about the need for greater HR involvement in all areas of CEO succession rather than just in the process.

“HR should have influence with a PLC Board. HR needs to play an important part in all aspects of succession planning. They need to be involved. HR should be right in the middle of it.”

However, not all Chairmen agreed that the HR Director should be involved: *“The Group HR Director is a member of the management team and as such should not be involved, as is the case with the other top team members.”*

“When the HR Director is very close to the existing CEO they can be influenced inappropriately. Appointing a new CEO is a matter for the Board alone.”

Regardless of how involved the HR Director is in the process, theirs is a role that can be uniquely useful as a confidant and a source of advice: *“The HRD can play a key role if they have been a true*

partner to the CEO and to the NomCo Chair. This is where the quality of their relationship, trust and ‘bridging’ role can come to the fore as some of the most personal, sensitive and ‘risky’ matters are discussed.”

THE CEO’S INVOLVEMENT

Many contributors argued that preparing a successor should be one of the CEO’s main priorities:

“There is not much doubt that if you, as a CEO, have failed to put in place a great successor you have failed in one of your biggest responsibilities as CEO.”

Many CEOs will be naturally inclined to develop strong successors, but some need encouragement from their Chairman and Board: *“You can’t really rely on the CEO to plan succession for themselves – they might see it as planning for putting themselves out of a job!”*

“The CEO should be pushed to identify immediate successors and ones likely to be ready in the future – a Chairman needs to force the CEO to do this.”

However, a number of participants also made the point strongly that the CEO should not be involved in the later stages of the CEO appointment process as there could be a conflict of interest: *“The CEO will not always be able to be impartial because of their personal agenda and past loyalties or, the existing CEO may not perceive how the next CEO should be different to themselves.”*

“It is hard, especially for CEOs under pressure, to stand back and see what might be best for the business in the future.”

MAKING THE RIGHT CHOICE

COMMON PITFALLS

Recognising a company's past may not be its future

A CEO candidate who is modelled on a current or formerly successful CEO might not be the best match for the company's future needs: *"Inward, history-based focus is definitely a risk. What made the company succeed in the past might not be right for the future. We see the future through our experience."*

"You should take care not to base what is needed now on what has been needed in the past. You have to be clear on what subtle skills are required to lead a business in the 21st century. There is a danger that you can keep looking for the same mould of CEO."

Differentiating between future potential and past performance

Too great a focus and reliance on past performance at the expense of fully identifying and assessing a candidate's future potential can also be a risk for CEO succession: *"A major pitfall is misunderstanding the difference between performance to date and potential. When organisations have made mistakes with their choice of CEO, often the individual has been doing a very good job in their current role but they are untested in uncharted waters. It is assumed that they will do a good job without having the insights and evidence that this will be the case. I increasingly believe that candidates need to be able to demonstrate that they can work internationally and in different environments. We need to look at the breadth of their experience."*

Fully assessing internal candidates

Some commented that internal candidates are not always assessed as thoroughly as external candidates: *"A common error is believing people's own press rather than looking at the evidence. People will say 'Joe Bloggs is a great guy' but is he?"*

The challenges of viewing internal succession candidates from every angle were also highlighted:

"For a Chairman to get a really rounded view of the internal candidates they also need to be plugged in a few organisational levels below. A 360 can get over this as long as there is not an overriding culture of fear in the organisation. Referencing can also be really helpful; we do it on our internal candidates."

Timing

Timing can be a key problem in succession planning, even when CEOs are willing to speak honestly about their plans: *"The impossibility of timing isn't really a pitfall you can control, but it is an issue. It is often one of the reasons that most succession planning processes fail. You can do all the succession planning but the timing affects when the opportunity comes up and dictates whether the person in the succession box is ready or not."*

Many participants emphasised the importance of developing CEO succession planning scenarios for a variety of timelines.

Being clear about what is required

A lack of agreement and clarity on the characteristics and experience required in the CEO is another common pitfall: *"The starting point must be to create time for really good thought and discussion as a Board. You need to be very clear and defined about the skills, attributes, capabilities, leadership styles and values that you're looking for."*

Keeping the succession process realistic

Many commented on the danger of having a CEO succession process that is more focused on process than reality: *"There are always many names on the organisation's succession chart and many options and then suddenly, when we get close to the wire, there are not."*

MAKING THE RIGHT CHOICE

“Nominations Committees can get too much comfort from a well run process. In the end it is about appointing the best person whatever the process.”

Others stressed the importance of fully understanding the career aspirations and motivations of potential internal candidates: *“The CEO role in a PLC can come with a lot of limelight and increasingly people are not sure they want that. You need to ask the identified internal candidates if they really have the appetite to be the CEO as sometimes they do not but have not been asked so have not spoken up.”*

Not settling for less

The need to undertake a thorough search for a new CEO was stressed by many: *“The really important thing is never settle for less than what you need. It is a temptation sometimes when there is great time pressure or lack of rigour. You need to truly benchmark properly with external candidates and take the time. If you have an incomplete idea of what you’re looking for then you won’t end up with the best person out there.”*

“Make sure you try hard enough, don’t settle for convenience, make sure you are exhaustive in the search.”

“You need to be really sure about your candidate, I’ve settled before and I regretted it.”

DECIDING BETWEEN INTERNAL AND EXTERNAL CANDIDATES

Internal candidates

Many considered an internal candidate to be a less risky option: *“I like insiders. I am not a great believer in the guru CEO from outside. This is possibly the right solution in times of an absolute*

turnaround but I think it is incredibly difficult to come in as an outsider and be successful. This is particularly true in a highly networked business.”

“I always prefer internal rather than external candidates, as you know what their weaknesses are. With external candidates you don’t know the weaknesses; you can research but you can’t really know. In hiring from outside, you’re taking a huge risk.”

An internal CEO successor can also enhance employee engagement: *“Appointing a CEO from within gives people an opportunity to look at the top job and see that there are good career paths in your organisation. This creates loyalty and develops your corporate culture.”*

Introducing a new CEO brings disruption whether internal or external and the Chairman and the Board need to think this through: *“You have to think about what will happen if you appoint a CEO from within the organisation. They will go from peer to CEO and that can be disruptive for other Board colleagues and peers. You have to think very carefully about how you manage that.”*

“An external candidate often brings a lot of change – if the business needs change or isn’t performing well then this could well be a good thing. However, if the business is doing well then hiring internally seems more favourable.”

External candidates

Some were clear in preferring external over internal appointments as they bring a new perspective:

“I’m not sure it’s always a good thing to have an internal successor to the CEO. A new CEO can look at the business with an open mind and fresh eyes – they have no emotional stake in what has gone before.”

MAKING THE RIGHT CHOICE

“In theory an internal candidate is lower risk but there is also the risk in taking the safe option. People don’t always factor in this risk and this can be especially true if the Chairman and Board tend to consensus and avoid conflict. It is essential that the Board challenges itself and keeps an open mind throughout the process.”

“External appointments may result in one or two internal departures. If the internal candidate is almost as good as the external, then this is a judgement call. Is it worth the risk? External candidates bring different risks but also bring opportunities. The balance has to be given due consideration and can often be one of the toughest decisions. It all depends on the circumstances of the business but appointing an internal candidate simply to play it safe is often the wrong decision.”

MAKING EXTERNAL HIRING WORK

If an external appointment is preferable or necessary, then some of the risks can be mitigated.

Thorough referencing can ensure no unwelcome surprises: *“We found that really thorough references – warts and all – allowed us to support our new CEO. So far, it is working out. We knew exactly what we were getting. You need to push hard on the referencing.”*

“No one is perfect and if you don’t understand a new CEO’s weaknesses then you increase the risk.”

A strong induction is also essential: *“The more senior you are, the less induction and on-boarding you get, which is ridiculous. You often need more, especially if it is an external hire.”*

DEALING WITH DISAPPOINTED INTERNAL CANDIDATES

Once an appointment decision has been made, it is important to manage disappointed internal candidates carefully: *“Inevitably if you have really good succession planning you should have two or three candidates for the CEO role. Ultimately you need to have alternative succession planning for the*

unsuccessful individuals as you may lose them when they find out they did not get the job. You need to plan for this and the new CEO has a critical role to play.”

If a candidate is simply not ready to take on the role, being honest and explaining this alongside discussing development need is often best: *“If someone is not ready now but might be in three years’ time, you need to be up front about this and tell them ‘we will develop you’.”*

Some pointed out that internal candidates may really struggle with not being chosen: *“Whatever you do, sometimes internal candidates do not handle failure well and at the very least need time to adjust to the new reality.”*

It might also be the right time for some individuals to move on from the organisation: *“Be clear with the candidates as to why they didn’t make it. Such a discussion can help a candidate recalibrate their views and aspirations. It may also be the right time for the person to leave the organisation – this may be good for the company as you don’t want an unsettled number two who could be disruptive to the CEO.”*

COMMUNICATING THE DECISION EXTERNALLY

Of course, when the choice has been made it is all the stakeholders, not only the disappointed candidate, that must be considered. The communication of the decision and the reasoning behind it need to be carefully thought through: *“When an internal candidate doesn’t get appointed, particularly when they are the ‘obvious’ candidate, it generally means one of two things: a better candidate has emerged in the process and/or the Board believes that the organisation needs to change and that continuity is not what they believe is important. Either message requires careful communication to all the stakeholders: the senior team and employees, the investment community and the key shareholders. Every change requires careful communication.”*

MAKING THE RIGHT CHOICE

MAKING TOUGH DECISIONS

Succession planning is usually made up of tough choices: *“The issue here is making the tough calls.*

Real honesty, transparency, hard rules, tough decisions.”

“You need to be clear and candid with people, you need honesty. There is also an element of not being sentimental about it. You may need to force things to happen. It’s an area in which you need courage.”

“CEO succession management involves making really tough decisions. To give your best people the best opportunities, you are going to have to make some tough decisions. You can’t give everyone what they want and you need to appoint the most appropriate and best person to the CEO role. You need to be able to make tough calls.”

JCA GROUP

JCA Group is a leading international headhunting firm specialising in Executive and Non-Executive Search as well as Board Review.

We are 100% committed to helping clients appoint the best people to the right roles and optimising the performance of their people, as well as providing wise counsel and support to our candidates around the world.

THE PARTNERS AND CONSULTANTS OF JCA GROUP

Giles Allen

Kate Bamford

Helen Dingwall

Fleur Evans

Emma Fallon

Jan Hall

Rachel Ingram

Kate Rankine

Sandrine Roseberg

CONTACT DETAILS

www.jcagroup.net

jcagroup@jcagroup.net

55 Baker Street

London

W1U 8EW

+44 (0)207 908 2700

We would like to thank the team at JCA Group and in particular Frederick Watkinson and Harriet Frost for their assistance in producing this report.

J^G R^R C^O U^U P^P Λ

WWW.JCAGROUP.NET
JCAGROUP@JCAGROUP.NET
55 BAKER STREET
LONDON
W1U 8EW
+44 (0)207 908 2700