Taking Charge: What Makes CEO Succession Work?

A report prepared for Saxton Bampfylde International plc May 1996

Elizabeth Garnsey and John Roberts
The Judge Institute of Management Studies, University of Cambridge

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Acknowledgements

This report is based on some 30 interviews with chairmen and CEOs from a great diversity of organisations. In discussing issues that are both personally and organisationally sensitive, we have aimed to convey the substance of what we learned without identifying individuals or their organisations. For obvious reasons, it is both prudent and politic to maintain the anonymity of our sample, but we would like to extend to them our warmest thanks for the time they gave and for the value of their insights. We hope that they will enjoy identifying their views and experiences in what follows.

The research upon which the report is based was undertaken in a private capacity for Saxton Bampfylde International plc. The views expressed are our own.

We would also like to thank Anthony Saxton, Stephen Bampfylde and Gavin Mackenzie of Saxton Bampfylde International plc for their support and encouragement and Lou Stewart for her invaluable administrative assistance.

Elizabeth Garnsey and John Roberts

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Foreword

The appointment of the head of an organisation creates a very particular situation which, handled well, can only create the basis for growth and renewal, but which can equally, if the wrong person is chosen or the early stages mishandled, provoke manifold negative developments.

Saxton Bampfylde International has been privileged to advise on the appointment of the heads of a wide variety of organisations, ranging from major quoted UK companies and European subsidiaries of multinationals, through Departments of State, universities and voluntary organisations. Whilst involved in these appointments we have become fascinated by some of the phenomena which seem to attend the choice and arrival, success or failure of the new person, whether labelled Chief Executive, President, Vice Chancellor or Director General.

We were therefore particularly interested when our Australian partners in The Hever Group, Cordiner King Hever, published "*Taking Charge: Chief Executives Take Up The Reins*", which they had carried out in concert with Sydney University Graduate Business School. Eager to see whether the same lessons applied in the UK, we asked Elizabeth Garnsey and John Roberts to carry out a parallel British study.

Their findings are presented hereafter and will, we believe, be of real and practical value to organisations facing the management of the senior succession for their enterprise.

What has surprised us in their report is the evidence of amateurishness with which so many key appointments are still made, not only in terms of lack of originality and due diligence, but in terms of investigating and thinking through the likely effect of the new appointee on the dynamics of the top team. This, then, is one situation where a good search firm can give value to its clients on many aspects of 'getting it right'; quite apart from our natural interest in the search process, there are signal contributions we can make to assessment of the leading candidates and to helping predict their likely impact on the top team, as well as helping with the team rebuilding process when the new recruit has arrived.

Because even the most sophisticated organisations can only have fairly limited experience of handling these situations, we have thought it worth adding a postscript to this report which summarises our experience of practical do's and don'ts. We will be happy to discuss any of these aspects with interested parties.

Anthony Saxton
Stephen Bampfylde

London, May 1996

Taking Charge: What Makes CEO Succession Work?

A process fraught with uncertainties and problems

The arrival of a new CEO is one of the most critical events in the life of an organisation. The CEO plays a central role in co-ordination and leadership, in liaison with the outside world, in strategy formation and implementation. Succession is a vital opportunity to ensure continuity and renewal.

In theory there are well established routines for transferring power smoothly. The cycle runs from initial consideration of possible candidates for the current position, through to planning for the newcomer's eventual successor. But in the heat of events such routines may not be viable, relevant or helpful: however carefully they are planned and carried out, plans can go awry and procedures prove inappropriate. The process is fraught with uncertainty and problems.

In this report we explore the difficulties surrounding CEO succession and how UK organisations currently experience and address them. We have aimed to uncover complexities and ambiguities that may be glossed over in procedural guides – because formal procedures may conceal, rather than reveal, the real nature of difficulties that need to be addressed.

No two successions are the same. Dealing effectively with succession demands alertness to context and the capacity to learn about and manage that context. A succession offers the opportunity for new learning that can have consequences throughout an organisation; this is one of the areas where a good search firm can be truly useful. We have aimed to uncover factors that help and hinder those involved to deal effectively with their unique organisational and market conditions, and the strategic and managerial challenges that arise. The report is in three sections:

- A summary of the standard succession management cycle.
- An exploration of the real-life succession process, based on our interviews. Examining the process as a sequence of interactions with cumulative effects shows clearly why routine-based guides to succession management have only limited application. We have focused on the quality and dynamics of key relationships that drive the process, in particular those between the new CEO and the chairman, board and management team: as our interviews made plain, the long-term success of CEO succession depends in large part on how these relationships are set up and unfold in the early months.
- In the third section we examine in more detail some key issues raised by our research. In particular:
  - How the work of new CEOs is helped or hindered by the way they engage with the various elements of the new job's context
  - The relative merits of internal and external appointments
  - Points to consider in implementing the succession management cycle.

The succession management cycle

The typical process for managing CEO succession consists of 10 phases, conducted over a period extending from a few weeks to a year or so[1]:

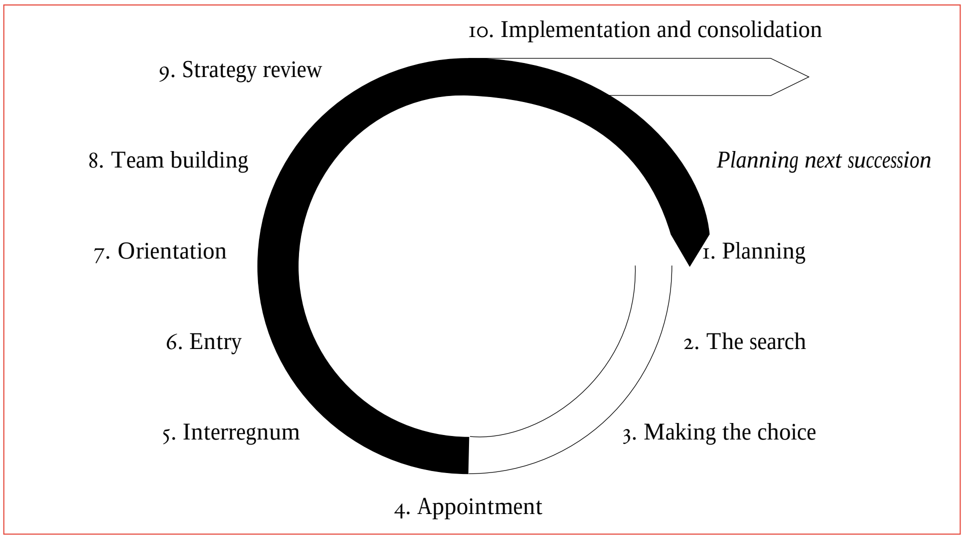
1 *Planning* to define a preliminary 'mandate' for the successor.
2 *The search* for candidates.
3 *Making the choice*.
4 *Making the appointment*.
5 *Interregnum* – if a transitional period is necessary.
6 *Entry* – welcoming and briefing the new CEO.
7 *Orientation*.
8 *Team building*.
9 *A strategy review* to propose fresh strategic thinking to the board.
10 *Implementation* as the proposed strategy is introduced and consolidated.

[1] Cordiner King's report *Taking Charge* contains further information on succession procedures. Copies are available on request from Saxton Bampfylde International

Most organisations have adopted procedures of this kind. However, the best laid plans can go awry or be overturned by events and routine procedures are inevitably inappropriate on occasion. An unexpected departure or internal crisis may make it unavoidable to appoint without prior planning. It may be impossible to provide a transitional period for the incoming CEO. Sometimes the preceding CEO is the most suitable candidate for a job which overlaps that of the newcomer.

The process of succession needs to be considered in relation to the context: the phases shown in *Figure 1* are shaped by the outcome of prior events and interactions.

Figure 1 The succession planning cycle



The process of succession

"The more I do of these things the more I'm conscious of the fact that all of them have to do with the effect of people on other people – with relationships between people."

In this section we look at how the stages of the succession unfold through cumulative interaction, as relationships form between the new CEO and other key people.

Stage 1 Planning

Agree now on what the job entails

In the very early stages of our research it became clear that it would be difficult to overemphasise the salience and importance of detailed and comprehensive planning with regard to every aspect of CEO succession.

This must involve soliciting the views and advice of, *inter alia*, all major stakeholders in the organisation regarding the future role of the CEO and the particular challenges or issues that will be determining in the (near) future. Following on from these discussions will be the identification of the qualities and types of experience that the organisation needs to be looking for in its next CEO.

Nonetheless, one of the most startling findings emerging from our discussions was the fact that all too often job and person specifications emerged through a variant of spontaneous ignition ie during, rather than prior to the search for putative candidates.

Such a lack of rigour and planning at this initial but pivotal stage of the succession process can, quite simply, piteously compromise every subsequent stage of the process.

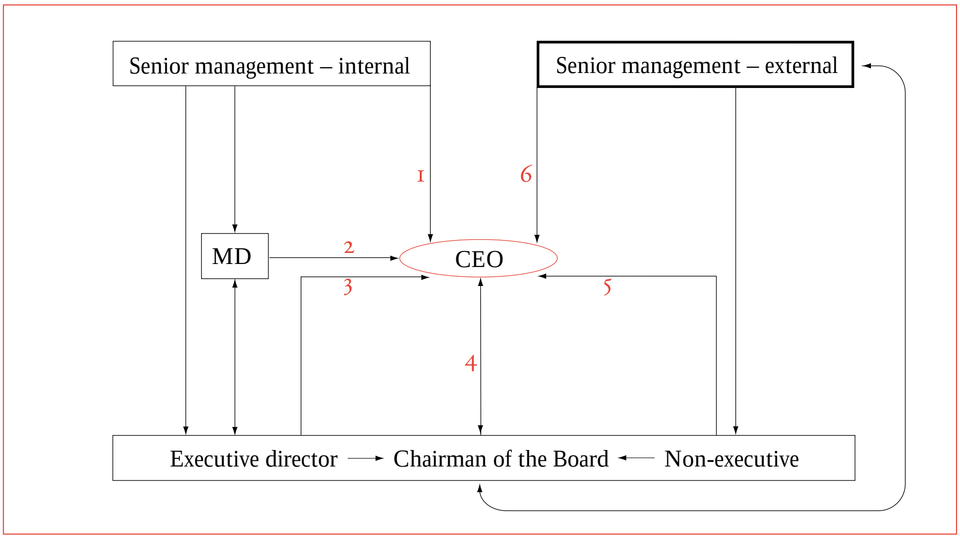
Stage 2 The search for candidates

Where they come from may determine where they take you

In considering potential candidates, it is important to recognise that career routes taken to and from the post of CEO leave a legacy detectable in the CEO's outlook and in the unique power relations and emotional climate of a succession.

The routes to the post of CEO are very varied (see Figure 2), as our interviews illustrated. Some were recruited from inside, others from outside the organisation.

Figure 2 Some routes to CEO succession



The process of succession continued

Some joined as non-executive directors before taking over the CEO role. Some had to be coaxed away (another area where headhunters are very helpful) from their previous organisation, others were already disillusioned and eager to move; yet others had left their previous job and were already in the market. For some, the appointment came as a surprise, for others as the fulfilment of a long-standing ambition. In some circumstances the predecessor had remained in the organisation, moving to the position of chairman, in other cases both CEO and chairman were new to the organisation.

2 Gabarro, J 1987, *The Dynamics of Taking Charge*, Harvard Business School Press; Hambrick D, Fukutomi G 1991, *The Seasons of a CEO's Tenure*, *Academy of Management Review*, vol 16 no 4 719-743.

Past experiences and the way they construe reality in their early days in the job influence the outlook of new CEOs and their view of how the organisation should be run.[2] During the initial period of uncertainty, the new CEO is working on many fronts and beginning to shape the organisation while still learning about it. Our study indicated that benign or destructive dynamics can unfold as the process of succession develops.

Stage 3 Making the choice

A considered judgement – or a whirlwind romance?

The appointment of a new CEO is a board responsibility: the chairman and on occasions the outgoing CEO orchestrate the process. The routines they go through in the planning period to clarify the nature of the job and to draw up an ideal profile of the successor are tempered in the search process by the realities of who is available and what the organisation is prepared to pay. Even when an insider is preferred, in many cases it is considered appropriate to look at outsiders, to measure internal contenders against outside calibre.

Our interviews suggested that because of the sensitivity of the issues, it is unusual to involve internal Personnel staff in the detail of these considerations. In most cases contacts were made directly with known individuals through professional contacts, or more usually consultants were commissioned to search for, interview and evaluate candidates and generate a shortlist of potential candidates in consultation with the client.

There is a sharp contrast between the importance generally attached to succession and the experience of those involved, who report that it is frequently carried out with insufficient attention. A number of respondents described serious inadequacies. Many difficulties related to insufficient investigation – although this should be a routine part of the search process, various factors are allowed to prevent full inquiry:

"The whole process of recruitment is extremely difficult and most people are very bad at it...because they don't take enough time about it, in thinking it through, in checking references, in doing every sort of thing they can to find out if it's the right person...even at this level."

This is a serious indictment. But there is a number of reasons why it seems so difficult to follow ideal intelligence-gathering procedures. Negotiations usually have to be kept confidential – a major constraint on the degree to which each party checks out the other. Moreover, external investigation does not necessarily resolve uncertainty as to the kind of person the organisation requires. The perfect candidate is seldom available. Recruitment must be acknowledged as a time for establishing priorities on qualities required and sorting out disagreements based on differing agenda. Allowing recruitment to reflect unresolved issues can result in over-reliance on personal judgement, despite the availability of subjective and objective indicators of candidates' abilities.

In a few cases, candidates themselves had made little or no attempt to research the organisation or its background. Certain forces in the situation reinforce the tendency to underinvestigate; ambition can be strangely blinding or the urgency to make or accept an appointment can override the need for reflection. There are also elements of courtship ritual on both sides: reality is presented in its best possible light. As in whirlwind romance, lack of rigour on either side invites obvious difficulties and unpleasant surprises when the individual actually begins in post.

Open and detailed reciprocal understanding is clearly the best basis for recruitment; this requires a number of meetings in which initial reticence can be gradually transformed into a positive enthusiasm on both sides. Compatibility cannot be measured by objective indicators alone: elusive elements of personal chemistry between candidate and chairman are important. People spoke of the importance of positive first impressions. One respondent emphasised the significance of the work context in which the new CEO has to 'deliver'. Since the chairman is so central to this context, personal chemistry may be as important as industry-relevant experience.

Paradoxically, the relative lack of information about outsiders may work against an internal appointment. On insiders there is a wealth of evidence, both positive and negative, and therefore a more realistic basis for decision. But lack of realism may favour an outsider where:

"...what comes out of the situation is speculation, effectively. I think all involved in the process desperately want to be able to make an appointment. So with the best will in the world, even if negative information comes up, it tends to get minimised and justified away."

Choosing the new Chief Executive marks the beginning of the succession process, shaping its initial conditions; but its import only becomes apparent over time. Ideally there should be no unpleasant surprises on either side, but inevitably there will be some, as many of our interviews revealed. If the new arrival has to revise earlier ideas about the organisation and is able to learn from this readjustment, the orientation period provides an opportunity to reach a new understanding of what needs to be done.[3] The real damage comes when both sides have generated false impressions about the history or financial state of the company or the capability and motivation of the people. Real misapprehensions only come to be recognised when, in a sense, it is too late and when they can actively undermine a fragile trust.

3 Cf the literature on revision of CEOs' management paradigms, Hambrick and Fukutomi 1991.

The process of succession continued

Stages 4&5 Appointment and interregnum

The decision is made – and fresh uncertainties begin

The announcement of the appointment ends the uncertainties of making the choice, but gives rise to new ones. If it comes from external sources as a surprise to those affected by it, they feel unacknowledged; confidential briefing within the organisation is essential.

A transition period marked some but not all of the successions we studied and our research confirmed that such a period is desirable to allow the newcomer to disengage from past assignments and be ready to take up work. If the previous incumbent is still in post, this may be a valuable period of adjustment to departure. But for the organisation awaiting a new CEO, the interregnum can be a period of painful inaction or temporary power shift. This may not facilitate the task of taking up functions that may be unwillingly ceded by an acting CEO. We see below how these prior conditions have an impact on the new CEO's early decisions.

Stage 6 Entry – starting work

Look before you leap

Almost every new CEO has an awkward first day, at a new desk, unsure what to do. Various concerns seem to arise – "How will I be compared with my predecessor? Am I up to the job? Have I made the right decision? How soon can I change the furniture?" The disorientation experienced by almost all those we talked to reflects the uncertainty that inevitably characterises these early hours.

The initial period at work is spent on explicit information gathering, on a number of fronts simultaneously. The amount of formal briefing varies greatly – from detailed orientation sessions with consultants to forgetting to give the new CEO even existing reports. All our informants' accounts made it clear that the more effort, energy and time put into this process the better.

The inevitable pressures for action, both real and imagined, from oneself and others, may overshadow the need to learn and enhance understanding. Activity seems to offer an escape from the limbo-like uncertainty of the situation. The organisation may have been without a CEO for some time; decisions may have been delayed for the new arrival, or it may be tempting to do something to make a mark. One CEO who felt in retrospect he had taken precipitate action emphasised:

> "My strongest advice to anyone is: for goodness' sake listen. Don't think you've got to make an impression, don't think you've got to prove anything, just listen. You do not need to make a success in the first few weeks."

Early action may result in an early demonstration of success; but actions taken in relative ignorance of the context can later be regretted.

Almost everyone we spoke to had a variety of meetings set up in their early weeks in office – beginning with the chairman, board and members of the executive team reporting directly to them, as well as key customers or other stakeholders beyond the organisation. But many people, both insiders and outsiders, also set out on lengthy tours of the organisation meeting staff in small groups – a real marathon in some cases. These activities seem appropriate at the beginning of incumbency and the opportunity may not arise again.

Such 'listening' communicates a great deal to others: a willingness to learn and take others' views seriously, a recognition of their proficiency, a basis of legitimacy for future decisions that can refer back to this early fact-finding. Our respondents found the process very instructive, for learning not only about the business, but about staff competence and abilities on a wide front.

Stage 7 Orientation

Relationships are the heart of the matter

Entry into the job immediately immerses the new CEO in a period of orientation which is inevitably more continuous than previous stages. It is now critically important to develop a number of key relationships: with the chairman, the board, key executives and the wider organisation.

Relationship with the chairman

The single most vital relationship, and often the most ambiguous one, is with the chairman. Despite its importance, the relationship is ill-defined. This is implicit even in the Cadbury Committee's 1992 Code of Best Practice:

"There should be a clearly accepted division of responsibilities at the head of a company which will ensure a balance of power and authority, such that no one individual has unfettered powers of decision. Where the chairman is also the chief executive, it is essential that there should be a strong and independent element on the board, with a recognised senior member."

In the cases we studied, reciprocal roles had to be negotiated anew, in some cases to the surprise of the CEOs concerned. Part of the difficulty lies in the sheer ambiguity and overlap in roles. In many organisations these have only recently been separated as a result of the Cadbury recommendations. The chairman is responsible for reporting results – and may consequently gain a high profile in the press and recognition as the public face of the company. In practice, City institutions often want to hear from the CEO as well as, if not instead of, the chairman. But beyond this nothing is fixed. Chairmen have a duty both to protect their companies from potentially incompetent or overbearing CEOs and to support their CEOs in their executive role.

Both figures are likely to have a strong sense of their own centrality to the organisation. As one person put it:

"...the chairman lives in a world where quite clearly he is the most important guy in the company. Now I live in a world where the CEO is the most important."

The potential for difficulty is obvious, and particularly in the early days it is easy for the two individuals to slip towards a struggle for power, rather than seek out complementary roles. There are no rules or formulae; the two individuals simply have to find ways of working effectively with each other:

"We spent a lot of time talking about how best to divide responsibilities and what was his role going to be and what was mine going to be and what was the dividing line. We worked on that for quite some time."

The process of succession continued

Failure to resolve this division is likely to damage one or both, as well as being a source of damage and imbalance in relationships within the wider organisation. The negotiation is likely to be particularly difficult where the chairman has moved across from the CEO role or has acted as interregnum CEO. As one chairman put it:

"I've seen the experience where chairmen have hovered like eagles and the chap can never fly."

When the arrival of the new CEO results in a loss of power, chairmen must show enormous discipline in withdrawing from contacts with line executives who were often their appointees and making space for the new arrival. The difficulty is compounded if the CEO is new to the company – in need of briefing yet anxious to preserve autonomy of thought and action. Meanwhile, chairmen have to maintain working relationships with the rest of the organisation to preserve their own knowledge base. One chairman trying to make space for new blood explained ruefully:

"...although I love going round the business, it was counterproductive because I became too much of a magnet. It's right to stand back and let them be seen..."

As well as negotiating discrete areas of activity and responsibility, chairman and CEO must find a modus vivendi in areas where responsibilities are simply not divisible: notably in the conduct of board meetings, the formulation of strategy and its presentation to the board. Here processes have to be worked out that preserve the independence of thought of the chairman and the board, while at the same time exposing them to the depth of strategic thinking amongst responsible executives.

Such a relationship necessarily takes time and much negotiation to develop, our interviews showed. Along the way, there are some dangerous waters to cross – particularly at the beginning. Initially individuals are likely to be defensive of their own space, struggling for autonomy and influence. This struggle is less easily understood when both parties do not yet know each other very well, as respondents explained in retrospect; defence can easily seem like arrogance or attack. Both individuals may at this early stage be rather sensitive as to others' views of their competence. What the chairman intends as helpful suggestions can be read by the CEO as criticism of ability that has yet to be demonstrated. Similarly the chairman, especially one who has been CEO in the past, may react to the new CEO's perceptions as if they were personal criticisms of past decisions:

"...the danger is that if you haven't got a good chairman, either the CEO will bottle it up or he'll go and talk to the wrong person and you'll have a sort of favourite within the company...not necessarily the right individual for him to be talking to."

There is a danger, especially in the early days of the relationship, of a spiralling negative dynamic between the two, in which each becomes more critical and more defensive. For the chairman, background doubts pushed aside in the recruitment process begin to resurface, made worse by responsibility for the appointment: it may be tempting to intrude even more into CEO territory. For the CEO, the relationship may seem to be heading towards a showdown over who runs the company.

The most important balm is information, built up and shared according to an agreed protocol, which can create trust in both directions. At one level this is a personal matter of coming to know each other's history and prejudices and ways of working and thinking. More formally it involves the new CEO in the disciplines of regularly talking through both immediate and long-term concerns with the chairman. Only if the question of executive power has been clarified can the chairman function effectively as a support rather than rival to the CEO:

"...the first priority of the chairman is to support the CEO: absolute prime responsibility; to be there to talk to him, help him, advise him."

Using the chairman as a sounding board can be of great value to the CEO. If the relationship is an open one where doubts, worries and dilemmas can be discussed freely, thinking can be checked out and developed, and perhaps the sheer frustrations of the work can be vented, the value is felt on both sides. The chairman is kept informed and can act more easily in concert, knowing the CEO's emergent agenda; the CEO has an urgently-needed chance to think out loud with a well-informed colleague.

The relationship between CEO and chairman lies at the heart of a network of other associations. Its quality has knock-on consequences, affecting relationships with other board members and the executive team. If it develops positively it can be taken for granted to some degree and serves as an important resource of knowledge and judgement for the CEO. But if there is tension between the two, it is likely to be visible to this wider group – at best heightening the tension and uncertainty that already prevails at a time of succession, at worst drawing them into a partisan struggle for support and loyalty.

Relationships with the board

According to the Cadbury recommendations:

"The responsibilities of the board include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship."

However, setting strategic aims cannot be done without the active participation of the executive team – in particular the CEO's own team, some of whom may be on the board. Here, too, the detailed division of responsibility for strategy and operational management has to be worked out.

In practice, the CEO and executive directors are charged with strategy formation, supervised in principle and subject to sanction by the board.[4] The chairman stands in for the board between meetings and therefore is a key figure in mediating the relationship between the new CEO and the board. On the one hand this should involve a protective function, providing the time and space for a new CEO to develop independent knowledge and thinking; on the other hand, it should involve a bridging function so that briefing meetings with the chairman become a conduit of information to and from the rest of the board.

4 There is a more extensive discussion of the relative responsibilities of chairman and chief executive for strategy matters in Sir Adrian Cadbury's *The Chairman* 1990.

The process of succession continued

The new CEO is likely to have encountered at least some of the non-executives during the recruitment process, but it is only once in post that he or she can begin to build a detailed knowledge of their individual capabilities and collective style. Especially for those who are new to working at this level, board relationships and their management are often a source of considerable uncertainty and potential confusion. Our study showed that new CEOs were not always clear about their own reporting relationships or board members' responsibilities, duties and obligations in their various roles. There is scope for clarification and training here.

Along with the rest of the organisation, the board's manner of operation initially bears the marks of its recent history and the particular personalities and interests involved. For example, some new CEOs discovered a particularly dominant individual or a general expectation that the board should be involved in the minutiae of operational decisions.

In many respects the dynamics of the relationship with the board mirror the development of the relationship with the chairman. Whatever the CEO's inheritance in this respect, the early months of the relationship often seemed to involve a renegotiation and clarification of roles with the board. There is potential for a struggle over board involvement in operational issues – and for defensiveness by non-executives when the CEO begins to question aspects of strategic direction in which they were involved. In the early months there are likely to be anxieties about individual abilities on both sides of the relationship.

Part of the sorting out of reciprocal roles involves clarification of what should be taken to the board as information, for discussion or decision. In any of these categories, as with the CEO/chairman relationship, a disciplined protocol of information seems to provide the best vehicle for building trust and confidence:

"I am very punctilious about what is their decision and I never let them feel short-changed in any way; I'm not afraid of letting them see that I've picked up their ideas and thoughts."

A professional approach of this kind can stabilise the CEO's relationship with the board. It serves to convince board members that they are being kept fully informed and that their contributions are recognised. Moreover, CEOs generally feel that briefing work for the board enhances the quality of their own thinking, as well as allowing them to draw on the experiences of other senior managers.

This involves a very considerable commitment of time and effort on the part of the CEO. It is not just the board meetings themselves that take time: preparation of agenda and briefing papers can occupy as much as a day a week:

"If any chief executive tells you that a board that meets every month is not a complete pain then they are dissembling. It's a whole work process in itself. I have to devote quite a lot of my time to it because it's not just the meetings, it's the preparation for them."

However, the potential payoff from this investment is considerable. Giving all the board members access to full information about the issues facing the organisation and the thinking of the new CEO provides a basis for senior management to act in concert.

At best it will be a source of challenge and counsel – a vital check to the potential dominance of a CEO – while at the same time giving the CEO a powerful source of support and legitimacy for the executive actions that they are taking within the organisation and beyond. As one CEO put it:

"...independence is actually obtained – you win it, you don't necessarily get it as a right."

Stage 8 Team building

Knowing who to replace – and when to button your lip

Among the most urgent tasks facing the new CEO – and overlapping with the orientation phase – is that of establishing an executive team with which he or she can work effectively. Within the very diverse set of organisations we studied, the executive team ranged from a group of functional managers within a single business to other directors and heads of major divisions. Despite the diversity, common processes were clear.

The executive group is a vital source of knowledge and understanding of the business for the new CEO; the early days and weeks typically involve lengthy individual and group meetings with them. Along with the briefing, a process of reciprocal evaluation is taking place – so these meetings are highly significant.

For the new CEO, the abilities and loyalties of these key executives are a source of uncertainty. It is not unusual for at least one of the senior managers to have aspired to the post of CEO; they may even have been acting in this role during a transition period. Then, as one person put it:

"…it is irksome to have to start explaining the company to someone whose job you think you ought to have had."

People in this position exhibit a wide range of responses – from an early explicit statement of commitment and support, through hoping and if possible encouraging the new CEO to make a mistake, to deciding after a few months that it is impossible to continue under the new regime.

A further source of uncertainty involves the CEO's own evaluation of the incumbents. CEOs found it useful to identify individuals within the organisation who could offer informed and reliable judgement about the qualities and weaknesses of the existing executive team. They also used the briefing process itself to begin judging individuals' abilities. Some spoke of using development plans or appraisals to start acquiring detailed knowledge of skills and aspirations.

New CEOs start with a management team that they have not chosen. Building this into a team they can work with is one of the most delicate tasks they face. Given the secrecy that so often accompanies external appointments at this level, the initial meeting may well be delayed until their first day in office. There is a finely balanced choice ahead, as to whether to work with these people or make new appointments.

On the side of the incumbents (as of the inside CEO candidate) is their established and detailed knowledge of operations, along with their immersion in the organisation's history and culture. Especially for CEOs appointed from outside, this can seem a vital counterbalance to their own relative ignorance. They may feel that team members deserve a chance to prove their worth, regardless of first impressions: some felt the organisation had suffered enough change and trauma without the creation of further uncertainty.

The process of succession continued

But on the side of change, especially for outsider CEOs, is the possibility of recruiting former colleagues whose abilities, style and competence are known to them and hence can be relied upon – or, more generally, of using recruitment to upgrade the quality of management support:

"Unfortunately my predecessor just did not have people of the right calibre around him – something had to be done."

There are also more subtle considerations at work. Questions arise as to whose loyalty can be counted on. New CEOs need allies, others who share their ways of thinking about business, or colleagues in whom they can confide. Team building has strategic and opportunistic dimensions:

"Mistakes are made in recruitment – I mean enormous mistakes are made. So if I can recruit people I know, who I know have proved to be successful, it's better."

Decisions of this kind will depend on the CEO's own skills and experience as well as the availability of internal resources. In the early period in office, new CEOs often have most confidence in areas where they themselves have greatest competence. We found that their eagerness to act tends to be expressed most readily in these areas – where specialist managers become particularly vulnerable as a result.

For a variety of reasons, changes in senior management personnel are very common in the months following succession. These do not have to be outright dismissals; they are often part of structural reorganisations that refocus activity and shift the balance of power within the top two or three levels of management, creating opportunity for neglected talent and making openings for individuals drawn from the CEO's external networks.

Where removals or redundancies are likely, there is pressure for them to happen sooner rather than later – even when CEOs would in principle value testing-out existing managers' abilities over a longer period. The main driver is a desire to minimise the period of uncertainty and return the focus to operational matters.

Having stabilised the executive team, the new CEO faces the task of building effective working relationships. Several CEOs spoke of having to resist the temptation to involve themselves too deeply in operational matters. Allowing their staff space can require major effort:

"The number of times that I've left this office and got half way to another floor, then stopped and come back and said to myself : 'You shouldn't be doing that'."

"...my whole life is conducted seeing people do things that I know are not right and it's not the way I would have done it, and I have to button my lip, because you have an agenda of real issues to face and cannot let yourself get dragged down into criticising them. They can't be belittled by their own management...but still, I have to control them."

The dangers of interference in managers' operational responsibilities were reported as legion. Not only does it risk demotivating managers: it also diverts CEOs from their prime responsibility for setting the organisation's overall strategic direction. But risk-averse staff may also court interference by passing the buck:

"I can't believe what crosses my desk – and now I keep giving it back to the managers and saying: 'Over to you – if you need to involve me do so, but other than that make the best judgement you can'."

Stage 9 The strategy review

Learning – and giving ownership

Among our respondents, the most commonly used vehicle for building working relationships within the executive team was the strategy review that almost all CEOs conduct during their early months in office.

The form and content of such reviews depend very much on their context, but there are common aspects of how the process is managed. The strategy review is the new CEO's first major piece of work and the new regime's first visible product: turning it into a collaborative exercise with the executive team enables new CEOs to build their own knowledge rapidly by drawing out the accumulated experience of executive managers. By closely involving managers, a new CEO can also acknowledge dependence on them and express confidence in them – collaboration mitigates some of the defensiveness that necessarily accompanies the questioning of existing practices.

Having involved the executive team, the new CEO has already begun to encourage them to take on the ownership needed for future implementation of changes in strategic direction or focus:

"It was done with the rest of the directors, so it was really them who produced the strategic plan. They knew that, whatever direction came out of this strategy, they were the ones who would have to implement it – so it was very much the idea of firstly trying to understand the background and find a way forward...and then, having got a way forward, ensuring that it was commonly understood, because all the parts interrelated. They each then presented their part along with detailed recommendations, so that as they defended them or had to change them, they came to own them."

Managed skilfully, the strategy review can provide an arena in which CEO and executive team work out common understandings, goals, cohesion and styles of working. It can also accelerate the CEO's learning about the details of operations. The product is the detailed plan that goes to the board for approval and is then communicated throughout the rest of the organisation. With such a plan new CEOs have effectively got to the point of knowing – or at least thinking they know – what needs to be done.

Stage 10 Implementation

Communicating the new leadership – and setting it in concrete

Effective implementation and consolidation of the new CEO's position clearly call for organisational leadership. This is not a procedural matter: the tasks of leadership range from addressing issues of strategic direction to establishing a management style, in which the CEO is a key role model. Leadership also governs the more intangible ways in which both individuals and groups respond emotionally to the figure of the CEO. On all these counts, succession represents a severe disruption of the organisation's leadership – but at the same time opens up the possibility of renewal and regeneration. Leadership is a significant factor not only in top management relationships but also in perceptions and feelings throughout the organisation.

The process of succession continued

Central to leadership is communication, in its broadest sense. It involves not only the CEO's explicit attempts to communicate with the whole organisation but what is not said; not only what is done but what is not done. Virtually every aspect of a CEO's behaviour is read for its significance throughout the organisation, especially in the very early days. Almost inevitably, especially with external appointments, rumour feeds both fears and hopes during the transition period. And once an individual is in post, even trivial actions take on undue import.

We mentioned earlier the sort of signals that early listening sends to the organisation. The presence of a new leader, especially one interested in meeting relatively junior staff and hearing their views, not only confounds rumour with the presence of a real person but also has the potential to unlock communication. It arouses hope – and the prospect that leadership and an organisation responsive to staff views can release all kinds of energy:

"You will often find extraordinary talent in organisations that has not been recognised and if you can find a way of unlocking that, that's a tremendous thing to be able to do."

"One of the first things I did was to get out there and talk to people and by the end of three or four months there weren't many that I hadn't actually seen at least in groups. There's a school of thought that says the best market research you can do is actually asking your own employees."

Such contact must be managed in a way that does not compromise middle management. Handled carefully, however, it provides invaluable information about both operations and the prevailing climate.

Different businesses or functional areas have their own particular histories. Our respondents talked of beginning to recognise the degree to which different parts of the business were dislocated: of divisions and suspicion between operational and policy-making levels or of the way certain areas felt neglected, misunderstood or undervalued:

"They did actually want someone who was going to try to bring this group of people, who had been operating independently, together."

"...we need someone above us. We need to be able to manage today with someone managing the future for us."

"The attitude to Head Office was: 'Oh they're a waste of time – just ignore them'."

"...there had been very much a second cousin feeling here."

Clearly these different climates and histories call for different responses if a new CEO is to maximise opportunities for renewal. The strategy review can be the central platform which in the long term either builds or undermines confidence within the organisation. If the new CEO is able to open previously blocked communication channels, our evidence shows it is possible to gather all sorts of knowledge that had previously gone unheard. Building the 'big picture' by incorporating such unused knowledge will help to win a positive response from the wider organisation and to address neglected areas:

"I think it had grown like Topsy. It was partly through having profit centres that had no co-ordination, so there was no sense of the overall ground."

Typically it is several months before the picture is detailed enough to be presented back formally. But the new CEO's early thinking about strategy, informed by input from members of the organisation, provides the opportunity to question and challenge preconceptions. When widely communicated in the course of the strategy review, this new thinking can refocus the whole organisation.

Along the way, there are smaller steps to take. A common target of new CEOs' reform seems to be the conduct and style of meetings. The kind of questions that are asked, the balance of listening to talking, what is taken seriously and what is ignored – all these send signals about values and intentions. From their very first day CEOs appear to influence the organisational climate through the detail of their behaviour, words and early decisions. It is not only the newcomer who is seeking to understand the new scene: everyone else is trying to crystallise, often on the basis of minutiae, a sense of the new person at the top. Part of the job's early stress seems to come from awareness that one's every action is being watched and interpreted.

Consistency of behaviour seems to help, along with the repetition of simple messages about the change of style and focus the new CEO is trying to create. But it is often the unintended messages that communicate most forcefully. For example, people told us of learning how their off-the-cuff remarks were discovered to have travelled 'like wildfire' around the organisation – or of being unexpectedly congratulated for the removal of an individual who was seen from below as being particularly negative. Images seem to coalesce fairly rapidly as decisions around personnel and direction filter out and inspire hope or resignation in the wider organisation. As they begin to solidify, perceptions take on a life of their own:

"What is so unfair is that style so quickly becomes a matter of perception. How you are perceived as a leader or a manager is everything. Whether you are actually like that ceases to matter after a while."

The new CEO is rapidly building a history that will become difficult to undo.

'Letting go of your dreams…'

The real job begins – and a broader horizon opens up

It is not possible to specify a timetable for the succession process. For the inside appointment there was some support among our respondents for the mythical '90 days': partly because perceptions crystallise and take on a life of their own so rapidly, the window of opportunity for change is necessarily limited. For the outside appointment, however, there was a widespread view that the process typically takes longer – not least because there is so much to learn before strategy can be set with any confidence.

The process of succession continued

Quite what marks the end of the process is difficult to define. One CEO spoke after about six months of having 'let go of my dreams' and feeling that 'the honeymoon is over'.[5] Particularly for the outside appointment, there is a certain sense of unreality about the early months in office. So much is new and unknown, so much is possible but not yet practicable. While some are still on their best behaviour and willing to make allowances, 'letting go of one's dreams' seems in part to involve a recognition that the organisation is simply not what one expected it to be.

Quite commonly, outsiders may initially refuse to recognise reality and cling to their expectations of what the organisation should be. But as a new CEO becomes more confident of his or her understanding, so the reality of the situation and the extent of his or her dependence on the abilities and limitations of others becomes very clear. In this sense 'letting go of one's dreams' involves a realistic acceptance of what can be changed and what has to be accommodated.

A new and broader time horizon opens up as the CEO contemplates the sheer labour of implementing the new strategic aims. And it becomes very clear that, for better or worse, those early months in office have set the foundations for the hard but more routine work that is to follow.

5 There is an interesting parallel in our evidence with research suggesting that a new CEO enters the post with a model of reality that includes a conception of the organisation derived from prior experiences. Commitment to this model may be revised as a result of learning about the organisation in the orientation period and from the effects of early action taken (Gabarro 1987). This early period is particularly important because it is the point where 'broadening of mindsets' is most likely to occur (Hambrick and Fukutomi, 1991).

Key issues

In the previous section we looked at real-life experiences of the succession process from screening through to the period of consolidation and implementation. What lessons can be learnt from these experiences? In this section we look at two key considerations – understanding the context, and the question of insiders vs outsiders – and conclude with some observations on managing the succession planning cycle.

Understanding the context

Visible and invisible influences

Undoubtedly the cycle of planning, searching, making an appointment, orientation, evaluation, team building, strategy review and consolidation must take place – through to the next round of succession planning. But a procedural approach is a clumsy mechanism for managing a process of cumulative interactions in which key relationships are developed.

A purely rational approach will overlook important aspects of the process. The emotional legacy of the difficult predecessor, of the star performer who is a hard act to follow, the possessive chairman, conflict in a divided management team, the pressures created by lagging market share – these may be viewed as peculiar to this specific setting, plaguing this particular succession. But apparent anomalies and contradictions are to be expected. Indeed, it is for their experience of broadly analogous situations that search firms can be so valuable at this stage. Those who would prefer a more normal situation find from experience that there is no norm; every succession process has problems that do not fit the formulae of conventional best practice.

It is important to recognise the visible and less visible aspects of context: of structure, emotional climate, culture and the political dimensions of succession. Unless participants acknowledge these dimensions and engage with them directly, they can subvert the most carefully planned succession processes.

Context has a number of dimensions: market and industry dynamics, the formal organisation and division of labour, organisational culture and political structures, the motivational structure and emotional climate. Each element creates a set of initial conditions with which the new CEO must rapidly become familiar.

Industry and market knowledge: The immediate context a new CEO inherits is shaped by the wider environment. Industry and market are those aspects of context most likely to receive acknowledgement. Although several of our respondents asserted that managerial skills are generic, almost all were recruited for their long and varied experience within their industry. Even in the few cases involving a major jump in sector – usually to introduce a more commercial orientation – aspects of previous experience, whether of project management, finance or marketing, were considered very pertinent. It was clear from the evidence that the insider has an initial advantage in knowledge of the sector and of particular customer relationships.

Structures, roles and responsibilities: Along with industry-relevant experience, a new CEO has to develop a detailed knowledge of the organisation's internal workings – not only of relationships with the board and senior managers, but of more remote aspects of the business. It is important to recognise the possibility of becoming isolated within immediate relationships:

Key issues continued

"You can find yourself getting more and more isolated without realising you're isolated. The surround is making very nice noises...(but) you get an igloo within an igloo within an igloo."

The need for detailed knowledge of the organisational context creates a strong pressure in favour of internal candidates who have built their knowledge over a number of years, possibly an entire career. This insider advantage becomes even more marked when one considers the invisible aspects of organisational context that underlie and animate formal business structures, roles and responsibilities.

Organisational culture: 'Culture' is often used to designate the deliberate inculcation of shared values and mission in an organisation. Here we mean the core beliefs and assumptions about the organisation's internal mode of operation and its relationship to markets and competitors. Culture in this sense includes what has been distilled and preserved in myths, rituals and habits of action and thought. These beliefs, assumptions and routines are not only widely shared but also taken for granted: people know the culture without being able to say quite what it is.

Cultural neutrality is not possible. CEOs appointed from within have an invisible cultural knowledge that again puts them at a considerable initial advantage over the outsider. But there are potential negative factors, too. Even though organisational cultures may be inconsistent and contain conflicts and differences, insiders' ability to challenge outmoded thought is often limited: their immersion over a number of years probably blinds them to many of the beliefs and assumptions that inform their own and others' actions. In this respect the outsider is better placed to challenge long-cherished beliefs and habitual ways of working.

In practice, however, outsiders bring their own cultural baggage. Their challenge to the new organisation's culture is filtered through the beliefs, assumptions and habits of their previous organisation. Our research suggests that there is often a very uncomfortable period during which their assumptions clash unwittingly with those of the new firm:

"I think it took a month or two to hit me...it's taken me nearly six months to understand (early) errors, in other words it took me a long time to realise that my written brief wasn't the same as (I thought)...and that perhaps was a terrible shame."

Cultural differences are often masked by a superficial similarity, so that misunderstandings only surface over time. All seems to be going well until it emerges, for example, that shared words are being understood very differently, or that behaviour regarded as normal in a previous organisation is being interpreted very differently in the new context. Often it seems difficult for people to hear what does not fit with prior experience. The new CEO may encounter a sort of inertia that resists interrogation:

"I couldn't get through to them, could not. I had no idea what they wanted...You've got to find out what game you're playing and I wasn't playing the game I thought they wanted me to play."

Even clashes of this kind can be a source of learning for both sides – but only if the tendency to resist, ignore or devalue the differences is overcome.

Power relations in the organisation: The formal structure may not reveal how power relations actually operate. The more autocratic and centralised the prevailing management style, the less likely it is that individuals at lower levels will have been given the space and authority to develop their own confidence and competence. This affects the quality of management within an organisation: in an autocratic or highly centralised structure the new CEO may inherit a weak or compliant team.

Along with the formal allocation of power and responsibility, there will also be informal systems of power and influence in which new CEOs have to find their place. Internal successors may owe something to these informal systems, and their power base may be constrained accordingly. But for the outsider this aspect of the organisation is almost completely invisible, and presents numerous potential pitfalls during the early months in office.

An appointment will itself have disturbed and to a degree questioned the established patterns of power and influence. It is impossible to know what is behind others' behaviour without the contextual knowledge required to weigh and appreciate its significance. Only over time, as they encounter resistance in unexpected places or find allies in unlikely individuals or groups, do new arrivals begin to understand this aspect of the organisation. In the meantime it is easy, as an outsider, to act in ways that cut across informal alliances or to be inadvertently co-opted onto one or other side of an initially invisible struggle.

Hidden motives: A further invisible aspect of the organisation is the pattern of motives that animate behaviour. But only by understanding them and their historical causes is it possible to mobilise others into action:

"I talked to this ex-boss of mine, asking why people are so slow in this area, about saying 'OK, fine, we'll be more open'. And his comment...was: 'You've got to remember that these people have been told before that they should be open and say what they think – and when they've done it, there have been real recriminations and people have lost their jobs as a result. So don't expect them to come over quickly.'"

The CEO's own motives: There is a personal dimension to the understanding of motivation – self-knowledge. Individuals often seem to see their own personal goals and objectives clearly, but to be less clear about quite why they are pursuing them and what drives their own behaviour. As described to us, CEOs' motives can be very varied and more or less congruent with the needs of the organisation – reflecting the need for power or recognition, fear of failure, aspirations to public service, or career or institution building. Whatever the underlying motives, they will play a subtle but important role in shaping what CEOs need and attend to in their new role. Self-knowledge is hard won, and some of the formal screening mechanisms in recruitment may be instructive. To be relatively unaware of one's own driving concerns is dangerous: it creates the risk of situations where the pursuit of unconscious personal needs impedes the capacity to recognise the needs of others and the organisation as a whole.

The emotional legacy and dynamic: Finally we come to what is arguably the most subtle but important aspect of the invisible organisation. Part of the legacy that the new CEO inherits is the prevailing mood or climate born of the organisation's recent history. The mood may be tense or relaxed, fearful or complacent:

Key issues continued

"My overriding priority was to put some morale in this place, to get people to lift their heads."

"It seemed to me that the important thing was to lower the tension."

Succession itself contributes to the prevailing emotional climate, typically arousing powerful emotional forces that can work both for and against the success of the process. New CEOs' early months in office are likely to involve an extended experience of not-knowing, especially for outsiders; their own tolerance of this uncertainty will affect how quickly they move into action and how thoroughly they research their new context. They may feel pressure to act to prove themselves or establish their authority or simply to release some of the pent-up anxiety. The desire to please or impress, to make one's mark or get to grips with the situation can easily force action down unexpected and sometimes undesirable paths:

"Because nothing had happened for so long...here was I, the Great White Hope. An enormous amount needs doing; now we have to do it…to show something is happening."

These feelings can often be projected onto others so that the new CEO feels impelled to act in the light of what are assumed to be others' expectations. The role of the CEO is always potentially rather isolated; this can be felt particularly acutely in the early days when uncertainty is at its peak.

The succession usually arouses equally powerful emotional reactions in everyone around the CEO. There are the anxieties of the chairman and board:

"I think there was a worry - we've made this mistake and all our references were wrong."

There are also the fears of the management team. Will I be able to work with this person? Will they see me as competent? What is this person going to do with my department or division? There may be envy, even hatred from those who were overlooked as potential successors. We heard of defensiveness on both sides: new CEOs can be looking to prove themselves, while the team is strongly invested in the past which is now under scrutiny.

But there is also often hope that the new appointment will somehow release and resolve the difficulties and disappointments of the past. Particularly for an outsider, it is easy to be the unwitting object of almost messianic hopes.[6]

6 See also Kets de Vries 1988 *The Dark Side of CEO Succession*.

Uncertainty needs to be resolved, ideally with the help of new energy released by the succession process. The emergence over time of trust in relationships with the chair, board and management team is a key factor – described to us as enabling everyone to relax and get back to performing their own particular role. But a negative dynamic is also possible, where uncertainty and distrust begin to spin upon themselves destructively, threatening failure and ultimate rejection for the new CEO. The need to read, contain and handle these powerful emotional forces, in oneself and in others, is one of the most difficult challenges for new CEOs.

Insider or outsider?

The inside track vs outside objectivity

The question of whether to appoint from within or outside may appear clear-cut. In part it is a question of objectives: a successful organisation which appears to be on the right course is less in need of change directed by 'new blood' than an organisation which is clearly off course. The more contested the objectives, the more contentious the case for insider or outsider becomes. Our evidence did not counter the general assumption that an insider is best able to ensure continuity. But, since the environment is changing rapidly, most companies need change as well as continuity. And stereotypes do not always prevail: insiders can show that the future need not be like the past, while outsiders can be stalled by inertia that they cannot counter because they do not fully understand it.

The case for insider candidates was made strongly by many of those to whom we talked. As a new CEO must quickly acquire a detailed knowledge of both visible and invisible aspects of context, an insider should be at a very considerable advantage – at least initially.

For the outsider, the lack of such contextual knowledge represents a major initial obstacle to engaging effectively with the new organisation. Organisations that were actively seeking a more commercial approach recognised the benefits of appointing someone with experience from outside the organisation, but acknowledged the difficulties:

"Coming fresh to a business is very difficult (for the CEO) – there's a great deal to learn. And coming in fresh to a big business, there's even more to learn."

"Good companies should be breeding their own successors..."

Because of this, many respondents spoke of their preference where possible for stable internal succession:

"The higher you go, the more important stability is because wisdom and experience are two qualities of great value and they come through actual experience of the job."

"...it's better to appoint from inside. You're less likely to make a mistake and they can come in running."

Yet some of the cases showed that appointing from outside, if handled professionally, can have unmistakable advantages to the organisation. Even newcomers' relative ignorance of context can carry certain benefits. They may be able to bring a fresh eye to bear on the market and the organisation's products, based on experience elsewhere. Their lack of familiarity with the organisation's culture may allow them to challenge deep-rooted assumptions. They are politically neutral and therefore free from any initial debts or loyalties. They may also be more able to recognise sources of individual and group discontent and therefore to release trapped or unrecognised energies.

Key issues continued

Table 1 summarises internal and external candidates' relative strengths and weaknesses in relation to the kind of knowledge they hold.

Table 1 Relevant knowledge in a succession

RELEVANT KNOWLEDGE	Insider	*Outsider*
MARKET/INDUSTRY	detailed familiarity within organisation	*new skills knowledge of industry*
ORGANISATIONAL STRUCTURE	detailed knowledge	*knowledge of alternatives*
CULTURE	deep familiarity, but caught in its tacit assumptions	*can challenge culture from experience*
POWER POLITICS	aware, but may owe political debts and find it hard to challenge entrenched positions	*unaware*
MOTIVATIONS	aware, but may not recognise habitual sources of discontent	*unaware, but may recognise blocked energies*

Why organisations fail to 'grow their own'
Given the widely expressed preference for internal succession, the failure of most organisations to grow their own successors seems paradoxical. It reveals much about the quality of their succession management.

Simply planning succession is not enough; the key seems to be in structuring an organisation to build broadly based learning and long-term commitment. If its prevailing management style is autocratic, an organisation is less likely to be able to appoint from within – whatever its actual preference. Internal succession is constrained if the organisation cannot develop key staff or retain talented individuals. Several respondents suggested that de-layering management tiers may exacerbate the problem by reducing the pool of talented managers exposed to diverse responsibilities over the course of their career.

The inside outsider
The trade-off between internal and external candidates may appear to involve inevitable loss – either of inside experience as the price of new knowledge or vice versa. But, our evidence suggests, there is one promising route out of this impasse: where a member of the senior management team has been recruited a few years earlier from another organisation, especially if they have been working closely with a knowledgeable senior manager. They have had time to understand the culture and politics of the place but should have retained the ability to think outside the organisation's established patterns.

However, the availability of a recent recruit with a few years' inside experience is more often fortuitous than planned. An executive team is highly specialised and it may not have been possible to appoint someone with appropriate specialist expertise who is also CEO material. The need to do so is not always predicted or predictable. There are also structural factors: where power is centralised and the centre is kept lean, few managers will have had the chance to acquire experience at the centre. Where power is decentralised, most senior managers will have been responsible for divisions where the problems are quite different from those which the CEO will face.

Ultimately, it depends on relationships

One conclusion from our study is that, while contextual knowledge establishes very different initial conditions for the outsider and insider, these differences do not determine the eventual success of the appointment. That depends on the CEO's capacity to interpret and respond to the external context of market and industry and to the internal needs of the organisation. This in turn requires a capacity to recognise and acknowledge factors that shape people's motivations, including the less visible dimensions of context: relations of power, culture and emotional climate.

In the end, success depends on capacity to form key relationships that make it possible to reach and implement appropriate strategies – and so to focus and mobilise energies throughout the organisation. So perhaps the central conclusion of our research is that, for the organisation and for the newly appointed CEO, leadership is a collective and not an individual process or function.

The planning cycle revisited

Finally, we return to the formal planning cycle summarised at the beginning of this report. We have not attempted to embellish it with further requirements and specifications. When things go wrong there is a tendency to turn to procedures to set them right – to do more investigation, more definition of mandates, more planning next time – but our research shows clearly that unless underlying conflicts of objective and interest have been addressed, these are unlikely to succeed.

So in conclusion, having reviewed first-hand experience of the succession process and its context, we offer some observations on how organisations can make the CEO succession planning cycle a positive and constructive process, rather than an empty sequence of procedures:

1 *Planning*. In planning the current CEO's succession, the preferred qualities and experience of candidates should be established, in the light of the requirements for the job; these define a preliminary 'mandate' for the new appointee. Planning for succession should be linked to career development policies and form a regular part of the board's activities. The consequences for the new appointment of the current CEO's next move should be taken into account.

2 *The search for candidates*. This includes looking at internal and external possibilities, most normally with the help of professional external specialists. The search process should not be restricted by prior conceptions of suitability and should be carried out on a wide front.

3 *Making the choice*. Selection procedures may differ by industry convention and practice, but must always include the opportunity for prior learning about the candidate and the job and organisation. Investigation of candidate and post should be as extensive as possible. Formal interviews can provide only limited scope for evaluation on both sides.

4 *Appointment*. The timing of the appointment should weigh the benefits of preparatory time against the urgency of the need for the new CEO. Ideally there should be ample time for signing off prior responsibilities and for preliminary learning about the job. The announcement should be made in confidence to closely interested groups (and especially to staff) before being released to the press.

Key issues continued

5 *Interregnum*. If it is necessary to have a transitional period, uncertainty should be minimised – for example by appointing a caretaker who can inspire confidence.

6 *Entry*. Procedures should be set up for welcoming and briefing the new CEO, for meetings with staff and board members. A balance has to be found, in consultation, between expecting undue initiative from the newcomer and over-organising him or her.

7 *Orientation*. During the early months the new CEO, especially an outsider, will need time to collect and assimilate new knowledge from external and internal sources and develop thinking on performance and strategy. Pressure for immediate action should be curbed. Orientation involves getting to know the relevant environment, the executive team and the members of the board. At the same time, the management team needs to grasp the new management style evident from conduct of meetings and visits to other offices and sites.

8 *Team building*. A new CEO usually inherits an executive team, but will want to evaluate the members with a view to constructing the right team for current conditions.

9 *Strategy review*. This is the usual next step as the new CEO prepares to propose strategy to the board and to receive and incorporate their response and initiatives. While it is under way, experiments can begin on a small scale to test the waters and provide knowledge about reactions to change. The strategy review can be a vehicle for learning, for all concerned, whether the changes it proposes are incremental or radical.

10 *Implementation and consolidation*. The effects of earlier changes can be assessed, and implementation of the proposed strategy can begin: the early orientation period is complete. Consolidation should extend to planning for the current CEO's succession.

Our evidence suggests that this last point is all too often overlooked.

After weathering the uncertainties of the early period, there is a tendency for the CEO and board to move ahead to new issues. But our respondents' experience shows that planning for their own succession should be an important part of CEOs' longer-term view. Some do move rapidly to address this matter. In contrast, it was evident that CEOs can, over time, come to believe that they are irreplaceable.

In part this can result from years of accumulated experience in the role: it becomes axiomatic that no one has anything approaching the incumbent's own understanding of the particular market and organisational context. However, it can also be the unintended product of a management style that refuses to allow potential successors to have the autonomy or exposure that will allow them to step easily into the leader's shoes. Particularly if an individual is approaching retirement, there may also be a reluctance to confront the reality of what is likely to be a sudden and painful loss of role and power.

Such dangers can easily be reinforced by those around the CEO. A board fearful of losing such depth of experience and managers who are reluctant to face the uncertainties of succession can seek to persuade the incumbent to stay on, manifesting an unrealistic dependence on a particular individual that may ultimately endanger the company's longer-term success.

These concerns are good reason for actively planning for succession almost from the new CEO's first day in office. That way the succession process can, indeed, be a cycle – achieving change and progress seamlessly whilst seizing the opportunities it affords for ensuring continuity and the achievement of renewal.□

Postscript *from Saxton Bampfylde International plc*

Getting it right

Ten points to remember the next time you appoint a Chief Executive

This research has highlighted, with unexpected clarity and consistency, the many aspects which can and do go wrong when organisations seek to find and then bring in a new boss. And our experience suggests that these problems, whilst often more visible in the world of commerce, are just as endemic in appointments in the public sector and the world of education. Under such circumstances the advantages of Executive Search in getting senior appointments right can be dramatic.

Here then are 10 points, based on our many years of involvement in very senior appointments which, we believe, will help Chairmen, Appointment Committees and Boards to avoid most of the pitfalls described in this Report.

1 '*Clones Can Constrain You*'. Far too often the brief for the new head of an organisation calls for someone to be as near a 'doppelgänger' to the incumbent as may be. And as often as not, this can be a profound strategic error. This is not just because someone with a very similar background may find it difficult to bring to bear new perspectives and ideas, but also because it so constrains the size of the field in which Search Consultants can look for truly exceptional candidates. This is particularly true in vast markets like the USA, where recruiting for 'clones' has often been attempted, but it is an equally crucial factor in smaller countries like the UK or Germany.

2 '*Look Inside And Out*'. This Report has considered the pros and cons of insider versus outsider candidates. In reality, this may be a sterile debate, because it is so simple to look inside and outside thus ensuring that the organisation has the best possible choice. We have known several truly effective business heads who were once the successful internal candidates in competition with strong external candidates. They now enjoy the knowledge that they have their job because they were rated the best against the strongest players in their fields.

3 '*Study Process, Not Precedent*'. The way to develop the best brief possible is to study the processes involved in carrying out excellently the job under consideration - and with an eye to how it will be in the future. This will often steer you towards broader and more rewarding areas for search, as well as helping you find candidates who bring fresher perspectives and skills to bear. When an organisation is experiencing difficulties - or operates in a field where change is endemic (which is more often the case than not these days) - the argument becomes very strong for looking at the different elements of the job and its future needs and requirements.

4 '*Identify Leadership Skills*'. These may take you down some surprising paths. More and more of the most effective heads of organisations these days come from outside fields; consider the number of star retail bosses who came from outside shopkeeping - or the successful university Vice-Chancellors who came from previous Corporate or Civil Service careers. What all these people have in common is skill in the processes which are relevant to now and tomorrow - and which frequently differ from those which were necessary yesterday.

5 '*Broaden Your Outlook*'. As we are stressing, the search for a new leader should be based as broadly as possible. Not only does it pay to consider bringing in candidates from different disciplines, but you may be well advised to consider candidates from different countries. Shortages of skills and experienced people vary considerably between

Postscript continued

different societies and especially if you pursue a process-analysis approach, looking for candidates in other countries can pay the most handsome dividends. It is this need which drives in part the requirement that effective headhunters must be part of a world-wide network.

6 '*Leadership Is A Team Game*'. The work of John Kotter at Harvard Business School helped to underline the extent to which the Super-Charismatic-Solo-Performer type of business leader had become redundant. To help a contemporary organisation define its objectives and then align the management cadre towards their achievement is far too complex a task for one person's skills or available time. So the leader's task is nowadays to develop and then lead her/his top teams - and this in itself requires new paradigms. To this end, useful advances have been made of late in understanding the psychological anatomy of teams and how they work. In a perfect world it is therefore important to get expert help in estimating the effect that a new senior recruit will have on his or her most senior colleagues, for it is these relationships which will make or break. No longer need this be a matter of expert guessmanship; there are business psychologists who can guide you through this complex arena.

7 '*Know Then Thyself ...*'. Pope's aphorism could well have been written for today's Chairman! It is not logically possible to form an unbiased view of a candidate for a top job, without having some understanding of the perspectives and emotional baggage which the interviewer may bring to the task. This is where contemporary uses of qualitative psychological assessment, now common-place in very senior appointments, come into play. Not only is it valuable to get a professional and objective view on the lead candidates (together with useful information on how to get the best/worst out of them), it is also crucially useful to get similar insights to oneself, thereby acquiring a considerable measure of self-understanding, if not of 100% objectivity! Nor is this introspective self-indulgence. Research demonstrates that where senior appointments go wrong, it is more often because of lack of compatibility between the 'top two', rather than because the new head lacks the necessary professional or executive skills.

8 '*Choose Your Timescale Yourself*'. It is vital that the process of selecting a new CEO is not driven by events. Long term planning enables you to put in place the process of search and appointment at a time which enables the planning cycle to be suited to the precise needs and culture of the organisation.

9 '*Headhunters Know Better*'. They will not know your business or area of expertise as well as you do, but they will have far greater experience of the processes and pitfalls of finding, choosing and appointing heads of major enterprises. They can help you through these minefields, including helping you broaden your field of search, maintaining candidate anonymity, helping you refine your brief, providing you with a sounding-board and acting as middle-men between yourself and the preferred candidates.

10 '*Exploit Your Headhunter, Not Your Colleagues*'. Final negotiations, when a preferred candidate is often being subjected to competing and conflicting information and advice from present employer, family, friends and not least you, is the stage during which your headhunter is, above all, your mediator and your advocate. Exploit his or her skills to the full.

Executive summary

A process fraught with uncertainties and problems Page 5
The arrival of a new CEO is a vital opportunity to ensure both continuity and renewal. In this report we explore the difficulties surrounding CEO succession and the issues that need to be addressed.

The succession management cycle Page 6
The typical process for managing CEO succession consists of 10 formal phases: planning, searching for putative candidates (at this level often using Executive Search Consultants 'headhunters'), selection, making the appointment, an interregnum if necessary, the new CEO's entry, orientation, team building, a strategy review and finally implementation of the agreed new strategy. The following sections review respondents' experience of that process.

The process of succession Page 7

Stage 1 Planning Page 7
Agree now on what the job entails
It is vital that the search for candidates be conducted against the backdrop of comprehensive and thoroughly researched and agreed job and person specifications.

Stage 2 The search for candidates Page 7
Where they come from may determine where they take you
Career routes taken from the post of CEO leave a legacy detectable in the CEO's outlook and the power relations after a succession. Benign or destructive dynamics can unfold as the succession process develops.

Stage 3 Making the choice Page 8
A considered judgement – or a whirlwind romance?
This stage is frequently carried out with insufficient attention – particularly with regard to investigation of the chosen candidate. This is often matched by under investigation of the organisation by the candidate. Assessment of compatibility should take full account of personal chemistry, particularly between candidate and chairman.

Stages 4&5 Appointment and interregnum Page 10
The decision is made – and fresh uncertainties begin
Respondents' experience showed that a transition period is desirable to allow both newcomer and outgoing incumbent to disengage from past responsibilities and prepare for the new disposition.

Stage 6 Entry – starting work Page 10
Look before you leap
The CEO's early period in post is spent in explicit information gathering. Respondents' experience was that time and effort invested in this phase were well spent: the temptation to start 'making a mark' before completing an adequate 'listening' phase should be resisted.

Executive summary continued

Stage 7 **Orientation** Page 11

Relationships are the heart of the matter

It is critically important to develop productive relationships with the chairman, the board, key executives and the wider organisation.

The CEO's relationship with the chairman is the single most important one, and often the most ambiguous. Both figures are likely to have a strong view of their own centrality to the organisation, and reciprocal roles have to be negotiate: there are no standard rules or formulae. Initially, the relationship may be defensive and prickly: the most important balm is information, shared according to an agreed protocol.

CEOs are not always clear about their formal relationship with the board. As with the chairman, a disciplined protocol of information seems to provide the best vehicle for building trust and confidence. This may take time and effort – but independence is not a CEO's right: it has to be won.

Stage 8 **Team building** Page 15

Knowing who to replace – and when to button your lip

CEOs start with a management team they have not chosen. Building it into a team they can work with is one of their most delicate tasks. They need to decide who to keep, who to replace, whether to bring in former colleagues – and how to build positive working relationships without interfering excessively in operational details.

Stage 9 **The strategy review** Page 17

Learning – and giving ownership

An ideal vehicle for building team relationships is the strategy review, if the CEO makes it a collaborative exercise. It can provide an arena in which common understandings, goals, cohesion and methods are worked out – and in which the CEO helps managers take ownership of what needs to be done.

Stage 10 **Implementation** Page 17

Communicating the new leadership – and setting it in concrete

The new CEO needs to show leadership not only in top-level relationships but in guiding perceptions and feelings throughout the organisation. Communication is central to this – not only through what is said and done, but in what is not said or done. Part of the job's early stress is the awareness that every action is being interpreted. But the CEO must master this process, because early impressions rapidly become hard to undo.

'Letting go of your dreams…' Page 19

The real job begins – and a broader horizon opens up

There is a real – and finite – honeymoon period for CEOs. As this comes to an end there may be some sense of loss or disappointment as the CEO comes to a realistic assessment of what can be changed and what must be accommodated. Now the foundations have been laid for the hard but more routine work that follows.

Key issues Page 21

In the light of respondents' experience, this section examines the issues that emerged as central to successful succession management.

Understanding the context Page 21

Visible and invisible influences

Simply following a set of prescribed procedures is no guarantee of success: a procedural approach cannot take sufficient account of the cumulative interactions in which vital relationships are developed. Unless participants recognise the visible and less visible aspects of context and engage with them directly, they can subvert the most carefully planned succession processes. The types of context discussed in this section are:

Industry and market knowledge; structures, roles and responsibilities; organisational culture; power relations in the organisation; hidden motives; the CEO's own motives; and the emotional legacy and dynamic born of the organisation's recent history.

Insider or outsider? Page 25

The inside track vs outside objectivity

Our evidence did not counter the general assumption that an insider is best able to ensure continuity. But, since the environment is changing rapidly, most companies need change as well as continuity. This section discusses the relative merits of inside and outside candidates.

Given the widely expressed preference for internal succession, the failure of most organisations to grow their own successors must reflect on the quality of their succession management. A possible compromise is a member of the senior management team who has been recruited a few years earlier from another organisation, especially if they have been working closely with a knowledgeable senior manager.

In the end, though, success depends on capacity to form key relationships that make it possible to reach and implement appropriate strategies. CEOs' origins seem considerably less important than their capacity to recognise and acknowledge factors that shape people's motivations, including the less visible dimensions of context and culture. The central conclusion of our research is that leadership is a collective and not an individual process or function.

The planning cycle revisited Page 27

Finally, we return to the formal planning cycle summarised at the beginning of this report and offer some observations on how organisations can make it a positive and constructive process, rather than an empty sequence of procedures. Above all, we note the too-often overlooked reasons for actively planning for succession almost from the new CEO's first day in office. The succession process should, indeed, be a cycle – achieving change and progress seamlessly without the need for abrupt transitions.

Appendices

Appendix I: *Methodology*

This report is based on some 30 interviews conducted over five months in 1995. Most of our interviewees were corporate chairmen and CEOs, but we included a number of individuals running major divisions of larger organisations, and the heads of some smaller organisations. In a few cases the roles of chair and CEO were still combined. There was diversity in experience, in incentives to join the organisation and in the tasks facing the new CEO. There was also variety in the routes leading to the post: from outside, by internal promotion or through redeployment. The study covered a wide variety of organisations – public and private sector, partnerships and charities – representing the industrial, commercial and service sectors of the economy. The organisations we selected were at different stages of maturity: some new and growing, some stable, others undergoing retrenchment.

Despite the diversity, the study identified major and common issues involved in CEO succession and provided an opportunity to explore in close-up aspects of business leaders' lived experience which quantifiable indicators could not capture. The information shared with us is both personal and confidential and this has made it necessary to build a composite account rather than describe individual cases.

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