

LEADERSHIP SUCCESSION  
*in Professional Services*



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As professional services firms grow, they typically strengthen their governance structures. Most will have some form of executive committee led by a CEO or managing partner and a board led by a chairman or senior partner. These roles, occasionally combined into one, will usually last for terms of three to four years, although it is not uncommon for people to serve more than one term.

The process for selecting a leader can range from the straightforward (e.g. there is only one candidate who has the broad support of the partnership) to the complex (e.g. there are many candidates and the views of the partners are highly fragmented). The reality is that most chairmen and boards in professional services firms do not have much experience in managing succession and anxiety levels can be high at the outset. This is very understandable: getting this process wrong can be very painful for a firm, with potential fall-out for many years. As a result, many firms are turning to organisations like Spencer Stuart for support and advice in this area.

What follows are our Ten Commandments, best practices which define what we believe success looks like in the area of succession planning.

#### THE TEN COMMANDMENTS

1. Start early and ensure the appropriate governance model
2. Define success and commit to running a world-class process
3. First things first: strategy > organisation > role > ideal profile
4. Ensure sufficient consultation with the partnership (and/ or other key stakeholders)
5. Ensure the optimum slate of candidates
6. If time allows, consider a two-phase assessment process
7. Deploy a rigorous and objective assessment methodology
8. Actively manage the communication process
9. Plan for different scenarios: leave enough time at the end if complications arise
10. The end of the process; the beginning of a new era



## 1. Start early and ensure the appropriate governance model

What does “early” mean? Well, if you want to run an initial assessment process to define a shortlist of 2–3 candidates, then two years would be sufficient to give them new roles or projects to work on their development areas, ask them to prepare and present a manifesto to the partnership, run the selection process and leave enough time for a handover period. Some organisations start thinking about this even earlier, with candidates who are seen as potential CEO material assigned roles and responsibilities specifically to help with their development and to enhance their visibility with the global partnership. One issue that is often overlooked is that high performers may be well known to the board and senior management team, but may be less well known to the partnership at large beyond their core area or practice group. It is critical that, in tandem with their development, a mechanism is found to raise their profile across the firm’s network.

Clearly, it is possible to run a much shorter project where candidate identification, assessment and decision making could be collapsed into a period of just a few months. Our experience suggests that circa 50% of processes start about a year before handover, 25% start more than one year before handover and 25% less than one year before.

Every partnership will have a constitution (or equivalent) that sets out the formal rules of a succession process. Typically, a nomination committee (“NomCo”), comprising members of the board or the partnership at large, will be established and tasked with running the process. It is critical to define up-front and precisely the roles and responsibilities of NomCo versus the board and the partnership.

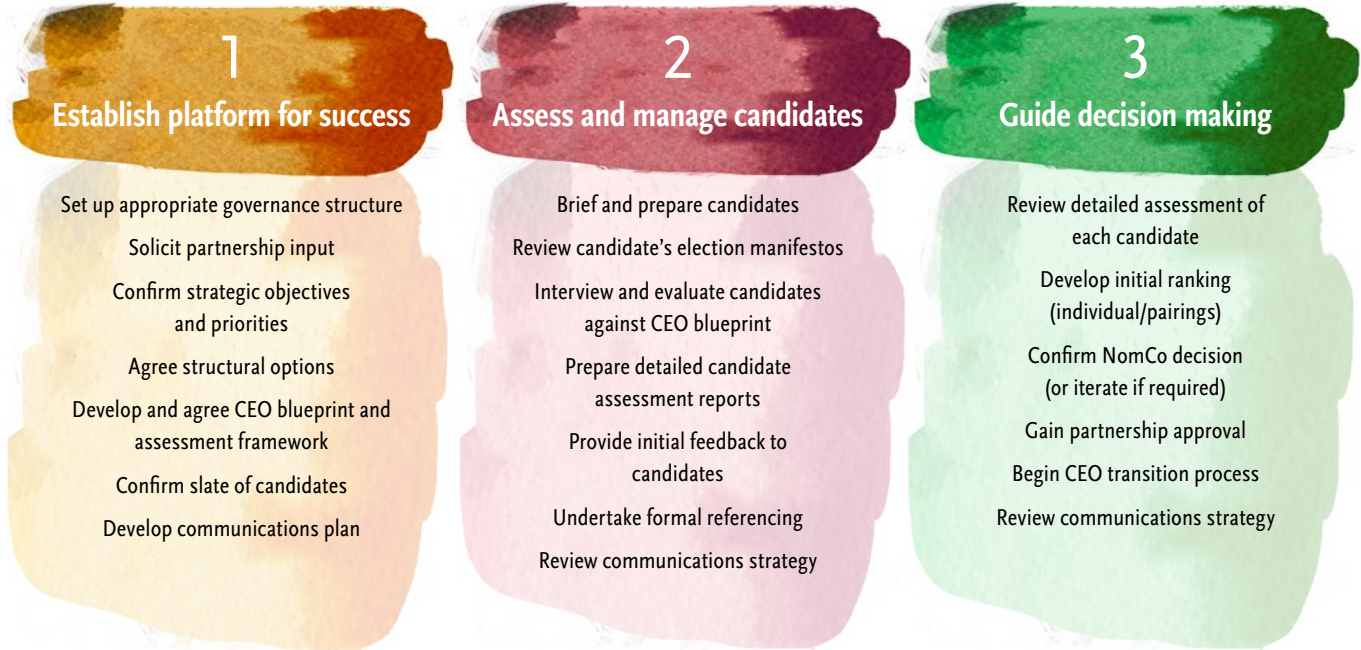
The role of the incumbent should also be considered. If you are electing a new chairman, it may be that the incumbent has a formal responsibility to manage the process. That is usually not the case with a CEO or managing partner and in general we recommend that they do not play a formal role in the process to find their successor — although by nature of their position and influence they can be an important sounding board for NomCo. At the very least, you will want to ensure they are aligned with the process and any related communication.

## 2. Define success and commit to running a world-class process

We would define success as follows:

- > Most critically, selecting the right leader
- > Ensuring the unsuccessful candidates are retained, do not feel bruised and benefit from developmental feedback
- > Ensuring all parties (candidates, the partnership, NomCo, etc.) perceive that each element of the process has been handled professionally, from the degree of consultation and the candidate slate to the decision-making process and communication
- > Leaving the firm in an optimistic and engaged state of mind, confident of success under the new leadership





A framework to help define a world-class process is shown above:

This is simply a foundation and there will be dozens of decisions to be taken to tailor this to the specific needs of any given firm. Here are just a few:

- How open do you want to make the playing field? Can any partner throw his or her hat in the ring or will NomCo act as a filter?
- Should you consider external candidates, or at least a benchmarking exercise to help with calibration?
- If you are selecting for multiple roles, do you allow candidates to run as a "ticket" or do you insist they run as stand-alone candidates?
- Should you run a two-phase assessment process, narrowing a potentially large field down to the two or three serious candidates as early as possible?
- How will the final decision be made? Will it be a selection by NomCo, followed by ratification by the partnership, or will it be a true election?

### 3. First things first: strategy > organisation > role > ideal profile

Any new leader will bring a degree of fresh thinking to a firm's strategy but they rarely start with a clean sheet of paper. The firm needs to clarify its core strategic principles at the outset. If this has been done recently, then great. If not, this process can offer the opportunity to do so, soliciting input from the partnership. Although in most cases the organisational structure is straightforward, the NomCo must be clear whether the role in question is structurally the same as in the past. We have seen various changes take place at this point, such as:

- a. Firm A decides to split the chairman and CEO role into two roles
- b. Firm B, following a merger, makes the explicit decision to select co-CEOs
- c. Firm C decides to run the selection process for chairman and CEO in parallel, whereas they have been out of phase in the past

Whatever the situation — status quo or change — it is important to define a specification which captures the role, responsibilities, ideal experience and desired capabilities. This will form the blueprint for shaping the candidate slate and taking the final decision. If you are seeking to appoint multiple roles, for example a chairman and a CEO (or a senior and managing partner), then clearly this process must be replicated for each.

We have found that getting this part of the process right is critical and can actually be cathartic in focusing the client on the questions “Where are we as a firm? Where are we going? What do we want in our next leader?”

#### 4. Ensure sufficient consultation with the partnership (and/or other key stakeholders)

Partners are usually owners and expect to be treated as such when it comes to critical decisions on leadership. They will expect to be consulted, to receive an appropriate level of communication and to influence the final decision in some way. This is one area where the succession process will vary significantly from the corporate world. The first piece of advice we would have for a NomCo is to view the partnership as a genuine source of positive energy, ideas, inspiration and wisdom. Do not fall into the trap of viewing them as a nuisance, with the mindset of “Hmm, I guess we had better communicate something or they’ll start complaining.” The second is to recognise that there are many ways of achieving engagement with the partnership, including:

- a. Online surveys to gain input on strategic priorities, initial candidate selection, process choices and ongoing “temperature checks”
- b. One-on-one discussions between NomCo members and individual partners
- c. Smaller group sessions, in formal daytime meetings or more informally over dinner
- d. Larger/full partner meetings

Don’t expect nirvana in terms of everyone being completely content — we are talking about partners in a professional services firm — but partners recognise and appreciate when they are being taken seriously and their views valued. Furthermore, quality input from the partnership can ensure that NomCo is focusing on the right things and help preempt potentially damaging issues down the line.





## 5. Ensure the optimum slate of candidates

Sometimes this can be relatively straightforward (“Everyone knows that Elizabeth and Pierre are the only two candidates”), but other times it can be complex, for example when dependencies arise (“I am not going to run if Pierre runs” or “If these are the only two options, then I think I will put my hat in the ring”). Typically, the NomCo will need to get an early sight of who is interested in running and who, at a high level at least, is seen as a credible candidate. One firm used an electronic survey, in which partners were asked to select up to six potential candidates, to get an initial sense of who might be credible. In general, NomCo needs to think about three groups of candidates:

- a. Those who appear qualified or credible and have indicated a willingness to run
- b. Those who appear qualified or credible but who are reluctant to run
- c. Those who want to run but frankly have very little or no chance of being selected

Clearly, the first group is straightforward, but NomCo will need to play a role in managing the other two groups. Often, this will be done behind the scenes and it is very important to maintain confidentiality at this stage. There may be a number of candidates who have a “fireside chat” with a member of NomCo and then decide not to run; keeping this out of the public eye can be helpful. Although a constitution may allow for a candidate to enter the process right up to the last moment, it is clearly helpful to define a window early on and attempt to finalise the candidate slate during this period.

It is also critical to avoid the perception of insularity and to be sufficiently open-minded to look beyond the obvious geographies, sectors, business lines and/or practice areas when identifying potential candidates. NomCo will clearly have to weigh up the advantages, symbolism and cultural change that might come from appointing a leader from a “minority” area of the business. Likewise, being seen as too narrow-minded or conservative could have significant negative consequences on how the process is perceived. This is particularly relevant in a situation where recent mergers or acquisitions have taken place.

The issue of whether to include external candidates will also need to be addressed. The reality is that very few professional services firms appoint a CEO from the outside. Furthermore, the track record in the few cases where this has happened is hardly compelling. The reality is that unless the firm is in a troubled state and/or the slate of internal candidates is really weak, you are not going to hire an external candidate. However, there may be merit in conducting a calibration exercise, both to see what you might learn from the market as well as to assure partners that the internal candidates offer the best solution.

In summary, do not rush this phase; getting the slate of candidates right is one of the most important factors in achieving success.

## 6. If time allows, consider a two-phase assessment process

A two-phase process consists of 1) an initial assessment to narrow the field down to a shortlist of the most realistic and credible candidates, and 2) identifying the development areas for the remaining candidates.

Candidates who do not progress are given structured feedback and a development plan, which can make retention easier than if they are in the running until the very end. Shortlisted candidates also receive very specific feedback and may be given new roles or additional responsibilities to enable them to address their development needs. This could be a project designed to test strategic acumen, an overseas posting to help broaden international exposure or a sizeable P&L for someone who might currently be in a functional role. Clearly, these candidates must be given enough time (six months at an absolute minimum) to establish capability and a track record in their new roles.



## 7. Deploy a rigorous and objective assessment methodology

You will almost always find yourself assessing candidates for a role that they have not performed before, so track record by itself may not give you the best answer. We recommend a rigorous, multi-method approach consisting of some or all of the following:

- > Career and achievement analysis
- > Assessment against defined capabilities
- > ExI™ — our proprietary, case-based structured interview to assess, for example, “CEO readiness” and potential
- > 360-degree referencing
- > A psychometric or personal style assessment
- > Presentation of an election manifesto and cross-examination
- > Formal interview by NomCo and/or the board

These will help to build an accurate picture of the particular strengths of the candidates as well to identify any weaknesses against the specification or areas of potential risk. The manifesto, setting out what direction the CEO would like to take the firm, is particularly critical, not least because some of those with long tenure may take any change of direction very personally. Any concerns are typically shared with candidates in order to give them a chance to consider mitigation strategies; for example, a visionary candidate who is weak on attention to detail might consider creating a chief operating officer role, thus enabling the firm to benefit from the best of both worlds.



## 8. Actively manage the communication process

“We don’t really know what is going on” is a common reaction, even when the NomCo is actually doing a lot of communication. So, start with the assumption that you need to do a lot more communication than you think, even if it is to reiterate previous messages. You will know just how many people inside the organisation will have strong feelings about the process, how it is communicated and the acceptability of candidates. Much can be done to mitigate any concerns early on and prevent them from escalating.

We recommend developing a structured communication plan from the outset and making sure that every NomCo meeting has this as a standing item on the agenda. This would involve defining the key audiences (e.g. the board and management team, the broader partnership, the candidates, the rest of the firm, the media, etc.) and tailoring communications accordingly. The plan should include maintaining a log of what has been conveyed to each audience and what needs to be included in the next phase of communication. Members of NomCo should informally take a “temperature check” from individual partners to help recognise any gaps in the communication process.

The NomCo also needs to be crystal clear about confidentiality. Remember that the “corridor chat” in a professional services firm is a powerful mechanism so be pragmatic about what you want to and can keep confidential. Once this is agreed, NomCo must stick to it one hundred per cent and ensure that there are absolutely no leaks.

## 9. Plan for different scenarios: leave enough time at the end if complications arise

The NomCo needs to get ahead of the wave and think through potential scenarios ahead of time.

In a contested election, the situation is relatively straightforward. The emphasis should be on ensuring that the partners have all the information required ahead of time (candidate reports with output of assessment, summary of referencing, each candidate's manifesto, etc.). If the final stages of the process (e.g. having the candidates present to the partnership) and the voting mechanism are clearly communicated and understood, then democracy will take its course.

A selection process, where the NomCo is expected to present the chosen candidate to the partnership for ratification, can be more complex. What happens if NomCo's recommended candidate drops out late in the day? How should NomCo choose between candidates who, according to the assessment, are very similar in ability? How should it choose between candidates who are very different types? For example:

- > Candidate A: a visionary and the most capable in theory, but with some question marks over trust or acceptability
- > Candidate B: spiky, i.e. strong on strategic acumen and financials but not a natural leader of people
- > Candidate C: a safe pair of hands: solid, but perhaps an unexciting all-rounder

The criteria and process for decision making need to be spelt out upfront, but the NomCo may need some additional time to reflect on these trade-offs and to gather some additional evidence to help confirm its choice. Rushing to hit a deadline may lead to the wrong choice and leave people with a feeling that the process was inadequate.

## 10. The end of the process; the beginning of a new era

There is still much to do once a decision is reached. The outcome and timing of the result will need to be formally communicated to the rest of the firm, the media and other parties.

The successful candidate will require full onboarding support and an appropriate overlap period with the incumbent. They will need, for example, to finalise any organisational changes and appoint specific people to join their management team. The unsuccessful candidates will also require support. However stoic they may appear in public, and most will because they care about the firm, they will hurt inside and benefit from some formal support — from colleagues and sometimes from external experts.

Careful thought should be given to the incumbent. If he or she is leaving, then there needs to be an appropriate farewell. If the incumbent is staying with the firm, he or she will need a reintegration plan.

Finally, this is the time to send an upbeat communication reminding everyone of all those things that are good about the firm, saying thank you to those people involved in the succession process, and generally painting an positive picture of the future. The NomCo might then consider a celebration over dinner and the chance to catch up on some much-needed sleep.



## About Spencer Stuart's Business & Professional Services Practice

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Patrick Hynes is co-head of Europe, the Middle East and Africa (EMEA) and former manager of Spencer Stuart's London office. He works with clients in the professional services and technology industries and is a member of the firm's

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*For additional Spencer Stuart contacts, see over >*

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