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How leading CEOs manage their middle tenures

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Five principles are useful in guiding CEOs in their third, fourth, and fifth years on the job.

There is a wealth of research into how new CEOs should successfully transition into the leading role. Less frequently studied is how top CEOs outperform competitors during the second act of their tenures. In this *Inside the Strategy Room* podcast episode, McKinsey's Sean Brown talks with senior partner Rodney Zemmel and associate partner Matt Cuddihy about the five themes that emerged from their research into how leading CEOs managed the middle part of their tenures.

Podcast transcript

Sean Brown: Hi. I'm Sean Brown, and welcome to *Inside the Strategy Room*. Today, we'll be talking to two of the authors of a recent *Harvard Business Review* [*HBR*] article, "How successful CEOs manage their middle act."

Rodney Zemmel is a senior partner in our New York office and is a managing partner of our northeast offices. In addition to his *HBR* article, he is coauthor of the book *Go Long: Why Long-Term Thinking Is Your Best Short-Term Strategy* [Wharton Digital Press, May 2018]. Rodney serves clients globally on growth strategy, performance improvement, and value creation through M&A across a range of industries, with a concentration in healthcare.

Also joining us is Matt Cuddihy, an associate partner in McKinsey's Boston office. His client service focuses on helping leaders of pharma and biotech companies set strategy and drive growth, both organically and through acquisition and partnership.

Let's start off with how this article came about.

Rodney Zemmel: At McKinsey, we have a forum called CEO Academy that we hold once a year in New York. We invite CEOs and board chairs of leading companies. It was originally started as a training forum for newer CEOs. But now, it's evolved to become more of just an open discussion forum. At this event a couple of years ago, we had a panel of four very distinguished and experienced household-name CEOs taking questions from the group on what they thought drove their success and what their lessons learned were from being CEOs.

One of the questions we asked was, "How did the middle of your CEO tenure differ from the beginning of your CEO tenure? Everybody talks about that first year or first 100 days. But what did you do in the middle that was different?" And it ended up being a question that set the group sideways a little bit. None of them had really thought about it before. They all thought it was an interesting question. And it became a discussion around not so much what they did but what they wished they had done.

Afterward, one of the panelists approached us and said, "That was a really interesting question. Maybe one of you should write a book about it." We didn't quite get around to writing the book yet, but we did think it was worth some research and putting an article together. And that's the article that was published in *HBR*.

In putting the article together, we found there are many bookshelves full of books on how to be an early-tenure CEO—your first 100 days, your first 90 days. There's probably [one on the] first 80 days, but we've not found that one yet. And the first year—people seem to think the first year is a magical moment where direction gets set. In addition, there are a lot of books about the end of a CEO tenure—how you're supposed to prepare for handing over the reins, picking your successor, an orderly transition, thinking about your legacy, and so on.

But those middle years of a CEO tenure were not very well studied. As our discussion panel showed, there was a lot of debate and discussion as to whether they were different and how they were different. So, we set out to do some research. We thought we'd start with some fairly open questions. Often, a researcher is testing a specific hypothesis. This time, we thought we'd go a little bit more open ended.

Sean Brown: Could you tell us what some of those questions were?

Rodney Zemmel: The first thing we said was, "Do you actually do different things midtenure?" One of my colleagues, Kurt Strovink, had published an article in a prior year, along with Michael Birshan, another colleague, on what CEOs do in their first years. If you cut through what people say they're going to do, what are the actual moves that people make? We thought, "Let's compare those moves to what people do in the middle tenure and in the late tenure." We then thought it would be just as interesting to say, "How do their mind-sets evolve? How do their leadership styles evolve?"

People like to talk about mind-set and leadership styles, but what can you actually measure? How does the time they spend actually shift? And what are the drivers of performance? Is what drove performance in the early years the same as what drove performance in the later years? And then, maybe just a little bit more retrospectively, sometimes even whimsically, what do they wish they'd done more of or less of in the middle years versus the early years? This, we thought, by nature, was a fairly qualitative topic rather than a quantitative topic.

Sean Brown: How do you define midtenure for a CEO? Were you using an average or a certain number of years?

Rodney Zemmel: The average CEO tenure is around five-and-a-half years. It is slightly shortening as time goes by. Of course, when one is appointed CEO, one never knows how long one is going to be around for. What we decided to do in the research was to say, "Look, you don't know if you're going to be a ten-year CEO or a 12-year CEO. But there's certainly something different about year three than there is about years one and two." The way we approached the questions was to say, "In years three and four"—more or less; in some cases, we might have said three to five—"how did you think about what you were doing versus what you did in year one or year two?"

The way we approached who we wanted to interview was to focus on companies that are large enough to be relevant to draw lessons from—CEOs who were in the role for at least the average tenure. We actually said, "Let's go for slightly longer than average. Let's talk to people who were CEOs for at least six years and [oversaw] at least $10 billion of market cap."

We thought we'd probably have a better and more reflective discussion with retired CEOs. We actually pulled the data on all CEOs who had retired—some of them may still be working as CEOs at another company but had retired from the company we were interviewing them about—in 2011 to 2016. And we looked at who had good shareholder returns, both in an absolute sense and then relative to their industry. What we found was, there are about 70 companies that we thought were outperformers and that met those criteria. Then we reached out to all of them.

We were able to get interviews with 22 of them. It's possible there's some sample bias in the 22 that we interviewed. But the sample bias was simply who responded quickly enough to our email that we were able to schedule an interview. So, it probably means nothing other than CEOs who were willing and excited to talk about their tenure. But all 70 who we reached out to, you would certainly objectively view as having been successful.

Sean Brown: Did a number of themes emerge?

Rodney Zemmel: We found five themes. Given how open ended we approached the research, I think we'd have to describe these more as themes that arose from the conversations rather than direct answers to the questions that we asked. I'll describe each of the themes at a very high level, and then Matt and I will walk through the themes, one by one, in a little bit more detail.

The first theme: keep raising the level of ambition. One thing that we heard in almost all of the interviews was, of course, as a CEO, you start out with a high ambition. Almost everybody does some form of resetting the baseline, resetting the ambition, in the first year. What differentiated these high performers was not how high the ambition was at the beginning but whether they raised the ambition as they went.

Number two was silos and broken processes. Everybody had a strategy; that was not differentiating. What we thought was differentiating was, in the middle years, many more CEOs decided to take on process. A phrase that many of them use is "operating model." How you actually created an operating model for the company that helped you get things done was more typically a middle-year task rather than an early-year task. Although, frankly, a few of them said had they thought about it earlier, they might've taken it on in their earlier years.

The third thing is talent rejuvenation. It turns out that the standard pattern of the CEO coming in, choosing a team in the first year or the first six months, and then working with them over the course of their tenure—that's actually not true. And certainly, for the high performers, we saw ongoing rejuvenation.

Number four: mechanisms for dissent and disruptive ideas. It's become a cliché—but I think it's become a cliché because it's true—that the CEO role can be an echo chamber. People talked about how people were very open with them in the first six months, the first year, talking about all the problems and what needed to be fixed and the opportunities. But by the time they were in the middle of their tenure, it was much harder to get objective viewpoints either from insiders or from outsiders. They talked about ways they were artificially able to generate those inputs.

And number five is, your early years are about building the leadership capital. Your middle years are where you begin to spend the leadership capital. And we did see a pattern of bolder long-term moves as people moved into their middle and later years.

Sean Brown: How did you come up with the five themes? And were there others that were cut out that you considered?

Rodney Zemmel: We literally got the interview notes and looked for commonalities. These are the five themes that dropped out. There were maybe smaller ones that were cut where there just wasn't as much overlap.

One that we thought we'd see, but we didn't see, is a different pattern of moves in the middle years versus the early years. The moves looked fairly similar, maybe with the exception of a bit of a step-up in M&A. But CEOs taking wildly different operational actions—whether they did a reorganization, whether they initiated cost cutting, and so on—we thought we'd see a difference between the early years and the late years on that, but, actually, we didn't.

Sean Brown: Of the five themes, which was most surprising to you and why?

Rodney Zemmel: First of all, the second one, the operating model. The idea that there's a sequence between strategy, year one, and then operating model—changing that is year three plus, as people realize that their strategy is crashing on the rocks of how the company actually operates—the strength of which that came out as a theme was really striking.

The next one that surprised me was the talent rejuvenation. The extent to which the high-performing CEOs in the group thought of themselves as re-recruiting their team in year three and starting again from a clean slate of talent was a little more dramatic than I might've guessed.

Matt Cuddihy: I think the extent to which we heard CEOs are really digging in on this operating process—I would agree with you, Rodney, I think it is a little bit surprising.

To me, the least surprising was probably around the notion of taking leadership capital that you've built up over your first couple of years and then investing that and using that for bigger things. I think some things jumped out as we would've expected going into this prior to having the discussion. And we probably could have put all of these down on a piece of paper and said, to some extent, CEOs would be focusing on them in their middle years. But the extent to which we heard CEOs emphasize some of these themes, such as the processes point, was perhaps a little bit surprising. So maybe with that, we can walk through each of the different themes.

We'll start with the first theme, which is really around raising the level of ambition. And, as Rodney said, we know that CEOs, executives, and other leaders more broadly don't make it to those positions without a high level of ambition to begin with. What was emphasized here was the challenge in maintaining that level of ambition by many very successful CEOs—and the need not only to maintain that level but actually to increase it with time.

A couple of the points that we heard [were] in terms of the challenges that these CEOs face. One was around personally maintaining the hunger in the second act after the first couple of years, when CEOs have expended a significant amount of energy. And now, there's a certain readiness to shift to more of an execution mode. They feel that they've probably invested a lot in some strategy process. They've invested a lot in building up their teams. So, they start getting into this mode of perhaps even playing defense. What we heard from several is that they didn't quite realize it until they woke up one day and said, "You know, this doesn't feel like I'm one step ahead anymore. I feel like I'm almost one step behind." The point that was made is, once they realized that, it was very clear that in many of the industries—and all industries are different—things change so rapidly that if you're not one step ahead, and, in fact, thinking two steps ahead, you're not going to be able to focus on executing.

The other challenge was the desire to have some sense of stability and consistency and give strategy some time to work. Several of the CEOs we talked to agreed that you need to keep thinking about how you can change things, but don't overdo it. The real challenge here is finding the right balance.

The point that we heard time and time again was that the macroenvironment in competitive landscapes is just changing too rapidly. Top-performing CEOs recognize this. We've heard the stories. You saw one we wrote about in the article, about [Gordon] Moore and [Andrew] Grove at Intel pretending to get fired by the board and then saying, "What would I do if I were the new CEO?" It's oftentimes those moments that lead these CEOs to come up with perhaps counterintuitive ideas. We heard several examples of that from across the folks we interviewed. For example, Steve Burd at Safeway talked about how he had that question asked of him by the board and then came in the next week and thought very differently about the strategy, how to reposition the company, and some acquisitions.

The overall takeaway on this first theme around raising the level of ambition is, given the pace of change as well as the tendency that many of the folks we interviewed expressed to become—I wouldn't say complacent, but you get into more of an execution mode—they really emphasized that it was supercritical to not only stay pedal down on the gas but also find ways to continue to increase the ambition. They would recommend that we need to step back, whether it's every quarter or every half-year, and pretend that you're getting fired or that you're a new CEO coming in on Monday. What is it that you would do differently than what you have been doing? You should be asking yourself that question periodically.

Rodney Zemmel: If we go to number two, silos and broken processes, this is about getting things done. In the first year, almost every CEO described how they did a strategy, whether it was a completely new strategy or whether it was a renewed strategy. In other words, where you have a business-unit leader or a COO being elevated to CEO, often, they felt significant ownership of the prior strategy. But there's still a case of revisiting the strategy and direction and aligning that with the board, with the leadership team, and with investors. What we then found was this pattern that we referred to earlier in or around year three—maybe they felt it in year two and acted on it in year three—people felt the pace of change was not high enough.

There was one wonderful quote from one of our interviewees about the "old normal" coming back. Being a new CEO creates a certain dynamic and a certain level of energy in an organization. But it doesn't take that long for it to wear off and for the organization to act in all the ways that it used to act.

What does it mean? How do they actually do this? Certainly, some people talked about culture and level of engagement and alignment around the strategy. And those things are all incredibly important. But what we found was the most common theme was actually coming up with an operating system.

Matt, did you want to pick up number three?

Matt Cuddihy: The third theme is around rejuvenating talent. We would all acknowledge, it is common knowledge that any new leader or new CEO spends a significant amount of time when they come into the role figuring out who their right team is. Going into this, we also had a general sense that there's some turnover over time, but in general, CEOs like to figure out who the right team is, get comfortable with them, and then move forward and not create undue turnover and disruption through more continued or higher degrees of change over time.

What was really interesting as we had these conversations was hearing many CEOs in two different buckets. One was the bucket of, "I ended up making some fairly significant changes to my team over time as the strategy shifted and as I realized I needed different leadership."

The other bucket was an area that was emphasized, perhaps more than some others, as a regret. One of the points of discussion we had was, "As you think back on your middle years, are there things that you feel you missed or you regretted?" The point around making sure that they had the right team and changed out some of the bad team in these middle years was one of those points that was repeated more often than many others.

What are the challenges that CEOs noted getting in the way of their doing this? There are a couple of points there. One of those is probably more obvious, which is around the personal connections that they've built. Many would say, "I get to know them really well. I know how they work. I even know their families. We're spending time together outside." There's definitely this personal connection, which can make it a little bit more challenging, and many leaders acknowledged that.

But the real impetus—both for why people perhaps regretted not changing out their teams as well as those who did and were pleased with it and felt it was important—is that strategies shift over time, market conditions change over time, and different leadership styles are needed over time.

One point that was emphasized many times was the notion of really being forward looking in assessments. We all know that review processes in many ways can be anchored in performance. How has the last year gone? Ed Breen of Tyco had a really good analogy here. If I use the American football analogy, it is: Do we have the right team to win the Super Bowl next year? Frankly, it doesn't matter whether we won the Super Bowl last year. It doesn't even matter if we came in last place. The real question is: Do we have the right team to win this year? That's all we should care about.

The other insights that we heard in terms of rejuvenating talent are around how leaders started thinking about talent more broadly in their middle years—not just the top team but also the broader organization. What we heard is, they worked to be more like a coach rather than a team captain. They also began to interface with and really work on developing more junior talent below their top team and invest in that.

Rodney Zemmel: Idea four: mechanisms for dissent and disruptive ideas. Maybe this one is not surprising. It certainly is a classic consultant thing to say. Make sure you're getting fresh ideas. Make sure you're getting external perspective. But the clarity and the frequency with which we heard it was a little bit surprising.

And also, again, the contract around how complacency steps in [was apparent]. Frank Blake obviously had a very successful tenure at Home Depot. One of the things he did early in his tenure was to replace some store formats that were not working and move to a different store-format strategy. He said, at the beginning when he was doing that, everybody was very happy both to tell him what was not working with store formats but also to bring in new ideas. He got lots and lots of different ideas for store formats. He ended up rejecting the vast majority of them and focusing on a handful of ideas. Once he did that, he felt that the organization knew exactly what he was going to like and not like, and it just stopped bringing him ideas. He found that, where he was in the first year, by virtue of doing something new, he got a very strong flow, but by the middle of his tenure, that flow dried up. He actively needed to seek out new flow.

The way he did it was to skip high-level meetings, going right to the front lines: store associates and so on. And lots of CEOs do that. Lots of leaders do that. A number commented on how hard it is to get people to speak candidly. One example that Frank used that other CEOs also echoed was, you actually have to prompt the speaker. Rather than saying, "What do you think of *X*?," you have to say, "I hear *X* isn't going well," or, "Lots of people tell me they've got thoughts on how to improve *X*. What do you think?" Use that kind of leading question to get people to be willing to speak up a little bit more freely.

Ed Ludwig at BD [Becton Dickinson] described how he would do that with the company strategy. He would get the company strategy written down on two pages of paper and sit down with groups of people, a few levels down in the organization, and ask them what they thought. He would sometimes get good ideas from those meetings. But more important, it was a way of signaling that he wanted to hear from those people and that he was open to new ideas. They would bring those ideas forward to him. He commented on how important it was to show that when people brought you an idea you didn't like—or even more important, when people brought you bad news—you weren't going to shoot the messenger and to make sure that you truly were open to different and disruptive ideas.

Particularly in some of the CEOs who described themselves as a little bit more emotional, this idea of showing people, if it's a team you're working with week in and week out—they can see and understand that. But when it's at other levels in the organization, they can easily be intimidated by that. So how can you make sure to show people that you're not shooting the messenger and that you are open to those new ideas?

Matt, do you want to pick up number five?

Matt Cuddihy: The fifth and final theme is around this leadership capital that the CEO or executive has developed over the first couple of years and investing that in bold, longer-term moves.

What was interesting as we had these conversations was the degree of emphasis—almost as if this is an obligation. John Donahoe is one example. He said, "It's your job to spend the political and leadership capital that you get over the first few years, because you are in a unique position with the trust you have with investors, the trust you have with the board, and the trust you have with your team and your employees to really do something big that otherwise couldn't be done for the organization."

In terms of timing on the moves, we looked more broadly outside of the CEO group, building on some of the research McKinsey had done in the first one to two years and expanded that to the third, fourth, and fifth years. We found that across many types of moves—for example, cost-reduction programs or a major restructuring M&A—there wasn't a massive difference in terms of the percentage of CEOs doing those sorts of moves in the middle years versus the early years.

There were a few exceptions around things like geographic expansion, new-product launches, and getting into new businesses. If you were to ask these CEOs, "Is it really all about opportunism, or is there some method to the madness?," I think they would say, "Of course there's an element of opportunism, but when you get to your midtenure and you finally have this leadership capital, this is the time to be thinking about making these moves. What are the moves and how are you going to execute them?"

The other point we heard was, it's not only because you now have this leadership capital, but it's actually also because you really know the business. This was very true for outside CEOs but even from some who have been with the company for quite some time. It's just such a unique position, and you continue to learn so much in your first few years that it was only in their midtenure where we heard examples of CEOs waking up one day and having an epiphany about how to continue to change the trajectory of the business.

Joe Papa was one example. When he was at Perrigo, he talked about seeing a truck one day and realizing that the value was all about getting more product on the truck. He then went out and acquired an infant-formula manufacturer.

Sean Brown: Can these themes be applied to someone who's not a CEO but is in the C-suite?

Rodney Zemmel: Sean, that's a great question. While our research was done with CEOs, we would like to think that this is helpful to anyone who will be taking on a new role in an organization. So, just as the first-year plan or the 100-day plan has become routine in many leadership roles, we think this kind of thinking can be as relevant within a piece of an organization as it is within the entire organization. Certainly, we hope the article is read by CEOs and by people who want to be helpful to the CEOs in their companies. But we think it has relevance to just about anyone in any scale of functional business units.

Sean Brown: Did you look into how much time a CEO is spending on various activities and how that's changed over time and over their tenure?

Matt Cuddihy: What we found was in some ways not incredibly surprising. If you look at categories like succession planning, you would expect to find CEOs are going to think about that more in their middle years.

One of the things that was at least moderately surprising was the organizational-change point. There were a significant number who either maintained the degree of change that they had in their first few years or actually increased it. About a third actually had more organizational change, and that ties back to the point around rejuvenating talent. With strategic moves, it was a slight majority who said they spent more time thinking about this in their middle years than they did when they first took over. And then also, at the very bottom, you see the broader talent planning. The degree to which we found CEOs are thinking about this was one of the clearest areas where they're thinking much more about it in their middle years versus their early years.

Rodney Zemmel: Matt, just to click down on business-performance reviews. We did have the hypothesis that maybe some CEOs would spend less time on business-performance reviews or would even not go. That turned out not to be the case. In our sample (and remember, this is of high-performing CEOs), all of them said they would still go to business-performance reviews just as they did in year one and year two. There was maybe one who said he went a little less.

But they very commonly said the questions they would ask in those reviews would change. It was less about explaining the last quarter, less about the here-and-now performance, and more about, "What are we doing to be positioned for the long term?" It was more forward looking and less backward looking in the performance-review conversation.

Sean Brown: Did you get a sense from the CEOs that you spoke with about them tackling any one of these themes first? Was there any sort of sequence related to the five themes? Or should they all be tackled simultaneously?

Rodney Zemmel: We probably have the five of them listed in a hierarchy of how people thought about them. But my guess is, that's more of a mental hierarchy rather than a temporal hierarchy. I think they probably tackled them all at once. And again, this is an interview sample, so not every CEO tackled every theme.

Sean Brown: Rodney and Matt, thank you again for taking the time with us today. □

Sean Brown is McKinsey's global director of communications for strategy and corporate finance and is based in McKinsey's Boston office, where **Matt Cuddihy** is an associate partner; **Rodney Zemmel** is a senior partner in the New York office.

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