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# Managing CEO transitions

**A leader's best chance to lock in new organizational norms is usually during the first few months on the job**

**Tsun-yan Hsieh and Stephen Bear**

*A new manager brought in from the outside. A key retirement. An executive waiting in the wings who finally gets his or her chance. The splitting of the Chairman/CEO role into two separate positions. The departure of unsuccessful contenders. Beyond their obvious effects on individual careers, such changes are also opportunities – often not fully exploited – to bring about significant organizational change. Never more so than when the change takes place at the very top with the appearance of a new CEO. These “appearances” are becoming increasingly common as more industries face discontinuities and more stakeholders assert their rights. Indeed, nearly a quarter of the CEOs of Business Week’s top 1,000 companies have turned over during the past two years. How can companies – and new incumbents – better leverage these stressful periods of transition to break out of the performance-limiting aspects of the established order?*

**P**ERHAPS AN OIL COMPANY president put it best: “This place has had three presidents in five years. My predecessors all made the mistake of trying too hard to get things back to normal. The organization took it as an endorsement of business-as-usual when a lot had to be changed. When I came in, the place felt rudderless. They were watching me to see if I would break them out of this rut. I did.” Appropriately so. CEO transitions offer a natural, albeit brief, opportunity to shake up the status quo and change it fundamentally.

Make no mistake, even in the most flexible organizations, an entrenched status quo rapidly develops. Everyone knows what is important; who has influence; what success really means; which roles have prestige; which protocol must be followed to get things done; what constitutes a career-limiting move. On the positive side, this shared knowledge, when replicated all the way down the line, promotes a certain efficiency. It is clear whom to call; how reports should be done; which meetings to attend; what is kosher to ask; and where the land mines really are.

CEO transitions disrupt these efficiencies and sever the web of familiar practice. Connections are broken; intelligence flows stop; secure power bases are

thrown up for grabs; uncertainty takes the place of continuity; and what was once an easy and standard route to follow becomes a voyage into uncharted waters. Within 100 days or so, however, a new order usually gets established and things settle down again. Or, in the absence of strong leadership, the old order reasserts itself. Either way, such periods of genuine transition – the time when all is in flux, nothing is fixed, the status quo is interrupted, and an organization buzzes with the expectation of change – are painfully short.

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But they are also – if properly grasped and managed – a unique opportunity to reset a company’s rhythms to the requirements of the future. The general readiness to listen, learn, and act is at its height. So is the willingness, during this honeymoon phase, to defer judgment and give new incumbents the benefit of the doubt. These are, then, times of fluidity during which new performance expectations can be established more easily and new organizational norms are cast. They are also when the foundation stones get laid upon which a CEO’s legacy will be built.

From a series of discussions with CEOs who have undergone such periods of transition and from our and our colleagues’ work with public- and private-sector leaders around the world, we have distilled six lessons about how to make the best use of these periods of fluidity.

## **1. Start with where you want to end up**

Sprinters are trained to keep their eyes on the finish line, but it is easy to be distracted by all the excitement as a race gets under way. CEOs who are new to their jobs can also get distracted by the day-to-day urgencies of running their business and by their felt need to hit the ground running. Everyone tells them, “When in doubt, do something.” But looking back years later, they often regret this peremptory action bias. As the CEO of one media company acknowledges, “I expended a lot of my – and my organization’s – energy on areas that should not have been priorities.”

In retrospect, many corporate leaders wish they had started with a much clearer sense of where they wanted to end up. The lesson is painful. “I’ve learned,” one reports, “that you have to be very clear about your end goals because, without that clarity, you waste a lot of time, money, and goodwill taking detours, making mid-course corrections, and reversing your earlier decisions.” Some do not survive such reversals or corrections. As a CEO who lost

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his job after only 18 months put it, “For a while, I thought I had traction by attacking the most urgent issues a couple at a time. But I was soon consumed by the fire that I was trying to put out.”

### *A focus on legacy*

Executives who do make the transition successfully often focus, from the very beginning, on the kind of legacy they want to leave behind as a way of setting their sights on the finish line. When they think about their potential legacy,

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many CEOs first look to business goals: “I want to have downsized the company and focused it more on the core business before I leave”; “I want to restore share prices to pre-1987 levels”; “I want to build a management team that can – and will – take this company forward.” Others dwell on

personal considerations: “I’d like to get invited to stay on for another three years”; “I’d like to have developed a second pursuit by the time I am 55.”

All these aspirations are legitimate. By themselves, however, they – and many like them – do not go far enough, do not cover enough ground. They address underlying cultural issues much too infrequently. As one CEO reflected, “There is nothing more important than to leave behind an organization that feels confident of its future and feels like a winner.”

We have found that an effective way of thinking about a legacy includes: the condition of the organization at the time a leader departs; the prevailing focus of its people; what the leader personally stood for; and the organizational climate that grew out of the leader’s style and actions. Thus defined, a legacy goes well beyond aspirations for financial or market position. It deals, as well, with perceptions in the minds of the leader’s many and varied constituencies. And like all issues of perception, it deals with things that are more black-and-white than reality.

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The CEO of a large US industrial corporation had created a record of major improvements by concentrating primarily on downsizing and defending against further market share erosion. However, the company still lagged world-class industry leaders and the climate left behind was perceived as being riddled with uncertainty and shaken confidence. By contrast, when Sam Walton of Wal-Mart died in 1991, he left behind the most successful retail operation in the United States, a personal reputation for thrift and attention to detail, and an organization marked by high energy, a strong performance orientation, and great confidence in its continuing success.

A fair test of legacy-related aspirations is to ask, “What would be my number one regret if I had to leave without achieving it?” Due diligence, however, requires asking as well, “What is the number one thing that could derail what I hope to achieve?” Is there, for example, a capable next generation of leaders to carry on – and build on – the present leader’s accomplishments?

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At the same time, of course, a new CEO must take into account any personal considerations that will impinge on the time and energy available for business pursuits. Here the questions can get quite personal. At this stage of my life, how much sacrifice on the personal front am I willing to make? How much time must I carve out for personal health or physical conditioning? For specific family members? For community service? For outside activities like involvement in regional economic development forums, special government taskforces, or CEO roundtables that might also, even if indirectly, benefit the stakeholders of the corporation? The challenge is to make these personal aspirations explicit and think through how they interact with all the other elements of a hoped-for legacy.

## 2. Get clear on the lay of the land

There are many unwritten realities that add up to the unique landscape that characterizes each organization. Who belongs to the power cliques? Who has credibility and why? How do the subterranean communication channels really work? What do people hold dear? How do decisions really get made? Which are the constraining scarce resources? How do they get allocated?

Most new CEOs instinctively know they must explore the organizational terrain for unexploded land mines. Few, however, delve deeply enough into how

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the organization really works or how different people will react to different leadership actions. Even fewer develop the full range of insight needed to use all of an organization’s dynamics to achieve greater impact.

This, of course, can be treacherous ground. According to the new CEO of a manufacturing

business, “It is dangerous just to find out what people’s strengths and weaknesses are and where the land mines used to be. That doesn’t tell you how things really work or where the new booby-traps are planted. I had to get a sense of whether – today – a particular move would trigger a dynamic chain reaction that might blow the place up.”

Chain reactions, started by new leaders, can also have beneficial effects. Another new CEO, for example, went to work early every day during his first three weeks at a transportation company. His intent was to start the day early enough to read up on the company's business before staff members showed up at 9.00am. Coming in around 7.00am meant that he literally had to turn on the lights. By the second week, he noticed that more and more people were coming in early. By week 3, someone always arrived before he did and turned on all the lights.

These chains of influence mean that there are possible economies of effort in changing an organization's dynamics. When the new CEO of a large US railroad took over the reins, he wanted to move immediately to make the indulgent corporate culture far more people- and performance-centered. Among the first things he did was close the executive dining-room and kick executive offices out of their prime ground-floor space so they could be replaced with a fitness center. By the time he announced that one-third of corporate staff would be cut, the organization had already gotten the message: change was real and more was coming.

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Surprisingly, it is not difficult to build a good working model of these dynamics – *if* a new leader systematically explores the landscape, talks to a representative cross-section of people both inside and outside the organization, and asks the right questions. As a new division president of a paper company told us, “You never find out where all the skeletons are from the inside. I often get more insights into the culture and politics of an organization by talking to customers and suppliers.”

An army major we know always made it a point to take a week of personal time to visit, unofficially, his next posting before he actually assumed command. That way, he found out in advance not only what the morale of the troops was, but also what they really held dear – things like better rations and avoidance of extra weekend duties. He also found out the strengths and weaknesses of all the officers in that command, as well as the one whom the troops respected the most. On the first day of his official command, he would ask for that officer to be his second-in-command. He would also promise his troops (and then deliver) better rations and duty-free weekends in return for playing by his rules. He got his following.

### **3. Select which expectations to change, which to honor, and which to defend**

New CEOs face the daunting challenge of balancing multiple expectations. Every stakeholder group has expectations, and available time, money,

and other resources seldom, if ever, match aggregate demands. These expectations, moreover, often clash, and conflicts of interests arise. Worse still is the discovery that promises have been made or special deals agreed to by predecessors. Never mind the fine print, there is the implicit spirit of the “contract” to contend with.

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“It was easy enough to see what the formal obligations were,” said a CEO of his transition. “The trouble I had was with expectations. They were seldom written down, and my senior managers were not close enough to the troops to know what they were. Even when I ferreted them out, my managers would deny that they were legitimate. But believe me, they were there, they were real, and they would have come back to haunt me if I had pretended that they were not.”

Somewhere along the line, these unchecked expectations can easily turn into obligations. Whether it is a promise of job security for employees, the promotion prospects or role definition of particular executives, or the size of this year’s bonus packages, new CEOs often have a hard time separating legitimate obligations from ingrained but unbridled expectations. One CEO explained how hard this is. “The expectations that I was given by my predecessor and the board were terribly vague. ‘You should be able to turn it around in a year or so,’ they told me. And ‘be sure not to give in to union demands.’ I really had to dig hard to find out what caused them to believe that these expectations could be satisfied.”

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Further, transitions inevitably give rise to new expectations as well as to questions about existing ones. “Profits are down and they just fired the CEO. Is my job secure with the new CEO?”

“He brought in a new VP Marketing from the outside. When is the next shoe going to drop on the rest of the marketing department?” “This guy [the in-coming CEO] is notorious for cost-cutting. What will happen to our tradition of paying workers at the 75th percentile of the industry?”

Recognizing the uncertainties created by the fact of transition at the top, many CEOs feel compelled to move quickly to clarify and address the expectations people have of them. At times like these, however, they need to be aware of two kinds of problems that can haunt the rest of their tenure, if not damage their legacy altogether.

The first has to do with the indiscriminate upholding of expectations. In the perfectly understandable interest of assuaging fears and removing

uncertainty, some new CEOs treat all existing expectations as obligations and vow to uphold them across the board. In so doing, however, they squander a unique opportunity to reset expectations at a point when employee anticipation of – and likely acceptance of – change is highest. This, of course, locks in the status quo.

The CEO of a medium-size enterprise with three related businesses lamented about the missed opportunity to reset expectations when he was first appointed. The old order was that divisional presidents were left alone to run the business. Synergies across the businesses were rarely exploited because the three divisions operated as fiefdoms. Without thinking through future needs, the new CEO reaffirmed the divisions' independence. Two years later, he was still trying to get divisional managers to focus on potential synergies – long after competitors had pulled ahead by dint of their integrated strategies.

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**CEOs in transition often feel compelled to make early promises on which they ultimately cannot deliver**

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The second problem, which often follows the first, is unkept promises. CEOs in transition often feel compelled to make early promises on which they ultimately cannot deliver.

Why? They bow to the sentiment of the people around them at the time. Wanting to be liked and accepted, they let good intentions cloud their business judgment.

The CEO of a North American company felt it was urgent to allay employee anxieties following a merger with a major competitor. He quickly announced that no one from either company would lose a job as a result of the merger – a promise that was irreconcilable with harsh industry realities and, therefore, clearly unrealistic. Three recessionary years later, he had to face up to two years of downsizing that eliminated thousands of jobs. Employees who had lived with an expectation of “life-long” employment, which was strongly reenforced by the CEO's promise of no firing, were traumatized. The CEO retired shortly after without ever recovering from the stigma of his “broken contract.”

#### **4. Get your real team together**

Each transition begins with an inherited team. Like it or not, a new leader has to start with inherited players and their hidden agendas, uncertain aspirations, possible mistrust, and questionable loyalty, as well as the history of relations among them and between each of them and the rest of the organization. Sorting out these dynamics early is never easy but always essential. As one CEO observed, “People knew that I had to get board approval to change the top team and that the board was going to question why we had to move so quickly. So my power to institute a new agenda was limited until I had key board members on my side. That took me damn near six months.”

### *Assessing the players and the team*

Naturally, the first challenge is to gather a perspective on each of the players and on overall team dynamics. Beyond probing for each person's competence, aspiration, credibility, and the like, a new leader must assess the personal impact each has on the team and on the rest of the organization. Is she a positive influence on the people she works with? Is his concern for self-interest in balance with his concern for the collective good? Does she nourish or merely exploit her peers and subordinates? Do his actions, not just his words, uphold the values I hold dear? Is she a good role model for the kind of leadership this company needs?

Questions also need to be asked about the team and the way it works. Does it provide the complementary skills I need? Is it small enough to function effectively? Does it have common aspirations about performance? How does it work together? Beyond the immediate group, who else is very much a part of the team? Who should be?

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### *Making people choices*

People choices are often the most dramatic – and arguably the most important – decisions a leader in transition has to make. Though full of difficult tradeoffs and rife with emotions, even the toughest calls are better made during the transition, when the situation is still fluid, than later. Much better to start with the right slate: the opportunity costs of having to change horses in mid-journey are too high.

All leaders have their own approaches to making people judgments. The raw ingredients, however, are similar: the person's strengths and weaknesses, the impact of each choice on the team and the organization, and the requirements of the business. There is no magic here, just a series of three basic questions: Which configuration comes closest to putting the right people in the right

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places? Combining which roles into which leadership positions will maximize the company's leadership capacity? And, of course, what personal role should I play?

Effective new CEOs concentrate on roles that leverage their proven strengths. Otherwise, they can silently fall prey to the roles that others expect them to play. "I need to cover government relations," said one newly-appointed CEO, "because my predecessor has always done it." This sounds logical, but his predecessor had had the savvy and stature to be an industry statesman. Not him. New leaders may find it difficult to define what



their true strengths are for a role to which they have not previously been exposed. It may be easier to ask: What am I *not* good at doing? This kind of soul-searching can also help them put in place managers able to compensate for their particular weaknesses.

Although the freedom they enjoy to carry out major people and role changes will vary by situation, new CEOs seldom have the luxury to move as many people as they want as quickly as they would like. In the short term at least, they often have to make compromises on which people ought to go in which places. This is tolerable – as long as these compromises boost overall leadership capacity. The only caveat is that these compromises should not be forgotten down the road as lower-level talent matures and outside candidates become available.

A newly-installed CEO at a financial services firm responded to this problem by privately classifying his executive team, through careful assessment, into three categories: keepers, watchers, and goners. “Keepers” were clearly major assets whom he quickly informed of their status even before their formal roles were decided. This reduced their anxiety and minimized the risk of losing them. “Goners” were major liabilities, who subtracted from the overall leadership capacity. Though painful, visibly – and quickly – removing them would unleash frustrated energy in the organization. Finally, “watchers” were people who could become major assets if they could address one or two deficiencies within a reasonable time, say 12 to 18 months. Meanwhile, they represented a net addition to the overall capacity of the team.

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But what if a new CEO has no flexibility to move on the problem cases? What if the team is still too large and unwieldy? In such cases, leaders often underestimate the power of informal devices like the use of forums and teams to improve overall effectiveness. It may help, for example, to change the established practice on when and with whom the CEO meets one-on-one, what the agenda is when the whole group meets, and when subgroups of two or three get asked to address specific issues.

This latter point may be especially valuable if a new CEO wants to avoid the appearance of setting up an exclusive inner circle. This is most likely to happen when there are only two circles: either you are part of the preferred inner circle, or you are not. Using multiple, issue-specific teams – each made up of different permutations and combinations of the larger group – circumvents this problem and boosts the whole group’s effective capacity. A CEO who got really excited by this approach went a step further: “Mix them up and throw in a few young tigers and whipper-snappers as chasers. Then get out of the way and watch it go.”

### *Communicating people choices*

As important as making tough people choices is the decision about when and how to communicate them. Should I do it sooner rather than later? Should I leave people to read the tea leaves and figure it out? Should I have explicit, face-to-face conversations with the individuals affected?

Again, there is no one right answer. One CEO even told us, “Sure, you’ve got to think quickly about your people. But that doesn’t mean you have to act

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immediately on everyone. The most urgent need is to move on those you’ll need to bring in.” Our experience, however, is that “explicit and sooner” is usually better than “implicit and later.” Anxious people during transitions are quick to read meanings, often not

intended, into subtle shifts in role or resource allocation. Who is in favor? Who is down and on the way out? Left fuzzy, these signals will evoke political jockeying, whip the rumor mill into a frenzy, and tie up a lot of otherwise productive energy in an endless guessing game.

The financial services CEO described above moved swiftly – within 30 days of his appointment – to reassure the “keepers.” He acted on all the “goners,” as individual decisions got made, within the first 60 days. At the same time, he told all the “watchers” why they were on probation and what they had to work on and by when. Each had the chance to buy into the challenge or take an exit package instead. At first blush, his approach may appear blunt, almost brutal. But even those executives who were terminated thought he was firm but fair and actually appreciated his explicitness.

## **5. Focus on a few themes**

“If everything is a priority, then nothing is a priority. It may sound trite. But we do it to ourselves all the time. At times, there seemed to be 200 ‘critical’ things to do. Even when I pared the list down to 30, I still felt swamped.” The sentiment is familiar. But so is the appropriate response, even during the hectic days of a corporate transition: the best directions are simple directions. When things get overly complicated, it is easy to get lost – and to lose others.

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When organizations are provided with a clear and simple road-map, they can move with purpose and focus, leaving room for individual imagination and experience to fill in the details. But when they are deluged with long lists of priorities and complex tactics dressed up in fancy words, people’s eyes glaze over and confusion reigns. It does not have to be this way.

“I gave up a lot of important-looking things and erred on the side of being brutally simple,” observed the paper company president. “I focused on only two

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themes – quality and throughput. Everyone knew what was important, and that made our energy productive and kept us in the game.”

During transitions, moving quickly to articulate a few simple themes feeds an organization’s hunger for a sense

of what the new order might entail, which frees it to respond positively to the new direction. It also provides an overall context so that people can come to grips with everything that is going on. In short, it provides a beacon of stability in a sea of change.

But what makes a good theme? How is it different from a slogan? First, of course, it must convey the essence of the rational case for the new order. But it must also be emotionally compelling. If it is not, it will not last both through the transition period and through the three to five years it will take to reach the implied organizational goals. The life of a slogan, by contrast, can be measured in days or months, not years.

More importantly, a theme finds its richest meaning as it energizes – and gets enriched and energized by – the ongoing, day-to-day actions of a broad cross-section of people. In fact, one CEO described effective themes as meeting the “rule of 3 and 300”: three simple but compelling themes can legitimize and sustain up to 300 separate but consistent organizational initiatives.

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Not surprisingly, the themes best able to mobilize large numbers of people tend to be value-laden. The new CEO of a natural resources company, for example, captured the imagination of his people when he enunciated the dual themes of “velocity” and “business-like thinking.” Both readily developed personal meaning for everyone in the organization. Front-line people recognized in them an endorsement of rapid decisions that sensibly tried to balance economic gains among employees, shareholders, and the communities in which the company operated. Staffers recognized a clarion call to cut red tape and move with greater and more purposeful speed. The essence of the new order became clear: we must become fast-moving, tough-minded, and responsible businesspeople to stay ahead of the game.

Within 60 days of his appointment, the new CEO of an industrial company called on his people to become more “performance-oriented, bottom-line

accountable people” who relied on “simplified business processes” and “strong implementation skills.” They responded well initially, but never broke out of their old ways of doing things. The reason? Key initiatives were underled, and expectations remained unclear on how far or how fast to change. As a result, promising themes soon turned into hollow slogans.

## 6. Balance between short and long term

Transitions are always hectic, challenging times. The pace is intense. Everything demands attention. Daily calendars are filled with countless urgent and immediate tasks. In such an environment, it is not surprising that important long-term priorities often slip out of focus. Even with the best intentions in the world, it is not always easy to tell what must be done now and what can be done later. It is hard to strike the right balance. Indeed, a common refrain from many new CEOs is “There were so many opportunities to add value, that my biggest mistake was immediately to turn the place upside down based on flawed knowledge.”

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Few new CEOs get the balance right. Most gravitate to near-term urgencies, soaking up precious time trying to keep the wheels from falling off. This is perfectly understandable. A few deliberately take off for the mountains to

ruminate on paths to the future, leaving the organization to wonder what might eventually come down on them. This is understandable, too. As is the focus of still others, who embark on cost-cutting campaigns, believing that the organization should do – and think about – nothing else before it takes out a big chunk of costs. This, of course, leaves everyone to worry about what will be at the end of the rainbow once the raging storm of downsizing has finally subsided.

Balance, however, *is* important – and possible. Two simple principles might help. First, people will be more enthusiastic about near-term sacrifices if they know that a better future lies ahead. New leaders must take the time to spell out, even if only thematically, what constitutes that better future. If they are clear about the kinds of capabilities required in the new order, their people will be better able to avoid cutting out muscle along with the fat. The previously mentioned financial services CEO, for example, employed three themes during his transition: “Low-cost producer,” “Best marketer of financial services for selected target customers,” and “Superior branch network.” The first signalled the need for retrenchment and aggressive cost reduction in those businesses in which they could be the low-cost producer. The second and third provided the uplift, the redeployment opportunity for people’s energy.

The second principle is that movement creates opportunity. Some CEOs focus on a single cost or restructuring theme because they cannot see any other

controllable actions they can take. Even in this unfortunate circumstance, however, it is vital for them to communicate the future-building experiments being undertaken. No guarantees are needed, just openness about what is being explored. Investigating a strategic alliance, contemplating an industry restructuring, or reexamining fundamentals of a business generates movement forward that, in turn, may open new possibilities not imagined before. This is not an argument in favor of movement for the sake of movement. Only a reminder that there is an upside to living in a turbulent world: there are always new possibilities – and new opportunities – to explore.

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“We may our ends by our beginnings know,” wrote Sir John Denham nearly four centuries ago. He might just as easily have been writing about today’s CEO transition. **Q**

*Tsun-yan Hsieh* is a director and *Steve Bear* is a principal in McKinsey’s Toronto office. Copyright © 1994 McKinsey & Company, Inc. All rights reserved.