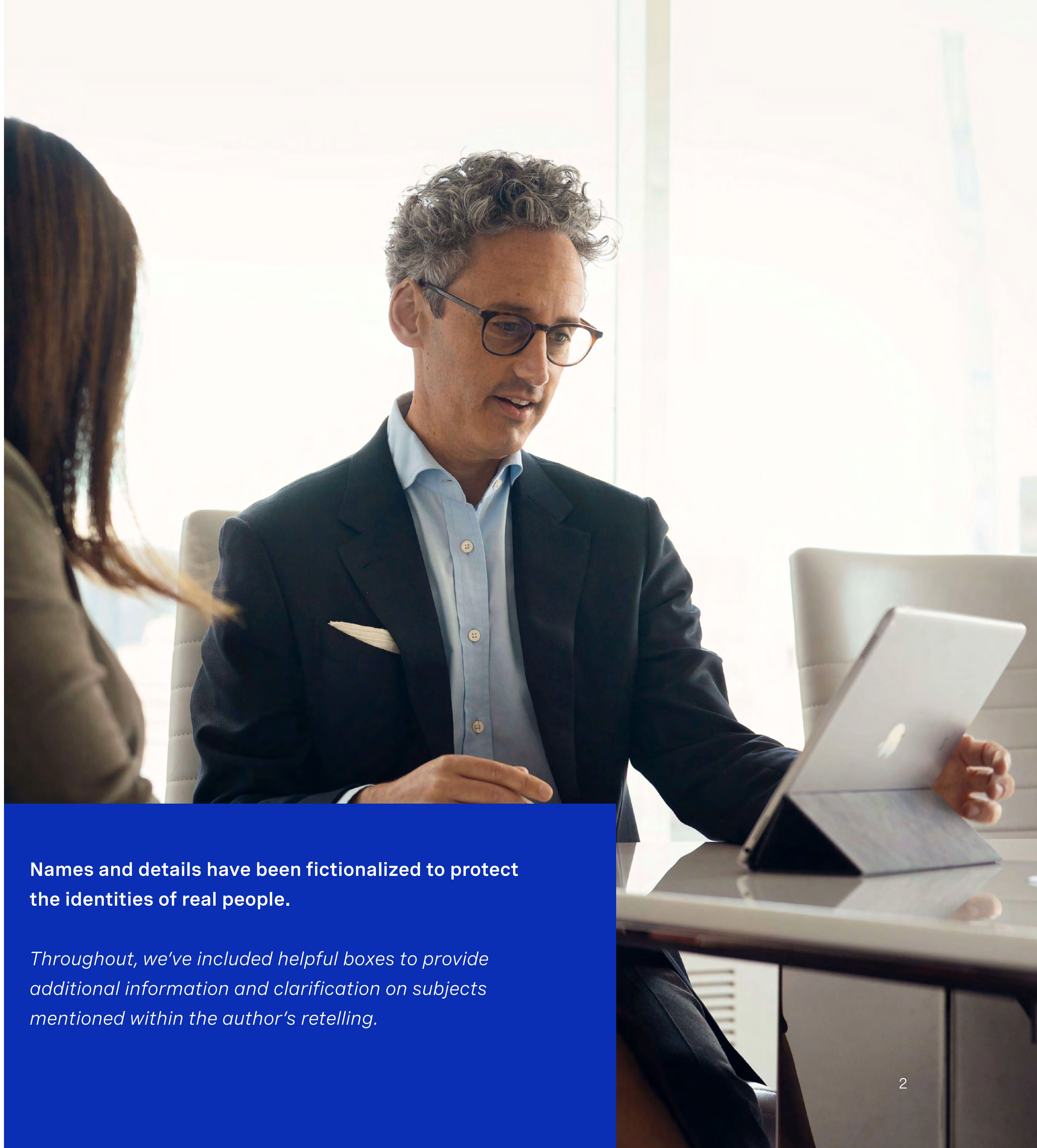
Russell Reynolds ASSOCIATES

Setting Up for Success: A Chair's Story of Succession

This is a story of succession—the long-term, strategic CEO handover process—from the point of view of the chair of a board.



Names and details have been fictionalized to protect the identities of real people.

Throughout, we've included helpful boxes to provide additional information and clarification on subjects mentioned within the author's retelling.

How it all began

CEO turnovers sometimes start with a bang—something controversial or scandalous that has rippling repercussions for the organization.

This was not like that. The catalyst for this story wasn't a scandal, or a death, or even a resignation. It was simply a realization that I had over my morning coffee—and a newspaper article.

The article in question announced the impending resignation of the CEO of a FTSE 100 company. After a long tenure, the incumbent CEO was stepping down. They were not being forced out by the board, yet there was an undercurrent of uncertainty around the announcement. A singular, implicit question: *who's next?*

The company was simply not prepared for the resignation. There wasn't a clear successor to take the helm. And that was causing them a lot of difficulty as they stared down the barrel of a last-minute CEO search process.

That was the catalyzing moment. I realized that, if I failed to take immediate action, then the company I chaired would find itself in a similar position.

Our CEO—Jose Wright—had shown no signs of slowing down or stopping. That meant the question of succession had not yet come up.

But Jose was just about to enter his sixth consecutive year as CEO; with the average CEO tenure hitting a ceiling at around five years, he was already beating the odds. But it did call into question how long he would feasibly remain in the role.

If we wanted to get the ball rolling on a succession plan—and do it properly—we needed to start immediately. I knew that ideally, you'll want your succession plan to span anywhere from two to six years, to maximize the efficacy of candidate development.

Getting the team together

The benefit of morning epiphanies is that they give you time to take action later in the day.

That afternoon, I called fellow board members and broached the topic of CEO succession. Reactions were ...fairly mixed. While everyone could see the benefits of having a plan for the future, there were concerns about rocking the boat or upsetting Jose.

The question was how best to approach the situation. Should we (the board) run our own succession plan in the background? Should we include Jose in the process and give him a part in training his future successor?

Back when I was a CEO myself, I remember one of the board members coming into my office and asking if I'd started planning my succession yet. I'd only been there about a year. And the only thing I could think to say was: "Are you trying to tell me something?" He said, "No, but these things take time. You're going to need that time to figure out an approach and set things in motion." He was right.

From what I've seen, CEOs and boards do tend to only kick off succession matters when it starts to seem necessary. After an initial leadership change, you'll hear 'Well, they're going to be around for at least five years. So, we'll just need someone in five years' time.'

Broaching the topic of succession before that point seems—for them—to be too early, too pessimistic. But then, before they know it, it's too late. You're no longer talking about succession planning, only a CEO search. And, with such short notice, it essentially becomes high-stakes headhunting of candidates who are available right now

We wanted to avoid that. The ideal here would be to find internal candidates that we could develop to a point where they could one day take up the mantle.

In the end, our board came around to that idea. Without a succession plan in place—ongoing and internal, inclusive of development—we would likely be forced to look outside when choosing a successor. Not the ideal outcome. And to do this well and set our people up for success, we knew we needed support during the process.

Designing and implementing a strong CEO succession plan

From the beginning, I knew we needed to bring an advisory firm into the fold. We reached out to a few of the big firms to get an idea of how they could help us. There were a number of pitch meetings, but in the end we decided to go with a familiar face that we already trusted: Nadia, one of the Russell Reynolds Associates consultants who had helped us make executive appointments in the past.

How to pick a leadership advisory firm to partner with:
There are several executive search and leadership advisory firms to pick from—each with its own strengths and weaknesses.

Here are a few good rules of thumb to look out for when you're assessing partners:

1. Choose someone straight-talking and honest
There's nothing less useful than an advisor who is afraid of giving you honest feedback—especially when you're dealing with something as high-stakes as picking the next leader of your company.

When picking a leadership advisory firm to partner with, go for the one that is not afraid of telling you the truth about things—even (or especially) when the truth is a hard pill to swallow.

2. Choose someone without an (in/ex)ternal bias
One concern companies have around search firms is that they tend to default to external candidates in order to reap larger fees. You need your succession partner to be capable of assessing and developing internal candidates and sourcing external candidates without unfairly prioritizing one over the other.

Similarly, you don't want to be excluding external candidates to the detriment of the company. The right search and advisory partner will approach the candidate pool with an open mind and with a data-led mindset.

3. Choose someone familiar with the company and its needs—or comparable companies and situations.

A good advisory partner will have some knowledge about the intimate workings of your company and its unique needs. This is easier when you already have an established relationship, but is still relevant when considering a new partner: a team that takes the effort to understand the nuances of your organization and its history and culture will be a better partner to you than one that doesn't.

And, while no two companies are the same, there are common threads. Advisory partners who have expertise in related industries or companies will be better able to serve you and your company's needs.

4. They need to have a strong succession planning implementation process

All executive search firms will have experience with sourcing and recruiting CEOs, but not all will have experience in setting up robust succession strategies. Look for a firm that has successfully set numerous organizations up for success and that has a proven methodology.

5. Pick a firm with a good reputation that is known to key stakeholders

Getting stakeholder buy-in is imperative for a process as drawn out and intensive as CEO succession planning. That job is made easier when stakeholders are familiar with the advisory partner's brand and reputation.

Aligning on what good looks like

The first thing the RRA consultant told us is that we'd need to consider what our organizational goals are—where we wanted to go—and create a leader profile that matched our current view on what a CEO needed to do. The spec included everything we already knew we needed from our new CEO: specific skill sets, certain personality traits, particular experience, etc.

Then, charting out our future plans for the company, we determined the additional skills the CEO would need based on those projections. Once again, our consultant helped with that. Through their work with other global organizations, they had an idea of what skills our next CEO would likely need based on the trends they were seeing.

While ideating on where we wanted to be, we took part in a workshop to determine what our company culture was like, what was missing from it, and how the new CEO could potentially help to make improvements.

Put together, this all-encompassing set of criteria made up our leader profile.

How to determine what traits to include in your leader profile:
Every company should create their own bespoke leader profile. No two companies are the same, and while many elements will be similar, not all will. The CEO that would work for one company may be misplaced at another.

Some skill requirements will be very situation-dependent. For example, if the company is going through a challenging financial period—or an M&A, or a shift in strategy and direction—their leader profile will need to reflect that. In those cases, you'll probably want a candidate with proven previous experience in handling the challenge.

But there are a number of universal traits you'll want your next CEO to have:

- Empathy and openness
- An ability to communicate effectively
- An ability to inspire and invigorate others
- Excellent stakeholder management skills
- An ability to collaborate and work well with others
- An ability to make difficult decisions—and carry them through
- Honest commitment to values

Most importantly, they must be someone your people will respect and trust.

Crafting an assessment plan and process

Once we'd created the leader profile, we naturally wanted to start seeing who matched it. But first, we needed to make sure we had the best possible assessment processes in place.

We knew that we'd need to get a truly well-rounded view of our potential candidates' capabilities or risk jumping to conclusions based on gut feel. Our consultant gave us a framework for this, laying out a multi-step process that would help to gauge candidates' thinking, psychology, specialized industry knowledge, familiarity with the company's needs, team dynamic, and capability of leading.

I was particularly pleased by the idea of introducing immersive, situational 'role play' assessments. They give us a different lens to view candidates through. Of course, we needed to get to know candidates through interviews and discussions, but situational testing would give us more insight: an honest view of how a person acts under pressure and the actions they take when forced to think on their feet.

Deciding on advance development plans

Naturally, any internal candidates would need to go through some form of training to prepare them for the role. Our partners at RRA were able to help with that, outlining likely areas for development.

We set up courses centered around topics such as how to build and maintain effective executive teams, improving leadership communication, leadership coaching, and more. We didn't just blow the dust off a generic plan we pulled off the shelf—these were designed to incorporate the specific needs of the candidate within our specific organizational context.

Once the pre-planning was in place, we were ready to begin.

Cueing up the candidates

With RRA's guidance, we began to compile a starting list of stand-out internal candidates that seemed like likely prospects—candidates that fit our leader profile and who might be available.

One thing I learned is the importance of always having an eye on the market—"strategic sourcing," as our consultant called it. Even though we weren't actively looking, it was comforting and instructive to have a focused shortlist of qualified and available external candidates, what their skills and experience are, and how they stack up against our leader profile—both for internal benchmarking and simply to be prepared for any eventuality.

All valid points, but—in my view—ultimately immaterial. As our advisors explained to us, their strategic sourcing work is done with the utmost confidentiality so no one inside or outside the company learns about the work. And, as far as I'm concerned, at the end of the day, if you don't have the talent you need internally, then you need to accept that you may need to bring in someone external.

As it was, we had a strong pool of internal candidates, several of whom were already on an upward trajectory.

Initial assessments began. Over the next three months or so, the team at RRA ran their tests, conducted interviews, and did psychometric profiling.

We ended up with a final shortlist that included the CFO, Geoff Mendez, the COO, Olivia Stanworth, and Hugo Landon, a regional group director. The initial testing also identified a few employees who, while too inexperienced to be candidates now, had some of the key markers for success and were ripe for more long-term succession planning.

Granted, we also liked two externals—the CEO of a company within the same industry and the managing director of a global conglomerate—but agreed to leave them on the back burner for now.

> "Imagine what it would look like to the team."

A new merger—and the cogs start turning

Meanwhile, in the background, things were happening in the company. Jose had orchestrated the acquisition of a competitor—and a few months on, the seams were beginning to strain. Simply put, integration wasn’t going well. Jose was struggling to incorporate the new company effectively into the fold—and efficiency had hit an all-time low.

It shone a sudden light on the necessity of succession planning. The company suddenly grew exponentially in a very short period of time, and the question of "Is Jose still the right person for the job?" began to crop up. The truth is, at that point, we didn’t know. But we weren’t going to be caught unprepared. A few months back, we’d have been white-knuckling our seats. Now we had options.

Mind you, we weren’t planning to replace him at this point. Mergers and acquisitions are a tricky business, especially in the beginning. An executive exit at this point would do more harm than good, and Jose still had a chance of turning the situation around.

And the rocky acquisition did have its silver lining. We unanimously agreed to update the leader profile to include previous experience in overseeing an M&A or an aptitude for handling large-scale transitions. That would disqualify one of our internal candidates, though we were willing to continue their training to see if that could be changed.

We also revisited the idea of bringing in an experienced outsider—specifically, one of the two external candidates we had originally shortlisted. But, first, we wanted to see how investors were reacting.

What six months of development brought

Back with the candidates, things were changing.

Of the three internals identified as succession candidates, one clearly stood out—at least, on paper.

Our CFO, Mendez, checked all the boxes. He was a good fit with the ideal leader profile we created at the beginning of the succession process and, importantly, had been an executive at a company that had successfully undergone a merger.

He went into the development program as the frontrunner. But over the next six months, as the candidates went through the courses and applied their learnings to their jobs, someone else took the spotlight.

How is candidate success measured?
Candidate success is measured in the same way as any employee: through performance over time.

When assessing candidate progress, the board will consider 360-degree reviews, KPI metrics, performance within development courses, and—importantly—the ability to take feedback on and incorporate it into their future actions.

The ongoing relationship with the board is important too. Transparency, accountability, and openness are critical elements of the CEO-board relationship—and one that candidates will need to exhibit in order to be successful.

Olivia, the COO, was taking big strides. She responded better to coaching and showed clear advancement in her development and leadership skills.

With such a high bar of quality candidates, even the slightest edge would result in an advantage. For example: A few months in, the candidates were tasked with giving a presentation to the board. Landon's presentation had a distinctly rushed air to it, as if he had pulled something together the day before. Mendez's was good, but very narrow in its frame of reference with no diversity of thinking across the organization. In contrast, Olivia went above and beyond to use all the resources available to pull together a presentation that was well-researched and comprehensive.

A momentum shift started to become apparent outside of the formal coaching too. Mendez continued to be fantastic at what he did (he was the initial board favorite for a reason), but Olivia received better feedback across the organization in her 360 reviews. We were told she was great at communicating in difficult situations. Perhaps most importantly, she had emerged as a leader that people looked to for direction amid the acquisition upheaval.

It was an interesting shift—and it proved how important the development phase is within the succession planning process.

The clock strikes twelve

(The final candidate is selected and all are informed. Final training ramps up.)

Olivia, our COO, had emerged as a unifying leader. She was helping bring new executives up to speed and reaching out to other colleagues from the merger. We knew she was the right person to lead our company into the future.

We informed Olivia and the other internal candidates of our choice, as well as our top executives. The two internal candidates were disappointed, but the transparency, objectivity and thoroughness of the process helped them understand why Olivia was the right person for the right time.

Jose, human resources and the board began to work with Olivia in earnest. This gave her time to develop relationships with board members and key executives, and to gain exposure to CEO activities like meeting with investors.

I felt a huge sense of relief: the process had allowed me to gain comfort with our choice, and was grateful for the gift of a long and orderly transition.

"How will this reflect on Jose?"

A new beginning

Two years after we identified her as a potential successor, Olivia Stanworth stepped into the role of CEO.

Russell Reynolds supported her—and us—through the transition period. The development program continued beyond her appointment, with a focus on building an effective team to support her, relationship building and ongoing stakeholder management, effective communication with the board, and more.

The situation with the other candidates is more bittersweet.

Landon continued in his position as regional head and has done an excellent job in ensuring the merger continues to advance smoothly under his purview.

Mendez ended up leaving for the CFO role at another company—a sad but expected departure. He was replaced by his vice president of finance, someone who joined us from the company we merged with.

Setting up for success

The big takeaway from this whole process was the importance of succession planning.

Which is why we were quick to bring up the question of succession planning to Olivia once the dust had settled. We already had a number of potentials that had been identified during the initial succession process and that were undergoing long-term development plans.

We also kept Russell Reynolds on as a leadership advisory and succession partner. We regularly receive updates on the progress of the new set of candidates—along with an updated database of external candidates mapped out against our evolving leader profile.

At the end of the day, CEO succession isn't a 'one and done' thing. It's long-term. Ongoing. And for both the present and the future.

Russell Reynolds Associates

Our point of view

Few—if any—initiatives are as important for the health of a company as identifying and preparing the right person to lead it.

This real-life example shows what a strategic CEO succession looks like and the substantial benefits one company achieved when they started the process early. It gave them time to define a shared vision of the ideal future leader, identify and assess candidates who fit that profile; and give them the support they needed to grow into the role.

The best time to start is now. If you want to speak to a consultant about what succession might look like for your organization and when you should begin planning, we'd be delighted to share what we know.

Request consultation