GOVERNANCE/VOICE

The Importance of Linking Leadership Succession, Strategy, and Governance

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Many writings stress the importance of a board's thinking about leadership succession as its most critical task (Charan, 1998, Gilmore, 1988). Yet, too often, we frame succession as foreground without fully tending 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, but their segmentation is clear in the three different professional groups that offer services in 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 of these professional groups into the others' business: big search firms are moving into onboarding and coaching, and strategy firms are beginning to address governance issues in the wake of new attention to boards.

The optimal sequence involves excellent, current governance, approving a strategy that informs the selection of a great leader who executes under their oversight, and leads strategic renewal as the environment demands. Especially in today's fast-changing environment, organizations cannot count on taking up developmental issues in the optimal sequence. This article 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 as a simplistic, linear sequence.

Three Common Dilemmas in Leadership Succession

The three processes of strategy, succession, and governance are linked in ways that often create the following three 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 its dependency, especially when the leader is successful. So, when that leader leaves (on his or her own, or upon 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 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. Yet 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 may be heightened if the leadership search is caused by major differences about the strategic direction, as candidates may be reluctant to apply and the board may have difficulty reaching a choice and supporting the new leader. In one organization that we studied, the successful applicant was clear with the search committee that he would only accept the position under the condition of their support for a new direction. Yet a key board member had told the current staff that "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. For several years, the new leader struggled 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. A 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, people often rise to governance as an honorific for long, distinguished service. Yet when facing significant changes in the environment—such as new technologies, new delivery mechanisms, and different preferences in younger generations—the board may lack members with sufficient experience with these new phenomena—work that requires "generative" thinking (Chait, Ryan, and Taylor, 2005). 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, search consultants do not have the depth of experience to staff good high-level strategic thinking, or especially to work through significant differences that may have triggered the succession.

The corporate sector case of Home Depot illustrated the interdependence of strategy, governance and succession. 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. Let's look at some other cases that illustrate the intertwining of these three related processes and how different sequences play out.

Intertwining Strategy, Governance and Succession: Case Studies

When Strategy Leads. The board chair and CEO of a professional society initiated a strategic planning process. Believing that the field was changing dramatically, they created an ad hoc committee deliberately dominated by young turks and with only a few current board members. They crafted a strategy process as a Trojan horse for working on board changes by creating the visibility needed for these younger leaders to become board members. There were several important interactions with the board along the way, and a 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 with the board, staff, and 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). The process engaged the new leader and the board on the issues in implementing the strategic plan. As board members became more actively engaged, they realized they needed more protected time for strategy. They committed to a two-day summer retreat that began to reshape the strategy of the organization with the active support of the new leader and her reconstituted top team.

When Board Development Leads. The leadership of 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 navigate the (likely highly complex and possibly divisive) issues in choosing a system to join. He hired 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. Leadership changes followed in the wake of this decision, as the hospital became one of several in a system. A new strategy to take advantage of its system membership also followed.

Of the three issues discussed herein, board development is the least amenable to being addressed in isolation. 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 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 looked deeply at future challenges and saw the need for the changes. At another institution, when a new leader was appointed, the board chair invited the new CEO to propose to the board nominating committee some people whom would bring strengths related to the directions that she and the board had agreed to in the succession.

When a 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 took on new challenges. In hindsight, it seems that this 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, etc.).

In each of the situations presented above, whether the entry point is board development, leadership succession, or strategy, there are inevitably developmental pressures on the other two areas. Thus, one might see a sequence as follows: a board undertakes a quick reconnaissance into the strategic landscape to get a sense of what is likely and what is ruled out. This can inform a leadership search, which is also a learning process, like taking a product (in this case, 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 with the new leader diving deeper into the strategy. This process may take a year, and its outcomes may in turn shape both membership and process changes in governance.

Five Tips for Navigating These Interdependent Processes

Once one recognizes the intertwined nature of these issues, how should one go about navigating them? Below are some tips based on lessons learned:

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. For example, in working on a leadership succession, ask questions about the state of the board's functioning, dynamics, and connections between board turnover (especially the chair) and the leadership transition. If the work is board development, ask questions about issues related 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? Another case study—this one a warning—may be useful here: 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."

Actively manage the transitions from one phase to another. Boards that have been overly involved in a leadership search often 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 these 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 can host some of these conversations linking past, present, and future.

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, the new leader often just 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 by a leader immediately upon taking over was hampered by too much influence from 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 first.

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 may have to develop data to break through board complacency while also worrying 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. By being alert to the intertwining of the three areas of governance, succession, and strategy, one can better trace what often surfaces as interpersonal conflicts back to the important substantive stakes that the organization faces and to different players’ bases of experience. Stakeholders never say they are “resistors to change,” but rather see themselves as champions of core values that the young turks might put in peril. In fact, these two groups represent different ends of an important polarity between change and tradition that needs to be engaged (Johnson 1992).

The Recursive Linking Challenge

The interdependencies of board development, leadership succession, and strategy suggest that we should think of each 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.

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).

Likewise, a 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 then took 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).

Lastly, consider the experience of William G. Bowen. A year into his presidency of the Mellon Foundation, he learned that the board chair, with whom he had a strong working alliance, was retiring. Bowen 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 knows the value of linking succession, strategy, and governance in the service of an organization's performance. The world comes at us in complicated ways that challenge us to make this same link rather than segmenting these issues into separate (perhaps horizontal) silos.

Editor's Note: This article has been adapted from a CFAR briefing.

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