

# Courage to Change

## Insights for enhancing CEO succession through stronger board leadership

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THERE IS A GROWING UNDERSTANDING AND agreement on boards that effective CEO succession is critical for maintaining business continuity, mitigating potential business and reputational risks, and building a more sustainable and competitive organization. That being said, boards continue to struggle, with multiple issues, to get it done and done right. The bottom line is that CEO succession is in dire need of a complete transformation – and board leadership is needed to create that change.

What's at the heart of the CEO succession challenge? To identify the issues and hindrances, we spoke with 10 Canadian directors and solicited input from directors in the U.S., the United Kingdom, Europe and Australia. Some of the key challenges that surfaced include: politics and interpersonal dynamics within the board and with the CEO; an unbalanced focus on external candidates; reluctance to proactively address CEO performance issues; and unhealthy or under-developed board cultures.

Ultimately, many directors described the need for more courage from board members to address these challenges and move towards getting succession right. Courage needs to come in various forms — in every meeting, every conversation, and every interaction.

Here are some shared insights from the directors we spoke to about tackling both the practical issues and the more systemic issues head-on.

### **Be proactive; make it a priority**

Directors questioned why boards don't put more focus on succession, since succession issues take a long time to work through. Too often, boards recognize the need for change too late, and then need to make a quick decision,

which creates additional risks. In this case, the board actually becomes a barrier to itself.

As Laura Formusa, director and past CEO of Hydro One Networks Inc., said, "Succession is not something that the CEO should be driving alone. You need to engage all board members. You have to have a plan and be ready, because it could catch you by surprise at any time."

When CEO succession is identified as a key priority for both the board and the CEO, there is a higher chance of success. One of the most common messages from directors was to start the succession process early, and make it a topic of conversation as often as possible, which should spark necessary conversations with the CEO. It is critical that the board and the CEO be on the same page about the ongoing need to plan for succession.

As shared by David Collie, President and CEO of the Ontario-based Electrical Safety Authority, "Boards need to identify CEO succession at the highest level as part of a balanced scorecard and strategic plan – and measure themselves against that."

### **Create an environment for open, candid conversations**

There is often profound reluctance for boards and CEOs to initiate difficult conversations around succession. The directors interviewed agree that strong directors need courage and conviction to overcome the succession challenge. That might mean being the only person in the room to bring the subject up, and perhaps even keep bringing it up until the board engages.



“Effective CEO succession comes down to a cocktail of experience, intelligence and, not infrequently, guts,” said Sir Graham Day, former Lead Director of Scotiabank. “It can be an unpleasant process, especially when relationships get too cozy. No one wants to stand up and rock the boat.”

Margaret Kelch, a long-standing director, suggested that “It is always the right time to talk about CEO succession, even when you have an excellent CEO in place.” She also explained that “having open and candid conversations on a regular basis will help the board manage potential risks and look out for the best interests of the organization. CEO succession should never be an elephant in the room.”

### Connect the dots to build a strong leadership pipeline

In many organizations, CEO succession has been seen as a separate issue from leadership succession at other levels. Even in companies where the board was engaged with CEO succession, there is often a disconnect with other levels of leadership succession. Survey participants insisted that these two processes are closely related. “Effective CEO-succession planning is the natural outcome of talent development and succession planning much deeper in the organization,” said Gail Cook-Bennett, former chair of Manulife Financial and a corporate director for more than 35 years. “The ideal process constitutes a continuum, with today’s young high-potential employees being seen as one source of tomorrow’s CEO candidates. It is not an ‘add-on’ process to which the board turns its attention 18 months before a retirement date.”

Looking ahead to what’s next for succession, Dr. Jeff Zabudsky, President and CEO, Sheridan Institute of Technology and Advanced Learning, believes that “to further evolve CEO succession for the future, CEOs need to be deliberate about hiring and building exceptional leadership deeper into the organization.” He also stated that “We need leaders to be thinking like CEOs, and demonstrating resilience, perseverance and optimism.”

### Reflections on what we heard

The directors shared ideas that were wide ranging and compelling, and hit on many of the challenges that we’ve seen in the organizations we have worked with. Based on

our experience, the issues differ based on organizational context and culture. To get really serious about this issue, boards need to find ways to get honest about what’s standing in the way – and hit it head-on. CEO succession is too important to let politics, lack of accountability, unhealthy dynamics, insecurity and large egos act as such solid yet often invisible barriers.

### The Next Frontier for CEO Succession

We believe that boards have a tremendous opportunity to challenge themselves and play a proactive role in not only redefining and creating an effective CEO-succession process, but also enhancing board effectiveness. Three practical ideas for boards include:

1. Identifying and shaping a desired board culture to ensure that the environment, both inside and outside the boardroom, encourages healthy and respectful debate, open and candid discussions (especially about often-unspoken issues), and continuous improvement;
2. Including CEO succession in a regular board-practices review, to create a vehicle for input and feedback from the board about what is working well and what needs to be enhanced;
3. Increasing investment and focus on board leadership, from hiring the right skills for the future to building individual and team effectiveness, to ensure that board culture will thrive.

This is our call to action. Directors have a personal obligation to question the status quo, continue transforming their boards, and ultimately, muster the courage to change.

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