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The risky business of CEO succession

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Foreword

Throughout the past decade there has been a significant shift in how company boards view and manage CEO succession. An increased appetite for planned successions is supported by sophisticated tools and processes which assist boards and the C-suite in developing and assessing tomorrow's leaders, while identifying and evaluating external talent

However, the most structured, transparent and supported succession plan cannot remove all risk from the process; for every CEO succession is as different as the CEOs themselves and the circumstances under which they departed from the role. Hence the need for a framework to guide boards on how they approach this often complex task; understanding and mitigating the risk involved in this important event.

This report from Korn Ferry Australasia, ***The Risky Business of CEO Succession,*** places the focus squarely on the awareness and management of risk across all aspects of CEO succession. Chairmen, non-executive directors (NEDs), CEOs and aspiring CEOs will learn more about succession risk from their peers who share their challenges and solutions in this publication. The conversations with 13 senior, leading stakeholders in CEO succession are candid and illuminating. They reflect the importance of wisdom experience, relationships and process when undertaking what has been described by many as the most important role of the Board.

Having recently led the Westpac Board through a successful process to a new CEO, I am particularly conscious of the complexities and risks inherent in CEO succession. I commend Korn Ferry for this timely and important work.

Lindsay Maxsted
Chairman of Westpac and Chairman of Transurban, NED of BHP Billiton, Managing Director of Align Capital, and a Director of Baker IDI Heart and Diabetes Institute.

Introduction

> **“You have to demonstrate to your shareholders that you really have managed succession properly.” — Belinda Hutchinson**

Crunch the numbers for tenure in the most influential corporate roles and it is clear that most non-executive directors (NEDs) will outlast the company’s CEO. In Australia, the average ASX 100 CEO’s tenure was 4.3 years in 2013 (Davidson and Brest 2013); ASX 200 NEDs, by comparison, hold their seats for five to six years, with chairmen often serving longer (AICD 2102). At some stage of their board career, then, most NEDs will be involved in replacing a CEO.

There are risks inherent in any CEO succession, and the quality of the selection and ease of the transition will depend on how boards manage the process.

Securing a smooth CEO succession is more than good governance; it makes sound business sense. News of a departing CEO often impacts a company’s value: when CEOs change, investors are more than twice as likely to sell shares in a company as they are to buy them, according to research by FTI consulting (Roady and McCoun 2011). Also among the compelling arguments for strategic succession planning, are figures released by consulting firm strategy& (formerly Booz & Co.), which revealed that Australian companies with CEO succession plans in place achieved significantly greater median annualized shareholder returns (Davidson and Brest 2013). On the other hand, a poorly executed CEO exit coupled with a clumsy replacement process invariably wreaks collateral damage: the departure of other executive talent, diminished shareholder value, a drop in market confidence, and lasting brand damage.

Unsurprisingly, shareholders, regulators, financial analysts, and others with a stake in a company’s leadership expect boards to effectively plan for their CEO’s succession.

For this report, ***The Risky Business of CEO Succession***, Korn Ferry collected conversations with 13 business leaders who have been on the front line of CEO succession in Australia and New Zealand, as well as others who influence the process. We examined 14 potential risks, what triggers them, and how to mitigate them. For instance, we looked at the timing of CEO succession, when boards begin planning, and how they identify candidates.

Each interviewee selected the most pressing risks based on his or her experience, and analyzed the challenges and opportunities inherent in each. The result, we believe, is worthwhile advice on strategy and tactics for chairmen, NEDs, CEOs, potential successors, and specialists working in leadership development. Investors, regulators, and observers of how businesses are managed also will benefit from the insights shared by these top decision-makers from leading organizations in Australia and New Zealand.

The more deeply we examined the issue, the more we uncovered how much of CEO succession is performed between the lines of any structured process. It is a highly nuanced undertaking where the personalities of two individuals – the chairman and the incumbent CEO – may determine whether the path is smooth or rocky.

"CEO succession and CEO tenure get confused." — Gordon Cairns

14 succession risks

Korn Ferry asked interviewees and survey participants to indicate which of these risks were most likely to knock a CEO succession process off the rails.

1. CEO involvement in choosing successor including considering the feelings of the incumbent CEO to the detriment of the process
2. Commencing the process without first agreeing the strategy for the company – and market factors – that impact the CEO role
3. Starting the process too late
4. Considering only internal candidates
5. Considering only external candidates
6. The succession process becomes a distraction for the senior executive team
7. Successors who aren't ready
8. When the process is conducted without Human Resources involved
9. Managing the process without professional advice from consultants or a search firm
10. When the board has little experience of CEO succession
11. The intervention of investors who are not on the board in CEO selection
12. When unsuccessful internal candidates leave the organisation
13. Lack of clarity between emergency and planned succession processes and actions
14. Lack of co-ordination with the Chairman's succession and the impact on the CEO

Highest risk factors

Most of the business leaders who participated in this report acknowledged that there are risks inherent to the process of changing CEOs. But four risks stood out with the greatest number of our business leaders.

Commencing the process without first agreeing the strategy for the company – and market factors – that impact the CEO role. Searching for a CEO without first settling the strategic direction of the company will affect every part of the process: writing the job description; nominating a long list of potential CEOs; interviewing candidates; and selecting the successor. Board members may assume they are on the same page, but if they haven't explicitly discussed strategy and how it dictates the leadership needed, the succession process can fall apart. Boards can reduce this risk by conducting a strategic alignment exercise before embarking on a search or leadership development process for the next CEO.

Starting the process too late. This risk was nominated by most of the respondents and stimulated conversations about the appropriate time for the chairman to start succession conversations with the incumbent CEO.

CEO involvement in choosing successor including considering the feelings of the incumbent CEO to the detriment of the process. Many companies have a structured leadership development program, of which CEO succession is a part. However this doesn't always accurately communicate how involved the board actually wants or expects the CEO to be in his or her own succession. Our interviewees — chairs, NEDs and CEOs — generally agreed that the CEO should not choose the successor. There were differing views, however, on how much involvement and influence the incumbent CEO should have in the process.

When unsuccessful internal candidates leave the organization. An ideal CEO succession process will have identified two or more internal candidates who have already served in executive roles integral to the company's success. Quite often, one of these people will leave if they aren't named CEO. Boards want all candidates to have a positive experience with the process and the chairman must be prepared to have timely, constructive, and above all, honest conversations with those who don't ascend to CEO. Retaining the executive may involve providing a different career path with new stimuli and experiences. If he or she isn't persuaded to stay, manage the exit generously and respectfully. Just in case, successors for such internal candidates should be identified so someone is ready to step into the role.

"Great succession processes are conducted by people who have figured out how to select the CEO and keep the right team in place."
— Ahmed Fahour

"There is always the risk that the appointment of a new CEO may be a catalyst for change for others within the organization."
— Joan Withers

"Benchmarking internals against externals can be problematic and bringing in a third party to assist with the process is really important."
— Yasmin Allen

"It is important to be honest with people and manage their expectations."
— Tony Carter

"I truly disagree with the view that a long-serving CEO must be bad."
— David Gonski

Mid-level risk factors

Considering only external candidates. Considering only external candidates was considered slightly more risky than looking only at the internal talent pool, but many interviewees pointed out the risk of excluding either group.

Managing the process without professional advice from consultants or a search firm. An internal candidate, even one groomed for the role, should be evaluated alongside an external talent pool. This is good governance by a board that wants to ensure they are hiring the very best. Search firms often are asked to "map" the talent market to provide insight on the experience, attributes and availability of domestic and international candidates.

Lack of coordination with the chairman's succession and the impact on the CEO. Ideally, the timing of the departure of the CEO and the chair will be at least 12 months apart so the successor in either role benefits from the experience of the other. This is less important when the successor for the CEO role is an internal candidate, or the successor for the chair is on the board.

The succession process becomes a distraction for the senior executive team. CEO departures are often a catalyst for change and as such, will be a distraction for the senior team. The extent of this distraction depends on the nature of the departure of the incumbent, the number of internal candidates in the succession pool, the length of time it takes to appoint the new CEO and, communications between the board and the executive team.

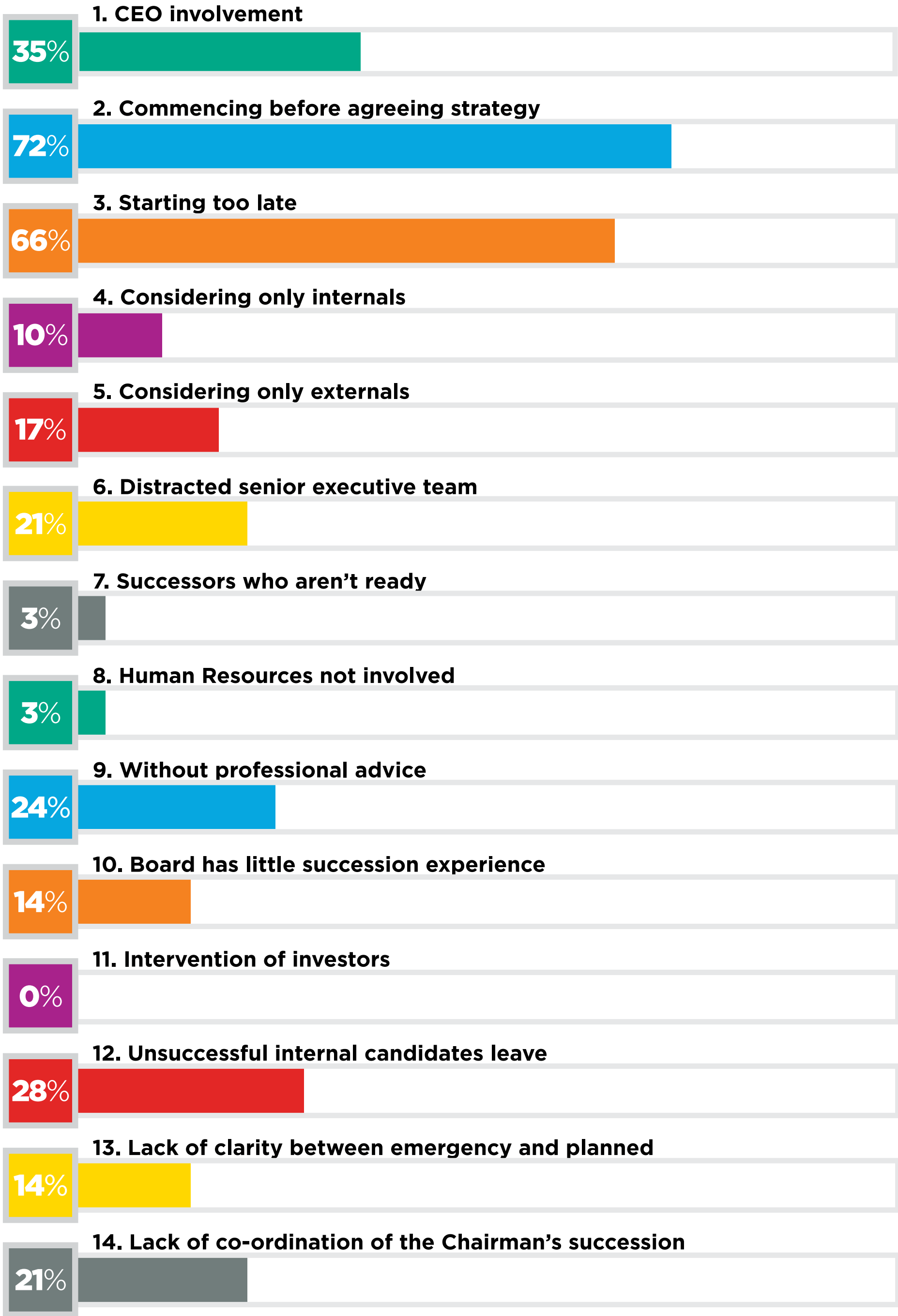
Other risk factors assessed as of less importance

- Considering only internal candidates.
- When the board has little experience of CEO succession.
- Lack of clarity between emergency and planned succession processes and actions.
- When the process is conducted without human resources involved.
- Successors who aren't ready.
- The intervention of investors who are not on the board.

Ranking of CEO succession risk factors

Cumulative responses from 29 people, among them 12 chairmen, 12 NEDs, 3 current CEOs , 1 investor, and 1 journalist.

Respondents were asked to nominate their top 3 or 4 risks from the following list.



Conversation with…
Yasmin Allen

Yasmin Allen is national director of the Australian Institute of Company Directors, and a NED of Insurance Australia Group, Cochlear, Santos, and Australian Securities Exchange. She is also a NED of The National Portrait Gallery and The George Institute for Global Health.

KF: Where do you think the most risk is in the CEO succession process?

YA: I think there are several risks to be managed. The most substantial arises when the board doesn't understand deeply or have consensus around the strategic direction of the company and what it wants from the company for the next five to ten years. A company goes through different life stages; it might be in a growth phase, a restructuring phase, or something else, and each of those require quite different skills from a CEO.

The next risk factor is starting the process of succession late. Some people say start succession the day the new CEO arrives. I agree you can start thinking about it then, however, it's a bit difficult to call that CEO succession. It's more leadership development. You need to work out what's missing in your executive team, then you may bring those skills in three or four years before you need a new CEO. Bringing those skills into the organization early increases the likelihood of having an internal successor as CEO, and I think that is the best way to proceed. Obviously, considering only external candidates is risky for the same reason. But if you start early enough, you don't need to do that.

KF: Is a CEO departure a trigger event for reevaluating the strategy?

YA: You may be thinking carefully about where you are going, but CEO succession is not a trigger to re-adjust strategy, it is usually the other way around. However, it may be a good prompt to revisit your understanding of what talent you need going forward.

KF: Some external candidates interview better than they perform. It's hard to get to know them thoroughly enough. But internal candidates—can you know them too well?

YA: Benchmarking internals against externals can be problematic and bringing in a third party to assist with the process is really important. The human resources function within the company can help run the process. We must be careful to judge both the internal and external candidates against the right criteria.

KF: How early is too early to start the process? Obviously if you look too far into the future you lose the people on your list because they go on to other things.

YA: It is probably never too early, as it is an ongoing process. When starting the process of internal succession you identify who is ready now and who will be ready in two-three years. And then you may need some development for that senior team. That might involve courses or moving them around so they gain more management experience. Or you might identify someone and if you have four years you can put them in a line or divisional role, or send them to a subsidiary where they can run an end-to-end business. If you start early enough, you can do that with an internal candidate, identify who has the right ability and behaviors and plug some of the gaps. You might not call that CEO succession, however; you might call it leadership development.

KF: Success of a planned CEO succession depends a lot on the CEO's willingness. Do you have to come together and agree a timeline or is it more fluid than that?

YA: I think you do leave the timing quite fluid to alleviate pressure. Frame it as a normal part of the board's job that we need to understand who the candidates are and the skills development they might need. It needs to be clear this is not about CEO tenure.

When things are going well, the initial conversation about succession would be between the CEO and the chairman and they would bring it to the board. Ideally, you would then have more regular—say bi-monthly—discussions with the CEO and you keep doing that until you need to firm up the timing. You need a very good chairman and the relationship between the chairman and the CEO needs to be strong and open.

KF: How can you assess internal candidates who aren't officially candidates for CEO succession?

YA: Through very rigorous leadership development, which you implement down three to four levels of the organization and five to six years out. It's a really great process which may lead to the identification of someone who is three layers down and obviously a rising star.

You also might identify people who don't think they are CEO candidates, but put them into the leadership development program and they might change the way they see themselves. By investing in talent you're also sending a signal that you really

Yasmin Allen has viewed CEO succession from an investor's perspective during her executive career in investment banking, and as a NED involved in the selection process in the corporate and non-profit sectors. Risk factors that she nominated as key to the process:

- **Commencing the process without first agreeing on the strategy for the company – and market factors – that impact the CEO role.**
- **Starting the process too late.**
- **Considering only external candidates.**
- **Managing expectations. The risk of unsuccessful internal candidates leaving the organization.**

value your people, particularly your high achievers, and I think they appreciate it. And throughout the process, they are exposed to interesting work.

KF: Have you been involved in any situation where you have seen a CEO suddenly depart and the process was less refined than you might have wanted?

YA: I have done that once. It worked out really well, but we were lucky. We had brought this person into the organization knowing one day they could be a CEO. So it wasn't all luck—we were thinking about succession—but we hadn't said, "You're going to be the CEO." And when we lost our CEO, this person stepped straight in and has been amazing.

KF: What's your general view of Australia's CEO succession and risk? We have quite short tenures.

YA: On my boards CEOs are long-serving, but speaking generally, I think it is a risk that is managed pretty well. I haven't seen a lot of serious fallout from companies that have really failed in their CEO succession.

KF: What's your view on media scrutiny on CEO appointments? It is a contributing factor to the pressure a board faces and at times the attention adds reputation risk that has nothing to do with the candidates or the process.

YA: As a board, you have to take the long view, put your head down, and accept that the press will say what it wants and takes a short-term view. But they will move on. If you see articles saying you should sack the CEO, you have to take that on the chin. That's part of the process.

Conversation with...
Gordon Cairns

Gordon Cairns is chairman of Origin Energy and Quick Service Restaurant Group, and a NED of Macquarie Group, Macquarie Bank, and World Education Australia.

KF: What do you identify as the main issues in CEO succession?

GC: Firstly, CEO succession and CEO tenure get confused. This creates tension when the board wants to talk about succession, but the CEO thinks the conversation is about tenure and performance. Whereas in reality, it's like a knife and fork, you need both concurrently—they don't follow one another.

KF: What is the best time to work on succession?

GC: You don't start worrying about succession when the CEO says they are thinking about leaving in a year's time or two years' time. Succession planning is ongoing and a primary accountability of the board, and starts on appointing a new CEO.

KF: There is a school of thought that when you recruit a new CEO you should start to think about succession straight way.

GC: I worked for PepsiCo for 10 years and they had a very explicit rule; that the day you were appointed in your job you had to identify your successors. The reasons for this were quite simple. PepsiCo never wanted to find themselves in a position where they didn't have a successor, plus it reduced the CEO's leverage. It was very explicit and it was smart.

KF: Do we have under-planned succession simply because boards aren't firm enough with the CEO that it needs to be done?

GC: Clearly there are lots of examples that demonstrate why we need a separate construct that allows us to have a discussion about succession without making the CEO feel threatened. Companies have to have a succession plan in place and I don't see how boards can fulfill their duties unless that's the case.

KF: Do you have a preference for internal or external candidates?

GC: I believe going outside is actually the riskiest solution. The evidence shows that companies that have to go outside—although there are exceptions to that rule—firstly demonstrate a failure of their own process, and secondly, the risks are much higher.

KF: What about the unplanned succession, where a CEO may leave suddenly due to illness?

GC: Everyone has copied what Jack Welch did at General Electric who said 'succession is not only about who is going to succeed me in three years or five years, but who is going to succeed me

Gordon Cairns has participated in the succession process as a candidate, a CEO, and recently as chairman and NED. His top-ranked risk factors:

- Commencing the process without first agreeing on the strategy for the company and market factors that impact the CEO role.
- Starting the process too late.
- Managing the process without professional advice from consultants or a search firm, to provide objectivity and an external perspective.

if I fall under a bus tomorrow.' You have a name in the envelope if there's a tragedy and names in the envelope for the three to five years' time – and they may not be the same person.

KF: Do you assess internal and external candidates differently?

GC: When you are calibrating external candidates, you need to know not only how the market sees them but how they are seen more broadly. It is really powerful to have external candidates and assess how they compare with the candidates inside. In order to do that, the external consultants have to be able to interview and get feedback on the internal and external people. To me that's a very powerful process.

If we identify external candidates, the board can get to know them; meet them for dinner, arrange to sit next to them at a function, or have them in here for lunch and learn more about them.

KF: Let's explore a CEO's point of view where the board has told the CEO to develop successors, and they are doing that, but the CEO might not be ready to exit.

GC: It's not about the CEO's tenure. That's the most crucial insight I have into the whole process. As soon as you put tenure and succession together, the succession becomes about performance or tenure, the wall comes up, and the view is blinkered. If you separate them you can say, 'You're doing fantastically well. We're not worried about your tenure, but we have to have a succession plan." You then have a different conversation.

KF: How deeply does a board need to know the potential successors, and how early?

GC: I think boards can fall down if they run a beauty contest which is not fair on the candidates. What you see of people at the board level and what you see visiting their place of work can be two different things. The succession process is very rich when you have identified internal candidates, you know what their development needs are, and you are reviewing their development and performance over time. In addition, the entire board has to spend time with these candidates both socially and at their place of work and then report back. Once you have nine directors who each have had dinner and visited this person's place of work in the course of two years you've got a much richer data set.

KF: Is the chairman the dominant person managing the succession?

GC: I've never seen it that way. I see my role here as driving consensus, as the first among equals. If a couple of directors aren't happy we work our way to the solution. We discuss their concerns openly and frankly. There is no monopoly on wisdom, and selection is a difficult process. Having said that, a good relationship between the CEO and Chair is pivotal.

KF: Do you think it is a risky business in Australia?

GC: It's a binary outcome; either you get it right or you get it wrong. And if you get it wrong, the impacts on a company are enormous. It requires a great deal of care and thought, which is why you have to start earlier rather than later. If, for instance, the CEO has said "I'm leaving in 12 months' time," or the board has decided the CEO has to leave, then that's like a snowball coming down the mountain.

I think companies in Australia are getting better at this and the process is more enriched. The board and the CEO have to jointly own the process: the CEO can't step back and say, "It's nothing to do with me," but at the same time the CEO doesn't have veto rights. CEOs are allowed to have a say, but not a vote.

KF: What role do the media play when you run a 12-month process?

GC: It can become distorted in the press. And if they learn who the internal candidates are, that can be distressing, particularly for those who don't get the job. CEO succession shouldn't be conducted in the media.

KF: You are known for your practice of mindfulness. Can you talk about the role of mindfulness in mitigating risk in CEO succession?

GC: Mindfulness is being both focused in the present and non-judgmental. I try to suspend my thinking mind, and inquire how I feel about the person I am interviewing. I don't know whether it improves the chances of success, but I find it works for me!

"If a CEO is sensitive to succession and does not want to talk about it, then that is an amber light."
— Dr. Bob Every

The chairman and the CEO

Succession won't be the first topic a chairman broaches with a new CEO, but it will most likely be raised during the first year. Their shared understanding of the process and how well they work together will set the tone for the board and management team. One unanimous view among our interviewees was how important this relationship is.

They need to trust each other, but their personal relationship can't reach a point where tough conversations about succession become awkward. If a chairman and CEO are of differing minds on how succession should be conducted, the level of risk rises.

One stumbling block is a CEO who is perceived to be sensitive about succession and unwilling to wholeheartedly embrace the process. This may stem from poor communication. However, when there is trust between the chairman and the CEO, it is understood that the succession planning is not a process to remove the incumbent. Rather it is the thoughtful development of future CEOs.

When the actual departure of the incumbent draws closer, transparency and communication will increase, but the CEO's role is the process reduced. The CEO becomes one voice among many and does not have a deciding role in their successor.

An experienced and skilled chairman is the key to avoiding any ambiguity and moving past sensitivity about succession. Whether explicit or implied, identifying and developing potential successors is a performance metric a CEO should be expected to meet with support from their chairman.

Conversation with...
Antony (Tony) Carter

KF: What do you think are the main risk factors in CEO succession?

AC: It depends on the company's current circumstances and, to a lesser extent, the circumstances under which the incumbent CEO is leaving. For example, the process differs greatly when the board has a long notice period as opposed to little or no prior notice. That said, managing the risk related to internal candidates is most critical. You could end up with a situation where the existing management team walks out—and that is not a good outcome.

It is important to be honest with people and manage their expectations. For example, if someone perceives they are a strong candidate, when they are not, they deserve an honest conversation about their chances. So managing the internal candidates is my top risk, because it can go horribly wrong.

The other issue that may arise is that the executive team ends up in a very unhealthy competition. If the new CEO is an external appointment, it'll probably take six months, minimum, before they come on board. So you could end up with a very dysfunctional executive team for an extended period if the process is mismanaged.

KF: Should the incumbent CEO be involved in their succession?

AC: It depends on the context. If the incumbent is retiring, they can add a lot of value to ensure that the right successor is selected. If the successor is going to come from within the company, the departing CEO may have a mentoring role. Whereas if the incumbent is leaving involuntarily, clearly you wouldn't want them anywhere near the process.

It is also critical to define what you want in a new CEO before putting any names in the ring. Ensure the board has clarity around the attributes and skill set it really wants and document that decision. That document becomes a benchmark against which all candidates are assessed.

KF: What is the best timing on succession?

AC: Starting the process too late is risky, as is starting it too early. A CEO who announces his retirement two years ahead may trigger a situation where the process gets stalled; or if you have an internal successor, you essentially have two people trying to run the company which can be problematic. So I think the time line is pretty critical.

KF: The textbooks recommend starting the discussion around key performance indicators (KPIs) and succession planning on day one of the new CEO's tenure. What are your thoughts?

Tony Carter is chairman of Fisher & Paykel Healthcare, Air New Zealand, and the Blues LLP; a NED of ANZ Bank New Zealand, Fletcher Building Industries, and Avonhead Mall; and a trustee of the Maurice Carter Charitable Trust.

Tony Carter's perspective on CEO succession reflects his vast experience as a CEO, director, and chairman at New Zealand's leading companies. His selected risks:

- When the succession process becomes a distraction for the senior executive team.
- When unsuccessful internal candidates leave the organization.
- Starting the process too early or too late.

AC: I think it depends on the circumstances. If you expect your CEO to give you five to seven years then it is appropriate to talk about succession early. However, in some organizations the CEO has grown up with the company and their expected tenure may be much longer. In that case, I would probably broach the subject a bit later on. You have to take the circumstances into account.

I know the textbooks say as soon as the new CEO is announced the old CEO should leave to give their successor free reign. Mostly that is entirely appropriate. But I do know of circumstances where there has been a transition period of say, six months, where the incumbent CEO remained in the role and the successor was the CEO designate for that period. I know all the dangers of doing it that way, but given the right personalities it can be very effective. It gives the new CEO an opportunity to settle in to the role without a lot of pressure. I'd say in most cases, and with most personalities, that's not possible but I've seen it work well.

KF: What role, if any, do you think investors and the media play in CEO succession, particularly in small markets like Australia and New Zealand?

AC: They don't play a role. Investors appoint the board to run the company or to govern the company on their behalf. CEO selection is the board's responsibility and if the investors start interfering and asking to see a short list then they are infringing on an area that is the board's sole responsibility. The same approach applies to the media. The process is best done as confidentially as possible.

I think that they are more likely to express a view that the incumbent should go, but that's a different conversation than succession. I've never had investors come to me and ask to discuss the search process for a new CEO.

KF: Should the human resources department be involved in the process?

AC: Probably not on their own. Appointing the next CEO is the most important decision the company will make. It's also something that companies should not do very often; therefore the HR department is unlikely to have all the relevant skill set or experience. It is better to outsource that function to a search firm and maintain it as a separate process.

Conversation with... John Durie

John Durie is a business columnist with The Australian newspaper.

KF: As a journalist, what do you see as the key risks of CEO succession? When do you feel you need to call the board to account about the succession process?

JD: It is hard to narrow the list of risks, but my top three are: starting the process too late, considering only external candidates, and successors who aren't ready. I am dealing with the top 200 companies and to me the most obvious mistakes made have been where the CEO has stayed too long. The term of the average CEO is around four years which seems too short to me; however, it is equally wrong to say they should be there for seven or ten years.

Another obvious mistake is choosing the wrong person for the job, which can happen when the candidate pool is limited or companies consider only external candidates.

Starting the process too late is risky. Good chairman start considering replacements as soon as the new chief executive starts. That seems a good rule of thumb because you never know what's going to happen. All sorts of personal things could hit the incumbent.

KF: A common theme when we've talked to chairman relates to when a CEO has been around a long time and often just raising the topic of succession is tricky and difficult. Can you discuss your role as a journalist reviewing the CEO's performance?

JD: There are two key factors driving the media coverage. One somewhat recent development is that big shareholders and fund managers are more open about their views on a company, and they can be a big group of complainants feeding press coverage. This is probably driven through the advent of remuneration reports, which have dragged CEO salaries and performance into the spotlight. The second is obviously financial performance. If a company is not doing well or makes some pretty obvious mistakes the press will start to notice and speak up.

KF: Let's talk about the other risk you identified which was internal successors who aren't ready for the top job.

JD: I think a well-run company, with other things being equal, will choose an internal successor. This shows that (a) they have considered who the successors are and (b) the chief executive may have hand-picked who should take over. It just shows the company is running well.

John Durie, one of the leading business journalists in Australia, brings an informed outsider's perspective to CEO succession. He has covered the management and boards of ASX200 companies for 30 years. The biggest risks he sees:

- Starting the process too late.
- Considerating only external candidates.
- Successors who aren't ready.

Having said that, I think there are successors appointed when they aren't ready to take on the job. I think it's a very vexed issue because often you don't really know until they are promoted.

KF: How transparent do you think boards and companies should be around their CEO succession?

JD: I don't think transparency too early is all that helpful because it puts pressure on the potential successors and on the incumbent CEO. A company might telegraph these things a year in advance of the CEO's departure by promoting the successor to COO or something similar. That's a good idea; it sort of clears the air internally. But if the CEO is leaving in two to three years, I don't think anything needs to happen in terms of transparency. I think there is always a danger of doing things too publicly too far in advance. For a big company, six to 12 months before the CEO leaves is a good time to choose one of the internal candidates but you don't need to be talking about it constantly. You have to let the incumbent get on with the job.

KF: Suppose a major company nominates two good internal candidates who can step in when the CEO decides to leave. As a journalist, will you try to get to know those two nominated candidates and do they become the focus of your relationship building and your writing?

JD: Absolutely. If the board nominates successors publically then I would tend to drop the CEO and take a lot more interest in what the successors have to say. I think the CEO would very quickly lose market clout.

KF: Do you think the media can influence the choice of candidate?

JD: I can't imagine a strong board being influenced. A good company board will choose whoever is good for the company, which may be an outside person.

KF: What is your view on the closeness or otherwise of the relationship between the chairman and the CEO? Can they be friends?

JD: This is one of the most important relationships in any company. I do wonder if a friend will be able to call time when they need to. I think it's desirable for the chairman to stay a little bit distant from the chief executive because if they are too close it could make things difficult. But there has to be mutual respect. The chairman has to be someone the chief executive can work with, learn from, and use as a sounding board. So I think they need a strong working relationship, but not a personal friendship.

KF: How much access do you have to chairmen or NEDs who will speak to you about CEO succession? Is it a closed topic or are able to have some conversations?

JD: It tends to be a closed topic and depends entirely on the situation. If it is an unplanned departure you won't get anything. You get fed the line by the PR people but you don't get the real story. Sometimes the fund manager might know the reason, or have a view as to why the CEO left.

KF: Do the fund managers try to influence succession outcomes via the media?

JD: Probably. In some cases fund managers have a lot of influence over the board.

KF: In general terms do you think CEO succession in Australia among the ASX 200 is well managed or is there too much risk in it?

JD: No matter how well-planned or orchestrated, changing CEOs is a high-risk process in every company—and I think board succession is also. It needs to be handled very, very carefully, but even in the most well managed processes, people make mistakes. To me it is the most critical thing the company does.

Conversation with...
Dr. Robert (Bob) Every, AO

Dr. Robert Every is the chairman of Boral and Wesfarmers.

KF: Which aspects of CEO succession do you think carry the greatest risk?

RE: There is risk when there is lack of clarity between emergency and planned succession. Boards must have a plan and be prepared to step in if things aren't going right with the CEO. And, if you don't have an emergency succession plan then the chairman has to step forward and run the company.

There needs to be ongoing discussions at two levels. First, what happens if the current person gets 'run over by a bus' and you need a safe pair of hands? Quite often, that person doesn't ultimately get the job because they are best at running the company as it is, rather than how it needs to be. Second, boards need to discuss who the best person is to take the company where it needs to go. That person, who has the vision for the future, is not always the person who runs it best now.

This links to another risk, lack of coordination to the chairman's succession, which also requires ongoing conversations. You don't want the chairman and the CEO departing at the same time, and ideally you want to have a CEO and chairman work together for two years before either leaves.

KF: Who are the key participants in the CEO succession process?

RE: You definitely need people on the board who have been through the process previously. A measure of CEO success is that they are able to put up at least two plausible, credible, internal candidates who need to be measured against external candidates. But once a CEO does that, they have to cede control of the process and it then becomes the board's. Most CEOs may initially push against stepping back, so boards need to understand when it is time to take over and communicate effectively with the CEO.

KF: The relationship between the CEO and the chairman often is under a spotlight when the CEO succession is happening. How do you navigate that attention?

RE: What is critical for the health of the company is that any handshake deal between the chairman and the current CEO is honored. I have found that understandings between the two tend to get muddied so clarity is very important.

Once the chairman takes full control of the process the rest of the board must respect the understanding between the chairman and the CEO. For example, how long the succession will take and the incumbent CEO's finishing date. If the agreement gets changed it can lead to bitterness and, if the rest of the board was not privy to that conversation, it can create tension.

KF: So care and respect for the current CEO is an important part of the chairman's role?

RE: Yes, and it must be done with honesty. The chairman must be transparent and faithful in conversations with colleagues on the board so they are aware of the dynamics. If tension arises, the directors don't want to be wondering why the CEO and chairman are falling out. It does happen quite a lot.

KF: Most of the discussions around CEO succession recommend thinking about succession as soon as the new CEO starts. What is your view on that?

RE: Based on my experience, if the CEO is sensitive to succession and does not want to talk about it, then that is an amber light. You have to be prepared for succession from day one because you just never know what may happen. And the conversation is quite often about the person who would be a safe pair of hands in an emergency.

The other observation I would make is that not only do you need to have those conversations with the CEO, you need to have conversations with the NEDs because you will find that if NEDs don't agree with the CEO, they won't say it when the CEO is in the room. Therefore, the chairman also needs to have succession discussions from time to time just with NEDs and then keep the faith in a transparent way, and tell the CEO what they talked about. This applies whatever the topic is.

KF: Any other "amber lights?"

RE: If the CEO wants to travel with me everywhere, that is one of my amber lights. If the CEO wants to be joined at the hip with the chairman, on site visits and so on, to me that is a clear sign that they aren't confident that what you might hear is the same as what they've said you'll hear. There will be some times we choose to go together, but to feel like they need to be there to shepherd me around shows a lack of confidence.

Dr. Bob Every had a stellar career running large, global businesses, and has chaired six companies in his post-executive career. He is arguably one of Australia's most experienced leaders in the process of CEO succession. His top risks:

- **Lack of clarity between emergency and planned succession processes and actions.**
- **Lack of coordination with the chairman's succession and the impact on the CEO.**
- **When the board has little experience of CEO succession.**
- **Managing the process without professional advice from consultants or a search firm.**

KF: Can the chairman take over as interim CEO when there is an unexpected CEO departure?

RE: The chairman has to have the capability to step up to the plate. Perhaps you could have another NED do it, but I just don't see that as a very satisfactory outcome. Therefore, to be an effective chair of a company, you really need to know the company's culture and the industry. Most importantly the chairman must understand the markets in which the company operates. Sometimes we see people coming in to chair companies who have no knowledge of its industry and no idea of the culture. I see no reason why a former executive with the company who has been gone for a few years could not become chairman, provided time has sufficiently cleansed them.

KF: Can the chairman then go back on the board as an independent chair?

RE: This depends how long they are in the interim role. It wouldn't faze me, but the board would have to consider how proxy advisors would see it. It would be hard to go back as an independent chairman after a lengthy period, but if it was just six months, I don't see the interim role as an impediment to your independence. In fact, the experience may make you a better chairman. I think all those things make you better at the job. Boards don't run companies but it sure as hell helps if you understand how the company operates.

The safe pair of hands

A recurring theme in our interviews with chairmen was the importance of knowing who can step in as CEO at a moment's notice. This interim CEO—or as some chairmen put it, "a safe pair of hands"is likely to be a senior executive who has been exposed to the running of the business and the board, but is not necessarily the incumbent CEO's successor.

A number of chairmen said being the 'safe pair of hands' isn't necessarily the pathway to the top job. In fact, that person may be ruled out if the board feels changing the CEO is part of a drive toward a new strategy.

Early identification of this interim CEO is key to succession planning because the departure of a CEO may come without notice. In the event of an emergency succession, the safe pair of hands, ready to keep the company on course during the process of selecting the next CEO, will ensure that the company's reputation and value stay intact. This delicate process needs to be managed by an experienced and nuanced chairman.

Viewed through a risk management lens, identifying the interim CEO early, is perhaps the second most important role a board performs.

"You need a safe pair of hands ready in case something unexpected happens to the CEO." — Brian Jamieson

Conversation with...
Ahmed Fahour

Ahmed Fahour is the Managing Director and Group CEO of Australia Post. He is the former chairman of Rip Curl and currently the chairman of Pro-Pack Packing. He is also currently a Director of the Carlton Football Club.

KF: You've been on many sides of the CEO succession process. What have you observed?

AH: I have seen CEO succession from five different angles and each feels different. The one thing that is consistent, however, is how important CEO succession is. The CEO role is critical—because of its links to the board, to shareholders, the community, and to employees—so it's a big deal when the CEO changes.

KF: Where does most of the risk lie?

AF: I would worry about a board that has had little experience in doing CEO succession. It can make or break a company, and there are so many criteria for selection. Appointing a CEO is probably the most important thing a board will do, and the chairman takes the lead on the process.

Other risk factors relate to how the team reacts, either during the process or when the outcome is known and the unsuccessful internal candidate leaves. I think the highest risk factor is that the process becomes a distraction for the senior executive team. If it is taking a long time and people are jockeying and positioning for the role, that is disruptive to the orderly running of the company.

KF: What are the consequences of a protracted decision?

AF: A protracted decision may lead to huge anxiety in the company and potentially an exodus. The holy grail of the CEO succession process, whether the new CEO comes from the outside or the inside, is to maintain continuity by retaining the talented executives who were CEO contenders. Great succession processes are conducted by people who have figured out how to select the CEO and keep the right team in place.

In my experience, organizations vote very quickly on how they feel about the board's process. If there is harmony, continuity, and consistency, the senior management team has approved of the decision and how it was reached. When is there is a mass exodus some boards will say this is because there has to be a natural clean-out. But I think it's actually a reflection of bad process and the quality of the decision.

Internal candidates don't leave when they believe the person who has become CEO is somebody who is significantly better than themselves. If a lesser person has been selected, the unsuccessful candidate might wonder what that decision says about them. They may think there's no respect for what they can do, no runway for them with the company, and decide that they need to move on.

KF: This creates a challenge for any chairman who wants options to consider for the appointment. The best scenario generally has three people who are right for the role, but each for different reasons.

AF: When I was appointed CEO of Australia Post there were three internal candidates. I was brought in from the outside because the board was going in a different direction and had decided they wanted a change agent. Following my appointment we were able to retain all three executives. I created a team that I felt was a real team of leaders and I think they stayed, at least for a while, because they respected what I brought to the table. And that stability helps the board.

KF: There are circumstances where the CEO plans to leave in, say, two years and you identify people who have the potential to be CEO. When do you tell them you are looking at successors for the CEO role?

AF: I used to think you need lots of lead time, lots of dialogue, lots of transparency, but I now think that's hugely distracting. Companies should plan succession very quietly, very discreetly, and very thoughtfully. And when they tell people they are contenders, they should use the shortest possible window. My perspective as an executive is that the longer you drag this out, the more pain and suffering you can cause.

Now from a chairman's point of view, I want a long runway, I'm trying to give everyone an equal chance, I want to be open minded, I want to show I am thoughtful.

KF: If the CEO departs unexpectedly, do you have three people who can be interim CEO while you do a search?

AF: Yes, but why do you want to tell them that? That level of transparency just creates anxiety, both within the organization and among those people, who will feel like they continually have to prove themselves.

KF: Would a thoughtful, quiet process be a board or a chair making sure they had adequate exposure to the senior team?

AF: Correct. Without it being seen as, "You're on display, you're on trial, you're being judged." I know executives aren't stupid, but

Ahmed Fahour has viewed CEO succession through multiple lenses: as a divisional manager watching executives competing for the CEO role; as an internal candidate vying for the role; as a chairman and a NED selecting a CEO; and as an external candidate chosen to be CEO. His list of the highest risks:

- **The succession process becomes a distraction for the senior executive team.**
- **When unsuccessful internal candidates leave the organization.**
- **When the board has little experience of CEO succession.**

that subtlety is so important. Organizations become obsessed with the process and it brings everything to a halt.

KF: How would you structure long-term CEO succession planning?

AF: You need to give potential successors new roles with different exposures so that when they come to the board, they can be viewed in a different light. You're not framing it as part of a test; you're framing it as an important strategy for the company. Then, six times a year I have two or three hours with the board... where we talk about how people are progressing, the opportunities we are giving them, and how they are feeling. This puts the board in a position where they've already had two to three years of conversations.

KF: What role, if any, do you think the incumbent CEO should have in a planned succession process?

AF: Departing CEOs need to be listened to very carefully because they want nothing other than success for the company. If companies fail when they leave, that reflects badly on them. The departing CEO is one voice, and although he or she is definitely not the decision maker, but an important voice nevertheless. Any chairmen who don't listen will do so at their own peril.

KF: What is your view on shareholders' role in CEO succession and the impact of CEO succession planning on share price?

AF: Shares will go up and down if the market thinks a new CEO appointment is a good decision or a bad decision. When you are the departing CEO you always hope that the share price tanks! Just for one day. It makes you feel better about yourself. If the share price goes up when you leave it's... good for the board, for they think they made the right decision. But it's bad for the departing CEO.

Conversation with...
David Gonski, AC

KF: You nominated CEO involvement in choosing a successor as a risk to smooth CEO succession. Why is that?

DG: The existing CEO is a stakeholder who should be consulted, but the risk lies in taking that consultation too far. In my experience, CEOs are often not good judges of who should take over. It is a board's responsibility to select the next CEO, and as the people who will be there going forward, they are obliged to do it.

KF: Do CEOs want to replace themselves with someone in their own image?

DG: That often is the case. But CEO succession is often an opportunity for change, so it presents an enormous risk if the CEO were allowed to choose someone either like him or herself, or someone who is the antithesis. Both are wrong.

In all of the successions I've worked on I have taken the present CEO into my confidence, and through the board's candidate list before we go to the shortlist. The CEO's view is equal to anybody else's but not extra to it, including their view of internal candidates. I accept that they have worked with internal candidates and know them well, but the negative is, they know them as their boss. They, like all humans, pick favorites; it's not a pure relationship.

KF: You selected starting the process too late as the next risk factor.

DG: Timing when the new CEO starts and the old one leaves, is often as vital as how good the new person is. If you dally too long you can ruin the chance of the next person doing well, and you can ruin the reputation of the person who is there now.

The other aspect to starting too late is that the chairman can get quite close to the CEO. Some of the biggest disasters we've seen in companies may have been where the CEO and the chairman don't get on—but it is also problematic when they get on too well.

KF: Sometimes the CEO succession might be accelerated due to unexpected external factors.

DG: If, God forbid, your CEO goes under a bus, and you haven't started thinking about succession you're in real trouble. You have to consider what you will do if you don't have a CEO and you don't have a CEO in waiting. If as chairman you put yourself in as interim CEO, you risk having to resign from the board once you appoint the new CEO because you are never an independent chair again. If you don't put yourself in, and you put an internal candidate in as interim CEO, you need to manage risk if they don't get the job permanently.

David Gonski is chairman of ANZ Bank and Coca-Cola Amatil and Chancellor of the University of New South Wales.

David Gonski's executive and board experience spans business, government, health, education, and the arts. He is one of Australia's preeminent businessmen and has extensive experience with CEO succession. The risks he warns of:

- CEO involvement in choosing a successor.
- Starting the process too late.
- Considering only external or only internal candidates.
- When unsuccessful internal candidates leave the organization.

KF: What is the best solution for an interim CEO?

DG: If you have to tap someone from the board, don't make it the chairman, or agree that the chairman is going to leave afterwards. Somebody else on the board could remain a director after acting as CEO, but not the chairman.

KF: Are you also telling the market that you haven't done any succession planning and that you C-suite executives aren't good enough?

DG: People say it's a failure if you don't have a successor in the company. I think that's too simplistic a statement. It could be true in some circumstances, but some companies are in that part of their development that they need a change. They need a new chapter. And for that you want to get somebody from outside. Likewise, there could be times when things are going very well and the successor should be an internal candidate.

KF: Should the succession process begin within a year of the new CEO starting?

DG: Theoretically. However it may not work that way. You have two situations where you have to replace the CEO. One is an involuntary departure, and you need to be working on that succession from day one. The second situation is the voluntary succession. You have probably got more time on that after you have just appointed the next CEO.

I truly disagree with the view that a long-serving CEO must be bad. But having said that, after four or five years you have to start the file. That doesn't mean you act on it, but you certainly have to be looking internally at who is there.

KF: When you start the file, do you also start the conversation with the incumbent CEO?

DG: Two or three years into any term, I'm talking to them. Many CEOs I've worked with are in their early 50s, and it seems to be that between 50 and 55, most CEOs, certainly men, start to think about what's going to happen next. So you have to talk this through and discuss when they are going to move.

There is also the matter of the chairman's succession. As chairman, if you think you're going to go in two years, and the CEO is going to go then too, you have to either go early, or put off your departure date and ensure other stakeholders and fellow directors support that decision.

KF: There is the risk that internal executives may leave the organization if not appointed.

DG: That needs to be managed. You might have an internal candidate with a moral claim on the job, or who may even, foolishly, have been offered it when they came in. Other companies will be circling that person. The challenge is to create a situation at a corporation where those who put their hat in the ring but don't get the job can stay and still have the same love and affection for the organization.

KF: Is the internal candidate more encouraged to stay when the incoming external candidate is clearly superior and demonstrates leadership?

DG: I think you are on the right track. But let me say—and this is my cynicism—I don't think there are too many top executives who think anyone else is better than they are. One solution, which can be quite difficult, is this: when the new CEO is chosen, the board makes it clear that success in this appointment is contingent upon ensuring that the unsuccessful candidate stays. That often does the trick; the new CEO goes right down the corridor to embrace this person.

KF: Aren't you then saying to a new CEO, "You're the leader and you make the decisions here—except this really big one?"

DG: The answer is yes. And I know you're going to ask me; is that a good thing? I'd say we do this sort of thing, in some form, quite a lot. There are any number of times a CEO thinks it is time someone left, and the board disagrees. Or—and this happens more often—the CEO thinks someone should stay when the board thinks he or she should go. I accept however that it is ultimately the CEO's decision.

KF: Your other risk factor concerned restricting a search to internal or external candidates?

DG: It's like the sun and the moon; you've got to look at both. I once heard that the problem with the interview process is that the people you know well have bruises all over them, and the people you don't know have powder on their bruises so you don't see them. Every time I interview someone I think, "Where are this person's bruises?"

Conversation with...
Belinda Hutchinson, AM

Belinda Hutchinson is a NED for AGL, Chancellor of the University of Sydney, director of the State Library of New South Wales Foundation and Australian Philanthropic Services and a member of the Australian Treasury Advisory Council.

KF: You said CEO involvement in succession planning can be a juggling act. Can you expand on that?

BH: In a planned succession, you need balanced engagement of the CEO in the process. It's the board's role but it must take the CEO on the journey. I don't support—as some NEDs do—cutting the CEO out completely. This could just get them offside. If the recruitment process for the next CEO takes more than a few months you could have a somewhat disengaged CEO for that time, which, particularly if you are searching for an external candidate, could rub off on the senior executive team.

KF: How far along that journey does the CEO travel with you?

BH: Obviously the CEO isn't involved directly in selection; that has to be the chairman, NEDs and the board committee that manages the process. It's more a matter of the chairman taking the CEO along for the ride, explaining what is going on and keeping him informed.

KF: Would you have the incumbent CEO review the job description?

BH: Getting CEOs involved in the job description is helpful. They can add value to the process because they know the company better than any of the board members. Plus they know the internal candidates better than the board does. Their involvement must be framed as the incumbent consulting on—but not controlling—the process. At the end of the day it's the board's decision and CEOs worth their salt know that.

KF: Your next risk is starting the process too late.

BH: Starting too late is connected to another risk, which is a lack of clarity between emergency and planned succession processes and actions. You try to ensure you have got two or three internal candidates but sometimes when it comes to the crunch you don't. The timing may have worked against you.

KF: How difficult is it to change a CEO who has, in the main, been a good performer?

BH: You may have a CEO who has been outstanding in building a company, but you may need somebody with different skills because the world changed and the business model along with it. This can be a real challenge for the board. You may have deeply thought out emergency plans, but if you have a CEO who doesn't see the need for change —and you don't have board coherence on the timing for succession—it can be a real challenge.

KF: Do you run the risk of losing some possible successors if they have to wait too long?

BH: You will probably have lost some of the successors. And when you've had a very strong, dominant CEO, you may have a number of second-in-charge executives but not with the strength to be successors.

Another risk is successors who aren't quite ready when they are appointed. It is then up to the chairman to devote significant time to help them. They need to step up and spend the first six to 12 months settling in the new CEO. A critical success factor is the chairman's engagement.

KF: Can you talk about the relationship between the chairman and the CEO? How close you think that relationship should be?

BH: I think the relationship must be friendly, but they should not be friends. There needs to be a level of formality and it has to be clear what the different roles are. You need rapport and trust. As chairman, you're not going to give your CEO clear, transparent and unfettered advice unless you share trust and rapport.

KF: At some stage the chairman might have to deliver a hard message which is more difficult when you share a social life.

BH: I agree and conversely, if you've got a new CEO coming in from outside, you want to make them feel like they are part of the organization and that you care about them. You can do that—but it is dangerous to live in each other's pockets.

KF: In Australia average tenure for a CEO is 4.3 years. What do you think is the ideal tenure?

BH: I think seven to ten years is about right but there is not one size fits all! Most new CEOs will want to develop and implement their own strategic plan the results of which will take three to five years to fully materialize. Furthermore any company with serious issues will take three to five years to turn around, and it is extremely disruptive to have CEO turnover in that time. I think they need to be there for seven years to prove their worth. There are some prominent exceptions to that rule.

KF: When would you start talking to the CEO about tenure?

BH: From the beginning however, if the CEO is performing well, more focused discussion should start to take place around year six or seven. You've got to really focus on succession planning then

Belinda Hutchinson gained her perspective on succession as a chairman and director of many of Australia's biggest companies. Her knowledge spans several sectors including energy, financial services, retail, gaming, telecommunications, and education. Highest risk factors:

- CEO involvement in choosing a successor, including considering the feelings of the incumbent CEO to the detriment of the process.
- Starting the process too late.
- Lack of clarity between emergency and planned succession processes.
- Considering only internal or external candidates.

because it could take two years to get the right person to come through the organization.

KF: Some people say a multi-year succession process can be destabilizing so they frame it as leadership development two or three levels down.

BH: I don't think it matters what you call it. You need to have every one of your senior positions mapped, and to have identified successors for immediate, short-term and longer time frames. Then place leadership programs around the people in each of those positions to develop them through to that role. Companies are getting better at this. When done properly, the board, usually the remuneration committee, evaluates where the company stands on each executive and the development plans needed to get to them to the next role.

KF: Do shareholders expect a robust succession process?

BH: Absolutely. You have to demonstrate to your shareholders that you really have managed succession properly. It is risky to consider only internal or external candidates, for instance. You owe it to your shareholders to look outside to at least benchmark internal candidates.

KF: When evaluating internal candidates you have the advantage of knowing their strengths and weaknesses. How can you learn enough about an external candidate to feel they are right for the role?

BH: This is particularly important when you bring someone in from overseas. You may not have the same level of reference checking that is available for local external candidates. It is critical to take verbal references. The risk with overseas candidates is that they may not fit in with the culture or that their family may not adapt. CEOs need support and to be here without their family structure can, I believe, lead to issues.

KF: How do you find the ideal CEO?

BH: This is not an easy row to hoe. It is crucial that you have a person who is very strategically focused; with great relationship skills; who understands about culture and cultural change; is decisive; can make tough decisions in a positive way; is politically savvy; and can make the changes necessary. You are looking for the full package.

Conversation with...
Brian Jamieson

Brian Jamieson is chairman of Sigma Pharmaceuticals and Mesoblast, and a NED of Tatts Group, and Oz Minerals.

KF: What do you think are the major risk factors in CEO succession?

BJ: Commencing the process without agreeing on the external strategy is high risk as companies change. It is essential that the chairman and board have a good discussion about where the company is at a point of time. Clearly your next CEO has to be aligned with where the company is likely to head in the next three, four, or five years.

Another important risk factor is the tenure of the current CEO and the chairman. You don't want to change both roles at the same time. If there is a view that both the chairman and the CEO are coming to the end of their tenure, that situation requires careful management. You need to work out who goes first and get the replacement in.

If the new chairman is someone already on the board you've got continuity. Likewise, for the CEO role you might have internal candidates. Although I'm not sure how many internal candidates win out these days. You tend to know all the weaknesses about an internal candidate. Considering a new external candidate, however, you just hear all the good things and are never quite sure about all the other things they come with. I think it's important to be aware of that.

Another risk factor that resonates with me is that the succession process can become a distraction for the business. The process needs to be tightly held; if too many people get involved, they take their eyes off the ball.

KF: How does the succession process vary with the circumstances of the CEO's departure?

BJ: You can have very different circumstances leading to a CEO's departure and you need a framework for dealing with all of them. With an orderly process, when someone is driving their own retirement, you can set the framework for it. When you have to replace someone more quickly—which can happen because of illness or job performance—you have to be more careful.

Even when you have a planned retirement it can be difficult, particularly if the outgoing CEO is not terribly helpful or happy. You may need to terminate the role quickly. If this happens you need to have a fall-back position to cover the loss of the CEO.

I also think it is important that you get good professional advice. In all circumstances I have been involved in, we've consulted external advisers, along with a search firm, who have a lot of experience and can often see things that a board can't.

Brian Jamieson has experienced CEO succession as a CEO of a major accounting firm and a law firm, and as chairman or NED of companies in different industries. He sees risks in these factors:

- Commencing the process without first reaching agreement on the strategy for the company as well as market factors that will impact the CEO role.
- Lack of coordination of the chairman's succession and the impact on the CEO.
- The succession process becomes a distraction for the senior executive team.
- Managing the process without professional advice.

KF: If the succession process becomes a distraction for the senior executive team, how does that affect retention of internal candidates?

BJ: Whenever you are appointing a new CEO, if the internal candidate doesn't succeed generally they leave. You have got to be astute and be able to show them an alternative career in the organization. But that's not perhaps what they wanted. When a person puts up their hand to be the new CEO, they probably think they can do the job. When you don't appoint them, you've effectively said they are not good enough. Then they leave.

KF: Do you find having internal candidates brings urgency into the process because you don't want the business to be get distracted?

BJ: That is a definite consideration and I don't think the whole process should take long. When the board calls a search firm we should be able to clearly state; this is what we want you to do, this is what we're looking for, this is the business we're in, this is where we think the business is headed, help us get on with the job.

KF: Some people say the job of CEO succession starts the day the new CEO starts. Do you subscribe to that view?

BJ: I don't think you have to have another candidate the moment a new CEO comes in the door. What you need is a safe pair of hands ready in case something unexpected happens to the CEO, so you have time to go through the processes of building up knowledge of your internal candidates and potentially identifying external candidates.

It's really about starting a process and being aware that you might have to find someone very quickly.

Businesses should evaluate successors across a number of roles. Every senior role that is important to the business needs a candidate who can step in immediately should something happen to the incumbent. That person might be a safe pair of hands or a ready-now candidate. There should also be someone who will be a candidate in two years and another person who will be a candidate in five years.

This process and list of candidates should be regularly reviewed by the board with the CEO. It doesn't take a long time and it is a good way for the board to understand who the people are in the business. Those candidates can, I think, also be moved into roles in other areas of the business which will enhance their experience.

KF: You cited lack of coordination with the chairman's succession as a major risk. Who leads that discussion?

BJ: The chairman in discussion with the CEO. It is incumbent on every chairman no matter how long they have been in the role to do this. Businesses change, and people's environments change, as do their needs. If a chairman has been there seven or eight years, they might be thinking of doing other things, so it's incumbent on the chairman and CEO to understand what the other is thinking about their time remaining with the business. It's not a good look if the two leaders of the business leave at the same time. You may have adequate replacements, but it's still not a good look.

My final observation is that the board must regularly discuss succession, and how the CEO is performing along with other executives. You need to know what you are looking for from the CEO to judge whether the incumbent is delivering on that. If not, then you should be looking for someone else.

Conversation with...
John Judge

John Judge is chairman of ANZ Bank New Zealand and the Auckland Art Gallery Foundation, a NED of Fletcher Building Industries and The New Zealand Initiative, a member of the Otago Business School Board of Advisers, and a trustee of The Auckland Festival Trust.

KF: Why do you think the biggest risk in CEO succession is forgoing professional advice?

JJ: Here in New Zealand there is a shortage of people with the experience needed to run larger organizations, so it can be difficult to find enough succession candidates. You can go through the entire CEO succession process and find a lack of real choice at the end. There is usually one candidate, but you are unlikely to get two candidates who are outstanding.

I think it's risky to go ahead without a search firm to give feedback on candidates. Some companies truly believe they should take the best internal candidate, but even that seems unwise without seeking advice.

KF: Is that lack of choice because New Zealand is often seen as a talent pool for Australian businesses?

JJ: New Zealand is a small country, and some of our best talent do not view it as the ultimate career destination. But those people are not going to go to Australia; they will go somewhere bigger. However, there are good opportunities here. A CEO of a large subsidiary company in New Zealand with a proper functioning board, for example, can enjoy the freedom of that role.

Sometimes candidates are experienced executives who are coming back to this part of the world after years working overseas. Interestingly, I am currently seeing better access to candidates at the level below CEO. The recession in Europe has led more people to look at New Zealand.

KF: What is the second highest risk in CEO succession?

JJ: Starting the process without agreeing on the external strategy is risky. It is important to have a good board discussion on the issues, the skills required, and the type of person you will need. It's helpful too, so the new CEO can have a clear discussion with the chairman about the short-term objectives and the changes required. The chairman can't have that discussion unless the board fully understands the strategy.

Sometimes people don't pay enough attention to a related risk, which is the impact of the appointment of the CEO on your next level of executive. Some may leave—which is mostly a manageable problem—but if you haven't got the bench strength in the executive team you want the new CEO to make changes quite quickly. The board has to give the CEO free rein.

KF: Some boards find starting the conversation with the CEO about succession planning sensitive. What is your view?

JJ: That's not an issue I've encountered. If the chairman and board members are reasonably direct, it shouldn't be a sensitive conversation. In a properly run organization not having the discussion would be a failure of governance.

KF: What other risks do you identify in CEO succession?

JJ: If the chairman and the CEO leave at the same time, that doesn't help the organization. It is also risky if the board has little experience with CEO succession. This can often be the case because board members have relatively short terms of around nine years. Directors may serve on the board of a company that has had just one CEO during their term so they haven't been through a change in CEO and gained that experience.

Perhaps we would be better off with 12 year terms. An inexperienced board will probably make mistakes unless they have employed someone early enough who can guide them through the process. It is crucial to hire a consultant or search firm willing to be blunt with their clients and confident enough to speak up if you are on the wrong course. Even directors who are experienced in CEO succession benefit from working with someone who can assist with the process.

KF: The search for a new CEO takes more time than people often realize.

JJ: It could take a year. You really need to have an arrangement with your CEO, where you have discussed the timing of their departure and agreed to show flexibility on both sides if it takes less or more time to find a replacement. A chairman has to be willing to put that issue on the table.

KF: What do you do if your new CEO can't start for six months or more? Others have raised the importance of having a fallback CEO—a safe pair of hands.

JJ: I think that is important and it needs to be properly planned. In large organizations you should have all the roles identified, including the people who are one step away, two steps away, and the people who are the safe pair of hands and in an emergency could do the job for six months. You may then have the issue that they may get the taste for being CEO, and they may end up leaving the organization. You need to be prepared for that

John Judge's views on CEO succession are informed by his executive career as CEO of a major accounting firm and as a director and chairman of organizations in sectors including; banking, infrastructure, building, higher education and the arts. Highest risk factors:

- **Managing the process without professional advice from consultants or a search firm.**
- **Commencing the process without first agreeing the strategy for the company – and market factors – that impact the CEO role.**
- **Lack of coordination with the chairman's succession.**

outcome and if it happens treat them very well.

KF: Do you think CEO succession and planning has improved? Or is it becoming more cumbersome?

JJ: That's a difficult question. I think people are looking more broadly and thinking more widely about the skills needed. There is a lot more discussion about the need to have people from diverse backgrounds, skills, experiences, and gender, which is an improvement on past practice.

However, governance today is not much different than how it's ever been. The focus is on getting really good people across the organization to deliver shareholder value— but it has always been about getting good people.

KF: When looking internationally for a CEO the remuneration is usually higher than that paid locally. Should boards be concerned about an adverse reaction to the remuneration by the shareholders or the investor community?

JJ: You need to attract the best candidate. If the board is that worried about reaction to the CEO's remuneration they should be replaced.

A more nuanced selection process

Most candidates for CEO will be interviewed multiple times: by the search firm, the nomination committee, the chairman, and then, finally, by the remainder of the board. By any measure, this is a rigorous process, particularly when combined with an assessment of the candidate's work experience, leadership capacities, academic record and references.

Many chairmen interviewed, however, expressed a desire for broader contact with candidates to better assess their character, values and life experiences. This was particularly true when considering external candidates who, some mentioned, are better able to mask their faults to the board than internal candidates who will have 'revealed their flaws' on the job.

The chairmen valued opportunities to meet with candidates informally outside the succession process as a way to identify or get to know potential candidates. One chairman said he regularly asks at business events to sit next to people who show promise as future CEO candidates.

This desire reflects how the selection process for a CEO requires nuance. The formal interview, while an important milestone, doesn't always reveal the whole person, their values, and the context in which they live their life. Search firms, such as Korn Ferry, are increasingly engaged by clients to conduct deep assessment work that identifies—among many factors—the values and cultural fit of candidates.

"I think we place too much emphasis on the formal interview." — Dr Helen Nugent

Conversation with...

Dr. Helen Nugent, AO

Dr. Helen Nugent is chairman of Veda Group and the National Portrait Gallery, a NED for Origin Energy, Chancellor of Bond University and President of Cranbrook School.

KF: What do you think the major risks of CEO succession are?

HN: The main risk relates to planning ahead. I think the best boards, while having due regard to size, consider succession planning well and truly in advance of the CEO's departure. Having cohesiveness around the board table as to what the critical skills are is also very important to mitigate risk.

Another issue is how to manage the unsuccessful internal candidates who may leave. It requires great care and sensitivity.

KF: Who do think should primarily manage the relationship with internal candidates?

HN: I think the chairman and the search firm with awareness of how nuanced the dialogue is. The chairman's role is to relay the subtleties and nuances to the search consultants so they can really help with the process. It's incumbent on the chairman to have conversations with the unsuccessful candidates.

KF: Have you any strategies for preventing an internal candidate from leaving? And how do you engage the CEO in that process?

HN: There is no substitute for constructive, honest, respectful feedback and genuine understanding and empathy for that person's perspective and ambitions. One strategy may be providing what they want from their career in a different way with a different role. However, the incoming CEO needs to accommodate that. Regretfully, the unsuccessful candidate may be an inadvertent casualty of the process.

KF: When should CEO succession start?

HN: I am increasingly of the view that starting succession planning in year one of a CEO's term is really important. And it should be positioned as board best practice rather than a search for a replacement CEO. When started early, the process becomes more about leadership development and making sure that for five years, ten years, or whatever the timeframe might be, that you've got an open dialogue with the CEO on succession.

KF: Still, some CEOs are sensitive about any form of succession planning.

HN: There are some fragile egos, which is usually an indicator of how they deal with and manage their staff. I think most organizations undertake some form of succession planning. It is important that we think seriously about staff development to make sure they are ready for roles. This includes exploring external training, working in different roles or other experiences you can give them. It needs to be considered very systematically throughout the organization, with the board focused on the most critical roles. By doing this you have a truly meaningful dialogue.

KF: There are certainly more boards doing it now than a decade ago, and I think people recognize the value of having good internal succession.

HN: There are some organizations that are so idiosyncratic that an external person would never be truly in the running. They wouldn't understand the organization; they wouldn't know the people and they wouldn't command respect. You need to be deeply skilled in an area to command that level of respect afforded to the CEO. That works best in large organizations. Smaller organizations, however, may not have the successor internally simply because they don't have the scale to develop them.

KF: Can you describe the elements of leadership development for CEO successors?

HN: It is in-depth work, not just discussions, and it is done with people internally who could take over from the CEO, and also the people who are the successors to the next level down. You have different levels of intensity: some people need one-on-one coaching, and the board needs to be assured by external advisors or another means that the messages are really getting through to identified succession candidates. That is the development need.

You also create opportunities for those people to present regularly to the board so the directors can see how they are developing over time. Regular strategy presentations or informal lunches or dinners can also help you see whether or not the leadership gaps you've identified are, over time, being filled. I think external advice has a huge role to play here; sometimes it's valuable to have an outside perspective, someone with a view different from that of the CEO. Of course it's done in a non-threatening way to the CEO and is most successful when the CEO buys into that process.

KF: Is the process transparent to potential successors? For example would the CFO or COO know they are being groomed as the next CEO and that they are being evaluated in that context?

HN: It's not necessarily couched as CEO succession; I think that would be a big mistake. You are far better off talking about leadership development programs than CEO succession. Apart from anything

Helen Nugent's perspective on CEO succession is informed by a deep knowledge of several sectors including education, professional services, corporate and the arts. The most pronounced risks in her eyes:

- **Starting the process too late.**
- **Commencing the process without first agreeing the strategy for the company - and market factors - that impact the CEO role.**
- **When unsuccessful internal candidates leave the organization.**
- **CEO involvement in choosing a successor, including considering the feelings of the incumbent CEO to the detriment of the process.**

else, you trigger things in the market if it is framed as succession and that's not politically or tactically smart. Plus, you can create anxiety for the CEO and expectations from others and potentially set yourself up for failure. Whereas when you talk about leadership development you have a different set of dynamics: people appreciate being valued and the company's investing in them.

KF: You are in an unusual situation where you have been chairman of a university, a national institution, a commercial company and a school. What has that diversity of experience taught you?

HN: The biggest single thing I've learned at the school is that going to see the candidate in situ is so powerful. There have been people who interviewed well, who looked great on paper, and everything from the search firm's perspective was fantastic. And then you go to their school—and because it's a school you also go to their home—and within two nanoseconds you know if they are right.

KF: Can you apply that experience to your corporate process?

HN: I think so. It requires digging deeper. Quite often we do the formal interview but we don't do some of the other social engagement that allows us to learn more. ...I think we place too much emphasis on the formal interview. It's important but people prepare well for that. Whereas I think if you have combinations of formal interviews and social occasions the way we have for school principal roles, you will learn more.

KF: The chairman will have names on a list of possible successors. Do you have two lists – one for the next CEO and one for an interim CEO who is unlikely to be the next CEO?

HN: Absolutely, and it's about timing. The person you think is the next CEO might just have a longer development time frame. The decision might also be about relative age. The interim person might be the same age as the CEO and at a different stage of his or her career.

KF: What is your view on the chairman as interim CEO?

HN: It is highly undesirable, a last resort, and only should be considered when the chairman has the skills to do it. There are things that happen in extremis so I never rule anything out, but it is undesirable to go there in the first place.

Five do's and don'ts for a smooth CEO succession

DON'T	DO
....dust off the old CEO's job description. It contains attributes that were required in the past that may not be relevant in the future.	...start with a blank page and discuss the experiences and attributes a leader will need to drive the future strategy.
...allow discussions about succession planning between the chairman and the CEO to be confused with discussions on tenure.	... have conversations on succession planning early in a CEO's tenure and frequently.
...have a CEO and chairman depart at the same time.	...stagger their retirements at least 12 months apart.
...be caught out by an unplanned CEO succession.	...have a 'safe pair of hands' identified who can take over in an emergency.
...underestimate the impact of a CEO's departure on the executive team.	...communicate frequently and respectfully to internal candidates and their C-level colleagues.

Conversation with...
Michael (Mike) Wilkins

Mike Wilkins is CEO and managing director of IAG and a director of The Geneva Association and Maple-Brown Abbott.

KF: What do you identify as the main risks of CEO succession?

MW: A major risk is when the CEO is too involved in choosing a successor—although I don't think you can do it without their involvement in some way. It is ultimately the responsibility of the board. There is risk if the CEO feels they are not going anywhere so there is no need to worry about succession or, if they choose someone exactly like them. I have been in other workplaces where CEOs have clung on for far too long and where they have groomed successors who are "mini" them. I don't think that is healthy. It is a risk that the board needs to be very well aware of.

KF: Suppose the CEO is leaving in a year. How much involvement do you think the CEO could expect to have over that long notice period?

MW: I think that is going to depend on the individual. If the board, more particularly the chairman, feels that the CEO can be dispassionate and add value, then I wouldn't discount the CEO purely because they are leaving in a year. Presumably they are flagging it a year in advance because they feel the organization is in reasonable shape and there will be time for an appropriate handover to whoever is going to succeed them. As general insurers we are in the risk business so perhaps I think a bit differently than others do, but we always apply the metaphorical big red bus test. We ask what an organization will do, not just for the CEO position, but for a lot of other positions. We consider who could do that role, and also who the emergency person is in the event that somebody departs quickly or unexpectedly.

KF: Is that emergency CEO, which some people have called an interim CEO or the safe pair of hands, on your list of internal successors or is it somebody else?

MW: If a company has a well-planned succession strategy it is less likely to appoint an interim CEO because it would be able to nominate the logical person from a list of potential internal candidates. At IAG we are ready for the metaphorical big red bus, so we have worked to assess candidates and identify potential successors. Could succession work with somebody coming in from the outside? Clearly, every situation is going to be different. If somebody had years in the industry, that might help. But they won't quite know the rhythm of the organization and in today's leadership roles you have got to have that. In an emergency situation you don't have the luxury of taking three months to look around. If the place is in crisis because your CEO has gone suddenly, you need leadership immediately.

KF: Back to the CEO who has made a decision to go in a year. Should the announcement be made then?

MW: I think a CEO who announces their departure with a year to go can potentially become disenfranchised and the organization can suffer a leadership vacuum.

KF: Is it better if the CEO has a private conversation with the chairman about his or her intentions?

MW: Yes, followed by a relatively short period where you hand over to your successor.

KF: Let's move to your next risk which relates to commencing the process of CEO succession without first agreeing on the external strategy.

MW: If you don't know what you are trying to do with the organization then you don't know what sort of person you want as CEO. Agreeing to an external strategy first does not mean that you have to drill down to smallest details but you need to decide the big things. If you don't have the skills for those big things inside the place then you may want to look externally.

KF: Do you run two processes concurrently; where the board with the CEO are talking about the strategy over one, five or ten years, with potential internal successors aligning to each?

MW: It's more about identifying the skills that are necessary to meet the strategy and giving all the people on the list the development they need in those areas. Further, it is about building leadership, not necessarily subject matter expertise.

KF: When do you think CEO succession planning should start? Is it the day a CEO is appointed?

MW: I think it's as much the responsibility of the CEO as the board or chairman. You've got to define what it is you think you need and you've got to update that regularly so you remain contemporary. Would you do it the day you were appointed? No. But you would do it once you've got yourself in the chair and structured things the way you want them. You then need to think about the future – and the metaphorical red bus. But it's not solely the CEO's job to develop leaders; it's the responsibility of all the leaders in the organization. It's about trying to develop everybody and then, if you get it right, all boats rise with that tide.

Mike Wilkins' approach to CEO succession reflects his career managing risk in the insurance sector and the structured approach he leads at IAG. Leading his list of succession risks:

- **CEO involvement in choosing a successor.**
- **Commencing the process without first agreeing the strategy for the company - and market factors - that impact the CEO role.**
- **When unsuccessful internal candidates leave the organization.**

KF: Let's discuss your third risk, when internal candidates leave. If you had three internal candidates, you might lose two.

MW: It's a real risk when internal candidates leave an organization—and the likelihood is high when they have aspired to a role, didn't get it, and don't think they can get it. If that happens it can be quite sudden and you need to know what to do. Presumably these other candidates were in important, productive roles, so a sudden departure could leave those departments or units rudderless. So what are you going to do? That's why the talent and succession process is more than just worrying about the CEO. It needs to cascade throughout the organization.

KF: I am interested in your thoughts on the role of HR in the CEO succession process.

MW: I wouldn't expect a board to delegate CEO succession to a HR department but I think HR has an important role to play in terms of examining and validating the skills that are necessary for succession, as well as making sure the mechanics are in place or can be delivered for the role.

KF: A trusting relationship between the chairman and the CEO is very important, but can you be too close? Should a chair and a CEO be close friends?

MW: It is much easier to work with people you like. But close friends tend to only see the good in each other and I suspect it could become gut-wrenching for a chairman if they have to dismiss a CEO they are close to. I consider my current chairman a friend but he has no trouble telling me what he thinks.

Conversation with...
Joan Withers

KF: Who has primary responsibility for CEO succession?

JW: It is the purview of the board of directors to manage the process and ultimately appoint a chief executive. The chair has to be fundamentally involved, but most boards have a dedicated committee to run the process. The board should be directly involved in selecting an executive search firm, including the construction of the RFP, the assessment of their proposals and discussions with each before the board embarks on the search. This task should not be delegated to the head of human resources, although that person does need to be actively involved and manage the administrative side of the process. The decision on the next CEO is made by the full board.

KF: Is the extent of the incumbent CEO's involvement dependent on whether the successor is likely to be internal or external?

JW: My personal view is that the board chair should keep the CEO informed about high-level developments, particularly around timing, but not necessarily who the candidates are. The CEO shouldn't feel out of the loop.

KF: What is your view on internal vs. external candidates?

JW: You need to recruit the best person to fill the role. The internal applicant may be the best candidate but there is the risk that the market won't see it that way if there was no external search. Plus, when a successful internal candidate goes through a full and robust process that involves external candidates, he or she will have been properly assessed and will feel better about the appointment.

Considering internal and external candidates also makes a difference to the way the appointment is sold to the market. In both successions I was involved with as Chair, we were very open about that broader process and the fact that the internal candidate was chosen after the board conducted a comprehensive search involving people from outside the organization.

KF: How likely is it that unsuccessful internal candidates will leave the company?

JW: There is always the risk that the appointment of a new CEO may be a catalyst for change for others within the organization. I think most talented senior executives will look at a new CEO appointment as a milestone in their own career and ask themselves if they want to transition to the new leadership team.

Joan Withers is the chairwoman of Mighty River Power, deputy chairwoman of Television New Zealand, a NED of ANZ Bank New Zealand Limited and of The Treasury Advisory Board, and a trustee of Pure Advantage, the Sweet Louise Foundation, and the Tindall Foundation.

Joan Withers has experienced CEO succession as a CEO, director, and chairwoman in the media, airport, retail, energy, arts, and transport sectors. Her leading risk factors are:

- Having a CEO recruitment process that is not thorough and robust.
- Not getting full consensus from the whole board on the successful contender.
- Creating ill will, angst or alienation with unsuccessful internal contenders.

One of their peers being appointed to the role may also be cause for reflection on their future.

KF: How can the board mitigate that risk?

JW: If a CEO departs before the next CEO is in place, it is preferable to have a steady pair of hands on the tiller while working through the recruitment process. In most organizations, who the internal candidates are becomes common knowledge so it is important to keep talking to the senior leadership team. There needs to be direct interaction, which can be informal, between the chairman and the affected direct reports so they don't feel like they are working in a vacuum. It is also incumbent on the new CEO to work very hard on those relationships very quickly when they are appointed.

KF: When you have an unplanned succession do you think the chairman can ever be acting CEO?

JW: No, I don't believe in that as a principle at all. I think you have to keep the line between governance and management separate and most best practice guidelines would indicate that it should be the case.

KF: Do you have a view on CEO tenure and the ideal number of years a CEO should stay in the role?

JW: I am not an advocate for putting a hard and fast rule on CEO tenure. Now, in governance, there are some reasonably strong views about maximum director tenure on boards. I understand that, because there is the risk that directors may lose their independence. With a CEO I think it is really up to the board to make sure that the CEO is still the right person for the role at any given time. There are different circumstances for different companies, and where a company is at any particular point in its strategic life cycle will also have a bearing.

KF: When do you think the conversation on succession—not tenure—should start?

JW: I think it is an ongoing dialogue as part of talent management and succession generally. It shouldn't be something that the chairman plucks up the courage to have a conversation with the chief executive about. It might be premature to discuss it when the CEO is just starting the role, but there should be a conversation in the first year in the context of succession for the entire executive team.

KF: Is CEO succession is better managed today than 10 years ago?

JW: Governance in general has improved over the last decade. The objective is always to conduct the best CEO transition and succession that you can. This applies whether you lose someone at relatively short notice or whether you have a long notice period. You have to be able to adapt to either circumstance. Ultimately, the board has to take responsibility and closely scrutinize what is happening throughout the process.

KF: Is the lure of the Australian market a threat to retaining the talent pool of executives in New Zealand?

JW: I think the reverse is true at the moment, with high-caliber Australian executives, including CEOs, showing interest in CEO roles in New Zealand. I believe this paradigm shift over the past couple of years reflects a desire to find the best place to work. Remuneration levels are not the same in New Zealand as they are in Australia, but our economy is growing, our political leadership is perceived as strong and business friendly and New Zealand is really a great place to live. I would say that Australians are thinking about the opportunity to really make a difference and bring their families over to live in a country that offers a very good work and home environment.

The gold standard in CEO succession

Six tenets represent the best practices for succession planning for the board.

1. Create a success profile that reflects the competencies, traits, drivers and experiences a future CEO would need to deliver on the business strategy, and get the board to agree on it first.
2. Don't just think about who will replace the incumbent. Think two to three CEOs ahead.
3. Assess all internal candidates against industry benchmarks, research-validated indicators of leadership potential, and the success profile developed by the board.
4. Cross-train generations of potential CEO successor with a mix of job assignments, intensive coaching, mentoring, and formal education.
5. The board should get to know the whole bench intimately and personally. After all, these are the next generations of CEOs for the company.
6. Keep CEO succession as a standing board agenda item to ensure it stays a ongoing, multi-layered and multi-generational process.

Conclusion

An experienced board will embark on thinking about CEO succession by first assessing the risks it presents. Risk is sometimes found in full view: a limited candidate pool, an unwilling-to-exit incumbent CEO, a poorly thought out strategy or lack of clarity around the process. But pitfalls also lurk in the shadows of ambiguity, complacency, or forceful personalities. Individual risks can derail a succession, but thinking holistically about risk mitigation will strengthen the process.

The topic of CEO succession is never far from the minds of chairmen and directors. We expected to hear that the task is one of the board's most important, but were surprised by other things that came out of our interviews. For instance, internal candidates are not the first choice for many chairmen. The right external candidate at the right time will be selected over internal candidates, particularly when boards are looking for a change agent. Our advice for those in the succession pipeline for the CEO role is to be agile, gain broad experience, and demonstrate mastery of a current winning strategy but also the ability to change course.

We were heartened to hear how many boards found external advisors invaluable to developing their process, and that leading companies are looking two or three levels down from the CEO for their talent pool to develop future leaders. This deeper work is essential for two reasons: to identify talent early enough to be groomed, and then to offset any risk in the event that an unsuccessful internal candidate resigns. Companies looking at multiple generations of talent have people ready to step into these C-level roles.

The emergence of two lists—one of potential successors and a second with potential 'safe pair of hands'—was also an interesting development. Those who wish to be in the CEO succession pipeline need to ask themselves, are they truly contenders for the top job, or a seat warmer for the next CEO?

"If the chairman and board members are reasonably direct, it shouldn't be a sensitive conversation."

— John Judge

The key to a smooth CEO succession is alignment:

the board must be **aligned** on the future **strategy** of the company;

the **CEO and chairman** need to be **aligned** on their respective goals and needs;

the company's leadership development program must be **aligned** with the current and **future needs** of the company;

the **search** for candidates should be **aligned** with the expectations from the **board;** and

everyone needs to be **aligned** on **timing.**

With every slip out of alignment, risk increases. The consequences? Poor candidate selection, diminished shareholder value, unnecessary internal disruption, and the prospect of a repeat search for a CEO.

But this can be avoided. Boards need to probe the various risks in CEO succession—evaluate their impact, mitigate them by improving the process, and embrace how a risk management mindset can make the transition from one chief executive to the next smoother and more sustainable. When risk is minimised, it strengthens the succession process, resulting in stronger leaders in our most influential and important organizations.

Has the board hedged all of its talent risk?

To determine whether executive talent risk is hedged, a board should ask three questions:

- Is the board leading succession planning down through the entire C-suite?
- Does the board have empirical assessment data on each succession candidate for each mission-critical role?
- Has the board outlined the experiences, capabilities, and competencies needed to achieve the company's future strategy?

If the answer to any of these questions is no, the board has not managed the talent risks inherent in the inevitable turnover of its senior management.

"Good chairmen start considering replacements as soon as the new chief executive starts."
— John Durie

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Roady, David and McCoun, Gordon. 2011. "CEO Transitions." **FTI Journal.**

Further reading

More on CEO succession from the Korn Ferry Institute:

Succession Matters.
http://www.kornferry.com/successionmatters

CEOs and CHROs: Crucial allies and potential successors.
http://www.kornferryinstitute.com/reports-insights/ceos-and-chros-crucial-allies-and-potential-successors

The Boardroom Guide: CEO Succession.
http://www.kornferryinstitute.com/reports-insights/boardroom-guide-ceo-succession

The Seven CEOs: The essential purpose of succession management.
http://www.kornferryinstitute.com/reports-insights/seven-ceos-essential-purpose-succession-management

The $40 Trillion Succession Risk.
http://www.kornferryinstitute.com/reports-insights/40-trillion-succession-risk

CIO to CEO: Barriers and Success Factors.
http://www.kornferryinstitute.com/reports-insights/cio-ceo-barriers-and-success-factors

From CFO to CEO: A Pathway to Leadership.
http://www.kornferryinstitute.com/reports-insights/cfo-ceo-pathway-leadership

Acknowledgements

Korn Ferry would like to thank Lindsay Maxsted, chairman of Westpac for writing the foreword to this report. We would also like to thank the 13 interviewees who met with Korn Ferry partners to discuss their views on CEO succession: Yasmin Allen, Gordon Cairns, Antony Carter, John Durie, Dr. Robert Every, Ahmed Fahour, David Gonski, Belinda Hutchinson, Brian Jamieson, John Judge, Dr. Helen Nugent, Michael Wilkins, Joan Withers.

We also acknowledge and thank the other key players who provided their insights into CEO succession risk at a boardroom discussion held at Korn Ferry in Sydney in November 2014.

Notes

The business leaders who contributed to this report were asked to nominate their highest risks from a list of 14 supplied by Korn ferry. Some nominated more than three risks, some did not rank the risks, and others changed the description of a risk from the list to best reflect their view, or nominated a different risk. The information presented in this report best reflects the rankings and views of interviewees and additional survey respondents. The interviews and data collection occurred between September and December 2014.

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About Korn Ferry

At Korn Ferry, we design, build, attract, and ignite talent. Since our inception, clients have trusted us to help recruit world-class leadership. Today, we are a single source for leadership and talent consulting services to empower businesses and leaders to reach their goals. Our solutions range from executive recruitment and leadership development programmes, to enterprise learning, succession planning and recruitment process outsourcing (RPO).

About The Korn Ferry Institute

The Korn Ferry Institute, our research and analytics arm, was established to share intelligence and expert points of view on talent and leadership. Through studies, books and a quarterly magazine, Briefings, we aim to increase understanding of how strategic talent decisions contribute to competitive advantage, growth, and success.

Visit **www.kornferry.com** for more information on Korn Ferry, and **www.kornferryinstitute.com** for articles, research and insights.

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