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Briefing Notes:
Dilemmas of Aligning Leadership Succession, Strategy, and Governance

Overview

Recent writings stress the importance of a board's thinking about leadership succession as its most critical task (Charan 1998, Gilmore 1988). We too often frame up one issue, such as succession, as foreground, and under tend to the related background. Succession is often wickedly intertwined with the state of the board's functioning and the enterprise's strategy. Similarly, working on governance is often triggered by succession and linked to strategy in terms of new competencies that need to be on the board. It is rare that one of these three can be the sole focus without consideration of the other two areas.

A measure of their segmentation is the three different professional groups that offer services to each of these areas:

- ***Strategy:*** Strategy consulting firms
- ***Governance:*** Organizational development and process consultants.
- ***Succession:*** Executive recruiters and search firms.

There have been some recent incursions of each into the others' business with big search firms moving into onboarding and coaching. Strategy firms are beginning to address governance issues in the wake of new attention to boards.

Especially today in the fast-changing environment, organizations cannot count on taking up developmental issues in the optimal sequence of excellent, current governance, approving a strategy that informs the selection of a great leader who executes under their oversight and staffs strategic renewal as the environment demands. The following note offers an overview of the challenges of sequencing these intertwined issues, and the imperative that they be thought of in a woven, recursive way across time rather than a simplistic, linear sequence.

The three processes of strategy, succession, and governance are linked in ways that often create the following dilemmas.

Misalignment between the board's readiness and leadership succession. Often a long-tenured leader leads to atrophy of the board's vitality and increases their dependency, especially when the leader is successful. So, when that leader leaves (on his or her own, or being invited to step down), a key support to the board is missing as they think about strategic shifts and the implications for succession.

Leaders are often in denial about when their effectiveness is losing its edge and when is the appropriate time to leave. Ken Olsen, the legendary founder of the Digital Equipment Corporation, said, "There's only one measure of success and that is, five years after I'm gone, how is the company doing…. I will accept no accolades until five years after I'm gone. I may avoid that by not going." Yet boards grow dependent on the CEO and often find it difficult to have the conversation about leaving with a long-tenured leader whose earlier work they greatly value.

Misalignment of the strategy with succession. In facing the leadership succession tasks, a "good enough" strategy is essential for a board to define the scope of the leadership role and to make a high-quality selection of a talented organizational leader. If there are major strategic dilemmas, an outgoing leader—especially if the departure is based on performance or a conflicted working alliance with governance—is not in the best position to support the board in working through their vision. This dilemma is heightened because if the leadership search is caused by major differences about the strategic direction, candidates may be reluctant to apply and the board may have difficulty reaching a choice and supporting the new leader. In one organization, one applicant was clear with the search committee that he would only accept under the condition of their support for a new direction. A key board member had told the current staff, "We put the ship in dry dock, lifted up her skirts and pronounced her ship shape"—communicating to them his commitment to the current strategy. The new leader struggled for several years with the splits in the board, until a new chair brought in a third party to work through their differences and align the board with the chosen leader.

Mismatch between the board's capabilities and strategic development. Board's membership and tenure, often a valuable source of institutional memory, can be ill suited to take up its role in oversight of significant strategic change that its CEO is driving. In professional associations, often people rise to governance as an honorific for long distinguished service. When facing significant changes in the environment—such new technologies, new delivery mechanisms, and different preferences in younger generations—the board may lack members with sufficient experience with these new phenomena. Strategy work involves thinking about the future threats and opportunities and the needed core competencies for the organization to succeed—what Drucker (1994) has termed "the theory of the business:"

- Assumptions about the environment of the organization.
- Assumptions about the specific mission of the organization.
- Assumptions about the core competencies needed to accomplish the organization's mission.

If the CEO is driving this work, they may find splits in the board that hurt the working alliance with the leader. Sometimes, this work is taken up in conjunction with succession. But often the search consultants do not have the depth of experience to staff good high-level strategic thinking, especially to work through significant differences. Other times, strategic differences trigger succession.

In a recent case in the corporate sector, The Home Depot illustrated the interdependence of these three processes. The flat performance of the stock suggested questions about the strategy. This, combined with the high compensation of the CEO, led to the loss of his dominant coalition on the board, and he stepped away. This triggered a second order change with four members of the board stepping down. The incoming CEO (an insider) put in play a significant shift in strategy as he considers the sale or separation of the supply business that had been a significant element in the strategy of his predecessor.

CFAR has experienced the following cases that illustrate the intertwining of these three related processes and how different sequences play out.

A Brief Case: Strategy Leads of a Professional Society

The board chair and CEO of a professional society initiated a strategic planning process. They created an ad hoc committee, deliberately dominated by "young turks" with only a few current board members, believing that the field was changing dramatically. They crafted a strategy process as a Trojan Horse for working on board changes by creating the visibility for these younger leaders to become board members. There were several important interactions with the board along the way, and few key overlapping members prevented an unproductive split. Toward the end of the process, the CEO surprisingly announced his intention to resign for his own career reasons. At the final retreat, where the strategic committee engaged the board to get the plan adopted, they linked the strategy going forward to the implications for the job description for a new leader. An executive search firm found a new executive director with the competencies to fit the strategy, and the board supported transition work with the new leader to ensure good working alliances up to the board, with the staff, and out to the members. After a year with the new leader, the chair of the strategic planning process, now on the board, was charged with leading a year-long board development process (CFAR 2001) that worked with the new leader, and via the board's active engagement with the issues in implementing the strategic plan. As board members became more actively engaged, they realized they needed more protected time for strategy and committed to a two-day summer retreat that began to reshape the strategy of the organization, now with the active support of the new leader and her reconstituted top team.

A Brief Case: Board Development Leads

A freestanding hospital during the peak of the managed care era realized that they needed to align with one of the big systems in their city for bargaining power with insurers. The CEO realized that the board was neither knowledgeable enough nor strong enough to contain the highly complex and possibly divisive issues in choosing a system to join. He paired an expert with deep knowledge of the significant trends in health care to brief the board and engaged CFAR in facilitating histories of the future scenarios (Gilmore and Shea 1997) that challenged the board members to look back from a decade hence at each of the two alternatives to explore which fulfilled their stewardship role the best. The board was able to come to a decision (by one vote) on which system to join. Following shortly in the wake of this decision, there were leadership changes as it became one of several hospitals in a system, as well as a new strategy to take advantage of its system membership.

A Brief Case: Leadership Transition Leads

An advocacy policy institute had hired a leader who left within a year when both he and the board realized the misfit. A second search, shaped by insights from the failed succession, yielded a new leader who was charged by the board with developing a new strategy. This individual came in and engaged the staff and selected board members in crafting a new strategic direction that ended up consolidating some programs and adding new competencies in communications and development to the organization. In the wake of the new strategy, especially with regards to development, the board is now taking on new challenges. In hindsight, we believe that the effort would have been more powerful if the leader had built his team before undertaking the strategy work, perhaps six months to a year after taking over. We often see a new leader taking up strategy compliantly with the board's request, rather than within the rhythms of their transition and where the organization is in its annual cycles (of budget, planning, work cycles, etc.).

In each of these cases, whether the entry point is board development, leadership succession, or strategy, there are inevitably developmental pressures for the other two areas.

The interdependencies of these areas suggest thinking of these as strands in a tapestry that have to be taken up in related ways—with one often being figure, the other two background and context—and then the 'good enough' work in one area becomes part of the context for the focus on another strand. This often repeats in a deepening spiral.

Thus one might have a sequence as follows: a board undertakes a quick reconnaissance into the strategic landscape to get a sense of what is likely and perhaps more importantly what is ruled out. This can inform the search, which is also a learning process, like taking a product (the posted job opportunity) to the market and seeing what the response is. One gets enormous insights from interviewing people and hearing their ideas and reactions to the presenting challenges (Califano 1981, p. 183). Once a new leader is hired, then work has to cycle back, now with a new leader diving deeper into the strategy. This process may take a year, and its outcomes in turn may shape both membership and process changes in governance.

Lessons Learned

Below are some helpful lessons learned for navigating these intertwined issues.

Go as far as you need to inform the next step, but value incompleteness and retained flexibility. The concept of "minimum critical specs" has been used in emergent redesign of work processes (Herbst 1974). This concept states that one should only develop the minimum necessary specifications to take the next steps. In that way, an organization acts into its future; it values the retained flexibility at each stage to adapt to what it has learned and ways the environment may have changed. Thus the strategy might be broadly directional, perhaps with a few options left open as the context for a chosen leader who can then join and take the next steps in fleshing out the strategic implications. Once those are underway, possibly linked to a change in board leadership, there might be implications for the board in terms of membership, committee structure, and working processes.

Never take up one of these tasks without using the occasion to reflect on the other two. No matter which is the fore grounded issue, always take the opportunity to reflect, if only briefly, on the other two areas. For example, in doing succession, ask what is the state of the board's functioning, the dynamics, the connections between board turnover (especially the chair), and the leadership transition. If the work is board development, ask what are the related issues to strategy, such as splits on significant issues, that may be exporting mixed signals to the CEO. If the foreground issue is strategy, is the board too dependent on the CEO, sitting through excessive PowerPoint briefings instead of vitalizing conversations on the tough choices facing the organization?

One innovative, newly-appointed president was deeply driving an effective strategy process, yet failed to pay enough attention to keeping the board's support. He changed a member of his team without realizing the long-working alliance of this individual with his board. As his strategy work was nearing completion, he stepped down over "strategic differences in the direction of the university."

Of the three issues, board development is the least amenable to being addressed in isolation from the real work on pressing and engaging high stakes issues. An encapsulated "board development" frame often labors mightily to shuffle structures and process with little progress in actual results. Talented people have very limited time, and the most powerful way for the board to develop is via strategy conversations or the leadership search work. One organization was able to make significant changes in governance (smaller size, true corporate board versus representation of member hospitals) because they deeply looked at the future challenges and saw the need for the changes.

In one institution, upon appointment of a new leader, the board chair invited the new CEO to propose to the nominating committee of the board some people whom would bring strengths related to the directions that she and the board had agreed to in the succession.

Actively manage the transitions from one phase to another. Often boards that have been overly involved in a leadership search pull back too quickly in relief once the candidate is named (Gilmore 1992). Yet a good search has surfaced many more insights than may be used in the act of choosing. Furthermore, much of that learning needs to be shared constructively with the successful candidate. Creating a lessons-learned or after-action report upon the completion of the search with the search firm, the governance leadership, and the successful candidate can be a major contribution to a successful transition. This provides a mechanism for setting expectations, flagging early concerns, discussing key stakeholders and their values, and surfacing key strategic choices, all of which can help the new working alliance of governance and leader get off to an effective start. One transition issue is the relationship of the outgoing leader to the new leader. This relationship is often under managed. Sometimes the former leader goes on the board or is retained in some consulting transition capacity. This can be developmental or can serve as a hedge if the new appointment stumbles (Vancil 1987), but it can often inhibit the new leader from fully taking up the role. It is more useful to ensure a rich exchange of information from the former to the new leader as background, not as covert influence. By not having the board leadership change at the same time as the CEO, the chair can be a link across the discontinuity in executive leadership and host some of these linking conversations across past, present, and future.

In the other direction, CFAR has been involved in several organizations when the opportunity arose to inform an impending search process with the thinking from strategy or board development work. For example, an arts organization board had a day-long retreat with the artists, the top staff, and a board delegation to work on their relationships in anticipation of a search for a new president. The board development and relationship work was done via explicitly thinking about the strategy and the implications for hiring a new president. When the recruiting firm began the search, there was an explicit exchange of insights from the board retreat to jump-start the recruiting (Gilmore 2007).

Respect the time needed for different phases. Too often a board charges a new leader with doing a strategic plan, or the new leader too quickly decides to use a strategy process as his or her entry process. This may be needed if the organization is in crisis. However, often we believe that the new leader needs to listen, learn, and build his or her working alliances before jumping into strategy (Gilmore 1988, Gabarro 1985). We have seen several situations where a strategy process undertaken immediately upon taking over was hampered by too much influence of some holdover staff and not informed by a few key hires that came on too late in the strategy process to both influence and be influenced by it. Furthermore, a new strategic direction might benefit from some key changes in board membership prior to taking up strategy. One university president, although an insider, spent the first year getting on top of the organization and its challenges, then took on governance changes on the occasion of a new board chair. With revitalized board processes, the president has now taken up a creative mode of strategy that links it to fundraising and board and faculty development via intensive, well-staffed working sessions on critical issues that had been identified by the board. This has created excitement and learning among both board and faculty (Hirschhorn and Frost 2005).

Respect that people may be in different places in all of these processes. During the intertwining of these three related strands, different stakeholders are likely to be in different places on these issues. Some board members who are new may be arguing for new strategic conversations against a coalition of the "old guard" and a long-tenured executive. The new leader may bring a much sharper sense of new realities and have to develop the data to break through the complacency of the board as well as worry about long-tenured staff's relationships with board members. Searches often create tensions stemming from who was involved in the search and who was not, and these tensions surface especially if the newly chosen leader begins to experience difficulties. Board members by role have partial involvement with the institution, whereas the leader is totally immersed. By being alive to the intertwining of the three areas of governance, succession, and strategy, one can better link what often surface as interpersonal conflicts to the important substantive stakes that the organization faces and to different bases of experience. Stakeholders never say they are "resistors to change," but rather see themselves as champions of core values in peril when provoked by "young turks." In fact, these two groups represent different ends of an important polarity between change and tradition that needs to be engaged (Johnson 1992).

In Summary

The case below illustrates the power of linking these three areas effectively.

Bowen, a year into his presidency of the Mellon Foundation, learned that the board chair, with whom he had a strong working alliance was retiring and he anticipated difficulties in his collaboration with the individual expected to succeed as chair. He risked working the issue with a few trustees and with their support he reached outside of the current board to recruit a new chair. He notes, “It would have been easy for me to simply let nature take its course in the selection of a chairman following the retirement of Baker [the former chair]—and it would have been a huge mistake.” (Bowen 2008, p. 66.) This is the action of a leader who deeply knows the value of linking succession, strategy, and governance in the service of the performance of the organization.

In conclusion, the world comes at us in complicated ways that challenge us to link rather than segment into separate (perhaps horizontal) silos the issues of board development, leadership succession, and strategy.

For more information on this or related materials, contact CFAR at info@cfar.com or 215.320.3200, or visit our website at http://www.cfar.com.

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