



# HEIR TO THE THRONE

## CEOs AND SUCCESSION PLANNING

Speculation about a CEO's departure begins the day of a new CEO's appointment. For many, planning succession is a natural part of their role as steward; for others, the thought of shaping plans for their own redundancy breeds paranoia. In this article, leadership expert **Kai Peters** finds a parallel between the perceptions of some modern CEOs towards succession and those of Louis XV of France.

CEO succession means different things to different people. From the perspective of board members, succession planning can be a painful experience. People issues can be very time intensive and uncertain. Profiling the CEO's job and filling the position probably tops the list.

There are some initial important choices based on whether to look within or outside the organisation. Internal candidates might bring more continuity and stability and add more value in the long-term; external candidates are more likely to make abrupt changes that can redefine an organisation when needed, but they can also make things go awfully wrong. In both cases, there will invariably be internal candidates who lose out and are disaffected. Board members know that this can lead to a cascade of organisational change with resentment and resignations.

From the perspective of internal candidates positioning themselves as successors to an incumbent CEO, many are not even waiting for the starter's pistol to go off. As with politicians who announce that they are not considering running for a particular office, one knows perfectly well that they are.

Speculation about a CEO's departure basically starts the day of a new CEO's appointment. Will so-and-so make it?

How long will they be here? Are they just using this role as a jumping-off point for something else? Internal candidates, like the civil servants in *Yes Minister* (the classic British TV political satire), lie in wait and search for the ideal opportunity to be positively noticed by board members and, where appropriate, the outside world.

From the perspective of the existing CEO, succession planning is equally challenging. Louis XV of France apparently said: "*après moi, le déluge*" (after me, the flood). CEOs are not as blunt, but know that they are between a rock and a hard place. And, on wider reflection, the CEO sees that, within the organisation, there are many talented individuals that each has a role to play and some have the ability to fulfil many important leading roles. The CEO, as steward of the organisation, is clearly interested in having the best people possible to achieve the strategic goals that have been identified.

In well-run organisations, the CEO will also discuss and often document 'hit by a train' scenarios, not just for him/ herself, but also for other leading roles in the organisation. To a large extent, this is an interestingly intellectual exercise: CEOs often plan for an interim situation rather than for longer-term continuity in these scenarios. They could 'hold the fort down', rather than say 'here is a concrete plan'.

According to Oliver Wyman, while 66 per cent of CEOs believe they have done a good job at this, only 27 per cent of board members believe that they have an excellent level of assurance that the right leaders are in place below the CEO. There are a number of reasons for this discrepancy.

First, the CEO does not feel entitled to hand pick successors: it is impossible to know what the board wants and it is equally impossible to ensure that one does not pick someone in one's own mould. Second, CEOs do not want to start a horse race among colleagues about who should succeed. Anointing a prince-/ princess-in-waiting does little to ensure smooth operations in the here and now. Lastly, the board is likely to want to compare internal and external candidates anyway. There is only so much



## COMMUNITY COMMENT

**Simon Howard**  
Executive Chairman,  
Work Group plc

"Any good leader needs broad shoulders, and by virtue they should think about who will follow them once they leave. It's largely about giving yourself options from the top team and you do that by ensuring you develop the best talent around you. How a CEO goes about succession is a matter of individual style, but they must consider how they are going to nurture the process. And they must be open about it, internally, at least, because if it is communicated properly, everyone knows where they stand. Instilling an air of certainty – that the CEO will go and how succession will be handled – is paramount."

# Will so-and-so make it? How long will they be here? Are they just using this role as a jumping-off point for something else?

# The CEO, as steward, should see that there are many talented individuals within his/her organisation; some that have the ability to fulfil many important leading roles

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planning that the CEO can do up front. In looking at board members and at the chairman, the CEO sees a governance infrastructure that seeks to fulfil codes of good conduct and of good governance. Compensation committees often have succession planning within their remit so it's important that they have security in the knowledge that transitions are well planned for – indeed, they often seek external advice and benchmarking in their roles.

For the CEO, this can be slightly surreal: Oliver Wyman, for instance, recommends that long-term succession planning should begin three to five years prior to the time a CEO transition is expected<sup>1</sup>. Given that the average tenure of CEOs in S&P 100 companies is four years, according to a Spencer Stuart report<sup>2</sup>, the CEO does begin to wonder. Given that the CEO is also expected to make a real impact in the now, planning too far into the future seems a Sisyphean task.



## COMMUNITY COMMENT

**Tom Taylor, Chief Executive,  
Agriculture & Horticulture  
Development Board**

"I am a great believer in what Charles De Gaulle said; 'The graveyards (of France) are full of indispensable people'. None of us will survive for ever so the sooner one gets to grip with a succession plan for all key positions in the organisation, the better. We have to be honest and look in a mirror. What our organisations need is someone in the CEO role that can lead and deliver results in the prevailing business climate, whatever that may be. It means we need different skills for the CEO at different times of an organisation's development. CEOs need to be honest about that. Additionally, if one is looking to replace from within, is it really healthy to have a CEO and his/her clone in the current management team?"

The CEO also clocks some additional data. A quarter of CEOs in the S&P 100 vacate their roles by being ousted by their boards. Thus, while being a CEO is not as uncertain as being the manager of a football club, it is not a role with a tremendous amount of certainty. CEOs that can manage to view their own positions with a mixture of calm and a sense of humour do well. They will roll with the punches, plan for as much continuity as possible within their own organisations and really think about succession planning.

They will, of course, also think about succession planning selfishly. In some cases, they may want to transition to another role as a CEO or, in other cases, transition to a portfolio career that includes board roles and other activities. In both cases, new opportunities arise when the phone rings from the headhunter rather than in some predestined way. And one can only plan so much.

Other CEOs have real trouble with the vagaries of the role and of the thought of ultimately making themselves redundant. In a longitudinal study conducted by a group of my Ashridge colleagues<sup>3</sup>, approximately a third of newly appointed CEOs became paranoid in their positions within the first year. They could not develop trust, feared that colleagues were out to depose them and consequently ran organisations rampant with mistrust and fear. Their idea of succession planning truly was *le Roi, c'est moi* (I am the King) ... and *après moi, le déluge*.

<sup>1</sup> Oliver Wyman report: *CEO Succession, Managing a Successful Transition*, 2007

<sup>2</sup> Oliver Wyman (Mercer Delta Consulting) *The Role of the Board in CEO Succession*, 2006

<sup>3</sup> Spencer Stuart, *Statistical Snapshot of leading CEOs*, 2008

<sup>4</sup> Binney, G., Wilke, G., and Williams, C. (2009) *Living Leadership: A practical guide for ordinary heroes*, 2nd Edition, London: Pearson

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**Kai Peters**  
Chief Executive,  
Ashridge Business School

Kai is Chief Executive of Ashridge, one of the world's leading and largest providers of executive education, including open programs, tailored programs, MBA programs and consultancy. He serves on supervisory and advisory boards for a number of organisations in the technology and health care sectors.

Contact Kai through [www.criticaleye.net](http://www.criticaleye.net)