ARTICLE

CEO succession focus: Navigating in times of crisis

When a CEO needs to depart immediately under crisis conditions, organizations benefit from boards embracing a proactive approach guided by four essential considerations.

Succession planning in the age of impact

The whole practice of succession planning—crisis or not—is evolving, and globally we are seeing a shift from traditional succession planning to a broader and more continuous set of selection, evaluation, development, and replacement activities for both the CEO and the board. These practices are designed to ensure that companies will be led and governed well against a fast-evolving societal and economic backdrop.

In short, it is no longer enough to have a static plan for succession. Instead, this plan needs to be continuous and dynamic; discussed regularly and often at the board level; agile enough to adapt to changing strategic demands; and include multiple potential candidates who have been identified internally and in a development pipeline, as well as a regular assessment of external options. Typically, this process begins shortly after a new CEO assumes his or her role, takes into account the expectations of various stakeholders, and maintains transparent communication throughout. Boards that adopt this understanding, mindset, and approach to succession planning are at a distinct advantage over those who treat it as a "one and done" type of exercise.[1]

1 For more on how succession planning is evolving, see Jeremy Hanson and Tim Gallagher, "CEO and board succession in the age of impact: An evolving model," Heidrick & Struggles, heidrick.com.

Under normal circumstances in well-governed companies, CEO succession is an ongoing, collaborative process between the CEO and the board. Even under normal circumstances, succession planning is complicated these days by the fact that more is uncertain in the world and expectations are changing. Stakeholders are making greater demands of organizations and have more influence over board actions.[1] As a result, much more is expected of CEOs and boards than ever before.

And even the most meticulously governed companies can find themselves grappling with the unexpected departure of a CEO for reasons such as a political or personal scandal, swift regulatory action, loss of internal support following a strategic failure, or a loss of public support for the company. These situations demand prompt yet strategic decision-making by the board to safeguard the organization's reputation and mitigate any further fallout.[2] Based on our experience, we suggest four considerations for boards facing this situation.

When the best laid plans go awry

Despite careful planning, there are instances where a smooth transition proves elusive. Boards often prepare for emergency successions, such as when a sitting CEO becomes ill or passes away. In such cases, they typically designate an interim leader from among current board members or senior executives to serve until a permanent CEO can be appointed. Yet unforeseen circumstances can render such carefully laid out processes insufficient.

When a CEO leaves office as a result of scandal or loss of support, the organization is immediately thrust out of its comfort zone, exposing it to significant reputational and financial risks. Navigating these transitions demands a different approach and a particular focus on agility, foresight, and commitment to maintaining stability and trust amid uncertainty.

To navigate this process successfully, there are four aspects of choosing a CEO that need to be approached quite differently:

Understanding the precipitating context

Managing the full range of stakeholders

Mitigating the transition risk

Emphasizing the role of the board chair or lead independent director

1 For more on emerging influences on boards, see *Board Monitor US 2024: Navigating Shifting Sands*, Heidrick & Struggles, May 20, 2024, heidrick.com.

2 Regulated organizations may name an immediate acting CEO, but those boards will still need to focus on a full process and a permanent solution.

Developing a nuanced understanding of context

Central to effective CEO succession in crisis is a nuanced understanding of the precipitating situation. This involves acknowledging the long-term implications for the organization and identifying the specific leadership traits required to navigate through the particular crisis.

One leading European bank we worked with, for example, understood that the government's large ownership stake in the bank would impact succession choices. A clear-eyed discussion of how that factor affected who would and wouldn't be interested in the role in the context of crisis helped the board reach a different conclusion than they would have otherwise.

Situations involving trust breakdowns or cultural failures due to scandal put the focus on finding a leader who is not only capable and has the skills and interpersonal intelligence to repair such breaches, but who is also willing to take charge during a crisis. These are people who have been crisis tested through secular cycles and organizational trauma and who have conviction about the purpose and viability of the current institution.

Other tactics to fully understand the context for finding the next CEO are as follows:

- **Assessing organizational outcomes:** Boards need to engage in a candid discussion about the potential futures for the organization. These potential futures may range from business as usual to foundational changes such as dissolution, sale, merger, or seeking strategic investors. Each outcome demands a different set of leadership capabilities for the incoming CEO.

- **Horizon scanning:** Amid crisis, boards need to adopt a wider horizon scanning approach, accelerating long-term considerations about succession into short-term focus. Here, assessing factors like the competitive landscape, talent market, internal bench strength, and strategic direction using concrete data can be informative.

- **Using objective assessments:** The ideal CEO for a crisis situation must exhibit a blend of capabilities. He or she should possess the foresight and strategic acumen to lead the organization in the long term, while also demonstrating the resilience and decisiveness needed to navigate through the immediate crisis. However, no one person can possess all the skills needed for any CEO role, let alone one taken on in crisis conditions. We have seen that when a board has objective, unbiased information about each candidate's strengths and skills—garnered through assessment data—it can consider candidates who might not have the ideal mix of capabilities on the surface, but who are an ideal fit in a particular set of circumstances.

Managing the full range of stakeholders

Comprehensive stakeholder management during a leadership crisis means taking into account the many different perceptions of the situation at hand. This is particularly pressing in an era where investors, regulators, employees, and customers are demanding more access and influence.

Here, it's crucial to identify which stakeholders require trust to be rebuilt, particularly those who were most adversely affected by the circumstances. Assessing alliances with the former CEO is also important, as these alliances could pose additional risks for the organization.

In some cases, stakeholder groups may find themselves in conflict, especially when institutions hold significant sway in a community or economy. For instance, regulators may expect competitor companies to intervene when an institution is struggling, leading to tensions. Managing these dynamics is closely intertwined with the board's vision for the organization's future.

Transition periods often invite heightened media and regulatory scrutiny; the burden on the board and on the remaining executive team can become exponentially outsized. The increased burden may lead to even more uncertainty than the original situation created, leading to retention risks if the leadership vacuum persists. Having crisis compensation retention plans in place for senior leaders can serve as a proactive measure in such situations, resulting in one less pressing concern for the board. To reduce pressure on the executive team, boards should also have crisis communications expertise ready to draw on as needed.

Depending on the severity of the situation, customer attrition may also be a concern. Appointing an interim CEO can provide short-term stability across stakeholder groups. However, transparent communication regarding the reasons behind this decision and the organization's long-term objectives, including anticipated outcomes and the anticipated length of the interim CEO's term, is essential.

When the dust begins to settle, clear communication and appropriate transparency are paramount in rebuilding trust, necessitating even greater care than usual given the circumstances. The board should inform stakeholders accurately and promptly and should foster an environment conducive to rebuilding trust and stability within the organization.

Mitigating the transition risk

Transitioning amid turmoil requires stabilizing the organization and rebuilding confidence, in large part by minimizing additional risk. A deliberate, thorough approach—even if it means slowing down the process—can yield more favorable outcomes. Several steps that well-governed boards already take as part of their regular process of leadership governance also provide a solid foundation for acting in crisis situations.

First, maintaining a robust internal talent pool is essential. Including ongoing assessments as part of leadership talent development can be particularly beneficial in these circumstances, as boards can get a quick understanding of who has the capabilities and interpersonal traits to carry a business through a specific crisis no matter the context.

While internal candidates offer familiarity with the organization, there are scenarios, such as when organizational culture is cited as a reason for the crisis, where internal candidates may pose greater risks to the organization. However, as noted above, conducting assessments specific to the evolving context is imperative for external candidates as well.

At the European bank, assessing an internal and an external candidate in that specific context was crucial to the board's decision. At first, the external candidate was the clear favorite, based on that candidate's transformation experience and the executive team's gaps there. But the board's deep assessment highlighted some personality traits that created risk, such as the candidate's history of saying one thing and doing another. A chair-to-chair conversation confirmed that perspective. In the meantime, a similarly deep assessment of the internal candidate highlighted that candidate's collaborative, learning mindset, which confirmed for the board that, with a development plan and support related to transformation, this person would be the stronger candidate.

Second, comprehensive internal and external benchmarking can also help measure potential leaders against industry standards. Again, we have seen that boards that maintain and regularly update a consideration set of internal and external candidates with information on key capabilities and skill sets are at an advantage because when they face an unexpected situation, they have a place to start, even if they reprioritize the skills and capabilities they're seeking.

Third, slowing down the decision-making process is another effective tactic. Despite the pressure for prompt action, boards benefit from meticulously defining the desired future state, engaging stakeholders, and exploring a range of leadership possibilities. Extending the tenure of an interim CEO can help provide additional stability and allow for further resolution of uncertainties before a permanent appointment is made.

Whichever tactics are chosen, the board's clear communication and appropriate transparency regarding the rationale behind decisions is paramount in mitigating risks and fostering organizational resilience.

Reemphasizing the role of the chair or lead independent director

The board chair or lead independent director is the focus of clarity and continuity of leadership in crisis. Whether a new chair assumes responsibility—or a non-executive chair fills the void left by the departing CEO—ensuring seamless operations and minimizing perceptions of a power vacuum become primary objectives. In the vacuum, the board chair essentially becomes the CEO as well, and the role becomes less about oversight and more about direct accountability. The board chair may engage in closer-than-usual collaboration with the executive team to maintain business continuity and instill confidence among stakeholders. Externally, the chair may also need to become more visible. And he or she must be prepared to act more unilaterally and definitively than they would otherwise.

We find that most chairs are conceptually prepared for these possibilities. However, chairs who are willing to engage in simulations or to war-game scenarios with the board do better than others. Many chairs are resistant, given the many other demands on the board's time, but practice managing a fictional surprise is very helpful experience, even if the actual surprise is different than the scenario.

Conclusion

In short, the unexpected departure of a CEO under exigent circumstances presents a formidable challenge, testing the resilience and forward planning of boards. Success here requires agility, foresight, and a commitment to maintaining stability and trust amid uncertainty.

This process is never easy, but by embracing four essential considerations, boards can effectively lead their organizations through tumultuous times—and maybe even emerge stronger on the other side.

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