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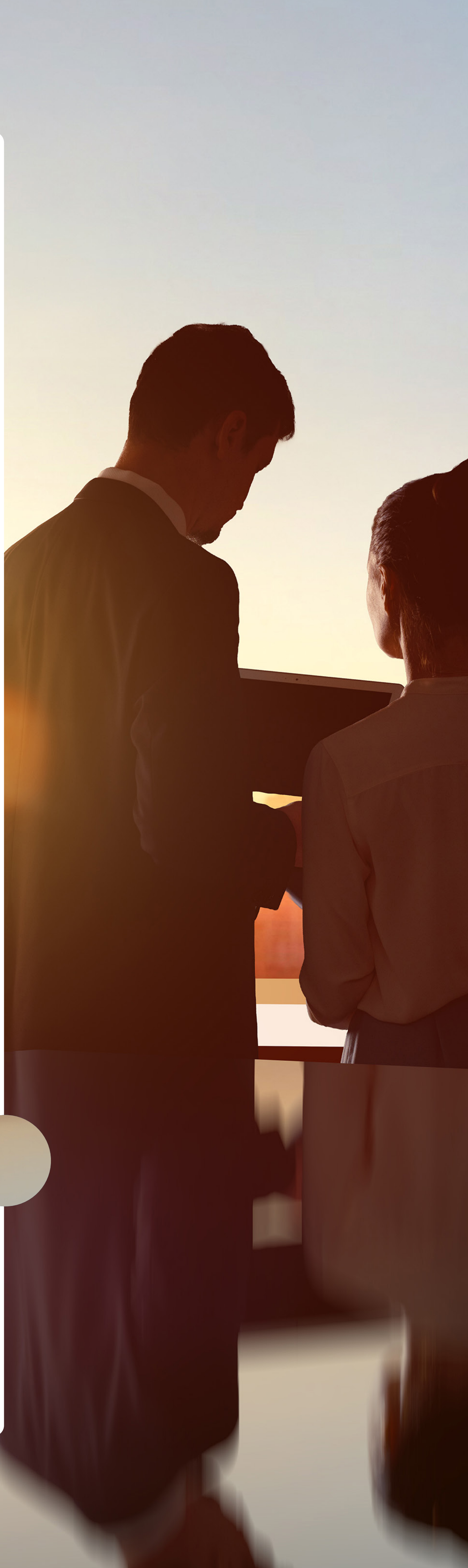

# Effective Leadership : From Succession Planning to Board Accountability

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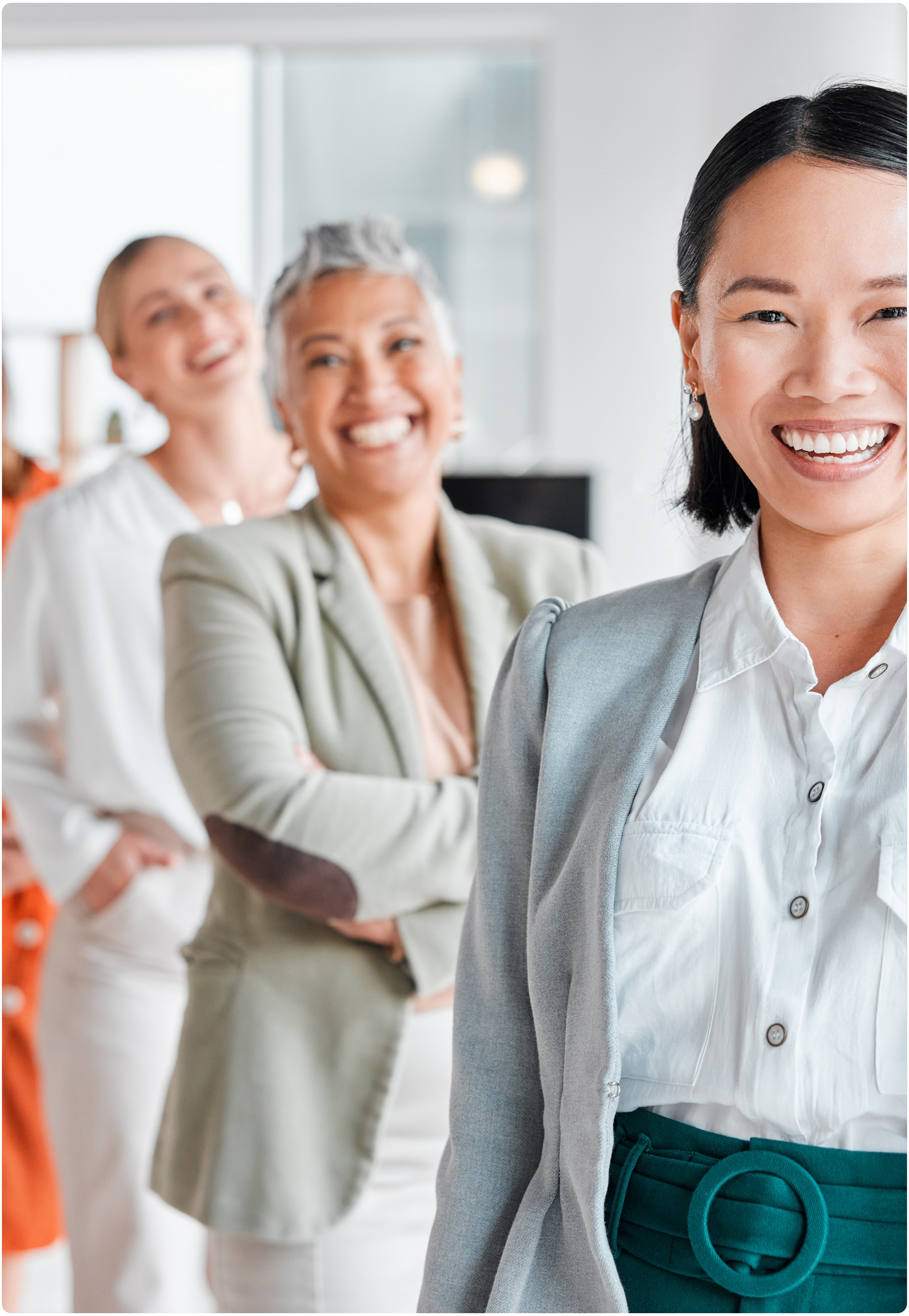

# Executive summary.

Recent high-profile and sometimes abrupt CEO transitions have reinforced a fundamental governance question: **does the board have the right leadership for the company's next strategic phase, not simply the right CEO today?** Having the right executives should be viewed as a forward-looking governance risk, not as a one-off appointment exercise or a HR process. A difficult transition or a failure may reflect a poor selection decision, but it can also expose weaknesses in board preparedness: an undefined future CEO profile, a shallow succession pipeline, limited knowledge of internal talent, inadequate emergency planning or an overreliance on financial results when assessing leadership. It can also test whether culture is embedded in governance and reveal whether the board understands the culture, behaviours, human-capital risks and capabilities required to deliver the company's strategy.

**We believe a clear leadership mandate can help boards translate these considerations into accountability.** It defines what leadership the company needs, what the CEO is expected to deliver and how leadership effectiveness should be assessed against strategy, culture, human capital and risk. This mandate should evolve as the company's strategic context changes and provide a reference point for succession planning, CEO assessment and, where necessary, board intervention.

This paper draws on 26 engagement meetings with selected companies in the MSCI ACWI universe that experienced a CEO change between 2020 and 2025. Participants included Chief Executive Officers (CEO), board Chairs, Lead Independent Directors, Chief Human Resources Officers (CHRO), senior HR executives, Corporate Secretaries and Investor Relations teams. **The strongest practices we observed treated succession as a continuous, board-owned, forward-looking and evidence-based process.** They combined emergency planning, internal and external benchmarking, structured board access to talent below the CEO, regular CHRO input, human-capital and culture indicators, and assessment of both **what leaders deliver and how they deliver it.**

For investors, the central question is not whether a company claims to have strong leadership or regular reviews of succession planning. It is whether the board can demonstrate that it has anticipated future leadership needs, developed credible succession options, established a mandate aligned with strategy, culture and risk, and is prepared to act when leadership no longer fits the company's needs. **The framework set out in this paper is intended to help investors distinguish substantive leadership governance from generic disclosure and support more consistent stewardship assessment during leadership transitions and strategic change.**

# Why leadership fit is a material governance issue

Ensuring that a company has the right leadership is one of the board's most important responsibilities. It is also an increasingly visible investment issue: leadership transitions can affect strategy execution, organisational stability, investor confidence and long-term value creation.

Recent high-profile and sometimes abrupt CEO transitions have reinforced a broader question: **are boards approaching leadership and succession with sufficient discipline, foresight and accountability?**

The challenge is becoming more acute as the CEO role itself grows more demanding. Russell Reynolds, a management consulting firm, reports[1] that average CEO tenure has fallen to 7.1 years, from 8.3 years in 2023, while departures within 30 to 36 months have risen sharply, up 79% year-on-year[2]. At the same time, CEOs face increasing pressure to demonstrate rapid progress while navigating different stages of their tenure[3], delivering strategy, responding to stakeholder demands and managing macroeconomic disruption. European boards appear to be responding to this uncertainty by favouring more seasoned leaders: almost half of CEOs at Europe's largest publicly listed companies have previously held a CEO role.

Experience, however, is a foundation, not a guarantee. Heidrick & Struggles, an executive search and leadership consulting firm, notes that 90% of European leaders expect their strategy and operating model to change over the next two to three years, while 38% report a mismatch between the capabilities their company will need and their current CEO's greatest strengths[4].

*1-Global CEO Turnover Index | Russell Reynolds Associates*
*2-Margot McShane, Hetty Pye, The New CEO Progression Blueprint: Expanding CEO Succession Optionality During Uncertain Times, Russell Reynolds Associates*
*3-James M. Citrin, Claudius A. Hildebrand and Robert J. Stark, "The CEO Life Cycle," Harvard Business Review, November–December 2019. Drawing on the year-by-year performance of 747 S&P 500 CEOs and 41 interviews, the study identifies five recurring—but not universal—stages: the "honeymoon" in year one; a potential "sophomore slump" in year two; recovery in years three to five; a "complacency trap" in years six to ten; and potential "golden years" in years 11 to 15 for CEOs who continue to adapt. The framework can help boards distinguish temporary performance fluctuations from deeper problems and calibrate their support, challenge and succession decisions accordingly.*
*4-Heidrick & Struggles - Route to the Top Europe 2026*

That mismatch can become a material governance issue. Leadership determines how strategy is translated into decisions, behaviours, resource allocation and execution across the organisation. Weak alignment can contribute to strategic drift, poor execution, weak capital allocation, loss of key talent, declining engagement, misconduct, cultural deterioration and loss of customer or investor confidence – all with financial consequences[56]. Strong leadership, by contrast, can reinforce resilience by aligning the board, management and employees around a clear direction.

We have examined how companies approach effective leadership, notably through the prism of how boards assess leadership fit over time and how succession preparedness is embedded in governance practice. **The board's responsibility is not simply to appoint the right CEO today, but to ensure that the company has the right leadership for the period ahead.**

Culture is central to this assessment. It is not simply "the way things are done", it is visible in how decisions are made, resources allocated, dissent handled, employees treated and strategy executed across organisation.

**Effective leadership should therefore be assessed as a behavioural and organisational system, not only through the performance of one individual.**

> **"Culture is what people say and do when they think the bosses are not looking. Culture is a living thing. It is influenced and shaped by everyone's actions."**
>
> **John Weeks,**
> **The most unfair thing about leadership,**
> **IMD Masterclass, 9 July 2026**

*5-"Nestle CEO Schneider was ousted after underperformance, sources say" - https://www.lse.co.uk/news/unilever-shares-open-down-2-after-ceo-quits-yj8p4jk8f83jp09.html*
*6-"Stellantis drops as CEO Tavares quits, sparking fresh uncertainty" - https://www.investing.com/news/stock-market-news/stellantis-seen-falling-36-after-ceo-tavares-resigns-3748148*

A company may have strong products, attractive markets and capable teams, but still underperform if leadership is poorly aligned with the company's strategic context, culture and risk profile. Different situations require different approaches: a turnaround, founder succession, integration, growth phase or crisis will not call for the same leadership profile.  Succession planning tests whether the board can anticipate those needs before a vacancy or a crisis forces the decision.

Boards should therefore connect culture with oversight by assessing leadership behaviours, challenging management, reviewing whether leadership capabilities remain aligned with strategy and translating the CEO mandate into clear expectations and accountability.

**Succession planning is one of the clearest tests of whether the board takes effective leadership seriously.** To select a leader suited to the company's next phase, the board must understand the culture the next CEO is expected to preserve, evolve or repair. Yet, external research suggests that many boards remain underprepared for emergency transitions: "only about half of directors would be confident naming an internal CEO successor immediately, and around a quarter did not know what their emergency CEO plan would be"[7].

This matters because a leadership crisis is rarely the right moment to define the CEO profile, assess internal talent or clarify decision-making authority. Boards should establish these foundations in advance through a robust process aligned with the company's strategy, culture, risk profile and market environment. **That is what turns succession from a reactive appointment exercise into a continuous governance process.**

*7-Rusty O'Kelley, Rich Fields, More and Better Options: Strengthening Long-Term CEO Succession Planning, June 2, 2025*

# The leadership mandate: from expectations to accountability

If boards are responsible for ensuring that a company has the right leadership for the period ahead, they need a clear basis for defining what "right" means. We refer to this as the leadership mandate: the board-approved translation of strategy, purpose, culture and stakeholder expectations into clear expectations for the CEO and executive leadership team. It sets out what leaders are expected to deliver, by when, to what standard, with what authority, within what boundaries, and through which leadership behaviours.

At its heart is a simple question: **what kind of leadership does this company need at this stage of its development?** The answer will depend on the company's sector, maturity, strategic priorities and risk profile, as well as whether the next phase calls for continuity (evolution), transformation (revolution) or cultural repair. The mandate therefore provides a bridge between the company's strategic direction and the leadership capabilities required to deliver it.

In practice, we see five dimensions to an effective leadership mandate.

- a **strategic dimension** that sets out the business priorities the CEO is expected to deliver;
- a **cultural dimension** that defines the behaviours, values and decision-making norms the leader is expected to preserve, evolve or change;
- a **human-capital dimension** that addresses the talent pipeline, succession, retention, engagement, leadership development, internal mobility and workforce risk;
- a **governance dimension** that establishes how the board, Chair, relevant committees, Chief Human Resources Officer (CHRO) and independent directors will monitor leadership effectiveness;
- an **assessment dimension** that determines how performance will be evaluated, incorporating both the "what" of delivery and the "how" of leadership.

For the mandate to be effective, it must operate as a practical governance reference point rather than a statement of intent. It should be supported by a **clear and focused scorecard**, defined red lines, appropriate managerial latitude and regular reporting to the board. The full board should approve it; the Chair should lead the discussion; the CHRO should provide evidence on talent and culture; and the remuneration committee should ensure that incentives reflect the mandate without narrowing it.

Crucially, the mandate should evolve. The leadership profile that is appropriate at the beginning of a CEO's tenure may not remain so as strategy, market conditions, and/or the risk profile of the organisation itself changes. Strategic drift, repeated missed milestones, executive departures, poor succession coverage, deteriorating engagement or defensive behaviour towards the board may all warrant a reassessment of whether the mandate – and the leadership required to deliver it – remains appropriate.

Investors neither need nor should expect access to the full confidential mandate. They can, however, reasonably expect evidence that the board has defined the leadership capabilities the company needs, established how those capabilities will be assessed and connected leadership expectations to strategy, culture and human capital. Without that substance, claims of "strong leadership" or "regular succession planning" remain difficult to evaluate.

# What we heard from companies: six engagement takeaways

## Engagement Scope and Methodology

Our engagement campaign targeted a selection of issuers in the MSCI ACWI universe that had experienced a CEO change between 2020 and 2025.

The campaign generated 26 engagement meetings, representing more than half of the companies targeted, across Europe, North America and Asia. Participants included CEOs, board Chairs, Lead Independent Directors, CHROs, senior HR executives, Corporate Secretaries and Investor Relations teams.

Our methodology combined a review of public disclosures, a company questionnaire and confidential bilateral meetings. Not every company that engaged with us completed the questionnaire, however all companies quoted in this paper approved the references attributed to them. The findings should therefore be understood as engagement-based insights, informed by public disclosures and direct company dialogue, rather than as a systematic assessment or audit of companies' internal succession processes.

The objective was to understand how boards define, assess and oversee effective leadership; prepare for succession before it becomes urgent; and incorporate governance, culture and human-capital evidence alongside financial outcomes when assessing leadership effectiveness.

Company examples mentioned in this paper as part of Candriam's engagement campaign were held in Candriam portfolios at end July 2026.

## 1. The best succession processes start before the vacancy exists

Our engagement calls suggest that CEO succession is increasingly treated as a structured governance process involving internal and external candidates, leadership assessments, executive-role succession and emergency planning – and less as a confidential exercise activated shortly before a leadership change. The strongest approaches, however, begin long before a vacancy exists.

Mature boards treat succession as a standing agenda item. They review the future CEO profile, assess "ready-now" and longer-term talent, benchmark the internal pipeline against external options and consider whether the **company's next phase requires continuity, evolution or transformation.**

**What should a succession policy disclose?**

- Committee ownership
- Frequency of review
- Scope of roles covered
- Emergency plan
- Internal pipeline approach
- External benchmarking
- Board exposure to executives below the CEO

Our engagement campaign also suggests that companies often formalise their succession processes following a difficult or failed transition. While a well-designed process cannot fully eliminate the risk of an unsuccessful appointment, it can give the board better options, stronger evidence and greater scope to identify potential problems early. **Succession should therefore be anticipatory rather than reactive.**

## Board ownership matters

The board must own the succession process; accountability cannot be outsourced. The CEO and CHRO should contribute evidence and development plans, but the process can weaken when it is dominated by the incumbent CEO, the candidate pool is too narrow, or directors have limited knowledge of internal talent.

External benchmarking can provide an important counterweight. Its purpose is not to favour an external appointment, but to test whether the internal pipeline offers the capabilities and leadership profile the company will need.

## Prepare for the unexpected – and the long term

Emergency succession is another marker of maturity. The board should know who could act as interim CEO, how quickly it would convene, how it would communicate with investors and employees, and whether credible "ready-now" internal options exist.

**Example: A Japanese Healthcare Company**

CEO succession took 1.5 years, internal and external candidates were considered, leadership assessments were used, and the board later formalized succession policy after recognising the risk of relying too long on a successful incumbent

Long-term preparation is equally important: a small minority of boards plan more than five years ahead, while many processes remain too short-term[8]. The same study reports that the most successful long-term CEO succession plans have at least a five-year horizon, but only 8% of directors report that their organization has proactively planned five years out[9]. **The challenge for boards is therefore to prepare simultaneously for an unexpected departure and for leadership needs that may emerge several years into the future.**

## Succession does not end with the appointment

The board's responsibility continues after the new CEO takes office. The first 12 to 18 months are a transition-risk period in which the boards should monitor executive-team stability, critical-talent retention, employee engagement, stakeholder confidence, the CEO–chair relationship, and delivery against the mandate. **The test is not only whether the board appointed a CEO, but whether it created the conditions for that leader to succeed – and can identify early when the transition is going off-track.**

## Three horizons of succession preparedness

| Succession horizon | What it addresses | Why it matters to investors |
|---|---|---|
| **Emergency succession** | Sudden departure, illness, misconduct or crisis | Tests board preparedness and business continuity |
| **Planned CEO succession** | Known transition over a defined horizon | Tests board discipline, process quality and candidate assessment |
| **Long-term leadership pipeline** | Ongoing development of CEO, C-suite and next-generation leaders | Tests resilience and internal talent quality |

Source: Candriam observations

8-Russell Reynolds Associates, "The New CEO Progression Blueprint: Expanding CEO Succession Optionality During Uncertain Times", 20 May 2026,
9-More and Better Options: Strengthening Long-Term CEO Succession Planning, Rusty O'Kelley and Rich Fields, Russell Reynolds Associates

For investors, credible succession preparedness should be evident before a crisis occurs. Relevant signals include board ownership, regular review of succession, emergency preparedness, defined leadership criteria, internal pipeline depth, appropriate external benchmarking and structured transition support. **No single indicator is sufficient; together, they help investors assess whether succession is embedded in governance or activated only when a leadership change becomes unavoidable.**

## 2. Boards need to see beyond the CEO

Succession planning is only as strong as the board's understanding of the leadership bench. A board that relies mainly on the incumbent CEO's view risks receiving a narrow and biased picture. External research highlights this concern: only 52% of board directors report being acquainted with executives beyond the CEO, which limits their ability to assess future CEO candidates early and to challenge assumptions about internal readiness[10].

### Building visibility into the leadership pipeline

Our engagement highlighted the importance of structured board exposure to talent below the CEO. Companies described a range of approaches, including site visits, business reviews, annual leadership meetings, executive presentations to the board, meetings with divisional CEOs and interaction with high-potential leaders.

This matters because **the success of succession planning depends on how well the board understands the depth and quality of internal** talent. The objective is structured access, not informal interference. Directors need independent insight into talent and culture while respecting management boundaries. They should also consider how unsuccessful internal candidates will be retained, since a poorly managed appointment can weaken the leadership bench.

10-More and Better Options: Strengthening Long-Term CEO Succession Planning, Rusty O'Kelley and Rich Fields, Russell Reynolds Associates

The engagement cases provide several examples:

- **A UK Electronic Equipment company** referred to board field visits and annual leadership meetings;
- **An Italian Capital Goods company** stressed that the board needs access to management beyond the CEO through business reviews and site visits;
- **A US Financial company** described regular board interaction with senior management and quarterly interaction with the chief people officer and HR; and a Nordic telecommunication company described board-level discussion of strategic Human Capital Management, leadership development and the CEO profile

The Chief Human Resources Officer (CHRO) is central to this evidence base and should have sufficient and regular access to the board to present succession analysis, leadership assessment, development plans, retention risks and culture indicators. **This gives the board an independent view of workforce, talent and culture risks**. Spencer Stuart, an executive search and leadership consulting firm, similarly identifies the CHRO as an important guide to a thoughtful, orderly and transparent process, while recognising the board's ultimate accountability and the fact that long-term leadership development starts with the CEO and CHRO working together[11].

11-C-Suite Succession Planning for First-Time CHROs: How to Get Started, Spencer Stuart,

## Organising oversight without fragmenting accountability

Board committees can help organise this work. The nomination or governance committee may lead succession planning, while remuneration, risk, audit and sustainability committees can contribute evidence on incentives, culture, conduct and workforce risks. But committee involvement should not dilute accountability: responsibility for CEO succession and effective leadership ultimately rests with the full board rather than being fragmented across committees[12].

**A Nordic telecommunication company** described a board-level committee covering strategic human capital management and leadership development, annual review of the CEO profile, follow-up of internal surveys and continued monitoring of leadership and culture after a CEO change.

For investors, the relevant question is therefore not simply whether a company has an internal succession pipeline. It is **whether the board has sufficient direct knowledge of that pipeline to assess its depth, challenge assumptions about readiness and make an informed decision when leadership needs change.**

12-Randall S. Peterson Pedro Fontes Falcão, Build a Better Board, MIT Sloan Management Review

# 3. Leadership assessment is moving from “what” to “what and how”

Our engagement suggests that companies increasingly assess leadership through two lenses: **what leaders deliver and how they deliver it**. Financial performance remains essential, but results alone may provide an incomplete picture of leadership effectiveness. Strong outcomes achieved alongside poor conduct, weak stakeholder management, excessive employee pressure or failure to develop the leadership team may prove difficult to sustain.

> **Visa, Inc.** described performance assessment in two dimensions: **what** is achieved and **how** it is achieved, including leadership behaviours such as collaboration, open communication and excellence.

## There is no single measure of effective leadership

No single KPI emerged as a standard measure of leadership effectiveness. Instead, companies described **combining financial outcomes, leadership behaviours, culture and human-capital indicators with board judgment.**

> **Spirax Group plc** referred to team quality, retention, ability to deliver change and engagement feedback as relevant leadership signals.

The evidence considered varied by company and context. Examples included collaboration and open communication, the quality and stability of the management team, retention of key talent, employee engagement, customer feedback, 360-degree assessments, internal mobility and alignment with company purpose and culture.

**An Austrian bank** described leadership dimensions as the basis for hiring, succession and assessment, supported by annual 360 feedback for management-board members and the level below.

For investors, the message is not that financial KPIs have become less important. Rather, **financial results show what leadership has delivered; they do not always reveal how those results were achieved or what they may be building—or weakening—inside the organisation. A credible assessment of leadership effectiveness requires evidence across three dimensions: outcomes, behaviours and organisational consequences.**

## 4. Chair–CEO dynamics: support, challenge and escalation

Our engagement confirms that the Chair–CEO relationship is a central component of effective leadership oversight. The strongest relationships combine support with constructive challenge: the Chair should be close enough to understand the CEO's priorities, strategy, talent and culture, while remaining sufficiently independent to challenge management and preserve the board's accountability.

This balance is particularly important during a CEO transition. The Chair can help clarify the leadership mandate, ensure that the new CEO understands the board's expectations and build trust with directors. But **support should not drift** into operational management.

**A European food & beverage company** described the Chair and CEO as a team that must be both challenging and supportive.

**A European telecommunication company** noted that separating the Chair and CEO roles helped create cohesion and complementarity.

**A British bank** showed how an active Chair can help assess an interim CEO, define leadership expectations and structure development after a crisis transition.

## From support to challenge – and, when necessary, escalation

The board's responsibility does not end once the CEO has been appointed. It should remain alert to whether the Chair-CEO relationship continues to support effective governance over time. Persistent defensiveness, resistance to challenge, repeated strategic disagreement, or difficulties engaging the executive team may signal that the transition is not developing as expected.

The board should establish how concerns will be escalated. Depending on the governance structure, the Lead or Senior Independent Director, nomination committee or full board may play a role. What matters is that responsibilities are clear and that the board has a credible mechanism to intervene if needed.

**Stellantis** engagement highlighted how a deteriorating CEO–board relationship and defensiveness can become leadership red flags, while **Kering** stressed the importance of alignment between Chair and CEO, fit with company values, and the CEO's ability to engage the leadership team.

### When the Chair has a stronger executive role

Clear boundaries become particularly important where the Chair is executive, highly involved in the business or closely associated with the previous leadership model. In these circumstances, strong independent counterweights and clearly defined responsibilities are essential to preserve accountability. Research on executive Chairs suggests that the model can add capacity while also creating a risk of blurred accountability when responsibilities and boundaries are not clearly defined[13].

For investors, the quality of the Chair-CEO relationship cannot be assessed simply by whether the two appear aligned. The more important question is **whether the governance structure allows the Chair to support the CEO, challenge when necessary and enable the board to act when leadership or strategy no longer meets the company's needs.**

## 5. Human capital as leadership evidence

If effective leadership is assessed through both what leaders deliver and how they deliver it, human-capital indicators can provide an important part of the evidence. Our engagement highlighted how **information on people and organisation health are used to assess whether leadership is building the capabilities needed to deliver the company's strategy over time.**

Companies explicitly framed **human capital as an asset rather than simply an expense to manage. Relevant indicators included** 360-degree assessments, retention of high performers, management stability, employee turnover, burnout, sick leave, internal mobility, and where relevant, health and safety.

### Looking for signals, not a single metric

Human-capital indicators can be particularly informative following a CEO appointment. Executive departures, deteriorating employee sentiment or the loss of critical talent may provide early signs of transition challenges before their consequences become visible in financial performance. **They should not be interpreted in isolation, however**: changes in workforce indicators may also reflect restructuring, labour-market conditions, acquisitions or other business-specific factors. The logic is straightforward: effective leadership should be visible in the organisation's ability to attract, retain, develop and motivate people.

13-Hans-Christoph Hirt, Roger Barker, The perfect power couple? When the board needs an executive chair

No single Human Capital Management metric can provide a definitive measure of leadership effectiveness. Boards should consider trends over time, consistency of definitions, data reliability, and where appropriate, assurance. Group-level averages may need to be disaggregated where they risk concealing issues within particular businesses, functions, management levels or geographies

**A UK machinery company** referred to team quality, retention, ability to deliver change and engagement feedback.

**A US financial company** pointed to employee engagement, retention and attrition of high performers, as well as executive-team stability after CEO change.

**A European luxury company** discussed employee survey feedback, turnover, internal mobility, gender pay gap and living wage as people indicators that need to be interpreted by brand, function and country.

## From measurement to action

The CHRO has an important role in translating this evidence into business and leadership implications. The value of human-capital information lies not only in the metrics reported, but in the questions prompted and the actions that follow. These may include development plans, retention measures, changes to succession planning, leadership coaching or adjustments to management composition.

For investors, human-capital indicators should not be viewed as secondary ESG data. **They can provide evidence of organisation health, culture, leadership effectiveness and transition risk – and help investors assess whether financial performance is being supported by a leadership model that can endure.**

# 6. The Skills Matrix as a board-preparedness tool

A board cannot credibly assess the future CEO mandate, succession pipeline or leadership risks if it does not itself have the skills, experience and capabilities required to challenge management.

Just as boards must ask whether the company has the right leadership for its next strategic phase, investors should ask whether the board is equipped to oversee that leadership.

The board skills matrix should therefore be treated as a forward-looking **leadership risk tool**, not simply as a disclosure formality. Our engagement highlighted the importance of aligning board capabilities with the company's strategic direction and evolving risk profile. Depending on the company, relevant capabilities may include sector and executive experience, transformation, technology, AI, cyber risk, capital allocation, human capital, culture, sustainability and international market experience.

## Skills on paper are not enough

**Former CEOs and senior executives may bring valuable insight into the complexity of leadership roles, but credentials alone are insufficient.**

Effective oversight depends not only on what directors have done, but on how they contribute around the board table: independence of judgment, willingness to ask follow-up questions, openness to dissent, constructive challenge, understanding of executive dynamics and readiness to act when leadership no longer fits the company's needs are all important.

**A board may have the right skills on paper but still fail if directors do not use them effectively.**

**Hoya Corp., a Japanese healthcare company,** shared a useful comment: board effectiveness is not only about hard skills. The Lead independent director stressed that board character matters when challenging the CEO, that number are important but "how" they are delivered also matters, and that soft skills are critical when directors need to confront a CEO who is not performing.

## From a static matrix to a forward-looking assessment

A credible skills matrix should be forward-looking and identify capabilities the board will need as strategy and risks evolve, highlight material gaps and explain how those gaps will be addressed through recruitment, director development or external expertise.

The matrix should also be considered alongside the wider board-effectiveness process. Having a capability represented on the matrix does not, by itself, demonstrate that the board can deploy it effectively. Board evaluation can help assess whether relevant capabilities sit on the committees, whether they sit where they are most needed, whether directors have sufficient time to engage, and whether board evaluation confirms that attributed skills contribute in practice.

For investors, the skills matrix is most useful when it provides evidence of whether the board has the technical expertise and behavioural capacity to oversee CEO succession, leadership effectiveness and transition risk.

# Remuneration: evidence of the mandate, not a substitute for it

Once the leadership mandate has been established, the question shifts from whether the board has selected the right executive to how it assesses whether that executive is delivering against the mandate. Remuneration can translate selected elements of the leadership mandate into measurable expectations, strengthen accountability and signal strategic priorities. It should, however, **remain an output of the strategy and leadership mandate, not a substitute for assessing effective leadership.**

The leadership mandate will normally be broader than any remuneration scorecard. It may encompass strategic judgement, culture, executive-team quality, human capital, risk oversight and stakeholder relationships alongside financial and operational objectives. Not every dimension can - or should - become an incentive metric. A focused scorecard linked to the most material priorities is preferable to one that attempts to reward every aspect of leadership.

## Assessing performance across the CEO lifecycle

Leadership performance should be assessed over more than a single incentive period. In the early stages of a CEO's mandate, the focus should be on agreed priorities and whether credible foundations for delivery have been established. Over the medium term, attention should shift towards the quality and sustainability of implementation, including transformation, capital allocation and organisational capability. Over the longer term, the question becomes whether the executive has created durable value and strengthened the organisation's resilience.

These horizons should be considered together rather than as isolated periods. Strong annual performance may coexist with underinvestment, excessive risk-taking or the loss of critical talent; conversely, progress on a multi-year transformation may not be fully visible in a single year's results. Deferral, appropriately long vesting periods and holding requirements can help maintain exposure to longer-term outcomes. Malus and clawback provisions can provide additional safeguards where performance outcomes are subsequently shown to have been affected by misconduct, material control failures, misstatement or other serious leadership failures.

## Combining quantitative evidence with disciplined judgment

Quantitative metrics should remain central to remuneration frameworks because they generally offer greater comparability, predictability and verifiability. To be credible, however, they should be materially linked to the mandate, attributable to management, supported by clear targets, measured over an appropriate timeframe and designed to minimise unintended incentives.

**Metrics alone cannot answer the "how" of leadership.** Boards must also consider how results were achieved and whether financial delivery is consistent with the organisation's wider health. Strong financial performance may be less sustainable if accompanied by the loss of critical-talent, deteriorating safety, poor conduct, excessive employee pressure or weakening stakeholder confidence.

This does not justify allocating significant weights to broad qualitative objectives in variable pay. Investors may reasonably be sceptical of objectives labelled simply "leadership", "culture", "strategic progress" or "stakeholder management" when targets and assessment criteria are unclear. **Whether qualitative considerations influence remuneration outcomes, they should be linked to predefined expectations, supported by observable evidence and accompanied by transparent disclosure.**

## What should remuneration committees consider?

Remuneration committees should consider whether:

- the scorecard reflects the leadership mandate and the company's current strategic phase;
- short-term rewards are balanced with medium- and long-term outcomes;
- targets are material, sufficiently ambitious and attributable to management;
- financial outcomes are consistent with operational, workforce, cultural and risk indicators; and
- discretion, malus and clawback can address inappropriate formulaic outcomes or leadership failures and are clearly explained if used.

For investors, the question is not simply whether leadership, culture or human-capital metrics appear in remuneration. It is whether the remuneration framework provides credible evidence of progress against selected elements of the leadership mandate, while allowing the board to assess both what the executive delivered and how it was delivered.

## What does current market practice indicate?

A Vlerick Business School analysis[14] of FY2024 remuneration reports from STOXX Europe 600 companies identified 62 companies with relevant short-term incentive (STI) disclosures. Of these, 54 included top-management KPIs, 43 included strategic KPIs and 35 included both. Only one relevant long-term incentive (LTI) disclosure was identified.

Leadership and succession appeared in 29 and 21 cases respectively, while culture and governance each appeared in five. These measures were often framed as individual objectives, qualitative criteria or leadership multipliers, allowing consideration of how results were achieved but potentially creating significant discretion.

Disclosure of weightings was limited: weights were available for 19 top-management and 17 strategy cases, with median weights of 10% and 12.5% respectively. Some weights applied to broader groups of objectives and could not be attributed exclusively to leadership-related KPIs.

Overall, the findings suggest that leadership considerations are reflected primarily through annual and often qualitative assessments. Their near absence from LTI reinforces the view that remuneration can provide evidence of performance the leadership mandate, but only a partial view of leadership effectiveness.

14-Vlerick Business School, CEO KPI Keyword Analysis, keyword-based analysis of non-financial KPIs related to top management and strategy in FY2024 remuneration reports of companies within the STOXX Europe 600. Search terms included culture, value, purpose, mission, vision, leadership, succession, governance and oversight.

# Conclusion: The real test of leadership governance

Boards cannot eliminate leadership risk or guarantee that an appointment will succeed. They can, however, improve their preparedness and ability to respond by treating succession and leadership oversight as a continuous board responsibility grounded in a clear leadership mandate rather than as an event-driven appointment process.

A clear leadership mandate should translate strategy, culture, purpose, risk and human-capital priorities into practical expectations for the CEO. This should be supported by credible internal and external succession options, emergency preparedness, direct board knowledge of talent below the CEO and an understanding of both what leaders deliver and how they deliver it.

**Effective leadership** is therefore not proven by an appointment announcement, a board skills matrix or a remuneration scorecard. It **is evidenced by the board's ability to anticipate, select, support, assess and, where necessary, intervene.**

Investors should not expect confidential candidate names or private board deliberations, but they can expect evidence that succession is board-owned, forward-looking and aligned with the company's strategic direction. They should also expect the first 12 to 18 months after a CEO appointment to be treated as a transition-risk period, with focused monitoring of mandate delivery, culture, executive-team stability, critical-talent retention and potential warning signs. This capacity for continuous oversight is the real test of leadership governance and an important safeguard for long-term value, organisational resilience and investor confidence.

**Ultimately, the question for boards and investors is not simply who leads the company today, but whether its governance is equipped to identify, develop and oversee the leadership it will need for its next strategic chapter.**

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