

What Happens When CEO Succession Goes Wrong?

Without the right leader at the helm, a business will quickly flounder. Yet, as **Mary-Anne Baldwin** Corporate Editor at Criticaleye finds out, lining one up can be tricky





Alison Carnwath took her first chairmanship back in 1999, right in the middle of the dot.com bubble. It wasn't long before she was tasked with finding the UK listed IT business a new CEO, yet with every tech-savvy chief exec absorbed in driving their own business to the next level, it was the worst time to shop around.

Unfortunately for Alison, who has since left the tech company and is now Chairman of Land Securities, that undertaking did not come with a well-oiled succession strategy. She decided to go to an external recruiter, but being new to the Chair role and without time on her side, Alison's choice was inescapably ill-made.

"I picked the wrong person," she admitted. "It became apparent to me and indeed the investors, employees and eventually the board that this man was not going to make the grade."

He had come from a very large business where he'd been a divisional head, so he was used to pressing a button and getting someone to do something for him. We didn't have the same structure and he found that very difficult."

Alison's lesson was two-fold, as she explains: "I think for a chairman to select a new CEO they must know the business warts and all, including where the bodies are buried and what the challenges are."

With a clear pipeline of internal and external talent, plus a strong development plan in place, Alison's choice would have been both easier and less prone to failure. Unsurprisingly, she advocates establishing a succession plan as soon as a new CEO enters the business.

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"It's important to get the subject out there pretty early. You don't want to raise it with a CEO at a point when they might feel that you want them to move on. You need to show that succession is business as usual, otherwise some people can get very touchy about it," she advises.

"Open the conversation with your CEO on day one and regularly get it on the Nominations Committee agenda. Ensure that your CEO is developing internal talent and that you have a sense of who, out in the wider market, could also do the job."

Succession in Private Equity

While a strong succession plan is valuable to every business, some will find it more challenging to deliver, particularly those backed by private equity investors. As Ian Edmondson, Chairman at Dunlop Aircraft Tyres, which is backed by the PE investors AAC Partners explains: "Succession is an important part of any business. In private equity it's driven by an obsession with the exit."

Private equity backed executives typically work at a fast pace and are focused on short-term time horizons, often aiming to drive their business to a sale after five years, after which they may leave the company.

This environment means many leave long-term succession planning to future owners and plug current gaps with specialist external candidates.

But this short-termist approach can tie key executives to the business; even if they want to leave, financial stability and the sale of the company may demand they stay.

Ian fell into this very scenario as a result of flawed succession planning. "We talked about an exit five years ago and agreed to find my replacement [because] I didn't want to put in another five years," he explains.

"We found a new CEO and agreed a two month handover but it just didn't work out. So, I stepped back in and agreed to stay until the business was sold... I was brought in under a three-year time scale in 2007, but am still there now."

As Ian's experience shows, succession plans are only as good as the candidates they feature, which is why it's crucial to carry out full due diligence on them – including their cultural and emotional fit.

"The tactical error was that we failed to take sufficient references from subordinates," says Ian. "I recommend taking 360-degree reviews upwards, to the side and down. We didn't do downward references and wished we had." >



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A strong talent pipeline is equally important to **Nigel Brown**, CEO at Mircrolease, which is backed by Lloyds Development Capital (LDC), the private equity arm of Lloyds TSB Bank.

Acknowledging Ian's situation, **Nigel** says: "Succession planning is really important or you may get caught in a trap you don't want to be in."

"For me, succession is the most interesting subject in private equity and that agenda has to be driven as much by you [as an executive in a private equity-backed company] as it is the PE house. It's in every one of our executives' performance reviews and objectives," he adds.

With this in mind, **Nigel** decided to bring in a new COO to the company under plans that they would be promoted to CEO over time. Yet this appointment also failed because there wasn't a cultural fit.

"He did a very good job in many ways, but it became evident very quickly that he wasn't the right person," **Nigel** shares. "He was very strategic and logical but just couldn't gel emotionally with the team."

"I would trade emotional intelligence over IQ any day of the week. If you're managing and balancing a team to work efficiently, EI is right up there."

Through his role as Business Development Manager for Private Equity at Criticaleye, **Joe Berwick** hears from many businesses and individuals eager to develop their leadership skills.

He's acutely aware of the need for a positive dynamic among the top team. "A leadership team may have all the requisite skills it needs, but if those individuals can't come together in a cohesive way, it won't work," he says.

"That team needs trust, honesty and the ability to openly challenge without personal attack. Succession plans need to consider these personal traits and team dynamics, otherwise they can find the perfect CEO on paper does not work in practice," he says.

Ian believes that people can improve their emotional intelligence, but that a work in progress is not a sufficient substitute for the right appointment. "Under pressure you revert to type so don't be confused into thinking adapted behaviour is inherent, he warns.

The right person for the job will also depend on the people around them. "You need a balance of styles, experiences and personalities to create a strong team... a disparate range of people with a healthy tension between them," **Ian** advises. "If you can channel that healthy tension into the strategy, I think you will have a winning leadership team." ■

Many of these thoughts were shared during Criticaleye's recent [Private Equity Retreat 2017](#).

Featuring Commentary From:



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