



LEADERSHIP TRANSITIONS

After the Handshake

by Dan Ciampa

FROM THE DECEMBER 2016 ISSUE

The mood inside the boardroom was celebratory. For months the directors of this multibillion-dollar industrial and consumer-goods company had been searching for a successor to their longtime CEO. After interviewing multiple candidates, they'd unanimously voted to make an offer. The outside recruit—let's call him Harry—had an exceptional record of growing sales while running a large division of a multinational known as a training ground for world-class CEOs. In interviews he was polished and poised. He asked insightful questions about the company's strategy, raising issues the board hadn't considered previously. His references were effusive. To the directors' delight, Harry, who was simultaneously in the running for two other CEO jobs, accepted their offer—largely because he felt that this company offered the most autonomy and upside. The board announced the

appointment at the annual meeting, in April; shortly afterward, the outgoing CEO departed, and Harry started. The directors congratulated themselves on a job well done. The arduous work of succession—their most important duty—was complete.

Except it wasn't, because the board, the outgoing CEO, and the chief human resources officer hadn't laid the groundwork for Harry to succeed. They hadn't discussed with him how decisions were made, how innovation took place, or who had the most influence in the company. As a result, in his first weeks on the job, the new leader was not prepared as he got acquainted with the people he'd inherited and learned the political dynamics of the senior group. For one thing, the CFO was bitterly disappointed at having been passed over for the CEO job and had a reputation for being conniving and power-hungry. For another, although Harry did his best to understand the corporate culture, he failed to fully appreciate the strength of the company's bias toward cost control and its resistance to change. Crucially, in the three months before his first board meeting, in late June, no directors bothered to meet with the new CEO—and he, preferring to keep his own counsel, didn't reach out to them either. “Some of us thought he was so good that there wouldn't be anything we could add,” one director recalls. “The net result was that we all decided we should get out of his way.”

Boards often fail to grasp the complex nature of succession.

When, at that first board meeting, Harry laid out an aggressive new strategy—which included combining two divisions and taking on debt to make an acquisition—the directors were taken aback. They'd hired him to drive growth, but they'd expected an evolutionary, incremental approach rather than a rapid, expensive overhaul. They resisted, frustrating the CEO. Over the following months, the CFO's back-channel communications with key directors eroded their confidence in Harry. Fifteen months after signing him, the board forced its star hire to resign—and the company's stock dropped sharply at the news.

A Shared Responsibility

Whether new CEOs are hired from the outside or promoted from within, they should be aware of a daunting statistic: One-third to one-half of new chief executives fail within their first 18 months, according to some estimates. Some of these flameouts can be attributed to poor strategic choices by the new leader, and some result when the board makes an imperfect choice—overestimating a candidate’s abilities and potential or hiring a leader whose skill set doesn’t fit the context. Sometimes the new leader is obviously responsible for a handoff gone wrong, and other times the board is rightly blamed. But a close look shows that it’s rarely that simple. When a succession fails, the responsibility is almost always shared.

Whether coming in directly as CEO or into the number two spot expecting to move up, failing newcomers make these common mistakes:

- They don’t read the political situation well enough to build necessary relationships and coalitions.
- They don’t achieve the cultural changes their strategic and operational agendas require.
- They overestimate the willingness or the capacity of the people they inherit to abandon old habits and behaviors.

Meanwhile, boards and key executives typically:

- Fail to grasp the complex nature of succession and assume that CEO handoffs are as simple as those at lower levels.
- Fail to carefully consider the cultural and political aspects of the company that will be problematic for the new leader in his early months.
- Set one-dimensional or generic expectations of the new leader—in particular, emphasizing only financial and operational goals and not including equally specific cultural, political, and personal ones.

The purpose of a comprehensive approach to transitioning a CEO is to avoid those mistakes. When the transition is done well, the company is prepared for a new leader with a change agenda, and the new leader is more tuned in to power dynamics and how the culture will influence a strategy shift or what cultural changes will be necessary to support it. The transition establishes a solid path toward productive relationships between the CEO and key stakeholders—including, most crucially, board members.

In the United States, presidential candidates typically name a transition team and begin planning for a new administration months before a single vote is cast on Election Day, because they want to be prepared in the event they win. In corporate life, however, too many CEO transitions are informal or improvised. In a 2010 survey conducted by the executive search firm Heidrick & Struggles and Stanford's Rock Center for Corporate Governance, half the companies surveyed reported providing no formal transition plan for a new leader. James Citrin, who leads the North American CEO practice at the recruiting firm Spencer Stuart, estimates that of the companies that *do* have a transition process, fewer than 20% extend it beyond the new CEO's first week.

A CEO transition is *not* the same as onboarding, which is a formal, short-term, agenda-driven orientation program of briefings and meetings. An onboarding plan can be a useful component of the transition process, just as the formal events at a college's freshman orientation can provide valuable information to new students. But like a college student's assimilation, which takes place slowly and informally (the most valuable moments often occur in dorms and dining halls), a CEO's transition is a longer process of interactions both formal and informal, planned and impromptu. Handled correctly, the process will begin when the board's choice accepts the position and will last for months after she arrives.

The transition is also properly viewed as the second part of a comprehensive succession. Although many people tend to think of succession as the process of identifying and assessing internal and external candidates, defining the characteristics the next CEO will need, and ultimately settling on a final choice, that's really only half the job. Succession should include activities that occur after the new CEO takes the job—activities designed to maximize her chances of success. In many ways, the later stages are more difficult than the recruitment and assessment phases. They involve emotions, ego, beliefs about what the organization should become, and, in particular, company culture and politics. Declaring victory too soon can leave a leader ill equipped to build a base of support. That increases the odds of a succession failure, the costs of which can be substantial—for shareholders, for employees, and for individual careers.

The Three Variables

In the creation and implementation of a comprehensive CEO transition process, three key variables affect structure and timing. First, is the new CEO from inside or outside the company? Second, will he take on that role immediately or spend time as a “designated successor,” working alongside the outgoing CEO while typically carrying the title of president or chief operating officer? Third, whether or not the transfer of power is immediate, will the outgoing CEO continue to be a presence in the company, as chairman of the board or as an adviser?

Many companies skimp on or forgo a transition program for an internal candidate who’s promoted to CEO. On the surface that makes sense: An internal candidate has already navigated a career with the company, so onboarding may seem superfluous. However, even an internal candidate will benefit from a transition program that recognizes several specific challenges to be faced in the new job. For example, most people promoted from inside have never been a CEO before and must learn to handle a level of responsibility for which they have had little preparation. Furthermore, they will inherit a team made up of former peers, some of whom may have been rivals for the top job, and will benefit from assistance in dealing with that dynamic. And insider CEOs need to forge new relationships with directors, because reporting to and managing a board is vastly different from making periodic presentations to it.

The Role of the Outgoing CEO

In some cases the outgoing CEO plays no role in succession—such as when she has been fired or pushed out. But in a planned succession (which typically involves a retirement), the outgoing CEO can help the incoming one adjust to and understand the company. Not every new leader appreciates having his predecessor stay on for an extended period, but according to a 2012 study by Patrick Wright, of the University of South Carolina, 40% of departing CEOs remain involved with the company (usually as board members or advisers) after giving up the title.

An incumbent CEO plays a particularly important role if the successor joined the organization as an heir apparent. Such an extended transition should begin with defining the roles the two will play. The successor must have substantive responsibilities, objectives closely tied to strategic and operational success, a platform for proving his abilities, and a clear sense of the timetable for ascending to the top job. The two leaders will need to agree on the details of their relationship: On what issues will they collaborate? Do they want the board and the senior team to view them as true partners? Which decisions will the incumbent run by the successor before making them? What milestones or phases will mark their progress, and will the transition of power and responsibility be incremental or all at once?

In these situations, incumbent CEOs direct the transition process. They must remain fully engaged with their current duties and responsible for short-term performance, but they should also devote significant time to ensuring their eventual replacements' early success.

Most CEOs promoted from inside will inherit a team of former peers.

Consider one CEO of a multinational conglomerate who excelled in this role. After 10 years as chairman and CEO, this executive—let's call him Bob—prepared to pass the role to his successor, Greg, who'd been a direct report and headed up the company's largest unit. Like the best successions, this one was planned well in advance: Two years before he intended to retire, Bob led the board through a careful process of defining what characteristics the next CEO would need, assessing potential internal candidates, and examining external options. Once Greg emerged as the board's choice, Bob took ownership of helping him transition into the CEO role.

Unlike many departing CEOs, Bob created a feeling in his executive team that every member had some responsibility for the transition. He assigned each subordinate specific tasks to help Greg prepare, and he made a list of tasks and assignments for himself, too. He analyzed his network of critical relationships and systematically introduced Greg to key contacts. He prepared detailed briefings on how he had made decisions involving regulatory issues,

markets, talent, finances, and so on. He offered comprehensive and insightful thoughts on self-management: how he had spent his time, dealt with conflicting requests, managed the administrative system that supported him, kept his energy up, and countered stress. He outlined the strengths and weaknesses of the current executive team and described how he'd tried to reduce tension and conflict among its members. The two men spent hours alone discussing these issues and traveled together to meet customers, regulators, and alliance partners.

Throughout the process, Bob behaved more like a coach than a boss. He visibly stepped back at times while still in office, allowing Greg to be in the spotlight and to make key decisions. Greg, to his credit, received Bob's counsel adeptly, translating what Bob offered in a way that worked for him, deciding what to accept and what to reject, but all the while behaving respectfully toward his mentor. The transition was not easy for either of them. There were awkward moments, and meetings at which employees seemed confused about who was the definitive decision maker. But when the CEO title passed to Greg, he was far more prepared than he would have been without Bob's coaching.

Not every outgoing chief executive has the personality or the ability to excel in this role without some help. And of course, if the outgoing CEO leaves abruptly, someone else must step in to coach or mentor the new leader.

The Role of the CHRO

Although the board is accountable for CEO succession, and an outgoing CEO should direct the process, someone needs to attend to the day-to-day details. That person should be the company's chief human resources officer. CHROs should be deeply involved in all aspects of succession (they often choose and manage the relationship with executive recruiters, for instance), and will thus have an advantage in organizing the transition. They usually interact with outside candidates earlier than anyone else in the company does.

CHROs should aim not only to coordinate a new leader's transition into the company, but also to become her primary counsel on people, politics, and culture. In this regard they should think of themselves as communicators, interpreters, and sounding boards. The new CEO will find it easy to obtain strategic, operational, and financial data while getting up to speed, but will need someone to explain other executives' personal backstories and interrelationships and why and how some of the company's more idiosyncratic practices evolved. Ideally, a CHRO can also offer candid feedback on how the new leader's early words and actions are perceived in the organization. If the new leader begins in the number two role, the CHRO is also in the best position to observe the developing relationship between her and the incumbent CEO and to advise both on navigating it. If the new leader encounters a problem during the transition, the CHRO should be the first to receive a call.

This work shouldn't wait until the new leader actually joins the organization. When a large retail company recruited an outsider to succeed the CEO, the company's CHRO called him the next day and explained that although they'd spent time together during the search process, he wanted a meeting to discuss an onboarding plan and the company's political structure. The CHRO traveled to the new CEO's distant city, and they spent hours talking about the challenges of transition. The new leader found it invaluable. "Once I'd accepted the job, all my thoughts were on how to leave [my current company]," and the conversation with the CHRO "focused my attention on what was ahead," he says. "There was a lot I didn't know, and the onboarding plan he went over was a good start." The CHRO reflects on the conversation: "Talking to him on his turf was important, and I wanted it to be informal and away from our offices." The two even spent time considering how the new CEO would inform his current boss and ease his departure, because the CHRO had a lot of experience with resignations. "He really appreciated it—it was a good icebreaker, and I think he got a sense of how I would be of help to him," the CHRO says. Reaching out positioned him to evolve into the new CEO's key counselor.

Unfortunately, not every company has a CHRO who's up to this task. Many HR department heads lack the skills for it or haven't earned enough stature with the CEO or the board to be entrusted with this duty. And some don't aspire to or see the potential for a role as influential

as the CFO's or the CMO's. In such a case, the CEO should upgrade the position well before a succession takes place, and the board should be involved in specifying the expectations for the CHRO. An adept CHRO will be the company's go-to resource on topics of culture and talent and will have developed the interpersonal and political skills necessary to be listened to by peers and the CEO.

The Role of the Board

For directors, an important question during a CEO transition is how much distance they should keep. Directors aren't at a company full-time and thus see managers in action only periodically. They cannot and should not micromanage—but there is danger in being too remote. Directors often want to give a new CEO room as an expression of confidence, but this respectful gesture can keep them out of touch. And the new CEO may perceive it as a lack of interest or a message to sink or swim alone. The best boards strike a fine balance between being uninvolved and overinvolved.

When boards fail to find that balance, they're usually too distant. Incoming CEOs routinely report that they don't get enough transition support from directors—or that it doesn't last as long as they might wish. According to a 2012 study conducted by RHR International of 23 major CEO transitions, 57% of CEOs promoted from inside and 83% hired from outside said their boards were “less involved” than they should have been.

Clear expectations are among the most crucial things directors can provide. What kind of between-meetings communication do they expect? Do they prefer to weigh in or vote on fully formed, deeply researched plans and proposals, or do they want to have a hand in guiding nascent strategic ideas? One way to start the conversation is for the nonexecutive chair or the lead director to ask the new CEO to prepare answers to three questions: (1) What information do you need from the board to be able to do the best job you can? (2) What behavior on the board's part would best enable us to have a trusting relationship at board meetings, between them, and in one-on-one conversations? (3) From your experience during the search process and in your first meeting or two as CEO, what one thing about how the board operates would you change to help make our relationship all it must be?

Directors must realize that a CEO's relationship with the board as a whole is really a collection of relationships with individual directors. Experienced business leaders like Mark Thompson, who served as the CEO of two British media companies before becoming the chief executive of The New York Times Company in 2012, understand the importance of cultivating individual relationships with directors. When Thompson arrived at the Times Company, he devoted significant energy to doing just that. (See the sidebar "Inside One CEO's Transition" at the end of this article.) Building those relationships may not come naturally or seem like a priority to first-time CEOs, however. If that's the case, directors should take the initiative, and the CHRO should help.

For a board, a CEO succession is a critical moment in the life of the company—a time when the directors should expect to be meeting, talking, and contributing more than they ordinarily do, much as they would during a merger or an acquisition. Though a CEO succession may require fewer emergency meetings, directors should treat it as an all-hands-on-deck period.

CONCLUSION

Most new leaders fail not because their financial or operational abilities are inadequate but because their style or political skills render them unprepared to manage the organization's culture. Helping new leaders understand that culture and improve their "soft skills" to successfully navigate it may be the best way to increase their chances of success.

An energetic and resourceful leader with intuition, perception, and strong interpersonal skills can certainly succeed on her own—but not without expending more time and energy than would be required in an organized transition process. As one CEO puts it, "My onboarding experience was just not helpful on the things I most needed. It wasn't horrible or even difficult—it was just sort of useless. I figured out on my own what I needed, but it could have been a lot easier and happened a lot faster."

Clear expectations are among the most crucial things directors can provide.

Even when a company takes the comprehensive approach to succession suggested here, it's important to recognize that the formal transfer of title is not the end of the process. The new leader cannot be considered truly embedded until he wins the loyalty of the organization's most influential managers. That is the culmination of succession, and it may not occur until months after the formal handoff of power. It is signified not by an event but by behavior. Former Xerox CEO Anne Mulcahy describes observing such a moment in a meeting after the title had passed to her chosen successor, Ursula Burns: "Everyone was looking at her rather than me—the whole team's attention had just shifted, without a lot of drama. That's the way it should be."

And that's one sign of a successfully executed transition process.

Inside One CEO's Transition

Mark Thompson calls it the "golden period"—the time between when a company's new CEO is announced and when he or she officially starts the job.



IAN SPANIER

Thompson, who left the BBC to become CEO of The New York Times Company in 2012, had an unusually long golden period: Owing to the London Olympics and a commitment to lecture at Oxford, he waited three months before beginning work. The interval gave Thompson time to prepare and reflect—and it also allowed the Times Company to craft a two-week agenda of all-day meetings in the month before his arrival, which James Citrin, of Spencer Stuart, who led Thompson’s hiring, calls the most comprehensive CEO onboarding program he’s ever seen.

That thoroughness was driven in part by Thompson’s unusual background. Although he’d led two large British media companies, he’d never worked at a U.S. company or in newspapers, and he was the Times Company’s first external CEO in more than a century. In a 75-minute conversation with HBR’s Daniel McGinn, Thompson reflected on the activities that were most helpful as he transitioned into the role. The highlights:

A successful transition starts during the interviews.

Every job candidate asks questions to learn more about the company, but Thompson, who began his career as a TV journalist, dug deep, calling friends at the Times Company and competing organizations and asking, What is it like to work there? Does the organization really want to change? And if so, does the culture allow change to happen? “You never get a

complete answer to that,” Thompson says. “You have to flip to instinct. But I felt that many people—and collectively, the board—were really aware of the need to change.” (The board had fired Janet Robinson, the prior CEO, in December 2011.)

Demeanor during onboarding is crucial.

Thompson attended 29 sessions led by dozens of Times Company executives, on topics ranging from overall strategy and finances to travel-and-expense policies and the pension plan. He listened and spoke carefully. “Everyone is watching the whole time—it’s a fishbowl,” he says. “They’re looking to understand who you are and what your values are. Do you listen to what they say? Are you indecisive? Are you impulsive? It’s all done in a very friendly way, but you’re on show. How you respond to the PowerPoint presentations is really important....You’re not just absorbing stuff.”

A good executive assistant can be a cultural translator.

Thompson could have brought over his existing EA from the BBC. Instead he said that he “wanted an executive assistant who was the opposite of me—someone who was a deeply experienced Times person, who really understood the way the company worked and knew everyone,” he says. The result: Mary Ellen LaManna, a 33-year company veteran. “Mary Ellen has been one of the most important people in the whole process,” Thompson says. “She could really read the cultural issues in a way that I was blind to.”

Participate in early decisions.

Even before his official start date, Thompson began offering guidance on matters that needed immediate action. He interviewed candidates and helped lead the hiring of an SVP for video, a key growth area. He weighed in on (and supported) the board’s nascent plans to sell the *Boston Globe* and the company’s stake in About.com. When executive editor Jill Abramson and chairman Arthur Sulzberger Jr. were debating whether to publish investigative reporting on financial improprieties by top Chinese officials—a story likely to create business problems in China—they brought Thompson into the discussion. “They asked, ‘Do you think we should run it?’” he recalls. “It was a very early test. The answer, of course, was yes.”

“Everyone is watching the whole time, looking to understand what your values are.”

Get out of the office.

Thompson visited the company’s London and Paris offices and then, in his first weeks on the job, Abramson invited him to join her on a three-day swing through Silicon Valley, meeting with Tim Cook and Sheryl Sandberg, among others. The European visits gave him

perspective, and the California trip helped him forge a relationship with Abramson in a company whose “church-state” divide gives the newsroom great power. “There’s a real risk that the new CEO will spend the first six months in the C-suite, locked in rooms with the finance and strategy teams,” he says. “That is part of what you do, but it’s useful to get a sense of what it feels like away from headquarters.”

Meet, greet, and eat.

Once he’d taken charge, Thompson set out to meet the company’s top 100 executives. Most days, he entertained small groups at in-office breakfasts and lunches. “Night after night, I’d take one person out for a drink and then have dinner with somebody else,” he says. He avoided the temptation to assess talents and ability immediately and approached the task partly as a politician. “As a CEO, you need a network,” he says. “You can’t change organizations by e-mail edict, so you’re trying to find parts of the organization that will help you drive change.” He also met with individual board members in his early months.

Find the balance between impulsive and slow moving.

Perhaps the trickiest piece of the transition for an outside CEO is appearing sure-footed from day one without overstepping. Thompson says, “Most people expect you to start telling them what you want them to do on your first morning. That’s not reasonable or possible. But it helps if you’ve already met them and have begun understanding the world from their point of view...The temptation is to shoot from the hip, to start forming snap judgments and barking out orders. If you don’t do any of that, it’s probably a problem. But the other extreme is to go into listening mode, where you can look very passive. So you’re trying to find a spot on the landscape somewhere between those two extremes.” Thompson says that many new CEOs talk about a 100-day plan, but he thinks a longer transition is more realistic. “You have a year to prove you’re the right person for the job,” he says. “I think a CEO who’s not working out after a year is probably not going to work out.”

Daniel McGinn is a senior editor at *Harvard Business Review*.

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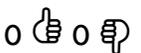
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