



The Stages of Transition - Towards a New Chief Executive

While some organisations benefit significantly from a change of chief executive the performance of many organisations does fall off – sometimes spectacularly so – during the transition from an outgoing chief executive to a new one. The period of diminished performance can easily extend for as much as one to two years. This extended period of hiatus is not inevitable and can be ‘managed down’. The purpose of this article is to raise boards’ awareness of the phenomena involved so that appropriate steps can be taken to ensure there is a controlled and effective process that minimises the inevitable ‘down time’.

It is doubtful that any board contemplates the replacement of its chief executive lightly, or with enthusiasm even when their departure is for ‘natural causes’. Quite apart from the disruption and the human drama involved there may be significant direct financial costs to be contemplated. Handled poorly there can also be considerable damage to the reputation of the organisation and the individuals involved, both the chief executive and members of the board.

When to these considerations is added the inevitable uncertainty about the performance of some future appointee, there is a real value premium to be gained from achieving an effective long-term working relationship with an existing chief executive. It can truly be said that any board has a vested interest in its chief executive being successful. Far better to find ways to help a chief executive to succeed than to place your faith in some other alternative who may or may not be ‘just around the corner’.

Even when the chief executive’s departure is planned or predictable – as for example with their retirement – there can be uncertainties (such with the identity of a successor) that, if handled poorly by a board, can have a major negative impact on the organisation’s performance.

As a starting point we consider a board should understand it is likely that the transition process for a new chief executive will involve at least three distinct phases.

1. the gathering clouds of uncertainty...

The first phase occurs when an organisation, for any reason, experiences speculation about the continuity of its leadership. This may happen where, for example, doubts are being expressed, openly or otherwise, about the chief executive's suitability, competence or commitment to the position. While chief executives are often last to know they are on the way out, the early warning signs are usually apparent to others in and around the organisation. Individual board members or key stakeholders may start act in such a way as to indicate they are concerned or losing confidence in the chief executive. Perhaps, for example, less weight is put on the chief executive's advice. Second tier executives (or even more junior managers and other staff) are sought out and questioned, apparently innocently, about 'how're things going around here?' There may be more overt signs – perhaps frustration about corporate results openly expressed at board meetings and other forums. Some board members may become openly hostile to the chief executive. Problems in the relationship between the chief executive and the board can stem from a conflict of personalities or differences over roles or strategic direction. Most often such difficulties occur in organisations that have relatively long serving chief executives. It is however, not unknown for relationships with even recently appointed chief executives to quickly go sour.

Sometimes the issues that might lead to the unplanned replacement of a chief executive make the front pages of our newspapers and for a time become the subjects of rather prurient public interest. In other cases the situation is barely noticed outside the organisation until it is announced that a chief executive is leaving 'to pursue new career opportunities'.

To the extent that the chief executive is aware his or her position is under threat, diminishing performance under stress may mean the speculation becomes self-fulfilling. Similar circumstances arise when it is known that an existing CEO is likely to retire at some time in the not too distant future.

Such speculation as is associated with such warning signs inevitably weakens and diverts the organisation both corporately and at the level of individual staff members. Key stakeholders can also become progressively distracted and unsettled.

When board/chief executive relationships fail it is almost inevitable that it will be the chief executive who ultimately (and sometimes involuntarily) leaves the organisation. Occasionally, however, board members – particularly those who are seen to be instrumentally involved - are also replaced. Others may quit in protest at the board's handling of the situation. In either case it simply compounds the disruption to the organisation.

2. The lame duck...

The second phase commences immediately the departure of the outgoing chief executive is announced. This is the 'lame duck' period that lasts until the arrival of the new chief executive. During this period the influence, authority and motivation of the outgoing chief executive gradually, if not rapidly, wanes. Amongst both staff and stakeholders, attention and interest is on when the announcement will be made and who will be the replacement. The timing is often very uncertain, even for those

directly involved with the recruitment process, and the key remaining players in the executive team may, not unnaturally, begin to focus more on the politics of the situation and on positioning themselves for a run at the top job.

If there is a period between the physical departure of the outgoing chief executive and the arrival of the new one there may be the added complexity of the need to appoint someone to act in the role. While this can be turned to advantage it can also add a variety of other negative dynamics to the situation if not well handled. An internal appointment, for example, may set up an undesirable competitive dynamic amongst the remaining executive team members and may ultimately compromise the board's ability to choose another internal candidate.

An external candidate, unless appropriately qualified and carefully briefed, may unwittingly cause considerable damage to the organisation. On the other hand they can also be a key factor in aiding the transition process. Bringing no baggage to the process and having no particular interest in the permanent appointment they can act as a catalyst for a change process. They can begin, for example, the classical 'unfreezing' process opening the organisation up to new ways of thinking about itself and its future. They can take steps that are unpopular, for example, if the organisation is failing financially, leaving the new chief executive in a position to rebuild the organisation.

They can play an important part – as an internal consultant to the board - in shaping thinking about both the needs of the organisation going forward and the profile of the type of chief executive needed on a permanent basis. They can provide the incoming chief executive with a briefing on the organisation and its people from an informed perspective that no one else could duplicate. In projects of this nature we have also found real value in the acting chief executive, or a credible external consultant, conducting focus group discussions with the board, staff and external stakeholders. The purpose of such discussions is to focus on defining the challenges facing the organisation and the qualities that a new chief executive will need to have to address those successfully. Depending on the culture of the organisation this can be very beneficial in improving staff morale and commitment and stakeholder relationships ('at last someone is listening to us').

If this phase is handled well, therefore, it can be a very positive experience for the organisation and immeasurably helpful to the new chief executive. Handled less well the period of hiatus may become an extended one and the organisation will drift if not become stationary. The circumstances that led to the departure of the outgoing chief executive may be greatly exacerbated even if a new chief executive is seen as the solution.

3. Kicking the tires

The third phase begins when the new chief executive takes up their position. Research suggests that, typically, this phase may last for six months or more. This is the time it takes for an organisation's other senior executives to settle down to productive work after the introduction of a new chief executive.

It is also the time when a new chief executive, even if an internal appointment, takes time to assess the organisation, its people and its operating environment generally. Whether or not this process is explicit, it is very unsettling and diverting for an organisation. It is also the period during which the new chief executive begins to develop a working relationship with the chairperson and board of the organisation.

If, as a result of his or her assessment, the new chief executive feels obliged to seek significant change in the direction of the organisation or to introduce changes to the personnel in the leadership team, this phase may extend even longer while the key changes are made. It will extend even further while the new management team finds its feet.

While each of these three phases may not occur in each organisation, if not the subject of a deliberate and effective transition management process, this period of transition from one chief executive to the next might easily last for at least 12 months and sometimes longer.

In an increasingly demanding world most organisations simply cannot afford to risk substandard performance for this length of time. The damage can be substantial and the recovery - even with an outstanding new chief executive - long and slow.

Part of the reason is that this transition does not just impact on board, management and staff. Other important stakeholders (e.g. owners, regulators, politicians, control agencies, bankers, key customers and suppliers, strategic partners etc.) can find the process similarly disruptive to their relationship with the organisation.

Even without assessing these it is of the utmost importance that all possible steps be taken to minimise the length and negative impact of the transition period. Our experience has led us to the strong view that the transition process can and should be managed with as much deliberation and care as the selection process itself. This experience is strongly supported by academic research into the organisational processes involved.

If a change in chief executive is unavoidable it is important that boards are aware of the consequences for organisation performance and are open to the range of processes available to assist organisations and the individuals concerned to make successful and more rapid chief executive transitions.