EXECUTIVE INSIGHT

Successful CEO Transitions

Ensuring a Smooth Transfer of Leadership

WHAT WE THINK

Failed CEO transitions are costly. Share prices can decline sharply in response to unplanned CEO turnover, let alone the considerable replacement costs.

A well-planned transition program is critical to a smooth transfer of leadership, maintaining business momentum, and meeting stakeholder expectations.

CEO changes are often associated with the exit of other senior-level executives due to disapproval of the incoming chief executive, loyalty to the old CEO, or changes to the brain trust the new CEO enacts upon succession. The increased ambiguity experienced during these times often leads to decreased leader and employee engagement and commitment to the organization. A well-planned transition program will ensure a smooth transfer of leadership.

Alignment and Support

The CEO transition process is above all else an organizational event, comprised of the interplay of the CEO, his senior leadership team, and other supportive elements within the company. All three areas must be addressed in an integrated, holistic manner in order for the transition to be successful.

For a smooth transition, the board, the outgoing CEO, and the senior management team—usually with the assistance of an HR professional and/or an outside consultant—needs to help the incoming CEO build a solid foundation before she officially takes control of the position. Best practices during the preparation period include (a) aligning with the board on performance expectations, (b) due diligence on current state of operations and the culture of the organization, and (c) development of key messages for use once in the role (for employees, strategic partners, customers, etc.). To establish priorities, begin with an assessment of the organization's strategic needs, the CEO's developmental needs, and the capabilities of the senior team.

The Board

Board directors, when looking in hindsight, generally have a favorable view of how well CEO integrations were conducted in companies they served, according to a joint study conducted by RHR International and The Corporate Board. CEOs do not necessarily agree with that assessment. Therefore, boards should make an extra effort to be proactive and deliberate in meeting with the new CEO. In a group and individually, board members should initiate contact and be intentional in their approach. An open door policy is not enough. According to the study, board clarity, alignment, and mutual understanding of how the CEO's performance will be evaluated are all highly valued by incoming CEOs.
The most important issue here is having alignment between the new CEO and the board on the strategic imperatives going forward. Arranging frequent interactions between the new CEO and board members in which they share thinking about strategy (as well as their own personal experiences in the CEO role) will steer the new CEO from falling into many of the common pitfalls experienced during the transition.

The Senior Team

One of the CEO's allies in a transition is a senior team that is aligned with and committed to the strategic direction—a team that is collectively capable (i.e., has the requisite mix of skills necessary) to execute on that strategy and that builds the necessary momentum in the organization around change, growth, etc. For this reason, the new CEO needs to assess the senior team fairly early in his tenure and plan to execute the necessary adjustments in a timely manner.

Research by RHR International indicates that 50% of previous CEOs stay involved with the company as a member of the board.

The Role of the Predecessor

Angel or devil, there is no denying that the lingering shadow of the predecessor affects every freshly appointed CEO. In some cases, this is a legacy left behind by a beloved founder. In others it is the very real presence of a former chief executive who has left the office, but not the building. Research by RHR International indicates that 50% of previous CEOs stay involved with the company as a member of the board. On average, those who stayed as a director did so for eight months—three quarters of the first critical year of the transition process.

Stay or Go?

Will new leaders have an easier time transitioning without them, or is it healthier for former CEOs to stay on? According to the RHR International/Corporate Board study, sitting board members were evenly split on the issue. Clear cut answers to this question are hard to find. There are times where a clean break is best and others where an overlap is valuable. Often, contractual agreements spell out the terms of departure. The ideal scenario would be if the outgoing and incoming leaders could sit down with the board and make a determination of the exit strategy based on the leaders' respective skillsets, the organization's business needs, and the chemistry between the two executives. But in reality, the CEO-select rarely has a say in the matter.

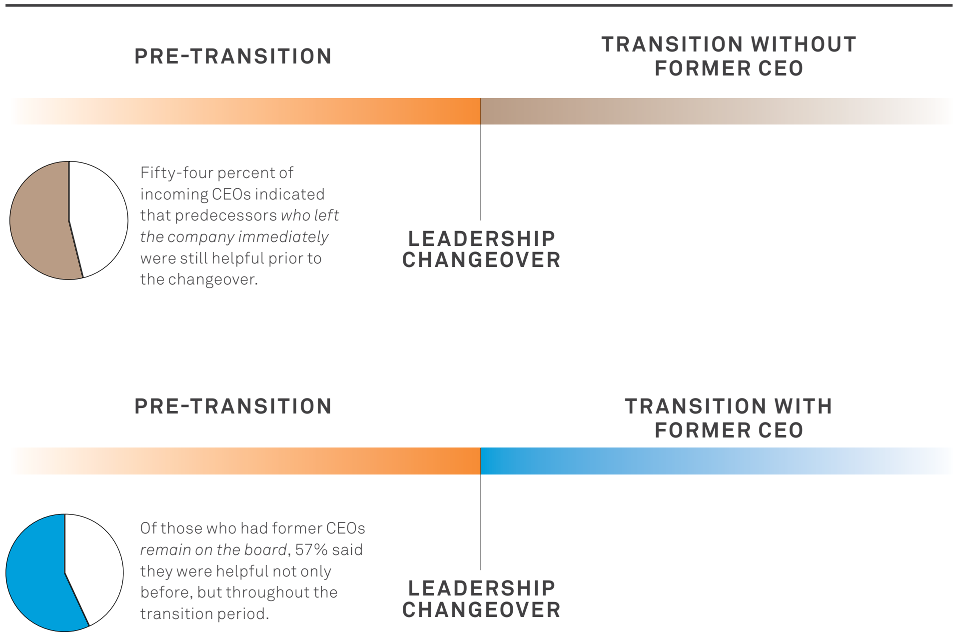
According to our study, sitting chief executives' perceptions of whether the previous officeholders were helpful or not during their transition into the role were almost evenly split, regardless of the planned departure dates.

Fifty-four percent indicated that predecessors *who left the company immediately* were still helpful prior to the changeover. Of those who had former CEOs *remain on the board,* 57% said they were helpful not only before, but throughout the transition period.

Even if she leaves immediately after the changeover, the exiting executive can provide valuable support prior to the exchange of power, especially to an internal successor. Our study cited examples such as seeking opportunities to connect the CEO-select with board members on a deeper level; introducing him to key external stakeholders; and showing visible support for (and confidence in) the new leader by thoughtfully shifting key decisions and accountabilities to them prior to the role change. Making decisions on poor performers (but leaving the selection of replacements to the incoming CEO) was also deemed very helpful.

Based on years of experience (and supported by current research) dealing with the selection, integration, and transition of chief executives, RHR consultants have also observed the following positive behaviors on the part of the outgoing leader who stays on the board:

- Helping the CEO-select anticipate some of the major adjustments she will face during the transition
- Providing insights on how the board operates and what kind of issues are on the agenda



- Giving the incumbent “room to run” and lead the business
- Offering support as a mentor or sounding board, but not overstepping their advisor status
- Clarifying their post-leadership role in comprehensive communications to the board, shareholders, staff members, and employees

Whether the prior CEO leaves immediately or remains on the board, the best practice is to literally and symbolically “let go” at the changeover—providing the new chief executive with the freedom and autonomy to lead as the singular source of authority.

Danger Signs

Warning indicators that the ex-CEO is not “letting go” include (a) being too involved (in business and key decisions, (b) exerting undue influence on the board behind the scenes, and (c) their opinions to the board continue to outweigh those of the incumbent. These dangerous actions can impede the incoming CEO’s growth and development in the role and inhibit members of the board from building a trusting relationship with him.

Additional problems center on the new CEO inheriting a senior team that identifies too closely with its old boss and her leadership style. This can cause confusion and make it difficult for the team to shift alliance to the new leader and his agenda, especially if the predecessor is sitting right down the hall. An incumbent may even face resistance from the ex-CEO while attempting to reshape the team to match the company’s current business needs.

All board members should be aware of these negative situations and take immediate action to neutralize them. A worst-case scenario is if the directors are not even cognizant of being manipulated. If allowed to continue, this situation can cause contradictory communications, conflicting loyalties, and confusion as to who is in command. The final result is a new leader with limited effectiveness, severe damage to the organization, and a revolving door of successive CEOs. It may take an external consultant to assess the dynamics among those involved, determine the root cause, and suggest interventions to put the organization back on track.

Perspective of the New CEO

Transitions are challenging for every CEO, but they are especially difficult for those new to the role. According to research by RHR International, over 86% of new chief executives have no prior experience in the corner office. Although CEO changeovers are organizational events, the process quickly becomes very personal as the new leader moves into a role that is much more complex than anything previously experienced.

As a new chief executive, simply determining what the job entails may be the first stumbling block. Even as the new CEO tries to come to grips with the unfamiliar aspects of the role, she needs to quickly discover how to deal with multiple, conflicting demands—as well as multiple outside stakeholders, which in itself can be quite daunting—while avoiding the morass of day-to-day operations. Any new CEO could become overwhelmed trying to cope with such a variety of pressing issues. Keeping some basic practical steps in mind during the transition process might help.

The first thing you need to do is “get out there and listen”—literally. Leave your office, walk around, connect with employees, and initiate relationships with your key constituencies. Learn what is important by preparing and asking good questions. Have a clear idea of the “message” you want to communicate. Emphasize that you want to get aligned on views and come to some agreement on how to work together. While there will be a temptation to take early actions to make a contribution, make sure you “learn before you leap.”

Seek opportunities to meet informally with directors. Discuss how they see the company. Former CEOs on the board will likely welcome an opportunity to share their own perspectives. Put a lot of time and energy into preparing for the formal board meetings as well. This has to be done right to facilitate strategic alignment and stimulate critical discussions. The knowledge gained through your informal meetings will be invaluable.

Assess your senior team early on. You may need to make adjustments to get the right mix for the mission. Build an environment that encourages open, transparent communication so direct reports are forthcoming with both good and bad news. Nonetheless, it's still wise to take neither at face value. Put trust in your team, but verify your own version of the truth.

Seek a veteran CEO to act as a mentor, find a trusted advisor/HR professional within the organization, and/or take counsel from an outside consultant. This team of experts can help guide your personal transition process, reveal potential derailing events in advance, and help you normalize frustrations that are bound to occur.

A final piece of advice is to take care of yourself. It is essential to make time for family, friends, and other outside activities. These are your main defenses against the inevitable stress you will feel as you take on your new position. Maintaining personal balance will enable you to become a better leader and role model to others.