

TRANSITIONS

AT THE

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What Organizations Must Do to
Make Sure New Leaders Succeed

DAN CIAMPA & DAVID L. DOTLICH

WILEY

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Praise for *Transitions at the Top*

“Without a doubt, corporations have raised their game on the use of various techniques to improve the likelihood that externally hired talent will succeed in their most business-critical roles. What many companies haven't done, however, is to spend the same amount of time on building a set of transition practices to further increase the probability these executives will thrive and prosper in their new roles and in their new companies. The cost of a failed transition is monumental, and comes in the form of missed market opportunities, a loss of business momentum, reputational damage, and potential damage to the credibility of the CEO and/or the company's board of directors. Fortunately, Dan Ciampa and David Dotlich outline a practical, compelling playbook that if properly executed, will substantially increase the chance of success in senior leadership transitions. A timely and important book on a very important subject.”

L. Kevin Cox
Chief Human Resources Officer
American Express Company
Director - Kraft Foods Group
Director - Corporate Executive Board

“Senior transitions are seminal events but are often botched, at great cost to the company and its shareholders. Too often succession decisions are made by a board, with those crucial first months then left entirely to the new manager to navigate. This book takes a different vantage point and illuminates the critical role of the company, its board, and senior managers in making sure those vital successions work. Written in a straightforward, practical manner, a must read for all involved.”

Ken Leibler
CEO Liberty Financial Companies and former President
American Stock Exchange
Director - Northeast Utilities
Trustee - Putnam Investments Funds

“*Transitions at the Top* is a welcome, long-overdue addition to our thinking about leadership and transitions. Far too little attention has been paid to the dynamics and consequences of CEO succession, especially to the critical role the organization plays in driving success or failure. As Ciampa and Dotlich clearly demonstrate, the costs of botched succession processes are very high. And what it takes to make them work is not rocket science, nor is it overly costly or burdensome. It just takes discipline, clarity about roles, and unswerving commitment to the right principles and processes. Follow their advice and the result will be world-class succession planning and implementation. This is a book that every CEO, Board member and senior HR executive should read.”

Michael Watkins
Author “First 90 Days”

Co-Founder Genesis Advisors

Transitions at the Top

What Organizations Must Do to Make Sure New Leaders Succeed

Dan Ciampa and David L. Dotlich

WILEY

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*To Bruce Henderson, Chris Argyris, and Dick Beckhard.
Friends who, over the years, took the time to react,
challenge, and guide through my various transitions.*

Dan Ciampa

Preface

It's never smooth or easy to transfer power from one leader to a successor. The incumbent may not be ready to leave because he believes there's more to do, but his board of directors insists. Or the board may not have the experience or patience to fulfill its accountability of ensuring leadership continuity. Or the search process may not be coordinated effectively by the human resources department, which may also fail to devise a useful, efficient onboarding program for the new leader. Or the organization may not be prepared for the changes that a leadership handoff brings, including the senior managers who may resist the new leader because one of them expected to be promoted or because a leadership change will threaten their power. For the new leader hired from the outside, especially one taking the chief executive officer (CEO) title for the first time, these gaps in thinking and execution by the company she is joining can cause her to fail. And the challenges become even more difficult to overcome when the leadership transition coincides with a change in strategic direction. In fact, changes in leadership are often made to seek changes in company strategy.

Before deciding to write this book, we asked ourselves whether the topic of transitions at the top deserved the effort that would have to go into it and whether another book on leadership was needed. We believe that most books do nothing more than repeat what has already been said and offer nothing novel to the question they pretend to answer. Indeed, most books should be articles. In the final analysis, our readers will be the judges of whether it adds something worthwhile. But, it is important to explain why we believe this book is needed.

We decided to write it (and to write a book rather than an article) because leadership transitions are complex, seminal events that herald a new era in the life of a company, and too many of them fail. As we'll show, when they fail, the costs are enormous—financially in lost revenue, strategically in misguided direction, operationally in loss of stability and predictability, culturally in damage to relationships and coalitions, and perhaps most tragic, personally in derailed careers. Transitions are big deals, and when they go wrong it is a setback for everyone involved.

Some failures happen because the new leader offered the top job was not ready for it yet and didn't have the help needed to overcome his shortcomings. But, we believe at least as often, the transition fails because the company doesn't do its part to ensure it succeeds.

Our experience suggests two core propositions. First, company missteps are a significant contributing factor to the high failure rate of executives at the top. They are as potent a reason for failure as what the incoming leader does or does not do. Second, the success rate of leadership transitions will not improve until CEOs who are preparing to pass the reins, boards that hire or promote successors and oversee the handoff, and the senior managers most involved in the hiring and assimilation of new leaders more fully understand what the hiring organization must do and avoid to improve the chances of success.

Right from the Start,¹ which Dan coauthored, was published in 1999 to introduce the topic of the new leader's role and responsibility in a transition at the top. It broke new ground as it offered a framework, examples of successes and failures, and advice to those hired as the number two expecting to succeed the CEO or those entering directly into the top position. In that book's

conclusion, a section called “Implications for Future Research” suggested that the company's role be a topic that should be included in the responsibilities of the board, CEO, and the human resources department. The success of *Right from the Start* spawned other books on related topics, including principles of leadership succession, details of the transition process, and models and programs for senior-level onboarding. In 1999 there was no substantial onboarding market; today, it is a multibillion-dollar market for consultants worldwide. But, while these areas have been explored, there has been nothing written on the company's role in leadership transitions, at least from the literature searches we have done. So, we decided to write this book because it's time to explore this issue in a serious way. We also wrote this book because in our years of experience advising boards, CEOs, and senior teams, we continue to observe many implicit obstacles to the successful transfer of power, which are neither surfaced openly nor dealt with directly. Inherent in the pages that follow is our belief that even though companies state they want new leaders to succeed, they lack a working model of support, feedback, openness, and continuous improvement necessary for those new in a top position to succeed. Such a working model is required to counter an environment of competitiveness, silos, and more concern for enhancing one's own power than for what is good for the entire organization—conditions that characterize day-to-day life in most organizations and have the effect of rejecting the assimilation and contribution of new executives. We also recognize that, once embedded in the organization's culture, they are not easy to change. Indeed, in addition to years of advising others, we have experienced firsthand how difficult it is to change behavior and comfortable habits as members of boards of directors and as chairmen and CEOs. Our own attempts, frustrations, successes, and

mistakes at getting top-level transitions right are embedded in the model we've proposed.

We hope this book sparks a host of new conversations among boards and executive teams about how to improve leadership transitions in their organizations. We hope also to add significantly and importantly to the literature so that the major players involved in a senior-level transition and those to whom they turn for help are better prepared. We do so first by detailing the problems associated with leadership transitions that lie within or are created by companies that hire or promote new leaders into the most senior position. Second, we define the roles and responsibilities of the key players involved and explore the interaction between them. Third, throughout the book we offer principles, guidelines, and specific actions that companies should employ to have the best chance for their leadership transitions to succeed.

As important as why we wrote this book is to point out that it is not a how-to manual for transitions. Neither all the potential hurdles that can block a successful handoff nor all the ways they can be overcome are provided here. It would be disingenuous for us to attempt such a thing because it would suggest that transitions at the top are simple. In fact, they are very complex in ways we explain in the chapters that follow.

This book concentrates on “planned transitions.” By this we mean the handoffs that occur from an incumbent executive, usually the CEO, to a successor while both are on the job. We stress, however, that most of the issues confronting CEOs and successors during planned transitions emerge in similar form for other senior-level transitions, such as chief operating officer, division president, or executive or senior vice president. As a result, we hope to interest the broadest

audience of readers who may be involved in various ways in the transitions of their organizations.

Our opinions are offered primarily to the following groups of readers:

- Members of boards of directors, especially lead directors, nonexecutive chairs, and heads of compensation and nomination and governance committees who must oversee and ultimately be accountable for top-level succession.
- CEOs and executive chairpersons, whose legacies in large part depend on the management of a successful transition.
- Chief human resources officers (CHROs) who are usually called on to manage the transition, coordinate its various parts, and provide the necessary in-house staffing and counsel.
- Senior managers who form the execution cadres that will make the agendas of new leaders in their organizations work and who must prepare the organization for the transition.
- New leaders who, in addition to how they must prepare on their own, need to know what they should expect from a well-run transition.
- Senior partners in private equity or venture capital firms who want to ensure the highest quality of execution by the individuals hired to lead businesses in which they invest and the boards that oversee them.
- Consultants and academics will find much of interest and relevance about the company's role in transitions and related issues of leadership, governance, business policy, strategy, organization culture, and human capital/talent management.

We hope we have provided the most authentic and seasoned portrayal possible of senior leader handoffs. In that we have seen successes and failures of many transitions from inside executive suites and boardrooms, including our own, we cite a host of actual examples to make our points. In a few cases we identify companies and executives by name. In most cases, however, we agreed not to identify individuals or their companies by name. We believe this approach permitted the leaders with whom we talked to describe their experiences and emotions, both positive and negative, with candor. Even so, none of the cases are fictional. Each example happened just as we have recorded it. One or the other of us participated in, witnessed, or discussed directly with key participants everything we have described.

Note

- ¹ D. Ciampa and M. Watkins, *Right from the Start: Taking Charge in a New Leadership Role* (Harvard Business School Press, 1999), 3.

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Dan Ciampa

Boston

David Dotlich

New York and Portland

Introduction

This is a book about transitions at the top of organizations. Like other books on this topic, it offers an answer to why the success rate is so low of those who have been hired or promoted into senior leadership positions and suggests ways to increase the probability of success. But, unlike others that have been published, this book deals with an aspect of transitions at the top that has been ignored. This will be, as far as we know, the first book to focus attention exclusively on the role of the organization and all of the key people involved with senior leader transitions, including the various individuals involved, systems, and processes. It delves deeply into what directors, the CEO, the head of human resources, and the other senior managers must do individually and collectively to best ensure the handoff from an incumbent leader to the one who will step in to replace her in a planned transition. In particular, it details:

- How the board should manage its accountability for overall continuity of leadership
- How the incumbent CEO should direct the entire sequence of activities that lead to a handoff of authority, ensure all pieces of the puzzle fit together, and ensure his successor has the best chance to succeed while handling the necessary task of his own exit
- How the chief human resources officer (CHRO) should coordinate the various steps of the search process and the transition process while also providing the staffing and counsel to the CEO necessary for a smooth, successful handoff, all while navigating the sometimes delicate position as the person in between the relationship of the CEO and board

- How senior managers who report to the CEO (and will to his successor), can best prepare themselves and prepare their divisions or functions for the changes that come from a transition at the top while also providing important help to the new leader

We combine more than 80 years of experience in working with and experiencing ourselves the planning and executing of senior-level transitions and the organizational changes they cause. We have seen firsthand the investment of effort, time, and money that companies make in searching for a new CEO, assessing candidates, debating choices, planning for various outcomes, making an offer, negotiating terms, and finally securing the commitment of a new leader. But, too often, once an offer is accepted, little else is done to ensure the investment in search and selection yields a return. Those involved believe the job is complete and return to their normal duties, leaving the new leader and the organization she has taken over on their own, unprepared to deal with the challenges of authority and organizational change that any transition brings. There has been little research and few books or articles about the steps that directors, CEOs, CHROs, and other stakeholders should take to ensure the new leader has the best chance of success. Most of what has been written has guided new leaders rather than the organizations they join. Dan co-authored a seminal book in this area (*Right from the Start*) and has advised on successful transitions since managing his own succession in the mid-1990s. He has the experience (rare in the advice business) of having been a designated successor, and then, after being chairman and CEO for a dozen years, hiring his successor and, over a planned 18-month transition, managing his own CEO handoff. David, a former CHRO of Honeywell, is now chairman and CEO of Pivot Leadership. He also works with boards and CEOs on talent and development strategies,

including succession. Pivot Leadership works with companies around the world to execute strategy, become aligned, and adapt to change, including onboarding new leaders through executive development programs.

The Transition Challenge

As we said in the Preface, we believe a book on the company's role in transitions is needed because failed transitions represent an urgent problem that has received too little attention and that must be solved. The costs of transition failure are very significant...not only financially but also in career impact and company reputation. It is time to address this problem because the record of success of CEO transitions is dismal and it is getting worse.

According to one study, 15.3 percent of CEOs left the 2,500 largest global public companies in 2005, and 70 percent more than just a decade earlier.¹ The turnover range for chief executives of large North American corporations hovered around 10-11 percent in the mid-to-late 1990s, and then shot up to an average of 14 percent between 2000 and 2007.² Only 269 SEC-reported companies had to manage a CEO transition in 1999; in 2008, 1,484 companies managed a CEO transition.³ In 2003, the Harvard Business School estimated a 40-60 percent failure rate of U.S. executives.⁴

Almost half of CEO departures are forced by the board (it was 46% in 2008, for example).⁵ Not surprisingly, the number of CEOs forced to step down has affected the average tenure rate at this level. The majority of CEOs today have been in their positions for less than five years. When each of us became involved in this area, a CEO being fired was very rare, and most stayed in their positions for 10 or more years. The data also show that the first segment

of a CEO's tenure is the most treacherous. A *Fortune* article in February 2012 estimated that 40 percent of executives who are hired into a job from outside or are promoted fail within the first 18 months. It reaffirms the 18-month rule that has been well known in the leadership advice area. In fact, this article notes that the failure rate has “stood at about 40% for at least fifteen years”;⁶ our experience affirms that it has been in effect much longer. In 2005, research from a management consulting firm found that about one-third of new managers and senior executives leave new positions within 18 months.⁷

CEOs who depart after 18 months on the job cost small-cap companies an estimated \$12 million each. For large-cap companies, the figure is \$52 million. Some research estimates that these departures add up to a minimum loss in the United States of \$14 billion each year.⁸ Other research shows that a failed leader transition can cost 10 to 20 times the executive's yearly compensation.⁹

And this represents only the obvious, visible costs. Even more damaging are the long-term effects on the company's ability to operate effectively and to innovate well enough to meet ever-changing customer needs and competitive challenges. When a new leader is hired, he inevitably redefines priorities, imports new ways of operating, and often is charged with an agenda to change strategic direction. But when he founders and is then replaced by the next leader who repeats the same drill, the resulting disruption and confusion risks pulling the company into a negative cycle that will be difficult to reverse.

Transition failure also levies a cost on the company's reputation externally in the eyes of customers, investors, and analysts, and importantly, internally in ways that affect employee motivation. The reputations of once-proud companies such as Hewlett-Packard have suffered greatly

because of the transition mismanagement of their boards. Also, collateral damage of transition mistakes by the company includes injury to the careers of the talented, capable executives who fail after taking over the organization and the loss of key talent.

It is likely that the problem of higher turnover in senior positions won't go away any time soon, and that attention on it will increase. New U.S. government regulations as well as rules of the New York Stock Exchange and NASDAQ require boards to develop a succession plan that is available to shareholders, who have become increasingly restive and demanding about CEO selection. But while the result has been more scrutiny by the media and shareholders on the selection of new CEOs, little or no attention is paid to the details of preparations made by the company, standards for getting ready for a new leader, or guidelines for the organization to maximize success once an offer has been accepted.

It is never a sure thing when someone takes on a job at the top. For one thing, the person chosen is often assuming more responsibility than he has ever had and facing strategic, operational, political, and personal challenges that are tougher and more complex than he has ever faced. And not only is this true of CEOs but also of the people selected as designated successors. Only about 25 percent of those next-in-line executives hired from the outside succeed in the CEO job, and only about 50 percent of those who have been promoted from within.¹⁰

Why are success rates not better? One answer is that people chosen as new leaders do not do a good enough job at preparing for and managing their entry into the top spot. Both experience with leadership transitions and research conducted at the Harvard Business School confirm that

leaders who fail within a couple of years of assuming a top-level position make the same handful of mistakes:[11](#)

- They fail to use wisely the time between accepting the position and Day 1 in their jobs.
- They do not read the political situation well enough to understand the relationships, coalitions, and alliances most important to their success.
- They fail to understand the culture well enough or adequately manage it to follow their direction.
- They misread the capacity or willingness of the people they inherit to implement needed changes.

The net result of such missteps is that new leaders do not achieve notable successes within their all-important first 18 months. That in turn limits the commitment of a critical mass of people to support their agendas. Ultimately, the person at the top in this situation never attains the loyal followership needed for effective leadership.

We believe that the person assuming the senior spot can do much to succeed once in the top position if she moves quickly to avoid or resolve these common mistakes. But there is a second answer to the question of why more leaders do not succeed: that the organizations that have hired or promoted them have not done their part to ensure success. Until the company that hires or promotes leaders into its top positions does its part, the problem of transition failures will not be solved.

By “the company,” we mean the major players who most determine its strategy, how it operates day-to-day, who is hired and who stays, how its various parts are expected to coordinate, and its culture. In particular, the players on the company's side of the transition equation who have the most significant roles in determining whether a transition

at the top is successful are the board of directors, the CEO, the chief human resources officer, and the other key senior managers who report to the CEO.

When we refer to “leadership transition” we mean the process of maintaining strategic, operational, and cultural continuity as one leader passes the mantle of authority to a successor. That process spans the steps and events from before the winning candidate accepts the company's offer to the point that a critical mass of followers assign their loyalty to her as the established leader.

Because there are different paths to the top, there are various types of transitions. The CEO might be promoted from within after many years with the company, be hired directly from the outside into the CEO position, or come to the top position from the board of directors, either temporarily as a permanent leader is found or intending to stay. Also, the leader might become CEO through a *planned transition*, where he is hired into a high-level position (for example, as chief operating officer or division president) and moves up by way of a predetermined, managed process. While examples we use cover a range of possibilities, this book concentrates on planned transitions because they are more complex and include steps that are necessary in other types of handoffs.

Thinking through what that process should be for any particular transition situation should include a thorough understanding of why so many handoffs at the top fail.

The Roots of Failure

It may seem at first glance that the challenge of a transition is simple: Lay out the capabilities needed in the new leader, manage the search well, find the best person possible, and the rest will take care of itself. “After all,” as

one CEO put it, “we've done all we can.” Sixteen months later, that same person said, “How could we have gotten it so wrong?” The answer is that he and his transition team did not do all that they could have. The fact is that the transition of the leader is a complex cascade of steps and events that last for many months and are affected by strong emotions.

Complexity

[Chapter 1](#) explains that a leadership transition is not a simple transaction but rather is a process that has many moving parts that exist through a string of interdependent steps. If decisions involving each are made on the basis of the wrong logic or too carelessly or for the wrong reasons, it can cause the whole process to go off track.

Not only does the new leader need to make adjustments but each of the major players also must adjust. The directors must ensure that the process is off on the right foot without trying to do the work that management should be doing. Also they must adjust to the reality that they are hiring someone who will be key to meeting the financial needs of today, and at the same time must be mindful that they are hiring the person who will create the company's future.

The CEO must adjust as she walks the line between continuing to run the business that has her stamp on it and laying the groundwork for her successor to take over, ensuring that thoughts of her legacy do not impinge on either.

The CHRO must adjust as he carries out the coordinating responsibility of the person in the middle. He must be helpful to the new leader in preparing and onboarding, to the CEO as he directs the process, and to the senior

leaders as they prepare the organization for the transition and the operational changes it will bring.

The senior managers must adjust to the entry of a new person who will be their new boss. In doing so, they will no doubt have to adjust the operational plans for which they have carefully geared their departments' processes, systems, and people.

Each major player must be ready to adjust and adapt to the changing demands of this dynamic process that touches on the strategic, operational, political, cultural, and personal realms of any company. Denying its complexity is the surest way to open the door that leads to errors. These errors fall into two categories: errors in thinking and errors in execution.

Thinking Errors

In the same way that major players ignore or remain unaware of the complexity they face in a top-level transition, they commit errors in how they perceive the task ahead in ways that block them from the goal of a successful handoff. [Chapter 2](#) describes a number of these thinking errors and the underlining attitudes that cause them. They are most apparent in the form of three myths that commonly appear in organizations where transitions at the top fail.

The first myth is typified by the statement from a CEO, who said, "People join companies all the time; it's nothing to get all excited about." The attitude behind this was that a top-level transition does not warrant special attention or planning but can be handled as a routine event.

The second myth, this time described by a lead director, is "Our job is done when the one we want says 'Yes.'" The underlying attitude here is that the board can relax and

back off once the candidate it wants has agreed to an offer. Directors who assume the CEO will take it from there are ignorant of their special responsibilities, ones that they alone must fulfill.

The third myth, “We *know* what he can do,” was uttered by the head of human resources of a large corporation that had just rehired an executive who had left several years before. It masks the attitude that past experience or familiarity can predict a new leader's performance in a job he has never done under conditions he has never faced.

Thinking errors are particularly destructive when committed by people in positions of authority who express them with certainty even though they may not have been thought through carefully. When followers fail to question or raise concerns, the collusion leads to errors in the execution of the transition.

Execution Errors

[Chapter 3](#) reviews common errors that major players make as they execute the steps of the transition process. The first major execution error is one of omission as the directors and CEO simply ignore the need for ensuring that the demands of the transition are handled. Either from ignorance, organizational dysfunction, or laziness, a surprising percentage of companies make no effort to smooth the way for a new leader.

The second common execution error is when the directors either miss or ignore warning signs in the relationship between the CEO and the designated successor. Problems in this relationship pose the most serious block to transition success because of the need for trust between the incumbent and the person who is preparing to take over.