McKinsey Quarterly
FIVE FIFTY

# BECOMING CEO

**IN THIS EDITION:**

April 2017

McKinsey Quarterly

# What makes a CEO 'exceptional'?

We assessed the early moves of CEOs with outstanding track records; some valuable lessons for leadership transitions emerged.

*by Michael Birshan, Thomas Meakin, and Kurt Strovink*

**New CEOs face** enormous challenges as they start assembling a management team and setting a strategic direction in today's volatile environment. To provide some guidance for transitioning CEOs, we looked at the experiences of *exceptional* CEOs, those defined as the very top performers in our data set of roughly 600 chief executives at S&P 500 companies between 2004 and 2014.

Our focus was on the top 5 percent of the CEOs in our sample as a whole whose companies' returns to shareholders had increased by more than 500 percent over their tenure. We contrasted this group both with our full sample and with a subset of CEOs whose companies achieved top-quintile performance during their tenure as compared with their peers.[1]

The exceptional group includes some leaders who managed remarkable performance in part due to unusual circumstances, for example, by guiding a company through bankruptcy proceedings and then returning it

[1] We ranked all CEOs by annualized total returns to shareholders (TRS), normalized for the performance of their broader industry. Those in the top quintile, the 120 highest-performing CEOs, achieved at least 9 percent TRS above industry cohorts each year they were CEO.

successfully to the public markets. It also includes CEOs who were able to deliver the highest returns through strategic repositioning and operational discipline over many years, within more normal industry and economic conditions. Overall, the exceptional CEOs were neither more nor less likely to be found in particular industries, to lead companies whose size differed from the mix in the broader S&P 500, or to join particularly high- or low-performing companies. Here are three lessons that emerged from close scrutiny of these exceptional leaders.

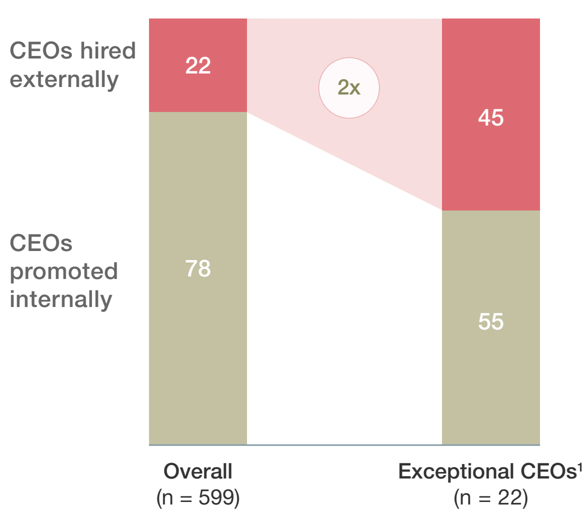
## THE OUTSIDER'S EDGE

In our earlier research,[2] we found that on average, CEOs who are hired externally tend to pull more strategic levers than those who come from within and outperform their internal counterparts over tenure. Our research on exceptional CEOs reinforced this finding: these CEOs are twice as likely to have been hired from outside the company as the average CEO in our data set (Exhibit 1), and roughly 1.5 times as likely to have been external hires as the other top-quintile CEOs.

[2] See Michael Birshan, Thomas Meakin, and Kurt Strovink, "How new CEOs can boost their odds of success," *McKinsey Quarterly*, May 2016, McKinsey.com.

Exhibit 1

### Exceptional CEOs are twice as likely to have been hired from outside the company.




[1]Defined as CEOs who delivered >500% growth in total returns to shareholders over tenure, normalized for performance of broader industry.

Still, 55 percent of the exceptional CEOs were internal hires. Clearly, insiders can move aggressively and achieve outstanding results. Doing so often means cultivating an outsider's point of view to challenge the company's culture with greater objectivity and overcome the organizational inertia that sometimes limits an insider's span of action.

## STRATEGIC ACTIONS

The findings offered additional insights on how CEOs may gain a clear-eyed perspective for action. In our sample as a whole, CEO's joining low-performing companies derived the biggest benefits from conducting a strategic review. Our exceptional CEOs did not join struggling companies in disproportionate numbers, but they were significantly (about 60 percent) more likely to conduct a strategic review in their first two years on the job versus the average CEO in our sample (Exhibit 2).

Exhibit 2

### CEOs with exceptional track records are more likely than others to conduct a strategic review early in their tenure.

Informed by this view of the company's past—and potential future—performance, this elite group was bolder than other top-quintile CEOs, far surpassing them in the average number of strategic moves they made in their first year. Changing strategic direction typically requires freeing up resources, often in part by cutting costs in lower-priority parts of the company. While cost-reduction programs are, according to our earlier research, a no-regrets move for all CEOs, the exceptional CEOs were significantly more likely to launch such initiatives than the average CEO, thereby building strategic momentum.

## ORGANIZATIONAL BALANCE

In our research on CEOs overall, organization redesign appeared to be a critical part of the typical high-performing CEO's tool kit, and management reshuffles were particularly important for CEOs taking over lower-performing companies. Our sample of exceptional CEOs, though, was less likely than the average CEO to undertake organizational redesign or management-team reshuffles in the first two years in office. This could be a function of the strategic game they were playing: they may have inherited high-performing companies (which can be hurt by reshuffles) or prioritizing, since there are only so many initiatives and changes that organizations and people can absorb in a short space of time. Indeed, since the exceptional group contained an above-average proportion of outsider CEOs launching fundamental strategic rethinks, the data may reflect a sequencing of initiatives, with structural change following strategic shifts.

By definition, not all CEO's will be exceptional. Yet for any CEO starting a transition, there is much to learn from the best. Adopting an outsider's view will yield the unbiased insights needed for breakthrough moves. Likewise, investing in a robust strategic review will provide a surer perspective for setting a strategic direction. A grounding in the organization's context, meanwhile, will help calibrate the speed and scope of change. Those in our sample do much of this at the highest level, setting a benchmark for every CEO aspiring to a successful debut. Q

**Michael Birshan** is a partner in McKinsey's London office, where **Thomas Meakin** is an associate partner; **Kurt Strovink** is a senior partner in the New York office.

The authors wish to thank Max Eskell, Madjdy Kassem, Devesh Mittal, and Blair Warner for their contributions to this article.

# Ascending to the C-suite

*A new survey finds that executives who move effectively into the C-suite are communicating priorities, valuing their teams, spending time on culture, and understanding their unique leadership role.*

**Nearly half of top executives** say they weren't effective at earning support for their new ideas when they moved into C-suite roles—and more than one-third say they have not successfully met their objectives during their tenures. But even successful transitions[1] didn't require new executives to have all the answers, and certainly not within their first 100 days in the job. These are among the key findings from a recent McKinsey Global Survey on executive transitions,[2] which asked C-level respondents how they managed the business, culture, team, and self-management aspects of their new jobs.

While there is no single predictor of success in a new role, the responses indicate which practices link most closely to an overall effective transition. Organization-wide alignment, for example, is critical. Executives who made the most successful transitions say it was just as important to align their organizations on what *not* to do as it was to explain what they *would* do in their initial agendas. They relied more than others on their initial team of direct reports and spent more time learning about organizational culture, which all executives rate as the hardest area to understand. What's more, these executives received more support and resources from their organizations and were better able to spend their time and energy understanding the issues that they were in a unique position to influence.

[1] We define a transition as the period (which can last up to 18 months) after an executive has assumed his or her new C-level responsibilities. We define "successful transitions" as those where executives say they aligned and mobilized their organizations very or extremely well around their initial objectives during transition *and* have met their overall objectives very or extremely well during their tenure.

[2] The online survey was in the field from July 7 to July 17, 2014, and garnered responses from 1,195 C-level executives representing the full range of regions, industries, company sizes, and functional specialties. To adjust for differences in response rates, the data are weighted by the contribution of each respondent's nation to global GDP.

### The C-suite challenge

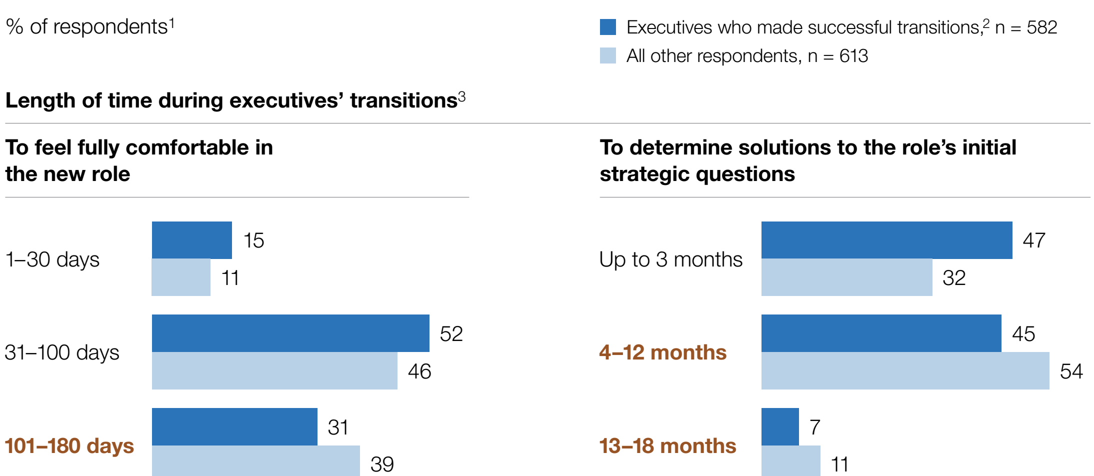
Making a successful transition to the C-suite is difficult: nearly half of respondents say they weren't successful at aligning others around their initial objectives, and more than one-third admit that they have not successfully met their overall objectives for the role. Executives report the same difficulty regardless of their transition's context: whether they made a lateral move or were promoted, continued in the same function or led a new one, or were internal or external hires.

This isn't surprising, given the high expectations of new executives, the competing demands they must balance, and the fact that many of them feel they don't have much practical support. Only 27 percent of respondents believe their organizations had the right resources or programs in place to support their move into a C-level role. Indeed, the responses from executives who *have* made successful transitions (those who say they successfully aligned others during their transition and have successfully met their overall objectives) suggest that support has a role to play: these respondents are twice as likely as all others to say they received company support.

There's no clear deadline, though, for executives to move effectively and comfortably into their new roles (Exhibit 1). Roughly one-third of respondents (the most successful ones, as well

Exhibit 1

**Some executives—even those with the most successful transitions—need more than 100 days to adapt to a new C-level role.**




[1] Respondents who answered "don't know/not applicable" are not shown.
[2] Respondents who say they aligned and mobilized their organization very or extremely well around their initial objectives during transition *and* say they have met their overall objectives for the C-level role very or extremely well.
[3] We define a transition's endpoint as 18 months after an executive has assumed his or her new C-level responsibilities.

as all others) say it took them more than 100 days to feel fully comfortable in the role. And regardless of the transition's outcome, most respondents say it took them longer than three months to determine solutions for the key strategic questions they identified when their transitions began.

### Creating a shared vision on business priorities

When asked about different aspects of their transitions, executives rank business-related activities among the most important to the transition's overall outcome. The largest share say it was very or extremely important to create a shared vision and alignment around their strategic direction across the organization (Exhibit 2). This is also among the most difficult

Exhibit 2

**Executives rate the creation of a shared vision as the most important transition activity.**

% of respondents,[1] n = 1,195

| | Transition activities rated important to the transition's overall outcome | Extremely important | Very important | Total |
|---|---|---|---|---|
| Business | Identifying highest-impact business opportunities (ie, what to do and what not to do) to set an optimal strategic direction | 37 | 45 | 82 |
| Business | Creating a shared vision and alignment around strategic direction across the organization | 44 | 43 | 87 |
| Culture | Understanding and measuring the company's organizational culture | 21 | 46 | 67 |
| Culture | Implementing material changes to organizational culture, as needed | 23 | 43 | 66 |
| Team | Moving in a timely manner to get the right individuals on team of direct reports | 30 | 46 | 76 |
| Team | Mobilizing team to function as a high-performing group (ie, a team with trust and efficiency) | 40 | 46 | 86 |
| Self | Identifying and building the skills needed in the new role, before assuming it | 16 | 43 | 59 |
| Self | Adapting to the position through an optimal use of time to play a unique role in the company | 19 | 47 | 66 |

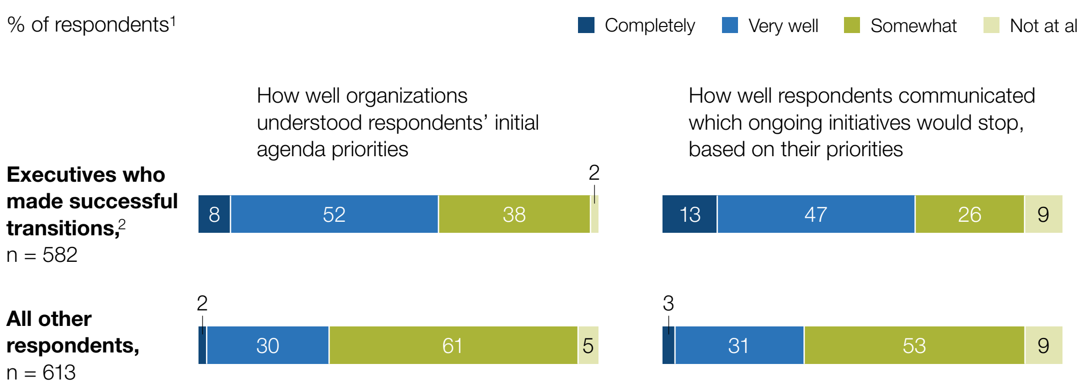
[1] Respondents who answered "not at all important," "somewhat important," or "don't know/not applicable" are not shown.

aspects to carry out: just 30 percent of all respondents (and 39 percent of those reporting successful transitions) say it was easy to create a shared vision in their new role.

Indeed, executives reporting the most successful transitions stand out from the rest in how they built buy-in and communicated a vision to their teams and their organizations. These respondents are nearly twice as likely as others to say their organizations understood their initial priorities well—and were much more effective at communicating which initiatives would not continue, given those priorities (Exhibit 3). The most successful executives also say that 69 percent of their direct reports actively supported their initial strategic directions, compared with 60 percent of direct reports for their peers.

Exhibit 3

**For new executives, clarifying what they will (and won't) do in their new role is key to a successful transition.**




[1] Respondents who answered "don't know" are not shown, so figures may not sum to 100%.
[2] Respondents who say they aligned and mobilized their organization very or extremely well around their initial objectives during transition *and* say they have met their overall objectives for the C-level role very or extremely well.

### Getting the team right

Regardless of the outcome, many C-level executives acknowledge that they did not have all the answers when they began their new positions—and that their direct reports played a valuable role. Most executives (including those whose transitions were a success) say they relied on their direct reports' input when determining solutions to the strategic problems they faced at the beginning of their tenures. When identifying which activities were most important to the transition's outcome, 86 percent of respondents cite mobilizing teams to function as a high-performing group, second only to creating a shared vision.

Executives tend to keep their inherited teams intact: 74 percent say at least half of their initial reports were still on their teams by the end of their transitions, and the most successful respondents made even fewer changes to their original teams. Respondents also believe it's important to move fast to get the right people on their teams. A majority say their final teams were in place within the first year, but they still wish they had moved more quickly. While with hindsight, executives would have moved faster in every area of their transitions, they are most likely to say they should have acted quicker to put their teams in place (Exhibit 4).

Exhibit 4

**In hindsight, executives would have moved faster on all four elements of their transitions—especially building their teams.**

% of respondents, n = 1,195

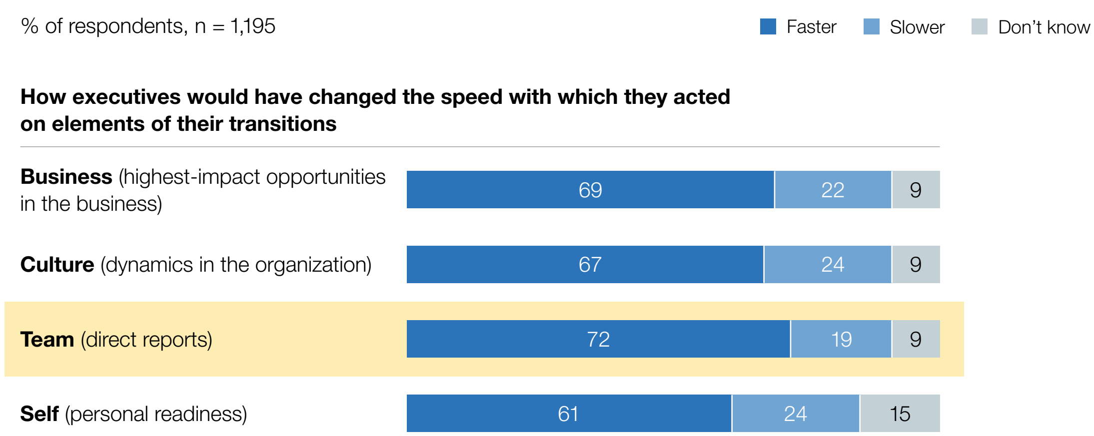
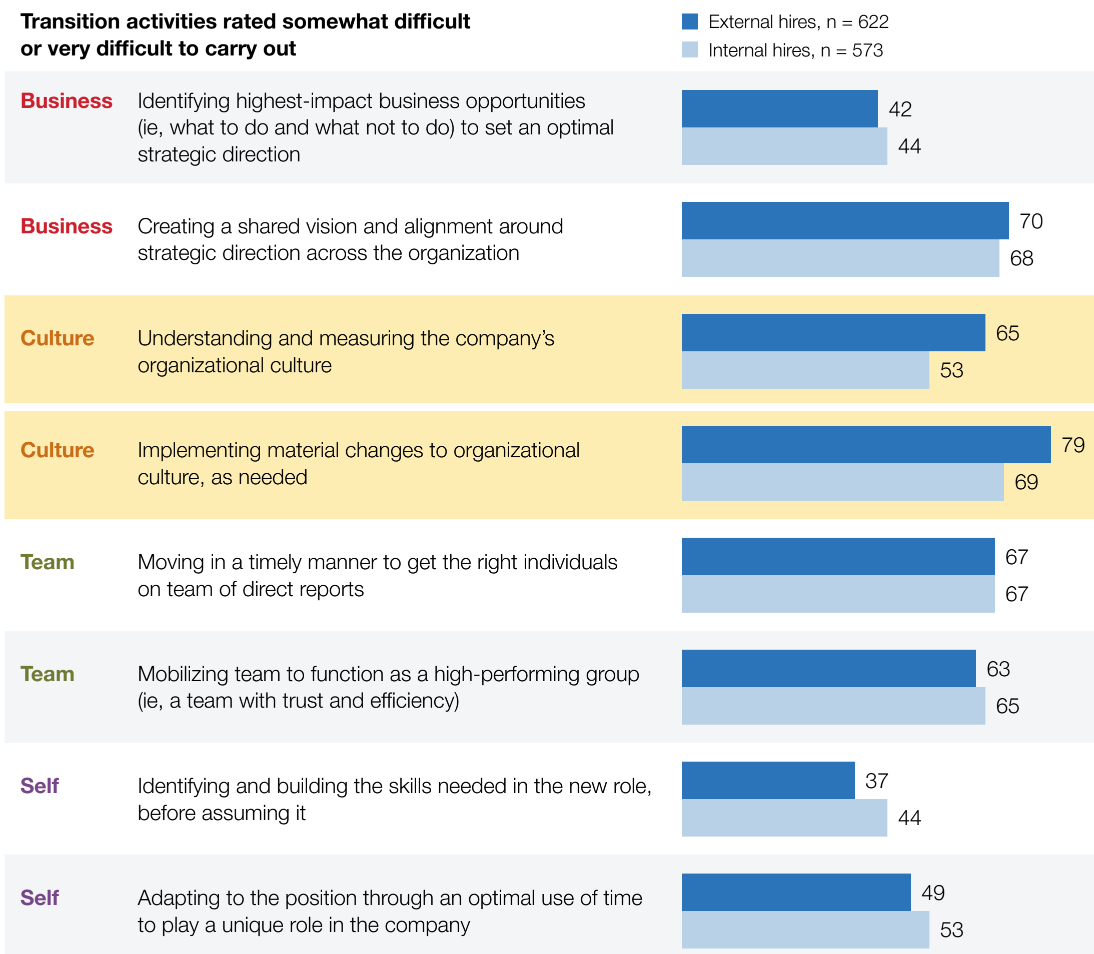


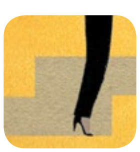
Exhibit 5

**Culture is hard to change and to measure, especially for externally hired executives.**

% of respondents[1]




[1] Respondents who answered "somewhat easy," "very easy," or "don't know/not applicable" are not shown.



### Tackling culture and self-management

While they wanted more time to build their teams, the executives who transitioned successfully are more likely than others to say they devoted the right amount of time to understanding the organizational culture. But cultural issues are difficult to act upon and to get right (Exhibit 5). Across the four areas of transitions we asked about, both internal and external hires agree that they most often struggled with implementing material changes to organizational culture.

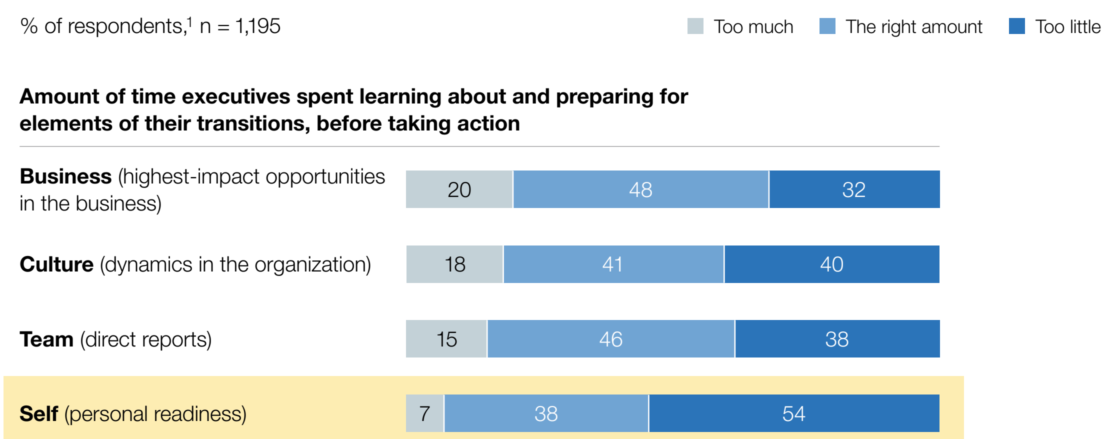
Part of the challenge posed by culture is that many executives believe they don't have accurate ways to measure or even describe it. This is especially true for external hires, 42 percent of whom say it would have been most valuable to have more information on culture during their transitions, compared with 29 percent of internal hires. Of all respondents, nearly half say that during their transitions, they assessed the effectiveness of their organizations' cultures less rigorously than their business initiatives, or not at all.

During transitions, executives also struggle with self-management. Just over half say they spent too little time preparing for the personal demands and their own readiness in the new position (Exhibit 6). The executives with the most successful transitions, though, spent more time than others preparing for their roles, and they are 1.6 times as likely as others to report proficiency at the key skills for their jobs. What's more, they report doing a much better job than others of understanding their unique role on the executive team. These respondents are also twice as likely as their peers to say that during their transitions, they had time to focus completely on the issues they alone were in a position to influence.

Exhibit 6

**More than half of executives say they spent too little time preparing themselves for the demands of their new roles.**

% of respondents,[1] n = 1,195




[1] Respondents who answered "don't know" are not shown, so figures may not sum to 100%.

### Looking ahead

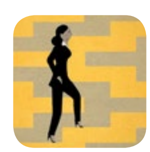
- *Be purposeful.* The four aspects of an executive transition—business, culture, team, and self—require different tools and resources to successfully engage with each one. New executives might face a bias to focus disproportionately on issues that receive external scrutiny (delivering short-term business results, for example). But they must think holistically about their new responsibilities and identify the nuances of each aspect so they can take purposeful action. Crafting a clear vision of strategic priorities, building their teams in a timely way, rigorously assessing the organization's culture, and spending enough time to prepare for the personal demands of the job will all be essential to success in a new role.

- *Create organizational support.* The results suggest that executives who make the most successful transitions received important resources and information from their companies. Yet, in our experience, few organizations have established internal capabilities or ownership for the transition process. Given the high price organizations pay for every failed transition, more of them should develop a systematic approach to support new leaders. The most successful approaches we've seen blend in-class learning with other interventions, such as personal coaching for the first 6 to 12 months on the job. □

The contributors to the development and analysis of this survey include **Rajiv Chandran**, a specialist in McKinsey's Delhi office; **Hortense de la Boutetiere**, a principal in the Paris office; and **Carolyn Dewar**, a principal in the San Francisco office.

They would like to acknowledge Juliane Bardt and Rahul Varma for their contributions to this work.





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