1 Complexity and Critical Crossroads

A lot is at stake during the transition of one top executive to the next, especially at the CEO level. Emotions often run high and can cause an otherwise simple event to take on outsized importance. Consider the case of Dave, a 62-year-old CEO who had taken over a midsized technology company. As he edged toward retirement, the board was committed to finding an executive to replace him and lead the company into a new era of management.

Dave had been brought on five years earlier by private-equity investors who had taken the company private to fix problems that had come from costs that were too high and the lack of discipline or an infrastructure to support rapid growth. In getting the company back into shape, Dave had turned it into the second largest in the industry in revenue and the leader in profits. It had grown rapidly, not only financially but organizationally, and had gone from being just a high-potential company when Dave took over to a large, successful corporation.

In discussions with the board, Dave agreed to manage a planned transition. The company had become too big and complex for any one of the existing senior managers to lead when Dave left. The plan was to conduct a search for an executive to be hired into a new position as executive vice president that combined marketing, sales, new product development, and business development. If that worked well in the first year or two, the executive vice president would move to chief operating officer and then, a year later and upon Dave's retirement, to CEO.

Dave had enlisted his chief human resources officer, Wes, to run the details of the search and find the best executive search firm. The two met weekly to review progress. One of those meetings included a conference call with the search firm's senior partner, who mentioned that one candidate, whom we will call Jim, had been "enthusiastically endorsed" by the most influential director, Harvey, who had worked with Jim in another company.

When Dave learned of Harvey's endorsement, he became visibly upset. "Why did it take all this time before I knew this guy is Harvey's favorite?" he asked Wes after the call. "Is this a setup? If they know each other well, how can I trust this new guy? Will he go around me to Harvey? If Harvey wants to find out what's going on, will Jim be able to say, 'No, go to Dave'? I need to get on this with [the lead director] right away." And, testily to Wes, "Did you know about this?"

Wes said had not been aware of it. "Dave, I understand how upset you are," said Wes, "but let's find out exactly what happened. Before you call [the lead director], let me handle this."

Without revealing Dave's suspicions, Wes talked separately to the lead director and to Harvey. It turned out that the first mention of Jim's name was by the search firm rather than Harvey and that Harvey had merely said he knew Jim and had always been impressed with him, stopping well short of an "enthusiastic endorsement."

Dave's worry that former connections would disrupt the special CEO–board relationship was largely put to rest. While Dave's concerns were valid about the potential problem of his backup and a key board member being longtime acquaintances, there was no evidence that it should stand in the way of Jim being a candidate.

But, it provided a reminder to Wes of how important absolute trust was to the formation of this relationship.

From Dave's perspective the relationship with his designated successor was hardly a trivial matter. The worst-case scenario would be if comments from a subordinate to a director were taken out of context and, as Dave put it, that he would "get blindsided at a board meeting."

Wanting to avoid a potential blindsiding may seem an issue leaders should not worry about at a major turning point in the leadership of a company. But in fact, faulty communication can lead to inaccurate assumptions that in turn can evolve into relationship problems that, if not handled in just the right way, can cause a transition to fail. Indeed, a series of such small errors often explain why a high percentage of new leaders fail to reach their two-year anniversaries.

Because of skillful transition management by Dave, Wes, and the board, however, Jim was not one of them. His interviews with directors and with Dave went better than expected. The board and Dave agreed that to attract Jim to the company, the job had to be expanded from executive vice president for marketing and sales to chief operating officer. Jim was impressive enough that all believed that he was ready for that job. Indeed, Jim rose to the occasion, and three years later he became CEO as Dave retired on schedule.

As with any leadership situation as complex as a CEO succession, there were many reasons this one was a success. While they will be detailed throughout this chapter, there were two that should be emphasized:

- Dave was mature enough to understand his first suspicious reaction as just that—a first reaction. He wisely pushed the pause button and waited for facts to be gathered before making any accusations. He and Wes agreed that, while Dave's concerns were valid about the potential problem of his backup and a key board member being longtime acquaintances, no evidence existed that it should stand in the way of Jim being a candidate.

- Wes, the CHRO, operated in a model way. His decision to in effect step in between his boss and a potential conflict with the board, which could have turned into a crisis, gave the chance for Dave to reflect rather than react and for someone who was more objective to gather the facts. Wes realized that the relationship of Jim and a director could be a hurdle that Jim would have to overcome later unless his relationship with Dave became a positive, trusting one.

The success of Dave, Wes, and Jim in the management of a transition provides a helpful example for how transitions can and should be handled. It is an exception, however. In too many cases, when major players in a transition come to these crossroads, they react in ways that derail the transition. Throughout this book, we describe success stories but also many such problematic handoffs and the reasons for them. We chose to begin with a successful one to make a key point: Leadership handoffs can and will turn out well if the major players react appropriately at critically important crossroads. They don't need to succumb to inappropriate reactions that can easily cause negative results.

It is our position that most transition failures take place because the major players are unprepared for the critical crossroads they encounter, and in particular because they underestimate or ignore the complexity of the process. The transition is a general system made up of individual, interrelated steps where reaction to one step affects the nature of those that follow. The success rate of leadership transitions will not improve until the major players become students of this dynamic transition system and its complexity.

Transitions at the top fail because major players are unprepared for critical crossroads … often, because they underestimate or ignore the complexity of the transition process.

Complexity

What makes leadership transitions complex? It is a combination of two factors:

- The adjustments required by the individual major players involved on the company side of the equation and the interactions between them (the sitting CEO, the board, the CHRO, and the senior managers)
- The systemic adjustments in the organization that accompany the transition (strategically, operationally, politically, and culturally)

Individual Adjustments

On the individual front, each of the major players must become a student of transitions because each has something valuable to gain in managing the complexity and making the transition go well.

CEO The sitting CEO's primary responsibility, of course, is leading the organization so that its various stakeholders receive what has been promised. The stakeholders each look to the CEO to ensure delivery. Investors expect the collective efforts of employees will produce a return on their investments. Customers expect value, quality, and reliability. Suppliers want predictability, consistency, and accurate forecasts. Employees want a place where they can feel valued, be challenged, contribute, and be compensated fairly. And communities want a good corporate citizen. It is a big enough job during normal, stable times to steer the organization so these varied and often-conflicting needs are satisfied. But when something happens that upends the normal course of events, the CEO's job becomes tougher. The bigger the change, the more complexity is added to the mix.

A change that qualifies as major is when the strategy is recast to the point that the way the company operates must change in a fundamental way. Another change that qualifies as major is a CEO transition. And it is not infrequent that they coincide.

That was the case with Dave. As we said, Dave had been CEO for five years, and during that time he brought order, stability, and discipline needed for the business to grow profitably. He was working on a new strategy in the months prior to agreeing with the board that he would find a successor. The strategy he had taken over when he had joined as CEO had worked well, but he believed the company was coming to the end of one era and was poised to begin another. He led his senior managers through a process to envision a company in five years that was larger and more efficient, dominated the industry in market share, and was its leading innovator. The board endorsed the effort and encouraged Dave to formulate a detailed strategic plan. It was in process when the decision was made to look for a successor.

At a time of his own leadership transition and also a significant shift in strategy, the sitting CEO has his hands full. He must perform the normal CEO tasks of representing the company to outside stakeholders, being the beacon of the company's mission and values inside, and keep the business running day-to-day to profitably deliver quarterly revenue. In addition, he must take on two other tasks that are not only significant but are also the type that become even more complex if not done right the first time. The first is assimilating a successor and deftly managing the handoff. The second is to actively fulfill his role as chief visionary and chief strategist: chief visionary so his people believe in the direction in which he is headed and chief strategist so there is a realistic plan to move the whole company forward.

These items take up much of the CEO's efforts and schedule. But they occupy only one part of his mind. In addition, his thoughts are taken up with what the handoff means to him personally and to the legacy he will leave behind. We will discuss this personal aspect in detail in Chapter 5 and in various parts of other chapters, as described by the three dozen CEOs with whom we talked. For now, the point is that when added to a strategy upgrade, running the day-to-day business, and being the chief visionary, managing one's own transition with its organizational and personal implications adds a great deal for any CEO to an already complex role.

Board The board also faces a great deal of complexity in handling a transition. In cases where directors, and not the CEO, are primarily responsible for managing the transition, the board must devote significant time on top of its regular duties. And, of course, as it does so, it must marshal the resources of the company and utilize them well. Even in cases where the CEO manages the process, the board must organize for and devote time to overseeing the overall effort by ensuring the process is well designed and managed and that directors are available at critical junctures. Perhaps what brings complexity for the board as much as anything else is managing relationships, including with the CEO as he prepares to depart.

In one case, the board and CEO/chairman (who was also the company's founder) agreed on a retirement date. The CEO was in his early seventies and had devoted the majority of his career to starting and building the company into the leader in its industry. He was fêted regularly as an industry visionary, and his company regarded him as an employer of choice.

These were the best of times for him, the reward for a life of taking risks and working 18-hour days. He was in good health and seemed to be finally closing in on an acquisition he had been pursuing for several years, one that would bring a product line and a geographic market that would increase his company's global reach. Even though he had said yes to the board about retiring, he thought he could put off the directors and leave on his own terms and when he was ready. He had decided that when he did leave, he would remain as chairman and his longtime COO would become CEO. "After all I've done for this place, [the board] will do what I want them to do," he boasted to an advisor.

But the board had different ideas. The lead director held several informal discussions with the independent directors without the CEO's knowledge; they all agreed that it was the right time for the CEO to give up both titles and to leave the board. As the lead director put it later, "What tipped the scales for many of us was him pushing his choice on us. None of us believed that [the COO] could lead the company, and that [the CEO] intended to stay on as chairman said to us it was his way of staying in control. All of us knew that this was a recipe for the company to go backward rather than forward."

The board ran the search entirely on its own with the lead director and chair of the compensation committee teaming up to spend significant time. The only company employee involved at all was the head of human resources, and she only as the compensation committee and final candidate were negotiating a package.

When the board takes on such a role, whether in a case like this or when the CEO is no longer in the company, it moves to the high end of the complexity scale. For one thing, by taking over, the board forfeits the chance to share the choice, and the responsibility, with the CEO. Another level of complexity for the board is added once the new leader accepts the board's offer.

In this case, the board made the mistake of deciding that its job was done when the candidate it wanted accepted its offer. It told the chief financial officer (CFO) and head of human resources to arrange for the appropriate onboarding. But because neither had been involved in the drama that led up to the new CEO joining, and since the CEO/founder was still in place completing his final days in the company, they were unprepared to fill in the new leader appropriately. As a result, briefings were incomplete. Fortunately, the new leader is a talented and mature executive who was able to overcome these oversights and make sure they didn't turn into setbacks. But, the cost of not preparing for the handoff once the new leader said yes was that it took longer for him to get to know the culture, and in particular for him to judge who remained loyal to the former CEO and whom to trust.

Complexity for the board increases the more it becomes involved in a CEO transition. By design, directors are not intimately familiar with how the organization operates day to day, and most do not get to know well the culture or power structure. When they are pulled into a role that demands knowledge in these areas, they scramble and ultimately do what needs to be done with much effort, or they flounder and leave behind problems that the new leader and his managers must solve. This case fell into the do-what's-needed category. While the scramble to make everything go well all worked out, a good deal of luck was involved. At the top the stakes are too high to depend on luck.

CHRO A transition at the top demands that others besides the CEO do a hefty part of the execution-related work necessary for a smooth handoff. The reason is not that the CEO has a big workload but that it is usually best for him to be in a position to make decisions based on options posed by someone closer to the details. We'll explore this in greater detail in Chapters 5 and 6.

Execution-related work includes finding the right search firm, making sure it has the necessary expertise and network, and then managing the relationship so that the firm delivers the service needed. It also means keeping the CEO informed without dragging her into too much detail, but all the while ensuring that the search reflects the CEO's and the board's objectives. Playing that role often requires conducting shuttle diplomacy between directors and the CEO. It also means paying attention to the impact of the transition on the climate, on the ability of the executive team to make decisions and solve problems, and especially on the attitudes and motivations of senior managers.

Execution-related work also includes being the primary contact for the new leader, acting as a safe sounding board who helps in the onboarding stage as well as with the broader demands of the transition. We described these sorts of tasks in the Introduction by suggesting that the CHRO should take on this role. In completing the research for this book, we interviewed 25 CHROs from companies such as American Express, CDW, Walmart, Aetna, ITW, Humana, Best Buy, Telstra, Biogen-Idec, and Johnson & Johnson. The results are included as case studies, some disguised, as well as in shaping the CHRO's role in planned transitions.

In Chapter 6, we will get into more detail on why the CHRO should be the one best equipped to fulfill this role. The question here concerns the complexity faced by that person during a transition.

Wes, the CHRO in the earlier case, offers an example. He had been hired from a larger corporation known as one of the best in the world at human resources and a training ground for many human resources executives who moved on to CHRO positions in other companies. He had moved through labor relations, compensation and benefits, executive compensation, and management and organization development, and had been a generalist in a large division. He was well prepared to be CHRO when recruited seven years earlier. He inherited a function that provided only the most basic services and was staffed with people who had never worked in a company with a top-notch human-resources function. His first couple of years were taken up with importing people with more experience and establishing the systems that, as he put it, would make sure "the trains ran on time."

Wes was pleased when Dave was hired because of the sophistication and experience the new CEO brought to the company. The two men hit it off right away. Because Wes was reminded of the executives he had worked with in his previous company, he understood the standards that Dave had for performance and knew what he expected from his direct reports. The one thing that Wes had not done in his career was work on a CEO transition. But because of Dave's capabilities and their relationship, he looked forward to taking on the challenge.

Wes soon discovered that his general role of coordinator of both the search and the transition processes was a bit more complicated than he had expected. Ensuring execution of each event and step required him to wear a few hats. One was the role of *communicator*, the person who ensured the various players were informed about that which they needed to know and when they needed to know it. Second was his role as the *interpreter* who could ensure that what the major players expected of one another was clearly understood. The subtlety of these two parts of his role was that they were not intended to substitute for but rather to facilitate communication between Dave and the board and between Dave and the senior managers. And, finally, Wes was the *sounding board* for Dave and the senior managers. It was Wes to whom Dave turned to finalize the job expectations of Jim as well as the final compensation package, and with whom he talked through the pluses and minuses of Jim entering as COO. And, when the senior managers wondered how Jim's role would affect them and how they should prepare, they turned to Wes.

Complexity during a transition can come in many forms. For the CHRO, it comes in the form of the paradoxes inherent in the behavior needed to do well when wearing each hat. The three roles of coordinator require the CHRO to be organized but also flexible, to assertively employ sharp influence skills but also be aware of the limits of his authority, to work closely with the board but be always mindful that he works for the CEO, and to counsel the new leader in developing a relationship with the CEO but also help the CEO judge the new leader's performance. The result of having to manage these paradoxes is that the CHRO is very much the person in the middle, as was Wes in his work with Dave and the board.

Wes became especially active at the point in the search process that calls for detailed specifications of the position to be filled and the optimal profile of the person who best meets them. Because the detailing of specifications sets the tone for all that follows, it is one of the search's most important steps. Some boards or CEOs make the mistake of outsourcing the definition of specifications to search firms, but Dave did not fall into that trap. He instructed Wes to draft specifications and then discuss them with the lead director, then with whomever else on the board the lead director suggested, and then meet with the search firm to finalize them.

Wes wanted to do more than just pass a draft of specifications past a few board members. He asked for Dave's approval to discuss with the lead director a way to lay out clearly the roles that the board and Dave would play in each step of both the search and the transition. Dave agreed because he trusted both the lead director and Wes to handle this task. Clarifying the CEO and board roles had the added benefit of clarifying expectations for Wes's role. Wes's navigation between these strong-willed executives resulted in a "responsibility chart" that laid out for each major step in the process the person or group who had responsibility, who had ultimate authority, and who needed to be informed. The process passed the first test by resulting in specifications that all were involved with defining and to which all agreed.

Senior Managers Once the transition moves through the step of the new leader saying yes to the company's offer, two elements of complexity are added to the mix. One is that the attention of, and the emotions of, the senior managers increases. The other is that preparation of the organization moves into high gear, something that each senior manager is responsible for in the units he or she runs.

Preparing the organization includes not only letting one's department know that someone new is about to join the company but also what it will mean to the routine of the department and its ability to meet its annual targets. It will require more preparation if the new leader comes in as boss rather than as a peer. In that case, the senior managers must be ready for presentations to justify strategies, annual plans, and budgets as well as reviews of the talent and potential of direct reports. Chapter 7 offers a case of such a situation.

As explained in the Introduction, by “senior managers” we mean the managers who direct business units, divisions, and functions, usually as direct reports to the CEO. The reporting relationship to the new leader depends on whether he was hired: (1) as the number-two person in the organization (for example, as COO or president) with people reporting to him who had been reporting directly to the CEO or (2) into a position as part of the CEO’s senior leadership team and as a peer of those who report to the CEO.

Jim’s case is an example. As mentioned, Dave and the board first defined the job for a successor as executive vice president of sales and marketing. The idea was for the new person to enter as a peer to the people who reported to Dave and move up to chief operating officer after proving his capabilities. While it would have meant a reorganization at the level below the top team (the sales, marketing, and business-development functions reported separately to the CEO), upheaval at the top management level would have been avoided. Also, a gradual ascent would have afforded time for the new person to win over Dave’s direct reports.

But as sometimes happens, Jim emerged through the search as someone who exceeded the specifications for an executive vice president, and he made it clear he would only join the company as COO. The directors and Dave were sufficiently impressed that they rethought their original plan and offered him the COO spot. One result was that the upheaval at the senior team level—which Dave had expected to avoid by Jim taking hold gradually—had to be faced before Jim came aboard.

From the point of view of the senior managers, the entry of a new leader means disruption of routine regardless of whether she enters as a peer or boss. The managers have to adapt to the new leader’s communication and management style, and often to new information requirements if the new leader comes in with a mandate to change what she has taken over. More important than routine can be the need to build a relationship with the new leader, something that depends on the position at which the new leader enters.

If the new leader joins as a peer, the senior manager has to develop a relationship with someone who could be a competitor for the CEO position and/or an eventual boss. If she enters as the senior managers' new boss, they have to prepare for and then navigate a new situation as they report to someone new. Complexity for senior managers, then, comes from the need to prepare their organization for a new key player or boss. This requires either justifying or recasting the plans they are following, as well as shaping a new relationship with someone whose position not only impacts the way their unit operates but could impact their career aspirations.

Systemic Adjustments

In addition to the individual adjustments required of the major players during a transition at the top, adjustments are also required for the total system. To start with, a transition often heralds changes to the strategy. This requires changes in the systems that propel day-to-day operations. Changes to the strategy and operations in turn cause changes in the political structure as relationships are reshaped and eventually to the culture as a whole as one era ends and another begins.

Strategic Sometimes, a transition at the top ushers in a change in strategic direction when the board hires the new leader with the primary mission of charting a new strategic path once aboard, as was the case with Lou Gerstner when he took the helm at IBM in 1993, or more recently, with Meg Whitman at Hewlett Packard in 2011 or Marissa Mayer at Yahoo in 2012. But a transition can also happen after the decision to chart a new strategic path and as a major step in that direction. That was the case with Dave and Jim.

Once the search for his successor was under way, Dave and his team prepared for a special meeting of the board to have a detailed review of the current strategy, something that had been planned well before and independently of the decision about CEO succession. Dave had convinced the board that, while the current strategy had done its job in guiding the company to its current point, it would be inadequate going forward. He set about formulating a new one.

Every good leader has a personal master plan that he usually does not reveal publically but that guides the achievement of the strategy he has promised to deliver. Dave's was based on three beliefs, and each had attached to it a significant risk.

- He believed a new strategy must strike a balance between, on one hand, learning to act like a large, mature organization that could control its growth, and on the other hand, retaining its informality and entrepreneurial spirit that provided for the experimentation and fast decision making that had been its hallmarks. Such a balance, difficult in the best of circumstances, was made even more so by his two other beliefs.
- He believed that to meet growth expectations there would have to be a broadening of products and services, something that could only be done through a significant acquisition. The risk was that the managers in his company had their hands full with the demands he currently was putting on them and would have a hard time also assimilating a new organization.
- He believed he had to get the culture prepared for the board's primary objective of the company once again going public, a change that would be significant since it had operated for five years hidden from the bright-light scrutiny of the financial markets. There was no way of predicting just when the time was right for a

public offering, but when it was, he had to make sure the company was ready.

To be successful, the strategy based on these beliefs required the company's day-to-day operations to be predictable and efficient. Forecasts had to be accurate, commitments made had to be met, there had to be fewer unpredictable interruptions, and all that had to be done in a way that costs came down rather than increased. In addition, the plan to ensure these objectives were fulfilled had to be communicated in a way that motivated the company's managers to make changes to the habits and routines with which they had become comfortable. Given the way the company operated currently, there was a lot of work to do on the operational front.

Operational The operational infrastructure of a company comprises systems and processes. Three systems form the backbone of that infrastructure: information, measurement, and rewards. The processes, both formal and informal, that the leader depends upon to solve problems and make decisions are fueled by these three core systems. A transition at the top affects both systems and processes in three ways:

- **If the strategy changes, new processes will be needed to support it.**

  If, for example, a company depended on organic growth and the new plan called for growth through acquisition, there would have to be a merging of information systems with the company acquired, as well as a merging or conversion of measurement and rewards systems. This would in turn require adjustments to the processes on which the leaders of the acquired organization depend to understand the climate and the concerns of employees. In a planned transition, as the tenures of the sitting CEO and her successor overlap, both must be involved in ensuring changes are made.

- **If the new leader reorganizes because he has a different interpretation of how to best respond to the marketplace, or simply because the inherited structure does not fit how he intends to lead, systems and processes are sure to be changed.**

  Jim made such a change six months after joining as COO. Sales and marketing had been run by two vice presidents reporting directly to Dave. Dave had managed the company through an organizational structure that was fairly flat with wide spans of control. When Jim was hired as COO, the senior staff functions of finance, legal, and human resources remained reporting to Dave while marketing, sales, service, business development, new product development, and two business units moved under Jim. The person who was head of sales left the company soon after Jim joined for a new, larger position at a competitor. Jim took advantage of this, and to become more familiar with field operations and be in close contact with customers, he became the de facto head of sales. He left the job open on the organization chart, however, implying that he would eventually name someone else.

  After using his first six months assessing what he had inherited and becoming clear about his priorities for the next couple years, Jim decided he should concentrate on the service, business development, and new product development areas. As a result, he made three organization structure changes that had a profound impact on operations: (1) The two business units were combined under one general manager; (2) all of sales was placed under a single vice president; and (3) the information technology department (which had been reporting to the CFO) moved to report directly to Jim under a new vice president of information technology hired from outside. A more strategic approach was necessary for information system design and management, including redesigning how information from the field was disseminated and used. By combining the two divisions, planning and control functions could also be simplified.

- **The leader must assess how information comes to his or her office, how it is dealt with once there, and how decisions are communicated.**

  Every leader is supported by an administrative structure of some sort. Most, managed by an executive assistant, adequately support the leader during normal, stable times so that he is prepared and on time. The structure coordinates his schedule, communication to the organization, and preparation for staff meetings or special events such as board meetings. But as useful as they are during times of stability, normal administrative systems do not offer enough for the new leader during times of change. For one thing, the systems were designed for his predecessor, and for another, as in the case of Jim, for a different organization structure.

  For the new leader implementing fundamental changes, the administrative system that supports her must be proactive and anticipatory, something not usually done by one's executive assistant. It must look for the most useful research trends on issues that are important to the leader, make sure decisions on those issues come to the leader's attention neither too early nor too late, ensure coordination and communication between the CEO and her senior managers and with the board, and find formal and informal ways for the leader to understand the mood of the organization as changes are being implemented and also where there are pockets of resistance. Structuring a system giving these benefits takes a familiarity with the strategy, a keen sense of the political structure, and an accurate diagnosis of the leaders' decision-making style. These are tasks best taken on by someone in the role of a senior staff aide. We look at this role in more detail in Chapter 6.

Political The political facet of organization life is made up of the alliances and coalitions that determine how key decisions are made, whose opinion has the most weight, who influences whom, and why. It determines whose ideas and decisions are supported as much as or often more than any other factor. The rational, financial case for a particular change in strategy, for example, is understood if it lays out the long-term benefits to the company's current and future well-being. Similarly, a change in a key operational system will be grasped if it is made clear how it will better enable employees to achieve what is expected of them and what they expect of themselves. But understanding of a new idea is quite different than commitment to do what it requires, especially when that requirement means behaving differently.

When done well, the rational, financial case will move minds, but it rarely will move hearts. To change behavior, both hearts and minds must be affected. For that to happen, much more is required of the leader than merely laying out the rational case for change. He must know who is aligned with whom, understand what the most influential people want, and grasp the source of the power they have over the ideas and opinions of others.

How does all this apply to transitions at the top? In at least two ways:

- As we have pointed out, the transition cannot be called a success until the loyalty of influential managers has been won by the new leader. Only then will they follow his lead and will there be the sort of leadership continuity that can ensure continuous financial success. For that to happen, the new leader must win at least as much followership as his predecessor. That requires him to figure out who has the most influence among the supportive senior managers and also among the managers under them. Why did they follow his predecessor? What motivates them and why? What did he do to win their support? Who resisted? Why? Now that there will be a handoff to someone else, what will be required to win the support of people who have been loyal to the predecessor? Can others be convinced to support the new leader?

- The new leader will arrive at the point where he knows what to concentrate on and the changes that are necessary to put his stamp on the organization and make it his. As pointed out before, in Jim's case that point came at about the six-month mark. By then, he had decided what had to be kept but strengthened and what had to be changed. But the changes meant that the roles of some influential managers would be altered in ways they would not be happy about. In the months when he ran the sales force directly, Jim wisely used market tours, customer visits, and sales meetings not only to direct the day-to-day business but also to judge who had the most sway. As he was learning that, he also discovered who in sales support, finance, information technology, marketing, and the business units were influenced the most by the senior sales managers.

It became apparent to him that two regional sales managers had outsized influence compared to their peers. Jim made sure he got to know both. He decided that one would support the changes he wanted to make while the other would resist. Jim spent more time in the region of the supportive manager and learned that she had been trying for some time to convince the CFO and sales support to change the way they measured progress on the sales plan. She wanted her sales group to be more incentivized to sell new products that were more attractive in her markets but also had higher long-term margin potential. Jim agreed with her idea and set out to discover why it had met resistance.

He found out that her hard-charging style was off-putting to the CFO, and that because she hadn't made the case persuasively enough that this new measurement approach would benefit the business overall, her arguments came across as self-serving. As the CFO put it, "She just wants an easier way for her to make her numbers because these products are more attractive [to customers in her region]."

Jim made her cause his own and arranged for her to have help to make the case differently, including counsel to adjust her style as well as advice on preparing a cost–benefit business case for the change. The change in measurement of revenue was incorporated in the reorganization package Jim announced. Meanwhile, the regional manager who resisted Jim's changes announced his retirement (having been given no choice by Jim), and the new regional manager who had been pushing the new measurement system was promoted to run the entire sales force.

Strategic, operational, and political are three important categories of adjustments required during a top-level transition that affect the whole system and add to the complexity that comes with a handoff. The final category that is systemic in nature comes from the company's culture.

Cultural Grasping the culture of an organization that is new to a person hired into a top spot is more difficult than any of the other three systemic elements because it involves delving into several layers and being able to interpret inferential data. Especially when coming from outside, it will only be after six months or so that a new leader can fully answer what should be one of her most important questions: How are things done around here? She will first notice patterns of behavior that determine how information is communicated, problems are identified, and decisions made. To understand them, she must dig deeper. She will find that those behavior patterns are supported by policies that are in turn a function of expectations reflected in systems that determine how performance is measured and managed. Those systems are shaped to reinforce certain rituals and traditions that have evolved over time. At the base of this cultural pyramid are the core beliefs, unique in each organization, that after a while aren't questioned but are reflected in

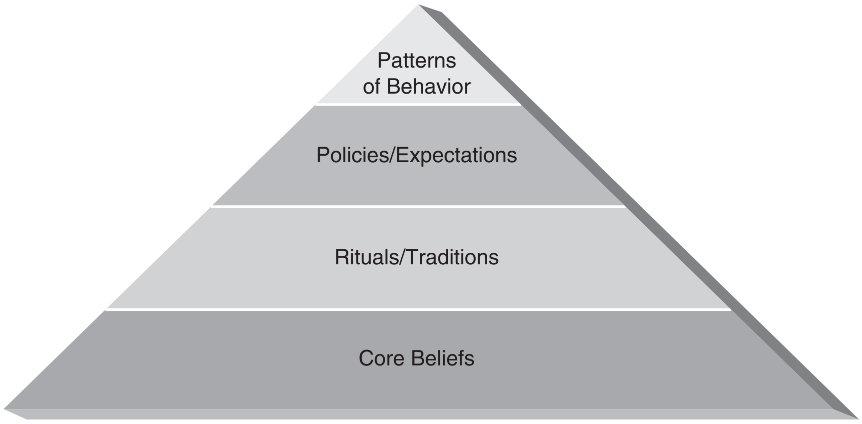

Figure 1.1 The Way People Do Things Around Here

each of the layers above it and are just accepted as "the way people do things around here" (Figure 1.1).

Before joining and settling in, it is difficult to grasp these layers of behavior, politics, expectations, rituals, traditions, and beliefs. They're rarely explained to the new leader by the major players because they themselves do not recognize them well enough to articulate a description. But although invisible, they are always there, combining to shape the culture.

In Jim's case, Dave put the how-we-do-things-around-here question front and center by scheduling Jim to meet with the CFO and general counsel in his first-round interview, as well as two managers one level below the executive team in the second round. Few people being courted as designated successors expect to meet with people who would be peers and might be competitors for the top job. Even fewer expect to meet with likely subordinates. By making this part of the interview process, the unspoken message from Dave was that an important element of the culture was inclusiveness.

Dave had been CEO long enough and his impact on the organization had been forceful enough that he had caused the culture to change; this practice of inclusiveness was just one example of the culture he had shaped. Understanding Dave's leadership philosophy would be necessary in order for Jim to fully grasp the culture, and that in turn would be necessary to his winning the followership required to become the next CEO. Dave understood this and provided Jim the chance to understand the culture before he was hired through the interview schedule and also later through an important step during Jim's onboarding.

Dave had quickly come to the decision that Jim was the best candidate to help him take the company to its next level. As a result, it was he who recommended to the board that, in order to get Jim, the job offered should be chief operating officer rather than executive vice president. He also sensed that Jim and he had quite different leadership styles, and that could make it difficult for Jim to fit into the company's culture.

An assessment of Jim's style had been done as part of the search process. One of its conclusions was that he made decisions in a "one-alone way," gathering information but not revealing what he was thinking, and then deciding on the path he was going to take on his own. In this regard, his approach was the opposite of Dave's, who became clear about the issues he faced and options for handling them by engaging people, testing ideas, and gauging the reactions of others.

Dave's way of getting clear about decisions was a function of not only Dave's learning style but also his leadership philosophy. He believed it vital that the people who were to be involved in implementing an important decision be involved as much as possible in every stage of its evolution. He was convinced that this approach was at the core of the trust that he believed necessary among members of his senior team.

As Dave began to get to know the person who he and the board expected to be the next CEO, he wondered how such a fundamental difference would affect their ability to work together. Typical of how

Dave would approach such a question, he wandered into Wes's office to talk about it.

Wes suggested that Dave and Jim meet to talk about their styles of decision making and leadership. He followed up with a memo to Dave laying out a day-long agenda to do so. Then, with Dave's knowledge, Wes talked to Jim. Wes, perhaps sensitive to Jim's reactions about the aspects of the company's culture that were unfamiliar to him, sensed that Jim was a bit surprised about this idea as well. It took several questions from Wes to get Jim to admit he was more concerned than surprised. Did it mean that Dave was having second thoughts? Had he seen something that worried him?

Wes took advantage of the opportunity to describe Dave's style and what he had sensed so far about Jim's, and went on to explain what he believed Dave envisioned about the type of culture the company needed to continue to grow and be successful as a public company. It was at this point that Wes discovered that Jim had felt awkward at the requirement to interview with a diverse group of people. Wes explained that inclusiveness was an important part of Dave's leadership philosophy, something Jim needed to understand to get a sense of the culture of the company. He pointed out that Dave wanting to discuss style and philosophy was not a sign of second-guessing his decision. If Dave didn't believe that Jim was the best choice to be COO, Jim wouldn't have gotten an offer. Even though it had been the board's decision, it would have chosen Jim only if Dave was squarely behind him as the choice.

Wes suggested Jim consider the session with Dave as an opportunity that few people in his position get early in their tenures and that, if it went well, would ensure that the relationship between him and Dave started on the right note. If that happened, the whole company would line up behind both of them. In the end, the meeting between Dave and Jim took place and, among other things, gave each an understanding of the styles of the other executive and also resulted in an agreement of respective roles of CEO and COO that enabled each to leverage what he did well.

Summary

There were three objectives for this chapter:

- Describe a top-level succession that went well.
- Emphasize the complexity inherent in a succession of this type.
- Suggest that what makes the difference between a successful and unsuccessful transition is the recognition of and management of its complexity.

Even a successful transition encounters stumbling blocks because of complexity, but skilled executives and directors can take steps to overcome them. The complexity stems not just from challenges facing each of the four key players—directors, CEO, CHRO, and senior managers—but also from the strategic, operational, political, and cultural systems in which they work. The surest step to success, one taken by Dave and Jim, is an understanding of the complexity caused by the interaction of these forces. Once the major players gain that understanding, they position themselves to overcome stumbling blocks and turn challenges into opportunities that benefit all.