SUMMIT

Making a successful transition to CEO

McKinsey&Company

Transitions into new roles are exciting and anxious moments. High aspirations and the honor that comes with being selected are often balanced with some uncertainty and recognition that there are high stakes for personal leaders and the organizations they will run.

This booklet assembles a collection of McKinsey's best thinking and advice for the ultimate new role—becoming CEO—to help leaders take the reins in a way that maximizes sustainable impact.

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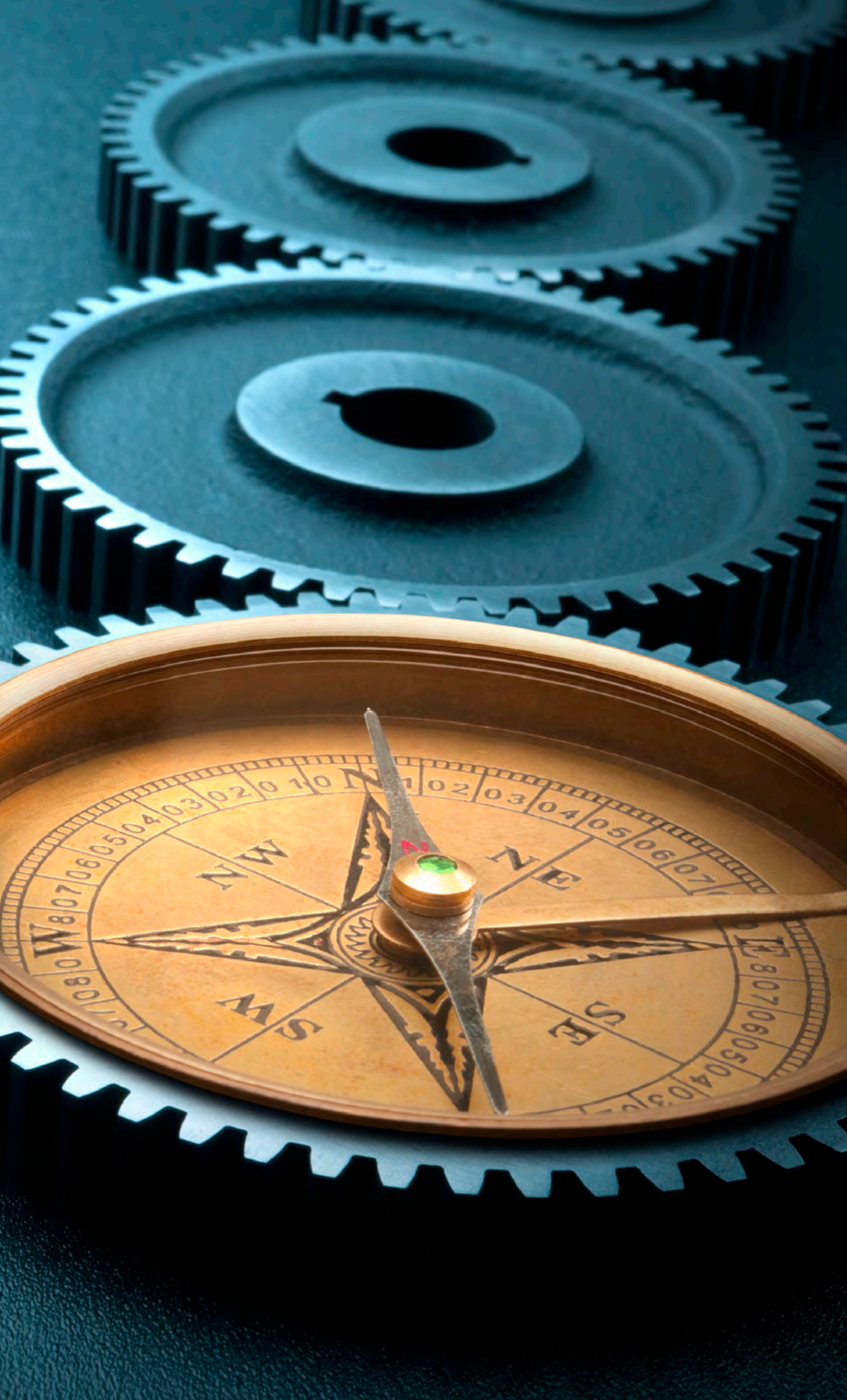
THINKING AHEAD TO YOUR NEW ROLE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PREPARING FOR THE SELECTION PROCESS

BELOW ARE A SET OF QUESTIONS THAT BOARDS TYPICALLY ASK POTENTIAL CEO CANDIDATES AS PART OF THE SELECTION PROCESS (OR CONSIDER AND DISCUSS IMPLICITLY IN THEIR SELECTION COMMITTEE DISCUSSIONS). TAKING THE TIME TO CONSIDER YOUR ANSWERS IN ADVANCE IS A VERY HELPFUL EXERCISE—NOT ONLY TO PREPARE FOR INTERVIEWS THEMSELVES, BUT TO CLARIFY YOUR OWN THINKING AHEAD OF MOVING INTO ANY NEW ROLE. WHILE SOME OF THESE QUESTIONS ARE SPECIFIC TO THE CEO ROLE, THE MAJORITY ARE HIGHLY APPLICABLE TO ANY SENIOR EXECUTIVE POSITION.

STRATEGY AND VISION

What is your vision for the company? What changes, if any, would you make to the current strategic direction?

- Describe the key macro trends, customer segments and their needs, channel needs, regulatory changes, industry structure across the businesses; what are the biggest changes in the industry in the last five years and how have they affected the company?
- How the company can successfully maintain its sales and profitability and differentiate itself relative to challengers; what are the three to five biggest challenges overall and by business and what should we be doing to address them?
- Where would you change the strategic direction?

If you had to develop an even more radical vision for the company, what would it be?

What are the biggest opportunities facing the company?

What are the biggest obstacles/threats? Are there parts of the business where you would choose to stop competing?

What would you do to ensure the company captures these opportunities and can overcome the obstacles you mentioned?

ASSESSMENT OF WHERE COMPANY STANDS TODAY

How well do you think the company is currently doing? By business? Which competitors (including non-traditional) should we be most concerned about?

What are the company's biggest strengths? Biggest weaknesses/skill gaps? What would you do to enhance the strengths and overcome the weaknesses?

How do you think the company has performed (holistic definition of performance including managing external stakeholders such as regulators, developing critical skills, attracting talent, enhancing the brand, creating the right culture) to date? What have been the biggest wins? The biggest misses?

CULTURE AND ORGANIZATION

How would you describe the company culture? Do you think it is the right culture given the vision you laid out? Would you make any changes? How would you do this?

The company today, vis a vis the vision you laid out, could be a very different organization. Would you organize any differently? What synergies, focus, talent benefits would you get as a result?

Can you tell us how you assess the talent in the top team and the company overall? Who would be your keepers? Would they stay? What would you do to keep them? How strong is the bench beneath them?

CEO REQUIREMENTS

Given the vision and strategy you laid out, what are the types of skills and profile the next CEO should have? Why? How does that compare with your skill set?

Being a CEO in this environment is very challenging and all consuming—are you up for it? Is your family up for it?

ABOUT YOU—THE PERSON

Why do you want the top job? Do you think you are adequately prepared? Why?

Give us a sense as to what kind of person you are? What motivates you? What fears do you have? What are your aspirations professionally and personally? (they will want to go into your upbringing as well so be prepared)

What experiences do you bring to bear that would be valuable?

What are your biggest accomplishments at the company? Outside of the company?

What are your biggest failures at the company? Outside? What have you learned from them and what would you do differently?

What are your biggest strengths? How will that help you lead this company?

How would you describe your management style (e.g., more externally focused; very hands on)?

No CEO is perfect; what are your weaknesses? How would you overcome them? If you were to not get this job, what do you think the reason would be?

What do others say about your leadership style? Give us some examples of your leadership skills?

Give us some examples of your team building skills? Examples of your ability to attract, develop and retain talent? Does the company do a good job on the talent front?

What would you do if you do not get the job?

GOVERNANCE AND CORPORATE PROCESSES

What kind of mandate would you want from the Board for you to take this job? What of that is non-negotiable?

Would it be okay to separate the CEO and Chairman roles? Why or why not? What would you recommend?

How will you manage the company? How would you constitute the Executive Committee, with what mandate/charter, and meeting frequency and meeting norms?

What changes if any would you make to the other committees (e.g., Audit, Risk) and why? Would you create any new committees?

Will you make any changes to the key corporate processes (e.g., budgeting, planning, risk reviews, business reviews)? Why?

What personal imprint will you put on these processes and how will the organization (remember your predecessor's style may be very different than your's and what do you want the organization to take away from any changes you make)?

What changes, if any, would you make to the Board and Board processes?

It is good to have a vision and strategy, but how will you drive a true performance culture and a performance ethic in the organization?

What would be your "100-day plan?" Your three to five key priorities for your first year? Three-year plan? Five-year plan? What metrics will you use to measure success?

STAKEHOLDER RELATIONS/REACTIONS

How will your peers react to your getting the job? Are you worried any of them will leave? What would you do to prevent them from leaving?

How would the rest of the employees react especially the senior team?

How are your relations with key external stakeholders—regulators, investors, analysts, the Board, others? You have limited experience in building relationships with analysts, investors—how relevant is that?

What have you done to build these relationships?

A year from now when you become CEO, what would people internally and externally say is different about the company as a result of your leadership? What would they say makes them most optimistic about the company's future?

A guide for the **CEO-elect**

The days, weeks, or months between taking the job and assuming power are precious. Put them to good use.

**Kevin P. Coyne
and Bobby S.Y. Rao**

It must be one of the most thrilling moments of an executive's career—the call to lead a company. With the new office come new responsibilities, new excitement, a sense of accomplishment, and, unfortunately, a high risk of failure: within three years of the appointment, one-third of all CEOs chosen to guide US companies are gone.

Experience shows that getting a good start is essential. Much has been written, of course, about a CEO's first 100 days. But what about the weeks and months before the job even begins? What can newly designated CEOs do to improve their chances of long-term success in the vital period between taking the job and taking the reins?

To help answer these questions, we interviewed 15 current and former CEOs of US companies about their choices and lost opportunities during the period just before they took over. The annual sales of their companies—in a cross-section of sectors from high tech to financial services to consumer goods—range from $1 billion to more than $25 billion. Most but not all of the CEOs were considered successful in their roles. Our group was about evenly split between external and internal hires, and none were founders or members of a founding dynasty.

These veterans believe that a newly designated CEO can accomplish a great deal before actually assuming the post. Although many CEOs-designate, they say, are inclined to believe that no further groundwork is needed, nothing

Article at a glance

Newly designated CEOs are deservedly confident, but few are fully prepared for the challenge that lies ahead. Most could take better advantage of this unique period before they assume their new role.

CEOs-designate should analyze and address their own weaknesses, begin to learn about the board's personalities and power structure, and prepare a story to tell major constituencies when the appointment is announced.

To start with a clean slate, CEOs would be wise to get the board or the outgoing CEO to do some of the dirty work before they take power. They should also identify confidants who can serve them as a sounding board and, at least initially, avoid committing themselves to the inevitable flood of requests to participate in civic organizations.

Finally, incoming CEOs often underutilize their predecessors, many of whom can provide a wealth of knowledge—though at a price.

in a person's resume or past is full preparation for the challenges ahead. Managers who rise from within a company are particularly vulnerable to overconfidence.

"I had been the COO and had sat on the board," the CEO of a large technology company said, in comments echoed by others. "PR and industrial relations reported to me." In fact, this CEO even had nine months between his designation and his assumption of power. "I thought I had it figured out. Man, was I wrong. I had no idea what I was in for."

By starting out with a dose of humility, future CEOs can get a head start in diagnosing and addressing their own weaknesses, in understanding the organization and its other leaders more fully, and in identifying resources that can smooth the transition. For CEOs, taking as much advantage as possible of the period between their designation and their ascension can make the difference between success and failure.

Seize the day

The golden time between winning the job and starting it differs for every prospective CEO. Some have the luxury of learning about their appointment privately well in advance of the public announcement. Our CEOs, past and present, said that for getting insights into the way the company is perceived, as well as its weaknesses and strengths, this period—however short—is often more valuable than the period after the announcement. "People spoke to me differently when they knew I was designated. It changed instantly," said one of our interviewees. Another noted, "The last time I knew if my jokes were really funny was the day before my new position was announced." Newly designated CEOs also have more control over their time before the announcement. Once the world learns the news, the demands from stakeholders and the media proliferate rapidly.

CEOs-designate may be tempted to use the time before they formally assume the new role to tie up loose ends at the "day job." But while they fulfill their commitments, they must also take advantage of the one-time opportunity to prepare for the new position.

Identify and attack areas of weakness

Many studies suggest that decisions reached during the first few months of a CEO's tenure are disproportionately important in determining its outcome. Several of the CEOs we interviewed agreed, but few of them had a chance to learn the new skills essential to making these decisions once they took over. Instead, although they made more decisions during this period than they had expected, they spent their time learning about the organization and the job. Several interviewees therefore said that the period *before* CEOs take control is the best time to assess and fill any critical weaknesses.

The CEO of a large financial-services company, for instance, told us that technology was his Achilles' heel. "In our company, IT reported to the CEO, so I'd never had it report to me before," he said. "I dealt with it, of course, as a major user, but I never actually approved its spending requests and architecture plans. We probably experienced two years of excess before I could fully separate the necessary from the grandstanding. I wish I had spent three or four days away from the company learning how to oversee IT."

While the gaps in knowledge and skills may be more apparent in chief executives entering a new industry, all CEOs-designate must carefully consider whether their experiences and skills have prepared them to run each business unit and function, to sign Sarbanes-Oxley certifications and similar governance documents, to face the media, and to manage people who have a wide range of skills, personalities, and ambitions. The chief executives we talked with emphasized that gaps should be addressed before a CEO takes up the position; it's risky to do so while actually on the job.

Our CEOs suggested quite a broad range of methods for addressing weaknesses. One took a crash course in chemical engineering, another met privately for several days with external industry experts, yet another hired a private coach, and one simply accompanied the old CEO as he toured field operations.

Get to know the board

Every board of directors is an intensely human entity, with all the personal prejudices and intrigues likely to flourish in any group of highly successful people. Our interviewees recommended that CEOs-designate go out of their way to get to know each board member on a personal level as early as possible. Many said that any failure to understand the board leads to difficult though often avoidable situations rather quickly.

To illustrate the point, a CEO recalled that in one of his first board meetings, he was asked his opinion of performance assessments for board members. In accordance with what was considered to be best practice, he replied that he generally favored them. "I was in the job eight years," he said. "I don't think

I ever fully regained the trust of two members of the group who thought that these assessments would be used to push them out."

The CEOs we talked with believe that newly designated top executives should strive to understand directors individually. How does each of them perceive the company and the board's role in managing it? Different members of the board of a health care company, for example, saw it from different angles: one focused on its clinical mission, another on its financials, and a third on the details of its management processes. Quite predictably, these directors voted according to their own points of view.

Several interviewees urged newly designated CEOs to discover the "board within the board"—a faction that wields disproportionate power. One CEO said that the interval between the moment when this select group "loses confidence in you and when you are out is very short. Once the side conversations among the board within the board start, the board's entire focus will be on finding a replacement within a couple of weeks. It is almost impossible to recover."

The process of understanding the board must begin early—even during the job interview—and continue in private conversations with each member. Besides knowing how the board operates, it's vitally important to learn such things as why the previous CEO failed or succeeded, what the board sees as the main threats and opportunities for the company, and the new CEO's mandate.

Have a story ready before Day One

New CEOs aren't expected to have all details of their programs worked out by the first day; the evidence suggests that they have six to nine months to draw up a full agenda. Still, stakeholders look for important signals immediately. Internal audiences, the media, and Wall Street will assume that the new CEO was chosen from a slate of candidates with competing game plans for the company—whether or not this is true. All of these parties are looking for scraps of information about the winning plan.

One externally hired CEO, for example, told us that he got the nod on a Tuesday—if he could report to work ten days later. In the interim, he had to quit his current COO position and take an unavoidable trip to Africa. When he returned to the United States, he flew directly to the public announcement of his appointment before a large gathering of employees. As he stepped off the platform, television cameras awaited him. The reporters immediately asked, "What is your long-term strategy for the company?" The question will come up repeatedly, and CEOs-designate needn't be caught flat footed.

What makes a good story? The CEOs we interviewed felt that it shouldn't be very detailed early in the process. Several things are important: each major constituency should know that the CEO recognizes (and cares about) its point of view, and the CEO must project confidence in the company's prospects and have clear ideas about where progress is possible and what it would look like.

Our interviewees said that projecting confidence without making baseless promises was among the hardest challenges they faced. Each of them had a different way of achieving this balance: some used input from interviews with stakeholders; others worked with communications experts. But the interviewees agreed that the period before Day One is critical in formulating a statement to inspire confidence in the new leadership.

Get help for unpleasant tasks

Some degree of change within the executive suite accompanies almost every CEO transition. Often, especially when it is forced, the incoming CEO knows which top managers to replace. This knowledge poses a dilemma for the new CEO: either gain an unwarranted reputation for acting hastily by firing someone soon after taking office or retain an unwanted member of the top team, thereby hindering change for months until a "decent interval" has passed and the executive can be let go.

Helping organizations change requires shifting not just how managers behave but also how they think. See "The psychology of change management" (www.mckinseyquarterly.com/links/17299).

An often-overlooked alternative is to have the board or the departing chief executive clean house in advance. Getting the board to fire a troublesome manager "saved me a quarter in my plan," said one CEO. Another—the CEO of a large bank, who had plenty of time before taking over—worked out the rotations with his predecessor a year in advance. During this period, the outgoing CEO persuaded several older executives that both he and they should retire together, turning the company over to a new generation of leaders. Although not all outgoing CEOs are as cooperative, they are a valuable resource that incoming leaders frequently ignore (see sidebar, "An awkward but valuable resource").

Incoming CEOs must weigh the advantages and disadvantages of each schedule and procedure for removing problem executives. Although working out their departure before the new CEO takes over could save time and aggravation, it might be desirable to handle the situation personally, thereby sending a strong and necessary signal throughout the organization, especially if further radical changes are in store.

The dirty work isn't limited to firings, of course. One newly designated CEO asked his predecessor, before leaving, to initiate a series of unpopular policy changes involving vacations, expense-reimbursement policies, and various perks. The new CEO understood that the changes were needed but didn't want them to be his earliest signals to the company.

Find a confidant

It's no less true for being a cliché that it's lonely at the top. As the CEOs we interviewed pointed out, the atmosphere there is very different, often in unexpected ways, from what they had experienced in the other positions they held during their careers.

"My biggest surprise was the solitary nature of the decision making," said the CEO of a natural-resources company with $20 billion in annual sales. "I had known this would be the case intellectually, but the experience of it is much larger than you would expect. Up to that time, there was always someone to check my thinking on an important matter. Now there wasn't. For various reasons, I couldn't look to board members. The people who reported to me usually had narrow or vested interests. Outsiders wanted to be helpful but didn't know the intricacies of the company. It was a long first year before I found someone."

While all of the CEOs we asked regarded their spouses or partners as invaluable emotionally, they all said that they needed another confidant from outside the home as well. Some of the CEOs sought counsel from external

An awkward but valuable resource

The 15 CEOs we interviewed had widely different experiences with their predecessors, a majority of whom remained active in the company, often as a member of the board. According to their successors, this situation created more stress than enlightenment.

One CEO said that his predecessor "never once disagreed, in front of the board, with anything I wanted to do. But it was still difficult. I was changing many of the things he worked hardest to put in place. I felt like I had to tiptoe every step of the way." Another noted that his predecessor "stayed on the board for years. He was very helpful on a few specific issues, but at a big price. He should have resigned years before."

Although having former CEOs continue to haunt the executive suite may be awkward, in many cases they represent a wasted resource. Among the external hires we interviewed, very few spent much time talking with them. Yet even ousted CEOs who were quite bitter toward the boards that had ejected them generally cared enough about the companies they once ran to be willing to help their successors, who never asked them for help.

Their stockpile of knowledge can be invaluable and some of their insights can be quite unexpected. "The most valuable time I spent with my predecessor was going over the list of reports and activities he used to monitor the company's progress and health," a CEO brought in from the outside told us. "He taught me a few ways to check on the underlying state of affairs I would never have thought of. I also recognized some of his blind spots," including his failure to anticipate the problem that led to his dismissal. "That was the first new monthly report I asked for."

business associates, a few found board members they trusted, and one had a professional coach he had been using for years. Trustworthiness and intelligence were obvious criteria that our interviewees mentioned. Opinions varied on whether it was better for the confidant to come from inside or outside the company.

As one CEO said, "Frankly, in this role, you don't need substantive help so much. You just need a sounding board. Sometimes you just need to feel less lonely." Most incoming CEOs already have a strong circle of friends, colleagues, and acquaintances. There really is no formula for finding a confidant, beyond awareness of the need for one. New CEOs can use the time before assuming office to ensure that they have someone (or some people) they trust who can serve in this capacity.

Beware civic duties

Our interviewees found that as soon as their new positions were announced, civic organizations flooded them with requests. Organizations they were already helping wanted to give them more prominent roles, and a whole new set of worthy causes suddenly saw them as leadership candidates. These organizations grossly underestimate the time commitments they really want.

In part for this reason, the CEO of an industrial company said that his first year as CEO "was miserable from a lifestyle standpoint. I was working seven days a week to understand the company. But on top of that, my predecessor encouraged me to take major roles in the community because of our company's profile and the fact that he always had."

Of course, the flood of requests is flattering at first, but they are "a trap," another CEO told us. "You say yes to the early requests, thinking those are all you will get. Then the more important ones come a little later. You can't say no to them, and you can't renege on your earlier promises." Our interviewees recommended that newly designated CEOs postpone any decision on greater civic involvement until after they get their bearings.

People called on to lead companies as chief executive find themselves thrust into a hugely challenging role at a time when, in the United States at least, they have one chance in three of failure. But they can help stack the cards in their favor by preparing more diligently before taking office. Q

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PLANNING YOUR TRANSITION PHASE

TOP TEN TIPS FOR NEW CEOs

SUMMARY OF ADVICE FROM FORMER MCKINSEY MANAGING DIRECTOR AND BP CHAIRMAN IAN DAVIS, CURRENT MCKINSEY MANAGING DIRECTOR DOMINIC BARTON, STEPHEN BEAR, ANDY BIAGOSCH AND ANDRÉ ANDONIAN.

Congratulations on being chosen for the CEO role. It is one unlike any other. In it you have an incredible opportunity to have impact on your company and all of your stakeholders.

This unique opportunity doesn't come without its unique challenges, however. You will now have new responsibilities to—and more intense scrutiny from—your board, investors, the media, and regulators. You are also now peerless—which can be lonely. Being "the one" exponentially increases demands on your time as from here on out the buck truly stops with you.

You will no doubt get plenty of general advice from many people during your transition which will fall into one of three categories: Basic but helpful, "swing factors" between success and failure, and that which is generally irrelevant/unhelpful. The purpose of this brief note is to help you know which is which.

GENERALLY GOOD ADVICE ("BASIC BUT HELPFUL")

In the most simplistic terms you are well advised to take stock of your situation before you take action.

Key aspects of taking stock include **understanding your license** to operate (expectations of all of your stakeholders and the in-going legitimacy you have in their eyes, state of the business, the culture, your team, etc.) and **connecting with your convictions** (what are your core beliefs about how things work and how to move forward, what are your strengths and weaknesses, what legacy are you building towards)—these will act powerfully as your compass during the melee' of activity during your transition.

With ample understanding, you'll want to then move quickly into action, **building legitimacy** (e.g., getting the right team in place, making decisions and taking actions emblematic of needed change and reflecting an understanding of the business and culture, communicating expectations while not boxing yourself in, etc.) and **aligning stakeholders** on the desired direction (setting the change agenda, reshaping expectations as needed, putting in place your operating model, etc.).

TOP 10 PIECES OF THOUGHT PROVOKING, SPECIFIC ADVICE ("SWING FACTORS")

The "top ten" less obvious learnings from CEO transitions (successful and not) you'd do well to consider up front in your transition include:

1. ***Ignore your board at your peril***—make it a point to establish a strong relationship with the Chairman/independent lead Director in particular.

2. ***Asking goes further than telling***—it may take longer, but it creates far more alignment and motivation which, in turn, dramatically accelerates impact.

3. ***You can never move fast enough on people***—this is the number one regret of CEOs, and may even mean moving on those who have been loyal to you.

4. ***What you say isn't what they hear***—be absolutely certain when you task people that they fully "get it".

5. ***Play to your strengths***—leopards rarely change their spots, so stay authentic to who you are and fill gaps by leveraging those around you.

6. **You alone set the tone**—you will face ten crises a day, make sure you choose your reactions, don't let them choose you (stay in control of yourself)

7. ***Manage your energy, not your time***—the quality of your presence matters more than the quantity.

8. ***Team building doesn't build your team***—doing real work together on issues of substance does (strategy, talent/bench strength, synergies, culture, etc.).

9. ***Think as much about consequences as rationale***—play through the "second bounce of the ball" to avoid unintended consequences.

10. ***Focus on the "one thing"***—simplify, simplify, simplify by being clear on what matters most in terms of metrics, initiatives, people, etc.

GENERALLY IRRELEVANT/UNHELPFUL ADVICE

Based on our experience, the drivers of success and failure in CEO transitions are not generalizable far beyond what is mentioned above. It'd be naïve to imply otherwise as every CEO-transition is extremely unique, far more so than any other senior executive role. We suggest treating other generic advice with caution.

Your best bet to ensure your successful transition is to find a thought partner who can be a sounding board/confidant/sparing partner. Look for someone who understands the role of the CEO, has (or will invest in getting) a full appreciation who you are, and who will be straight with you—with no other interest than to see you be successful.

We hope these thoughts help you cut through the noise of all the advice you are and will be receiving as you take on your new role. In doing so, we hope they pave the way for your transition and tenure as CEO to be a massive success.

McKinsey Quarterly

Letter to a newly appointed CEO

McKinsey's former managing director Ian Davis offers to new CEOs advice distilled from his experience supporting executives during their transitions into the role.

McKinsey&Company

London
June 1, 2010

Dear Frank

It was great to meet for dinner yesterday. Once again, congratulations on your appointment as CEO. It's a big honour, and an opportunity that I am sure you will relish.

I am glad that you found our discussion on CEO transitions useful. You mentioned that it would be helpful to you if I jotted down the key points we discussed, so I am putting pen to paper. My suggestions are focused on making a successful leadership transition—not on the role and attributes of a successful CEO, about which so much has already been written. They are based primarily on personal observation of many CEO transitions, as well as on interviews with a number of leading CEOs and chairmen from around the world.

1. *Context is critical.* As an outside appointment, you must quickly learn about the history, board structure, governance, and national heritage of the company, not to mention its financial performance, morale, and capabilities. Then you must look at this context through the eyes of other constituencies and stakeholders. An early sense of how they might see things is valuable in its own right; it also can help provide a reality check on any assumptions or prejudices, as well as insights, that you may have built up during your interview and recruitment process. Too many CEO transitions get off to a poor start as new leaders learn that what worked in one context doesn't necessarily transfer well to another. Experience is valuable, but it also creates bias. You won't often get such an opportunity or time to step back and reflect, so take it.

2. *We talked about the alleged importance of the first 100 days.* In my view, this is an arbitrary number to be treated with scepticism. In a crisis or turnaround situation, for example, you would not have the luxury of a 100-day transition. In other cases, like the one you are stepping into, you can afford to take a more measured approach. You don't want or need to make decisions on, say, strategy or people or core control processes when you are not confident in your knowledge. There is a big difference between being undecided and indecisive.

   The key is to be thoughtful and purposeful about your transition time frame and to be very clear on what you believe would constitute a successful leadership transition. Set specific transition goals (for example, establishing the trust of your top team and developing a good relationship with your chairman).

   Transitions involve leaving as well as starting. Do not overlook the task of disengaging from your prior job elegantly and professionally. Apart from it being the right thing to do, people will notice and remember. People will also notice and remember how you talk about and acknowledge your predecessor as CEO, and how much respect you have for the past.

3. *Taking over as a new CEO is exhilarating but can also be overwhelming.* A critical task early on is to establish priorities. On day one, you will be handed a list of commitments and meetings. Many of these will be nonnegotiable (for instance, board meetings and annual general meetings), but some will be driven by history and the preferences of your predecessors. Take time to decide which ones you want to attend, bearing in mind the signalling effect your decisions will have.

   Your style in these early transition days and in your first meetings will be watched and noted. It will be important to establish early what you stand for. It will also be important to engage early with employees at all levels to understand the mood and culture and to get a sense of what they actually do and how they feel about the company. People will pay particular attention to how you conduct internal meetings, how you listen, and how much attention you do or do not give to process.

   As you establish your priorities you will need to understand the expectations of the different constituents—for example, your chairman, key investors and analysts, regulators, unions, as well as the people in your organisation. You will receive a lot of advice to set bold expectations, but during the transition period it is more important to *understand* expectations. This understanding will help you stress test your emerging priorities and your degrees of freedom. It will also help you establish your communications approach.

4. *Time will be a big challenge, particularly as your truly discretionary time will be limited.* It will seem that everyone wants a piece of you. This will be

true externally and internally. Be ruthless on the use of your time and on what you will and won't do. Avoid developing a habit of cancelling meetings because of time pressures. This will make you look disorganised and will be demoralising to those you stand up. Don't underestimate the possibility and impact of unforeseen events, particularly when things are going well. Leave space for reflection and for crises—you won't know when they will happen, but they will. The rule of thumb is that you can expect at least one potentially career-threatening event a year.

5. *You are fully aware that constructing your top team and building relationships with key people will be a fundamental—perhaps the most important—early task.* In your case, coming in as an external appointment, you will need to get to know the current team and to understand their motivations, capabilities, attitude to risk, and ways of operating. Be open minded and take time to reassess initial impressions or previous experiences. (This would be all the more true had you been an internal CEO appointment.) As always, don't be shy of biting the bullet if you feel it necessary: it can be easier to make tough calls early in your tenure as CEO. There is always the temptation to surround yourself not just with people you respect but with people with whom you feel comfortable and who are aligned with your way of thinking. This is important, but it can also be important to have a "bit of grit in the oyster." This diversity should enhance the quality of challenge and reduce decision-making bias and risk. It will also send a message of openness to the broader organisation.

6. *Do not underestimate the importance of building a professional, respect-based peer relationship quickly with your board and, particularly, with your chairman.* It's difficult to overstate the importance of the support and confidence of both—you will need

them, particularly when the going gets tough. This is a two-way street, of course, but it's essential to invest the necessary time and to start this process early. Do not feel that this is solely the responsibility of the chairman. In particular, observe your chairman closely and get a good feel of how he likes to run the board and how he likes to be kept informed.

It's useful to remember that the board consists of individuals, each with his or her own experiences, perspectives, and priorities; it's valuable and rewarding to understand these. Remember, it is the board that appointed you and it is the board that is accountable to the company's stakeholders for your success. They, and particularly the chairman, will be as anxious as anyone that you get off to a solid start and establish an effective working relationship with the board, as well as credibility within the organisation.

As you work on building your relationships with your chairman and board, also make sure that you become familiar with the formal corporate governance principles and company by-laws. Your chairman and key institutional investors will expect it, and you don't want to get caught out on such technicalities.

There will be many other relationships that could merit your time during the transition period when you are establishing yourself as CEO—for example, with customers, investors, external advisers, media, and suppliers. You will not be able to do them all justice initially, so it's useful to draw up a map of whom you will (and won't) contact and when, based on your judgement of priorities. It may be advisable to share this map with your top team and seek their input. Again, the key thought here is to get control and make mindful choices, rather than letting circumstances or your staff dictate your priorities.

7. *The quality and credibility of your direct support team will be key.* Your choice of personal assistant and of the support office and technical infrastructure around you will be among your most important (and sometimes most difficult) early decisions. They should both support and reflect your own style and method of operating and be designed to take as much of the burden off your shoulders as possible. One CEO I know made a big mistake in keeping his predecessor's assistant and support set-up, even though he was committed to a radical change agenda.

8. *It is advisable to develop—early—a clear transition communications strategy, both for internal and external audiences, recognising that what appears in the external media has a bigger influence on internal and board perceptions than you might initially think.* Are you going to be personally visible and accessible to your organisation and to your customers, or are you primarily going to delegate through the line? How are you going to use communication technologies (such as WebEx, blogs, and video messaging) to leverage your presence and reach? How will you use management conferences to build understanding and alignment? What sort of external personal profile do you want or need to have in the media and with investors? What role will your chairman play in the company's communications and external profile?

   Consistency of message is key. Over time you will need to develop coherent themes and directions that enable you to "tell the story." But in the CEO transition period, particularly since you are an outside appointment, you may not be clear on your key messages, and, in fact, people may not want or expect you to be too specific. In this circumstance, it can be highly effective to focus on your beliefs and what you stand for. In time, these can evolve into specific themes that reflect your strategic priorities and direction as well as your own style and personality. Don't underestimate the damage and confusion that can be caused by saying too much too soon or by making promises (sometimes unintended) that cannot be delivered on subsequently.

9. *A perennial challenge for all in positions of authority is how to get objective, balanced feedback and information.* This can be all the more problematic in a CEO transition. As soon as an appointment is announced, relationships shift in both context and tone. What you hear directly will now usually be filtered in some way. People may be more prone than usual to tell you what they think you want to hear. Conversely others may overemphasise their criticisms and worries in their desire to make an impression or simply to reflect their own temperaments and frustrations.

   Successful CEOs use a range of techniques to get around the problem, but all involve some form of triangulation and diversity of perspective. The chairman and board have a role to play as do investors, customers, and suppliers—it's always advisable to keep an external orientation to check that the messages from the market are aligned with the messages from within your organisation. Some CEOs use external advisors to help gain perspective; others use more formal techniques such as surveys and systematic feedback mechanisms. Find some room and time for the mavericks inside and outside your organisation. Find some room and time to talk to frontline staff. Most boards review the CEO's performance annually. In your first year, you may well find it helpful to have a six-month review as well. This may sound like unwanted extra pressure, but in reality it will provide additional objective feedback.

   You should aim to build your own bulletproof fact base, so challenge data and information that is presented to you, particularly in your early days as CEO. How was it collected? How reliable is it? Have there been any definitional problems in the past? Such a judicious approach will increase your knowledge and confidence in the information you receive (and occasionally, but valuably, they will do the opposite!). They will also send a strong message to your organisation about the importance of accuracy and of making assumptions explicit.

10. *This note is too long already, but one final thought about personal priorities and ground rules.* The CEO role has the structural potential to be all consuming. "The reality is enslavement," a CEO once said to me. It's hard to escape and it's hard to switch off. Nevertheless, there are some tips and techniques that might help. It's important to establish early on how you are prepared to live your CEO life, at least when you are not in those occasional situations that require a 24/7 commitment. Are you going to be routinely available during weekends for meetings and travel? Will you honour holiday commitments? Do you intend to use air travel as a chance to work or as a chance to relax? Will you routinely go to external functions and dinners? It's important to establish your own pattern and priorities relatively early—not just for you and your family but also to allow your organisation to adjust.

    It can be helpful to develop simple habits and rules that reduce stress and wear and tear—examples include not looking at your Blackberry within two hours of going to bed, controlling your accessibility via e-mail or mobile phone, setting limits on alcohol consumption, planning travel meticulously to avoid continental crisscrossing, and setting aside specific time for exercise or nonwork reading. And, as we discussed over dinner, the nine-hour rule has always helped me put sufficient space between my last appointment on one day and my first appointment the following day—and get a reasonable night's sleep.

Finally, don't forget that the role of CEO brings an element of celebrity as well as power, with all the attendant benefits, temptations, and dangers.

Frank, I hope this letter is a helpful summary of our discussion. I am attaching a page which summarises the key questions that new CEOs might ask during their transition period. Hopefully it will be a useful checklist for you over the next months. As I have said, there are few absolute rights and wrongs, but it is important to make mindful choices about each of them. I will obviously be interested to hear of your experiences and feedback.

In the meantime, as we discussed, I will set up meetings with a few other CEOs. I'm sure you will enjoy getting to know them and that they will form a useful peer group and sounding board for you.

Best of luck in what I am sure will be a great experience. I look forward to catching up with you in a month or so—my turn to pay this time.

Yours ever

Ian

CEO transition checklist

1. *Have I reflected on the context of my transition—not just from my own perspective, but from that of all key stakeholders?*

2. *Have I established in my own mind the time frame and intended outcomes of my leadership transition?*

3. *Have I established my initial set of priorities with a full understanding of what others expect of me?*

4. *How will I control my agenda and allocate my time?*

5. *Have I developed a clear process and time frame for selecting my top team?*

6. *Have I committed sufficiently to building a relationship with my chairman and board?*

7. *Do I have a mechanism for building the necessary support office and infrastructure?*

8. *Have I thought through my communications plan—internal and external?*

9. *Do I have a mechanism for getting balanced feedback and information?*

10. *Have I established appropriate personal ground rules?*

McKinsey&Company

Breaking new ground

Making a successful transition into your new executive role

Carolyn Dewar, Scott Keller,
Alexis Krivkovich, Seham Husain

Congratulations on your new role! It's a tribute to all you've accomplished. If you're like most executives, you'll be feeling a mix of excitement and anxiety about the challenges ahead.

The excitement comes from the opportunity you've been granted to make a difference on a bigger stage and leave a legacy that will last far beyond your tenure. The anxiety comes from the reality that as you get closer to the top, expectations rise, the spotlight becomes more intense, and the complexity of your job grows.

> **The excitement comes from the great opportunity you've been granted to make a difference on a bigger stage and to leave a legacy that will last far beyond your tenure.**

One thing you're probably not short of is advice on how to hit the ground running. Mentors and colleagues will reach out to share their wisdom, and there's plenty of literature on transitions for you to scan. So what can you gain from reading this booklet? We hope it will help you in ways that other books and articles can't.

At McKinsey & Company, we've had the privilege of providing in-depth support to thousands of senior executives as they make their leadership transitions. Few other individuals or organizations can draw on such broad and rich experience; as Malcolm Gladwell might have said in his book *Outliers*, we've done our 10,000 hours of practice. That means we are in a unique position to offer lessons learned by other executives as they made their transitions. Here are some of them:

Conventional wisdom won't help you much. It's hardly rocket science that transitions require you to prepare yourself, get the right team in place, set a strategy, build key relationships, and do all the other things that conventional wisdom dictates. None of this is bad advice, but anyone moving into a senior executive role will already have the experience—or the ability to learn fast—to understand that these things are important. Yet they clearly aren't enough: research shows that the failure rate among newly hired or promoted executives has stood at 40 percent for the past 15 years.[1]

Knowing *how*, *when*, and *who* is as important as *what*. What goes wrong in the 40 percent of transitions that fail? It's not that executives don't appreciate what needs to be done; rather, the stumbling block lies in *how* and *when* and with *whom* they choose to act. The research is clear: 68 percent of transition failures happen because of the information new leaders use, the sequence they follow, and the manner in which they engage others.

The failure rate among newly hired or promoted executives has stood at 40 percent for the past 15 years. Why is this?

Make your transition *impact*-driven, not calendar-driven. Type "executive transitions" into Amazon and you'll find a daunting list of books offering 90-day and 100-day plans for success. They all offer much the same message: you have a limited period to get up to full productivity as a leader, and if you don't make it in time, you're doomed. Such an approach may make for good marketing, but it isn't supported by the evidence. In practice, most new leaders—92 percent of external hires and 72 percent of internal hires—take far more than 90 days to get up to full productivity. Many executives admit that it took them at least six months to achieve real impact. Instead of trying to meet arbitrary timelines, you will be far better served by taking the time you need to do the things that matter most.

These lessons come together in the practical approach that we describe in this booklet: our high-impact transitions methodology. The key elements are outlined in Exhibit 1. Our research and experience indicate that all the elements that go to make up "how, what, who, and when" are necessary to a successful transition, though the relative emphasis you place on them will be dictated by your own specific circumstances. We would not consider any transition complete until a leader has acted on all these elements, and neither should you.

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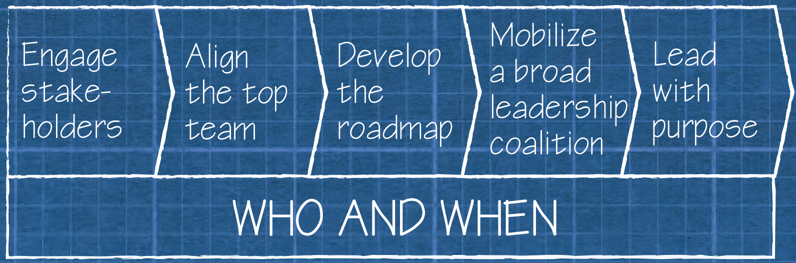
1 The statistics on failure rates and their causes have been compiled from a number of landmark studies, including Bradford Smart, *Topgrading*, Prentice Hall, 1999; Mark Murphy, "Leadership IQ study: Why new hires fail," *Public Management*, volume 88, number 2, March 2005; "Executive transitions market study: Summary report 2008," Institute of Executive Development and Alexcel Group, 2008; George Bradt, Jayme Check, and Jorge Pedraza, *The New Leader's 100-Day Action Plan*, Wiley, 2009; and recent Gallup polls.

EXHIBIT 1

HIGH-IMPACT TRANSITIONS METHODOLOGY

		HOW	
		1. Take stock	2. Take action
WHAT	Business	1a. Identify high-impact opportunities	2a. Set strategy with execution in mind
	Culture	1b. Assess organizational dynamics	2b. Influence mindsets and behaviors
	Team	1c. Choose your team	2c. Build your team as a team
	Myself	1d. Personally get up to speed	2d. Play the role that only you can play




MOUNTAINS
FONTANA LAKE
CABLE COVE
Walnut Hollow Gap
Tuskeegee
Chestnut Log Gap
MEETINGHOUSE MOUNTAIN
Cable Gap
Round Top
Grassy Gap
Swim Bald
Sassafras Gap
SASSAFRAS GAP

What and how

Transitions require you to come up to speed (or "take stock") and drive impact ("take action") in four areas: the business, the culture, your team, and you yourself in terms of how you will lead in your new role. In each of these areas there are clear best practices to help you in your transition.

1. Take stock

American football coach Vince Lombardi summed up the importance of "taking stock" when he said, "The will to win is not nearly so important as the will to prepare to win." To prepare for success as you take up your new role, you should reflect deeply on four questions: Where are the highest-impact opportunities in my business? What are the cultural dynamics of the organization I will be leading? How strong is the team I am inheriting? What do I personally need to get smarter about in my new role? Let's consider some practical advice on how to answer these questions.

The will to win is not nearly so important as the will to prepare to win.

1a. Where are the highest-impact opportunities?

If you don't have them already, you will soon be handed stacks of financial information and key performance indicators that show how your business or function is doing. Approach them with skepticism! As a new leader, it's vital that you don't take for granted that these numbers a) are the right indicators of performance, b) are the set of numbers everyone agrees are accurate and representative, and c) provide strategic insight into trends that will affect future performance. Instead, we suggest that you recast this information from the point of view of value drivers to give you the best possible insight into current performance and gaps.

Make sure you establish one set of baseline numbers that a) are true indicators of performance, b) are agreed upon by your stakeholders, c) give you strategic insight into trends affecting future performance.

How does this look in practice? Consider the experience of a new chief information officer who was handed a hefty binder detailing thousands of technical and operational metrics that were religiously tracked each month and led to the happy headline of "we are a top-quartile performer." One of the first tasks the CIO sanctioned was to recast the numbers to reflect value added to the customer and the company in terms of information security, availability, service quality, cost, and other criteria, and to include feedback from internal customers. Seen through this lens, performance was revealed as far from top quartile. Acting quickly, the CIO replaced the binder with a three-page scorecard that focused the organization on a shortlist of key performance indicators and freed up massive amounts of employee time and energy.

In another case, the incoming leader of a business unit was given a set of reports that showed the company was growing, customer retention was among the best in the industry, and the unit was earning a respectable operating income. However, once performance was seen from a value-driver view, the positive spin turned out to be a mirage. Recent growth was fueled by acquisitions in non-core markets that would dilute value in the long term, the customer base had a long unprofitable tail, and operating income was calculated through a unique algorithm that added back internal transfers for services provided by other areas. Only after the organization agreed on one set of numbers that represented the true performance of the unit could real progress be made.

In addition to taking a value-driver view of the numbers, you would be well advised to ensure you have a grip on the external trends that could affect future performance. That will enable you to adjust trend lines and market forecasts to changing contexts. As a cautionary tale, consider the new leader of a retail division who based its growth plan on an analysis of historic results and decided to ramp up the number of new store openings. Meanwhile, more nimble competitors had started to invest in developing their online offerings, picking up on trends in adjacent industries that were shifting from analog to digital channels in response to widespread customer adoption of tablets and smartphones. Before long it became clear that the new leader had missed the emerging trend and invested too heavily in a store network that was rapidly becoming unprofitable.

How to find high-impact opportunities

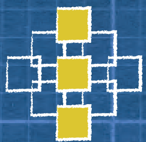
- Cast performance information from a value-driver perspective to get a true reading of performance
- Identify the external trends and competitive positions that will affect performance in the next three to five years
- Align your team and organization on how the business is performing and where the high-impact opportunities lie

EXHIBIT 2

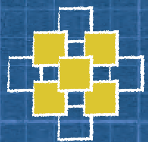
THE OHI IS A COMPREHENSIVE SURVEY THAT MEASURES ORGANIZATIONAL HEALTH

NINE DIMENSIONS UNDERPIN ORGANIZATIONAL HEALTH…

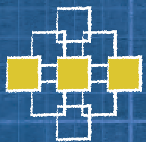
…AND MEASURE THE ABILITY TO ALIGN, EXECUTE AND RENEW



ALIGNMENT
Are people at all levels aligned around the organization's vision, strategy, culture, and values?



EXECUTION
How does the organization execute in accordance with its strategy? Can it perform essential tasks with its current capabilities and motivation level?



RENEWAL
How does the organization understand, interact with, and adapt to its situation and external environment?

1b. What are the cultural dynamics of the organization I will be leading?

Research has established that 70 percent of change efforts fail, and that most of these failures are due to cultural factors. New leaders should put just as much rigor and discipline into understanding their cultural starting point as they do into understanding their business performance.

New leaders should put just as much rigor and discipline into understanding their cultural starting point as they do into understanding their business performance.

There is more to this than just asking around and looking at annual employee engagement or satisfaction surveys, since these have little to do with the aspects of culture that actually drive performance. Instead, we suggest that leaders use a tool that has been created specifically for this purpose: the organizational health index (OHI).[2] The OHI uses a combination of surveys and analytical techniques to measure all the key aspects of culture that drive alignment on direction, quality of execution, and the ability to innovate, adapt, and renew over time (Exhibit 2). And what you can measure, you can then manage.

The importance of the elements that make up the OHI for greater clarity has been established through rigorous analysis. At the company level, research reveals that those in the top quartile of organizational health are 2.2 times more likely than lower-quartile companies to have above-median EBITDA (earnings before interest, taxes, depreciation, and amortization). Across all measures of business performance, correlation coefficients indicate that roughly 50 percent of performance variation between companies is accounted for by differences in organizational health.

Within companies, the same holds true. For example, a large multinational oil company analyzed correlations between performance and organizational health across 16 refineries and found that organizational health accounted for 54 percent of the variation in performance. These findings are hardly surprising—

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2 More details on organizational health and the research underpinning it can be found in Scott Keller and Colin Price, *Beyond Performance: How great organizations build ultimate competitive advantage*, Wiley, 2011.

we know from our own experience that the healthier you are, the better you can perform.

Consider the new leader of an HR function whose people prided themselves on being the guardians of the organization's culture. Although traditional employee satisfaction scores were high, a diagnostic using the OHI revealed bottom-quartile scores in important areas such as operational management, bottom-up innovation, career opportunities, and role clarity. What's more, the group had long considered themselves role models of good performance management, yet the analysis showed that virtually everyone in the function was rated "very good" or "distinctive."

Digging deeper, interviews and focus groups revealed the root cause of the lack of differentiation: an ingrained tendency to avoid conflict. Armed with these insights into the organization's dynamics, the new leader had a powerful platform from which to drive much-needed change. If HR couldn't establish a healthy culture of challenge in its own function, how could it enable the wider organization to do so?

As this example suggests, looking through the OHI lens enables organizations to probe beneath the surface of observable behaviors into underlying mindsets. For example, an OHI diagnostic helped the new business-unit leader of an integrated

multi-business company understand that its cross-selling strategy would be thwarted by its prevailing mindset of “We win by adopting industry best practices.” To succeed with the new strategy, the organization needed a new mindset: “We win by providing customers with a full suite of products and services—an offering our mono-line competitors can’t match.”

Similarly, an OHI diagnostic helped a new head of sales see how his strategy to increase customer needs profiling was being watered down by the prevailing sales culture. The attitude that “We serve customers best by giving them what they want; additional questions are a burden” needed to be replaced by “We serve customers best by helping them understand their unarticulated needs.”

How to assess your organization’s cultural dynamics

- Establish a measurable baseline for your organization’s culture
- Identify prevailing mindsets that shape employees’ behaviors
- Articulate the shifts in mindsets and behaviors needed to drive improved performance.

1c. How strong is the team I am inheriting?

By far the most common regret we hear from leaders reflecting on their transition is "I wish I'd moved people on sooner to put my own team in place." That said, you'd do well to ignore suggestions that are neither helpful nor fact-based, such as "You should replace 50 percent of your team if you want to be successful." So how do you know who to move on, and when?

The most common regret from leaders reflecting on their transition is "I wish I'd moved people on sooner to put my own team in place."

The first step in answering this question is to assess where each team member fits into a matrix of "performance" and "shared values," or simply "skill" vs. "will." Blockers and allies will be easy to see. But what should you do with the big group in the middle? We suggest you ask yourself the following questions:

- Do they have a clear understanding of what's expected of them?
- Do they have visible role models of what "good" looks like?
- Are their rewards and consequences aligned with the behaviors and results we expect from them?
- Have they had opportunities to address any skill gaps they may have?

If the answer to these questions is "no," you'd do well to ensure that appropriate expectations, role models, incentives, and training are put in place so that you can judge your team members' true potential. If the answers to the questions is "yes" and you still aren't getting the performance and behaviors you are looking for, then these individuals aren't of the caliber you need on your team.

The good news is that most leaders are pleasantly surprised by how quickly they can win the “war for the middle” by establishing the right supporting mechanisms. Consider the new leader of an operations function who inherited two team members that everyone had written off as waiting to retire. Instead of adopting a knee-jerk response, the new leader took the time to understand that the company’s compensation structure gave the pair little incentive to excel. What’s more, they had never been given candid feedback on how they were performing against expectations. Once these barriers were overcome, colleagues were delighted to see how quickly the pair were able to put their deep experience to good use in leading the function forward.

The second step in assessing the strength of your new team is to be clear about the mix of skills and perspectives you need and how it compares with what you’ve got. Even when you have strong players on your team, you may still need to bring in new talent.

At one company, the incoming head of risk looked at his team’s profile and realized that although they had deep skills in managing credit and operational risk, a recent industry crisis meant they now needed strong reputational risk management skills as well. By acting quickly, he was able to recruit a valuable new executive from another industry that had gone through similar reputational challenges.

Similarly, an incoming chief marketing officer quickly concluded that while her team was well equipped with traditional marketing skills, she needed to bring in fresh expertise to build her bench strength in the less familiar areas of social media and digital marketing.

How to choose your team

- Identify supporters and energize them; identify blockers and move them out
- Galvanize the fence-sitters by setting clear expectations, acting as a role model, coaching, and aligning incentives
- Hire in the skills and capabilities and make the structural changes you need to support future performance.

1d. What do I personally need to get smarter about in my new role?

We recommend that early on you make a point of understanding what stakeholders expect of you, get your “dumb” questions answered (discreetly), and go and see what’s actually happening in the business.

Understand what stakeholders expect of you, get your dumb questions answered (discreetly), and go and see what’s actually happening in the business.

Your key stakeholders include your boss, important internal and external customers, peers you collaborate closely with, community groups, regulators, and so on. What do they see as your mandate? What are they wanting you to change? What are they hoping you *won’t* change? What degrees of freedom do they see you have? What timeframes are important to them? When you first meet them, stay in listening mode to hear what their expectations are; once you know more, come back and spend time shaping what their expectations should be.

To see why this is so important, consider the case of a new leader who was charged with returning her business unit to profitability. After taking stock of the situation, she approached her boss with a sustainable plan. She was clear that year 1 activities would lay the foundation for profitability, but positive numbers shouldn’t be expected until year 2. At the end of the first year, when results were still sub-par, she continued to have strong support from her boss and peers because the unit’s performance was meeting the expectations she had set. True to the plan, profitability was restored by the end of year 2, and this positive trajectory continued throughout her tenure.

Getting smarter also involves finding discreet ways to acquire the knowledge you’ll need for your new job. Don’t ever feel you have to know everything or have all the answers at your fingertips, but do invest time in understanding the technical aspects of your role, especially if you are entering a function or line of business that is new to you.

When an executive without the usual finance background was appointed as chief finance officer, he had a series of brown-bag lunches with a technical expert two levels down in the organization to get smart about the technicalities of the company's financial hedging processes. A new chief marketing officer filled a gap in her knowledge by asking a recent young recruit for reverse mentoring to learn about trends in social media. An executive who had been headhunted from outside drew on insights from the company's long-standing consulting partner to understand the unwritten rules of the culture and how to navigate them. A new country manager joining from overseas held several dinners with the previous incumbent to understand the nuances of the local culture.

Finally, there is no substitute for what the Japanese call *genchi genbutsu,* or "go and see." Before we can understand a situation fully, we need to observe where and how the work gets done. This means going to the factory floor, the call center, the retail outlet, or whatever the frontline setting is to observe and meet the people who are doing the actual work.

Being on the ground not only tells you what's happening but also makes your judgments and decisions more credible. When the new leader of a distributed sales network paid a visit to every sales center in her first three months in the job, she noticed the wide variations in how account managers used the company's technology platform and other central resources. Later, she was able to talk about what she had observed to illustrate the changes she wanted to see, making employees feel more confident in and motivated by her new strategy.

How to get up to speed

- Understand and shape key stakeholders' expectations
- Acquire any technical knowledge and skills you need
- Spend time in the field to understand how frontline operations work.

2. Take action

Now you've taken stock, you need to start getting things done. As the German writer Goethe said, "Knowledge is not enough; we must apply. Willing is not enough; we must do." The four most important actions in an executive transition are setting strategy with execution in mind, influencing mindsets and behaviors, building your team as a team, and playing the role that only you can play.

"Knowing is not enough; we must apply. Willing is not enough; we must do."

2a. Set strategy with execution in mind

It's axiomatic that a well-executed "good enough" strategy will beat a poorly executed brilliant strategy every time. What many leaders don't realize until too late, however, is that the will to execute can and should be developed from day 1 of the direction-setting process.

A well-executed "good enough" strategy will beat a poorly executed brilliant strategy every time.

One way to do this is to build extra variables into that process. Most leaders set direction with reference to a fact-based view of market opportunities: which growth segments, trends in profit pools, customer and consumer insights, competitive positioning, and so on. But few leaders take the trouble to assemble facts about the institutional capabilities they need to capture these opportunities, or compare these desired capabilities with those that already exist in the organization.

Ignoring this variable can sabotage execution. Consider the new business leader who pursued a product-bundling strategy without ensuring his team had the pricing and merchandising expertise to execute it profitably. Conversely, taking the practicalities of execution into account can actually expand your strategic options. The new head of government relations at one

company recognized that its sales force possessed consummate relationship-building skills, and took advantage of this talent to build relationships with politicians in the nation's capital.

Even fewer leaders take into account a third variable—employee passion—as they set strategy, but those that do tend to be among the most successful. Once you've drawn up a list of strategies that match your market opportunities and institutional capabilities, consider which of them will also get people excited. It isn't hard to get a sense of where your employees' passions lie; just ask them when you are out in the field getting to know the organization. What's more, today's leaders can take advantage of advances in social media technologies to put their fingers on the pulse of employee sentiment on a much bigger scale than ever before.

One new leader was faced with the challenge of stable growth and maturing markets in his business unit. As well as asking the strategy function to identify growth ideas, he used the company's employee chat portal to host a dialogue to identify the next big thing for the business unit. Over two weeks, the online event generated nearly 800 ideas from 9,000 employees in 20 countries. The leader and his top team considered the strength of excitement around the ideas as well as the ideas themselves when choosing a priority list of 15 initiatives to launch.

Another way to lay the groundwork for superior execution during direction setting is to engage a broad leadership coalition in the process. A famous experiment by the economist Daniel Kahneman illustrates the underlying principle:

Researchers ran a lottery with a twist. Half the participants were given a lottery ticket with a random number printed on it. The other half were asked to choose their own number and write it on a blank ticket. Before drawing the winner, researchers offered to buy back the tickets. They wanted to find out whether there would be any difference in the price demanded by the people who had been handed a number and those who had chosen a number for themselves. Given that a lottery is pure chance, it would be rational to assume that there would be little or no difference. The real answer? Researchers had to pay at least five times more to those who wrote their own number.

The result of the experiment reveals an important truth about human nature: when we choose for ourselves, we are far more committed to the outcome. That doesn't mean you should let everyone decide their own direction, but it does mean enabling a broad group of people to feel personally involved in setting the direction—or at least choosing the implications—for their own area.

An important truth about human nature: when we choose for ourselves, we are far more committed to the outcome.

One new business-unit leader applied this principle by holding three separate multi-day offsite sessions for his top 100 leaders during his first four months in the role. The first offsite was intended to hold up a mirror to reality—the external context, the value-driver view of the business, and the cultural baseline—so that the group could roll up their sleeves and draft a statement of direction. During the second offsite, the group developed a portfolio of strategic initiatives to implement across the business and made personal commitments to them. In the third offsite, the group honed their skills at leading change to create the desired culture.

By the end of the process, each of the top 100 leaders felt they had been able to write their own lottery ticket. What's more, the process was then cascaded through the organization in a series of one-day workshops that gave employees at all levels a chance to understand the direction and help set the agenda for their area of work and their role in making change happen.

How to set strategy with execution in mind

- Take into account your existing institutional capabilities and employees' passions
- Put in place any infrastructure you need to support your initiatives
- Involve a broad leadership coalition in setting direction.

2b. Influence mindsets and behaviors

The strategy you pursue is bound to require some degree of mindset and behavior change among leaders and employees. Typical shifts include a sharper customer focus, more collaboration, better performance management, stronger risk management, and so on. You will already have identified these shifts while taking stock of your organization's culture, but how do you actually go about making them happen rapidly and at scale?

How do you go about making cultural changes rapidly and at scale? Fortunately, a playbook exists for this very purpose.

Fortunately, a playbook exists for this very purpose. We have boiled down years of research and experience into four levers that can reshape your organization: a compelling story, reinforcement mechanisms, skills required for change, and role modeling (Exhibit 3). By using these four levers together, you can put in place a powerful and proven system to encourage the behaviors you want to see.[3]

Approached in the right way, such interventions shouldn't make people feel they need to "do more things"; instead, they become part of "doing things differently" as they are incorporated into existing performance improvement initiatives. When one new operations leader adopted lean methods across the unit, he used the business-improvement processes not only to take cost out, but also to instill the desired culture. For example, *kaizen* events (problem-solving sessions used to improve the way people work in lean organizations) not only empowered frontline employees to use their ideas to improve operations but also tackled cultural issues such as increasing trust between the front line and management.

Similarly, lean training programs weren't confined to technical skills but explored emotional intelligence and how individuals could connect their work to their personal legacy. The change story spoke of how leaders and frontline employees should live the new values, as well as bringing to life the changes that the transformation would bring. Incentive programs were adjusted

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3 More details on influencing mindsets and behaviors can be found in Scott Keller and Colin Price, *Beyond Performance: How great organizations build ultimate competitive advantage*, Wiley, 2011, and Carolyn Aiken and Scott Keller, "The irrational side of change management," *McKinsey Quarterly*, April 2009.

EXHIBIT 3

INFLUENCING MINDSETS AND BEHAVIOURS

"I CHOOSE TO CHANGE MY MINDSET AND BEHAVIOR IF …"

Senior leader/senior team
Symbolic acts
Influence leaders

4
ROLE MODELING

"… I see my leaders, colleagues, and staff behaving differently."

Change story
Ongoing two-way communications
Language and rituals

1
A COMPELLING STORY

"… I understand what is being asked of me and it makes sense."

3
SKILLS REQUIRED FOR CHANGE

"… I have the skills and opportunities to behave in the new way."

Refreshing the talent pool
Technical and relational skills
Field and forum

2
REINFORCEMENT MECHANISMS

"… I see that our structures, processes, and systems support the changes that I am being asked to make."

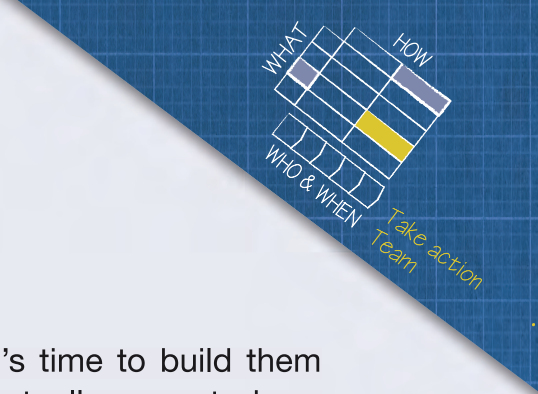
Structure
Systems
Processes
Incentives

to strike a balance between performance results and leadership behaviors. The net effect was that employees experienced not two separate programs for business and culture, but one integrated business-improvement approach.

Once your plan is in place, you should monitor its impact regularly to ensure it is working. A straightforward way to do this is to conduct a short (up to 15 questions) and simple "pulse-check" survey with a statistically valid sample of the organization. This enables you to test how far desired behaviors are spreading and whether the four influence levers are being effective in prompting and reinforcing these shifts.

How to influence mindsets and behaviors

- Employ the influence model: role modeling, a compelling story, skill building, and reinforcement mechanisms
- Integrate cultural interventions into performance-improvement efforts (do things differently rather than doing more things)
- Monitor impact regularly and adjust your approach as needed.



2c. Build your team as a team

Once you have your team of all stars, it's time to build them into an all-star team. But what does it actually mean to b high-performing team, and how can you tell when you've got one? You don't need fancy frameworks; in fact, a simple approach is better. You can use the following questions as your litmus test:

- Are we aligned on our direction? (Take into account the external context, emerging trends, strategy, culture, goals, operational implications, and so on.)
- Do we have a high quality of interaction? (That means trust, open communication, and constructive conflict.)
- Are we strongly motivated to work together to improve our business or function? (We need to feel that our work together matters and that we are learning, growing, and making a difference.)

These simple questions can help you and your team reflect on how you are doing and take actions to address issues.

When it comes to building your team, skip "team-building" exercises such as rope courses and trust falls. A team gels best when its members do real work together and feel a shared sense of meaning and accomplishment. This doesn't mean sitting in the same room while each member reads out their

tive criticism, embrace diverse points of view, respect others' backgrounds, good will, and competence, and ensure that underlying assumptions behind high-level agreements are harmonized.

When one new business-line leader broached the idea of going away for an offsite, he was surprised by the negative reaction, and discovered that his team was known for being dysfunctional and that past HR-led interventions to help its members work together better had failed. Once at the offsite, however, the team asked the simple questions above and took the time to discuss issues fully. They quickly realized that their lack of mutual trust was caused by differences in their interpretations of what mattered for the business and what their area was expected to contribute to it.

The breakthrough came when each team member was asked to write down his or her top five priorities for the business. When the team compared their lists, it turned out they had identified not five but 33 priorities between them, and there were no priorities that appeared on everyone's list. It was hardly surprising that previous interventions, such as playing golf and discussing personality types, had made no difference. Team members hadn't realized that their views of what mattered for the business differed so widely. That explained why other people's day-to-day actions sometimes seemed incompatible with company priorities, and why trust had broken down so badly.

As you build your formal team, think too about who will make up your informal team. Who are your unofficial advisors—your sounding board and source of discreet advice? Who will keep you informed of the word on the street? Who can offer unfiltered praise and criticism grounded in a knowledge of who you are and what you are trying to achieve?

For some leaders, the answer might be one or two people they have grown up with professionally. For others, it might be an outsider who knows the company well but can tell it like it is because they aren't part of its culture or politics. For yet others, it might be a trusted peer from another part of the organization. Many leaders rely on a mix of all three, though most opt to keep their inner circle relatively small.

How to build your team as a team

- Get your senior team to agree on what a high-performing team looks like, and gauge progress regularly
- Focus your senior team by getting them to do the work that only they can do together
- As well as building your formal team, cultivate an informal team to use as a sounding board and source of discreet advice.

2d. Play the role that only you can play

The higher up the management ladder you go, the more powerful the amplification that happens between what you do and say and how it's heard by the rest of the organization. Like it or not, you are the chief story teller, über role model, master architect, lead performance manager, and chief coach for your business. With so much attention focused on you, it's important you are thoughtful and deliberate about what you spend your time doing—and not doing.

It's important you are thoughtful and deliberate about what you spend your time doing—and not doing.

Start by knowing yourself. What do you want other people to say about you as a leader? What stamp do you want to leave on your company? What will it take for your business to succeed? What gives you energy, and what drains it away? What are you good (and bad) at? What behavior will you not tolerate from those around you? What lifestyle tradeoffs are you willing (and not willing) to make? You should be able to answer these questions with clarity and conviction.

You'll also need to decide where you can make the biggest difference. Where will you roll up your sleeves and get involved in solving problems? Where do you draw the line between matters that only you should decide and those that can be delegated to others? How will you hold people accountable, and what will their rewards and consequences be? What are the most powerful symbolic acts you can take to inspire actions in others? Once you've answered the questions, it's up to you and your assistant to make sure your calendar reflects these priorities and preferences so that you use your time to achieve the greatest possible impact. The choices made by the business head of a retail network offer a good example. When an initial diagnostic revealed there were significant opportunities in supply-chain management, she decided she would personally sign off on the budget for every new store opening. Onerous though this proved to be, it enabled her to coach her team and role model how she expected such decisions to be made, and sent a broader message to the organization about the importance of being on top of the numbers and managing costs. It also took advantage of her strong background in finance and negotiation and allowed her to add real value.

There was one catch, however. The leader lacked the self-awareness to realize she had a natural aversion to risk and believed she could do the job better than anyone else, making it difficult for her to relinquish control. Two years later she was still managing in the same fashion. What started as a powerful symbolic act that saved the company money had turned into habitual micro-management that disempowered her team. By this point, other leaders and employees had learned what they needed to do to adopt a more cost-oriented mindset.

This example illustrates one last point for new executives as they start to make an impact in their role. It's important to guard against hubris—the tendency for people in powerful positions to become over-confident. If you find yourself feeling excessively proud, not wanting to listen to your critics, surrounding yourself with yes people, refusing feedback on how you are doing, and refusing to adjust your path as the context changes or new information emerges, you could be about to sabotage your own success. Steve Jobs advised college graduates to "Stay hungry, stay foolish"; we would advise executives in transition to "Stay hungry, stay humble."

How to play the role that only you can play

- Know what you are good at, what gives you energy, and what you expect of others
- Decide where to spend your time and where to delegate so that you can make the biggest possible difference
- Continue to learn and grow even as you succeed, guarding against complacency and hubris.

EXHIBIT 4

COMPLETENESS CHECK FOR HIGH-IMPACT TRANSITIONS

WHAT		HOW
		1. Take stock
WHAT	Business	**1a. Have I looked at value-driver analyses and external trends to identify where high-impact opportunities exist?** ☐ Have I cast performance data from a value-driver perspective to get a true reading of performance? ☐ Have I identified the external trends and competitive positions that will affect performance in the next three to five years? ☐ Are my team and organization aligned on how the business is performing and where the high-impact opportunities lie?
	Culture	**1b. Have I rigorously assessed the cultural dynamics of my organization?** ☐ Have I established a measurable baseline for my organization's culture? ☐ Have I identified the prevailing mindsets that shape employees' behaviors? ☐ Have I articulated the shifts in mindsets and behaviors that will drive improved performance?
	Team	**1c. Have I put the right team in place?** ☐ Have I identified supporters and energized them, and identified blockers and moved them out? ☐ Have I galvanized the fence-sitters by setting clear expectations, acting as a role model, coaching, and aligning incentives? ☐ Have I hired in the skills and capabilities and make the structural changes I need to support future performance?
	Myself	**1d. Have I done what it takes to get up to speed in my new role?** ☐ Have I understood and shaped key stakeholders' expectations? ☐ Have I acquired the technical knowledge and skills I need? ☐ Have I spent time in the field to understand how frontline operations work?

HOW		
2. Take action		
2a. Have we shaped a clear, execution-oriented strategy that people feel they own? ☐ Have we taken into account our existing institutional capabilities and employees' passions in setting strategy? ☐ Have we put in place any infrastructure we need to support our initiatives? ☐ Have we involved a broad leadership coalition in setting direction?	Business	WHAT
2b. Am I influencing the necessary shifts in mindsets and behaviors at scale? ☐ Am I using role modeling, a compelling story, skill building, and reinforcement mechanisms? ☐ Am I integrating cultural interventions into performance-improvement efforts to do things differently rather than do more things? ☐ Am I monitoring impact regularly and adjusting our approach as needed?	Culture	
2c. Is my team becoming a high-performing team? ☐ Have we agreed on what a high-performing team looks like, and do we gauge our progress regularly? ☐ Does my team stay focused on doing the work that only we can do together? ☐ Have I also cultivated an informal team to use as a sounding board and source of discreet advice?	Team	
2d. Am I playing the role that only I can play? ☐ Do I know what I am good at, what gives me energy, and what I expect of others? ☐ Do I know where to spend my time and where to delegate to make the biggest possible difference? ☐ Am I continuing to learn and grow even as I succeed, guarding against complacency and hubris?	Myself	

Who and when

Now you know about best practices in high-impact executive transitions. But what practical steps should you take to adopt them at your organization? How do the various elements fit together? What should you tackle first? What timing should you aim for?

What should you tackle first? What timing should you aim for?

As you'd no doubt expect, there is no "one size fits all" answer; the right process for you will depend on your specific context. That said, there is a general pattern of activity that we have witnessed in most successful transitions, and it can be best explained by way of an example.

Let's look at the transition of Martin, a senior leader at a European financial services company. Martin started his career in the finance department of its retail banking unit and moved quickly through the ranks by taking on a series of increasingly challenging corporate roles. He then moved departments to become head of strategy, where he led a cross-business effort to improve customer experience and managed the integration of a major acquisition.

Martin's career trajectory had been closely observed by the company's leadership, and he was now regarded as a serious contender for a more senior position in the organization. In order to prove his worth, he would need to demonstrate that he could run a successful business unit, and so he was asked to replace the retiring leader of the company's insurance brokerage business. Although he'd had contact with the business in his corporate roles, he knew little about how its operation worked, but he was all too aware of its reputation as a weak performer.

Martin's journey to take stock and take action on the business, the culture, his team, and himself as a leader took shape in five stages: engaging stakeholders, aligning the top team, developing the roadmap, mobilizing a broad leadership coalition, and leading with purpose—deciding how he'd spend his time and energy to make the biggest possible difference.

Engage stakeholders

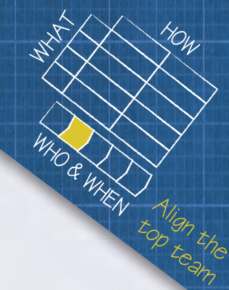
As soon as Martin found out about his new role, he immersed himself in the insurance brokerage business. He spent time with the outgoing leader to understand her view of the history of the organization and its future priorities, listening carefully while bearing in mind that performance was below par during her tenure. He organized a Saturday session with third-party experts to get primed on industry dynamics, best practices, and value creation in the context of a bank-owned insurer. In addition, he met up with a couple of colleagues from earlier in his career who now worked in the insurance brokerage business, and he started to get to know the team he was inheriting.

Once in the role, Martin began to engage the organization, spending a lot of time in the field visiting its regional offices. While there, he met high-performing employees individually to get their advice on what needed to change and what didn't, and spent time getting to know the broader office. He also met key customer accounts to hear their hopes and concerns.

To connect with employees throughout the organization, Martin began a weekly blog to share his reflections on what he was hearing and thinking. This also served to set a tone of transparency, which had been lacking under the previous leadership. During an early staff meeting with his team, he held a “getting to know you” Q&A session so that they could understand why he took the role, know what kind of transition process he had in mind, and learn a bit more about him as a leader and a person.

Six weeks into his new job, Martin announced a restructuring of the business, the early retirement of two executives, and the creation of three new roles.

At the same time, Martin asked a small team to pull together a baseline analysis of the company’s business performance and culture, with a focus on value drivers. He met the team every week to get updates on its findings as they emerged. Armed with this information and the experience he had gained in the field, Martin identified which leaders weren’t going to make the cut and what changes to the organization structure would help the business. Six weeks into his new job, Martin announced a restructuring of the business, the early retirement of two executives, and the creation of three new roles.



Align the top team

Ten weeks into his job, Martin brought his top team together for an offsite session lasting two and a half days. By now he had filled two of the new roles with people he trusted from past experience, and an external search was under way for the other position. In advance of the session, team members were sent baseline information about the business so that they could use their time together productively to focus on the work that only they could do. They also had to answer questions about how far they agreed with the strengths and opportunities identified by the diagnostic, and what the implications might be. This pre-work was then synthesized by a small working team, who organized the agenda to confirm and celebrate areas where the top team was already in agreement and focus discussion on areas of misalignment.

The session began with Martin putting a few stakes in the ground to guide the direction-setting process. Through personal introspection and discussions with a small informal group of advisors, he had reached a set of convictions about the business, and needed the team's support for them: "We will operate as a bank-owned business, not a standalone company," "We will be disciplined in our segmentation rather than being everything to everyone," and "We will show we can grow organically, and only then consider further acquisitions."

Martin was followed by his boss, Kim, whom he had asked to help create a burning platform for change. She sent a clear message to the team that the days of investing this year in the vain hope of a pay-off next year were gone for good.

The next part of the session was devoted to answering the team's questions about the baseline analysis. Taking a value-driver view had shed light on several areas of opportunity. The business's 12 percent compound revenue growth was being driven by dilutive acquisitions. It had more than 270 different compensation plans in place across the sales force, and even in periods of declining revenues, the overall pay structure remained high. A lack of consistency in the use of shared services created a duplication of resources at central and local levels. Cross-selling rates to customers of other parts of the company were low. The insurance operation had 2,300 active supplier contracts, which incurred substantial legal and administrative costs and failed to take advantage of volume discounts and operational efficiencies.

To help the team engage and interact with these findings, they were presented like paintings in an art gallery. Team members walked past a series of posters of diagnostic data while the working team that had put them together acted as guides and interpreters.

An experienced facilitator then guided the team through a series of discussions to help them reach agreement on performance goals such as margin growth, cross-sell rates, and customer satisfaction, and a set of transformational business initiatives that would take place only if the team committed to working together to make them happen. These initiatives included defining a customer-segmentation strategy, optimizing technology resources, standardizing office models and compensation structures, and creating more integrated partnerships with other businesses in the company.

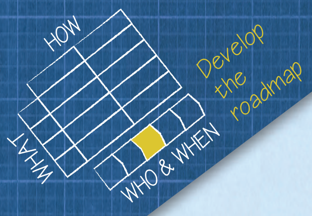
The second day of the offsite was devoted to exploring the priority initiatives in more detail, including measures of success, milestones, working teams, and governance; ensuring that the team was clear on how the new organization was meant to work in terms of decision rights, key performance indicators, and interdependencies; and discussing the culture that would be needed to enable the business to achieve its objectives. The team was shown data revealing that most employees had limiting beliefs that would need to be tackled. For instance, many employees felt that being part of a larger financial services institution inhibited the insurance operation's performance rather than giving it a competitive advantage. They lacked trust in the capabilities of colleagues outside their own department, and there was a widespread belief that "Everything else (including margin) takes care of itself as long as revenue is growing." There was also a perceived lack of alignment on a clear and compelling direction. The discussion then turned to practical changes that needed to be made to shift these mindsets and behaviors through role modeling, story telling, reinforcing mechanisms, and skill building.

In the last half day of the session, the team developed an approach for taking the work forward, tackling questions such as how and when would the new direction be communicated? When would a broader leadership group be engaged in more detail? What should they talk about (and not talk about) back at the office?

The team reached agreement on their operating rhythm and norms, including how they would monitor their performance. Toward the end of the session, they evaluated themselves on their level of alignment, the quality of their interaction, and how energized they felt about what had been decided. This allowed them to identify what worked well and what didn't so that they could make adjustments for future sessions. The session closed with the team members talking about what the new direction meant for them personally and what others could count on them to do in the future.

The change story was written by the top team during the first session, tapping into the power of the "write your own lottery ticket" approach.

Over the course of the two and a half days, the team also started to capture the decisions they were making in the form of a change story. At mealtimes team members were handed a copy of the story so far and asked to rate whether it captured the conversation and represented the right answer for the company on a scale of 1 to 10. If it didn't score 10, what needed to change in order for it to do so? Thus the change story was written and revised by the top team during that first offsite session, tapping into the power of the "write your own lottery ticket" approach described earlier.



Develop the roadmap

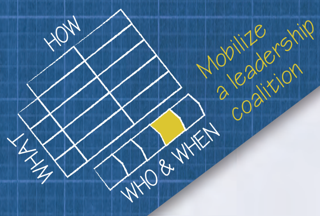
As he came out of the session, Martin felt positive about the direction of change and the actions the top team had agreed on, but he also knew that the effort thus far amounted to little more than 10 people believing in words on a page. He quickly turned his sights to developing a roadmap by launching working teams to flesh out the initiatives needed to implement the strategy. He charged the small team that had pulled together the diagnostic with playing a program management office (PMO) role to coordinate a portfolio of initiative teams, and made sure these teams were staffed with the best talent from across the business. He asked his direct reports to act as executive sponsors to guide the initiatives, again signaling the importance of building the team by doing real work together.

A few weeks after the offsite, the initiative teams launched their efforts in a working session with the top team, facilitated by the PMO. They were given six weeks to prepare for another offsite, this time for the top 300 leaders. By then, they would need to be ready to explain the scope of their efforts, the milestones for assessing impact, how individual initiatives related to one another, how others in the organization would be involved, and their initial thoughts on what specific changes to the business were likely to be in store. The PMO was tasked with fleshing out the change management plan, planning the offsite in detail, proposing a communications strategy, and ensuring that actions to shift mindsets and behaviors were built into each initiative.

He asked his direct reports to act as executive sponsors to guide the initiatives, signaling the importance of building the team by doing real work together.

While developing the roadmap, Martin sought regular input from his confidants on a diverse range of topics: how best to bring his new external hires on board, which of his team members were on message once back in the field and which were not, how to strike the right balance between pushing for change and acknowledging good work in the past, and what he should communicate in the upcoming offsite. He also continued to get out in the field himself and kept up his blogs to communicate with the wider organization. He ensured that he and his team had the financial and operational data to see whether the early efforts were having an impact, and that leaders had individual performance targets that were directly linked to the overall objectives for the insurance business.

Martin also made a point of spending time with the initiative teams as they came up with their hypotheses, and took part in deep dives to solve problems in areas with the greatest potential for value creation. At the same time, he kept up discussions with key stakeholders to harmonize his plans with their expectations. On the day before the offsite session for the top 300 leaders, Martin, his top team, and the initiative teams met for one last review of the work to ensure that it held together as a coherent whole and that everyone knew their roles for the next few days.

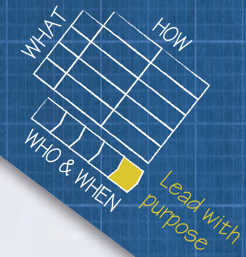


Mobilize a broad leadership coalition

Kim, Martin's boss, kicked off the two-day session with an address designed to convince the leaders of the power of being part of a larger enterprise. Martin then gave his opening address, sharing a high-level view of the organization's direction and initiatives that covered both business and cultural elements. He also referred to key points from the baseline analysis produced for the top team session, which had subsequently been sent to the top 300 leaders in order to maintain the transparency so lacking under the previous leadership. The audience was then given a detailed overview of the new organization—who was who and how each area was expected to work together with others.

In the next part of the session, each participant followed a personal agenda that took them through a series of six breakout sessions devoted to the initiatives most relevant to them, in which they rolled up their sleeves in smaller groups to help solve problems and push the organization's thinking. The whole group then reconvened and the leader of each initiative reported on how the sessions had shaped their thinking, discussed next steps, and explained how leaders could stay involved. In the closing afternoon, participants had the opportunity to articulate their "elevator speech" about the changes and consider how the new direction would affect their teams and their own work as leaders.

The day after the offsite, leaders met in their business and functional groups to determine what the new direction meant for their area and discuss how they would communicate the strategy to their respective groups. Representatives from the PMO introduced the communications plan and provided materials to help cascade the key messages throughout the organization. Booklets had been printed overnight with an updated version of the change story that reflected the input from the top 300 leaders; it covered who we are, where we are heading, how we will get there, what is expected of me, and why it matters. As a powerful symbol of alignment and commitment, the cover of the booklet featured a graphic with the signatures of all 300 leaders, which had been obtained at dinner the evening before.



Lead with purpose

With the top 300 leaders' session behind him, Martin began to move from transition mode into a steady-state operating rhythm. In the next six months he held monthly meetings with the PMO, steering committee, and initiative teams, switching to a quarterly schedule once things were on track. He was thoughtful about how he spent his time, balancing customers, business partners, regulators, and team coaching, and keeping back enough time to reflect on strategy, the organization's dynamics, and his personal impact.

By now Martin felt confident in his new structure and his new team. They continued to focus on the work that only they could do together, and felt they were gelling as a high-performing team. As for individual team members, many were fully on board in both skill and will, and he had clear milestones in mind for the rest. He continued to make regular use of his inner circle of informal advisors to help him understand how to make the greatest possible impact on the culture. He also got them to alert him if his language or actions risked producing unintended consequences, knowing that his finance background meant he was most comfortable managing by the numbers and could easily miss important cues in other areas.

A year into the journey, Martin was back in front of his top 300 leaders. Much had happened since the last time they'd been together as a group. He'd had to move out one of his top team members unexpectedly after major risk and compliance issues had emerged in his area. Unforeseen changes in the economic climate that limited growth on the commercial side had dictated a change in strategy to focus more on the consumer business. Thanks to the operating rhythm Martin had put in place, the team was able to pick up the need for adjustments at an early stage and make changes in a timely and seamless manner.

Martin was pleased to announce that the business unit was starting to see a turnaround in its fortunes. By implementing the agreed strategic initiatives, strengthening performance management in each area, and bringing about significant cultural change (partly by abandoning the acquisition strategy on which the organization had previously depended), the business had beaten its plan, delivering increases in cross-sell penetration and profit margins. The cultural side had seen improvements across the board. In one particularly large shift, more than 95 percent of employees felt there was a clear shared direction, up from less than 50 percent prior to Martin's arrival.

"So what should we change in our direction in the coming year?" The answer came with a click of the slide changer: "NOTHING. We have the right strategy, the right plans, and the right team."

The highlight of Martin's presentation came after he had reviewed the results to date. He paused on a slide that read "So what should we change in our direction in the coming year?" The answer came with a click of the slide changer: "NOTHING. We have the right strategy, the right plans, and the right team." Cue a round of applause.

How we can help

Our goal in helping leaders with their transitions is simple: to provide highly personalized support that is tailored to your needs and draws on proven best practices to accelerate your progress from transition to sustainable impact. That's why we developed the method for achieving a high-impact transition that we've outlined in this booklet.

For each element of the approach, we've developed proprietary tools and techniques that represent powerful interventions in their own right. More importantly, though, they reinforce one another to enable all the elements of your transition to come together in a seamless whole, as they did in Martin's case as we've discussed previously. We can support you in "taking stock" by:

- Providing analytical support to help you understand the value drivers of your business, your competitive position, and the external trends that will affect your future performance. We draw on analytical methods and data from our global industry and functional practices to obtain a full, accurate, and insightful reading of your organization's performance.

- Establishing a measureable baseline for your organization's culture and identifying the mindset shifts required to improve your performance. We use purpose-designed tools including our organizational health index, rapid assessment of mindsets methodology, and social network analysis.

- Acting as an experienced thought partner and sounding board as you design your organization, put your team in place, and get up to speed in your new role. We use our OrgLab interactive restructuring tool and organization design benchmarks, team assessment framework, and unrivalled network of experts and peer coaches to give you the support you need.

- Building top-team alignment on your organization's strategic and cultural direction using proven techniques that help develop a deep shared conviction about the future. For instance, we use pre-work methods to ensure all participants' perspectives are understood and articulated prior to the first workshop, create agendas based on appreciative inquiry, and introduce techniques to help your top team improve their interactions as they do the real work of setting direction.

We can support you in "taking action" by:

- Working with you and your team to set the right execution-oriented strategy. Our interactive methods help you find where your organization's opportunities, capabilities, and passions intersect. We apply our ten timeless tests of strategy and our portfolio of initiatives framework and toolkit to help you develop an implementation roadmap for your organization.

- Introducing you to reliable methods to influence shifts in your organization's culture and mindsets, such as the five frames of performance and health, the influence model, and our cultural interventions catalogue. By integrating these methods into existing performance initiatives, your organization doesn't have to do more things to shift the culture, but rather does things differently for greater impact.

- Aligning and mobilizing the broader organization to execute in ways that create understanding, conviction, and action. The methods we use include our next-generation PMO toolkit, large-group interventions catalogue, and dialogue-based story-telling and cascading methods.

- Creating the right conditions for a high-performing team by helping you set an operating rhythm that balances action, reflection, and renewal. Among the methods we apply are our top-team effectiveness survey and toolkit, capability-building modules, and facilitation techniques.

- Providing coaching and continuous learning opportunities to help you weave together all aspects of your transition to stay ahead as you develop in your role. We apply methods such as our personal effectiveness assessment tool and executive time and energy calendar analysis, and alert you to ongoing learning opportunities through our roundtable forums and the McKinsey Leadership Development Center.

Although we typically support executives for the full duration of their transition, we find our role as an external advisor is most effective when it is tailored to suit your needs. Some leaders get the greatest benefit from having us play a visible hands-on role in performing analyses and developing solutions to cut through office politics and challenge orthodoxies. Other leaders prefer a more discreet approach, using us behind the scenes as a thought partner and facilitator to help align their team and the broader organization.

Recognizing the value created when an incoming leader swiftly takes the organization to a new level of productivity, yet other companies engage us institutionally to provide "on call" support to any transitioning executive anywhere in the organization. No matter which model is best for you, we can help you make your transition a success.

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Helping leaders during their transition represents some of the most meaningful work we do. It enables talented people like you to achieve success at a pivotal time in your career. It helps your company develop its leaders and achieve a high return on its investment in their transitions. In turn, your employees, customers, shareholders, and communities all reap the benefits.


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My transition story

The head of Juniper Networks discusses his strategy for making the transition into the CEO role.

Kevin Johnson

When Kevin Johnson took the reins at Juniper Networks, in September 2008, he left a role that was, by some measures, much bigger: in his previous position, as president of Microsoft's platform and services division, he had been responsible for more than $20 billion in revenue, including the company's lucrative Windows business. By contrast, the sales at Juniper, a provider of IT networking infrastructure, were $3.3 billion during Johnson's first full year as CEO.

The timing of his start date didn't make his transition easy. During Johnson's first week, Lehman Brothers collapsed and the global macroeconomic landscape changed dramatically. This required some quick moves: a doubling down on big R&D bets, for example, combined with significant cuts in other operating costs. All the while, Johnson tried to follow a set of transition principles that he described recently in an interview with McKinsey's Endre Holen and Allen Webb.

Johnson's suggestions: Seek advice before day one on the job. Don't come in with a new strategy; instead, use your first few months to connect with the organization, set the strategic agenda, and shape a talent plan. Bring your top managers and your board along with you. Be very deliberate about how you will effect needed cultural changes. And don't underestimate the increased scope of your new role.

Learning before starting

My appointment as Juniper's CEO was announced in late July 2008, and I went to work in early September. During those six weeks, I was wrapping up my responsibilities at Microsoft, but I also spent time with five different CEOs, asking them for their advice on the job and the transition. Each of them gave me an interesting perspective from a slightly different angle.

One message was the need to be thoughtful about how your direct reports and the executive staff would see the transition. Juniper's previous CEO, Scott Kriens, had been in that job for 12 or so years, almost since the time the company was started. A lot of people had invested their careers in Juniper and wondered whether I was going to clean house. So one of the CEOs I talked with told me that it's important to assess the talent quickly and then be clear with them—either you're going to keep them or you're not—but you shouldn't leave it vague, which isn't helpful either for them or for you.

Another point was the importance of having the former CEO there to help you when you need his or her ideas and input, but not making him or her extremely visible for the whole organization, because it's hard for people to disconnect from the previous leader and establish a connection to the new one. A CEO I spoke with had recently succeeded a long-tenured CEO. That discussion helped me understand that the previous leader—especially one who's still on the board or has some other role—may be going through an emotional disconnect from the organization, while you're trying to engage with it. You have to be sensitive to that reality and figure out how you can make the best use of the previous CEO's expertise, knowledge, and talent, but also how you can get enough room to establish your own leadership agenda and connection with the team.

In my situation, Scott Kriens was phenomenal: he gave me the breathing room to establish my leadership agenda—which I'm sure was hard for him because he had put so much energy into his work—but he was there for me as well. For the first few months, Scott and I found that having dinner every other week gave us two or three hours when I could share my observations and thinking with him and get his thoughts too.

The first few months

I was hired to scale up the company and take it to the next level. The status quo wasn't going to get us there, and I didn't have all the time in the world. One CEO I talked with emphasized that when you come in, you've got a certain period of time to put an agenda on the table, and if you haven't made enough of the changes you need to make in the first 12 to 18 months, it's going to be too late.

My personal opinion is that from day one, you should have a point of view about the business: "Hey, this is a good company; this is a good industry," or "This a good industry, but our company's in trouble." That doesn't mean that you translate your point of view into a new strategy on day one. But by the end of your first couple of months, you'd better have a basic idea of your long-term goals, the strategy to get there, and what you've got to do about leadership and talent over the next 12 months or so.

Before even starting on the job, I put together a plan of what I wanted to accomplish in the first 100 days: how I would invest my time and the key people I needed to connect with—the leadership team, employees, key customers, investors, partners, and the board. When I showed up on the first day, I used this plan to communicate with the team about how I would approach the transition. In the first week, I connected with my direct reports, sent an e-mail to all employees, and set up my calendar. But five days after I started, Lehman Brothers declared bankruptcy and the global economy changed dramatically. I continued to work on the 100-day plan, but in parallel I was trying to digest everything that was happening in the economy. That was probably a very unusual transition, but I'd expect all of them to have some serious issue—internal or external—that wasn't anticipated.

My objective for the 100-day plan was primarily to connect with different constituents, listen and learn, start testing some ideas, and begin to shape the strategic agenda. In week one, I asked my direct reports to sit down together as a group and answer four questions: what are you most proud of about Juniper and why, what needs to change and why, what do you hope I do as the new CEO, and what are you most afraid I might do as the new CEO? Those four questions gave me a very quick read on the situation, opened up an interesting dialogue with my direct reports, and helped me to feel comfortable.

After I asked the questions, I left the room for an hour or so to let my direct reports work through their answers collectively. I wanted them to talk as a group without me because that would allow them to be candid and anonymous. They wrote down the answers on a whiteboard anonymously, so I didn't know whose individual point of view each answer reflected. I also had the HR executive summarize the answers, which I then discussed with the team.

Then over the first three months, I took the top 100 or so people in the company and had a one-hour one-on-one session with each of them. I also did two-hour business reviews with every business group. And at the end of 100 days, I wrote a memo. It didn't state specific solutions or actions but instead focused on my early observations about the company's business, strategy, people, culture, and competition—issues that we ought to be thinking about. I shared the memo with the top 100 people in the company. The memo forced me to digest everything I had learned and allowed me to communicate my thoughts in a consistent way with each person who got it. People could think, "OK, Kevin did all of these one-on-ones and at least I get to see what he took away from them," instead of, "Oh, wow, he spent all of this time doing these one-on-ones; I wonder if he learned anything?"

Four months after I started at Juniper, I had each of my direct reports conduct a people review with me on their organizations, their talent, and an assessment of their direct reports. That allowed me to learn what my direct reports thought about their people and where we had gaps. This review was the basis for a board meeting where I took our directors through an all-up assessment of Juniper's talent. Three months later, I took the leadership team through a strategy review process in a very structured way, and that fed the next board meeting. These management exercises allowed me to take the organization and the board along on a quest for the right answers—our long-term goals and the strategy that would help us achieve them.

Particularly in the beginning, it's important to look at the way you sequence decisions and actions. For the compensation model, especially, there was a very specific window of opportunity. Since I started in September and our fiscal year begins in January, I knew that if I didn't do that by January 1, it would take me another year. So I did it within the first 100 days, which allowed me to communicate what I thought was important and how our rewards systems should reflect this.

By the end of the first few months, I had spent time listening and learning, developing our long-term goals and strategy, and made some important decisions on people and reward systems. This was the beginning of my journey.

Shaping the culture

As I've said, Lehman Brothers and the economy tanked five days after I took over at Juniper. I actually found the crisis somewhat helpful, because whenever you have a compelling event—an economic crisis, a competitive attack, a huge product launch—it brings teams together. It puts you in the battlefield immediately, and teams bond and get to know one another on the battlefield; that's where relationships are created, tested, and strengthened. Besides bringing our team closer together, the economic collapse gave people a compelling reason to accept change. They now had a different mind-set: this is no longer business as usual.

Often you have to change not only the people and strategy but also the culture. For example, when I asked people what they were most proud of at Juniper they would say, "Our culture of collaboration and innovation." When I asked them what they hoped I would change, often they would say, "We avoid conflict as a culture and try to get to consensus on everything, so sometimes we're paralyzed in making hard decisions." Embracing what's great about a culture and at the same time injecting new elements into it can be challenging.

To tackle cultural issues, I put together a team of about 40 employees. Some had been with the company for 1 or 2 years, some for 12 or 14 years. They came from every discipline—sales, R&D, finance, HR. We got support from a consultant, Ann Rhoades, who had been chief people officer at Southwest Airlines and Jet Blue. Ann and her team organized a two-day work session with the Juniper team, where we talked about the company's culture. I was able to listen, share ideas, and help influence the result, but the output of this session primarily came from these 40 people, who really understood the values that make us what we are. I took those values to the company's top 30 executives and we massaged them again. Eventually, we ended up with five.[1]

This process allowed me to embrace the great things about the culture of the past and amplify them, and then inject the new things we needed for our future. And those values have been translated into behaviors. For example, we now say, "Here are the behaviors that would demonstrate a given value for someone in a sales role." The values are woven into the performance reviews too and into the way we recognize outstanding employees. The company never really celebrated successes as much as we needed to, so we launched an awards program. Every quarter, I give out three CEO awards. Each winner gets up to $100,000 of equity and public recognition. We use rewards to recognize people we want others to see as role models.

Adapting to the scope of the CEO role

I came to Juniper from running a really big organization at Microsoft. You might think that the new job was simpler, but that would confuse scope with scale. Some of the big-scale jobs I had at Microsoft—running worldwide sales, marketing, and services, for example—had a defined scope: basically, running field operations. One thing I noticed in running

[1]Juniper's five values appear online at juniper.net/us/en/company/profile/value.

things at scale is that once you get to a certain point, the numbers are bigger but the challenges and responsibilities aren't. Running $20 billion in revenue isn't much different, by itself, from running $30 billion. The numbers are bigger, but the things that you do and the skills you need to lead a growing organization are basically the same. By contrast, expanding into different customer segments, adding new core businesses, and taking on a broader range of initiatives all increase the scope, complexity, and challenge of a job.

When I came to Juniper, all of the things that I learned at Microsoft about scaling up an organization were very applicable. But my new role at Juniper also expanded the scope of my responsibilities to new areas, including investor relations, managing a board, and allocating resources across a company. Now I had responsibility for an end-to-end business with multiple business groups and a wide range of products, services, and customer segments. I have to create the conditions so that these groups can innovate and create new products and technologies, to create the right environment for sales and marketing, to get enough time for investor relations, to engage with the board, to understand my role under Sarbanes–Oxley, to close big deals. The scope of the job is much wider.

This kind of expanded scope opens up new experiences. One new thing for me as CEO was communicating with the financial community. And I made some mistakes here. When the economic downturn hit, we decided that, strategically, continuing to fund R&D and customer satisfaction were the two most important things for the company. When so many others were laying off huge numbers of workers, we increased investment in R&D and customer satisfaction. Meanwhile, we cut operational expenditures in every other part of the business.

On my first earnings call, I stressed the importance of investments in R&D and customer satisfaction. I was less clear about reducing our overall operational expenses. All the analysts heard was the increase in investment. At a time when some people were saying, "Kevin, you should lay off 10 to 15 percent of your workforce today," I was saying that we were going to increase investment in R&D. The analysts thought I was a coconut head. I had to communicate more clearly and completely so that people could understand how we would operate during the downturn. We did reduce overall operating expenses while still managing to increase our investment in R&D. We even exceeded our expectations on operating margins. I think that we earned a lot of credibility; it always has to be earned.

Dealing with a board as CEO was also a new experience. I had been involved with boards before, but as CEO I'm accountable to them in a new way. I faced the question of how often to communicate with our board and in what way—one-on-one or collectively? It's important to stay connected with board members and to give them a perspective between board meetings. I use a combination of approaches. Sometimes I'll call individual directors on certain topics and discuss them one-on-one. Other times I may ask the whole board to meet with the leadership team on a specific topic.

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I also found that it's very helpful to send periodic e-mails to directors on strategic topics and events. If there are significant things I want our directors to know about, I shoot them a quick e-mail: here's an update on three topics—boom, boom, boom. When we get to the next board meeting, these e-mails have kept everyone up to date on important topics, and we don't have to bring everyone up to speed on everything. This was very important in my first few months because it gave the board more opportunities to understand how I approach issues and engage with people than they would get from board meetings alone.

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The Inconvenient Truth About Change Management

by Scott Keller and Carolyn Dewar

Why it isn't working and what to do about it

The Idea in Brief

In 1995, John Kotter published research that revealed only 30 percent of change programs are successful. Fast forward to 2008. A recent McKinsey & Company survey of business executives indicates that the percent of change programs that are a success today is… still 30%. The field of 'change management', it would seem, hasn't changed a thing.

Digging deeper into why change programs fail reveals that the vast majority stumble on precisely the thing they are trying to transform: employee attitudes and management behavior. Conventional change management prescribes addressing these behavioral and attitudinal changes by putting in place four basic conditions: a) a compelling story, b) role modeling, c) reinforcement systems, and d) the skills required for change.

These prescriptions are well grounded in psychological research and make good common sense – which, we believe, is precisely where things fall apart. The inconvenient truth of human nature is that people are irrational in a number of predictable ways. The prescription is right, but rational managers who attempt to put the four conditions in place by applying their "common sense" intuition typically misdirect time and energy, create messages that miss the mark, and experience frustrating unintended consequences.

In the same way that the field of economics has been transformed by an understanding of uniquely human social, cognitive and emotional biases, so too the practice of change management is in need of a transformation through an improved understanding of the irrational (and often unconscious) nature of how humans interpret their environment and choose to act.

The Idea in Practice

A) CREATING A COMPELLING STORY

#1: What motivates you doesn't motivate (most of) your employees. Research confirms that there are at least five sources of meaning for humans at work: impact on society, the customer, the company/shareholder, the working team, and "me" personally. What's more, workforces are evenly split as to which of these is a primary motivator. "Telling five stories at once" is the key to unleashing maximum energy for change.

#2: You're better off letting them write their own story. Research indicates that when employees choose for themselves (versus "being told"), they are more committed to the outcome by a factor of almost five to one. Time communicating the message should be dramatically rebalanced towards listening versus telling.

#3: It takes both "+" and "–" to create real energy. Deficit-based approaches ("solve the problem") to change can create unproductive fatigue and resistance. Constructionist-based approaches ("capture the opportunity") generate more excitement and enthusiasm, but lead to risk-averse solutions. By moving beyond this dichotomy and pursuing both approaches simultaneously, managers can neutralize these downsides and maximize impact in mobilizing the organization.

B) ROLE MODELING

#4: Your leaders believe they already "are the change." Most executives have the will and skill to role model, but don't actually know "what" they should change due to their self-serving biases (if they didn't think what they were doing was right, they wouldn't be doing it). Smart use of concrete 360-degree behavioral feedback can break through this barrier.

#5: Influence leaders aren't *that* influential. It is not enough to invest in a few rather than in many as a way of catalyzing desired changes, no matter how appealing the idea is. New research shows social "contagions" depend less on the persuasiveness of "early adopters" and more on how receptive the "society" is to the idea. While influence leaders are important, we warn against overinvesting in them – your effort is better spent elsewhere.

C) REINFORCING MECHANISMS

#6: Money is the most expensive way to motivate people. A change program's objectives should be linked to employee compensation to avoid sending mixed messages. Little upside is gained, however, due to a number of practical considerations. There is a better, and less costly, way. Small, unexpected rewards have disproportionate effects on employees' motivation during change programs.

#7: A fair process is as important as a fair outcome. Employees will go against their own self-interest if the situation violates other notions they have about fairness and justice. Careful attention should be paid to achieve a fair process and fair outcomes in making changes to company structures, processes, systems and incentives.

D) CAPABILITY BUILDING

#8: Employees are what they think. Behaviors drive performance. Mindsets (the thoughts, feelings and beliefs held by employees) drive behaviors. Capability building should focus on technical skills as well as shifting underlying mindsets that enable the technical skills to be used to their fullest.

#9: Good intentions aren't enough. Even with good intentions, it is unlikely employees will apply new skills and mindsets unless the barriers to practice are lowered. The odds can be improved by using "field and forum" approaches linked to trainees' day-to-day accountabilities reinforced by quantifiable, outcome-based hurdles along the way.

Show me the money!

Where we have tested these inconvenient truths in practice versus more rational, conventional approaches to influencing behavior we have found they achieve significant positive results. For example, in 18-month longitudinal studies using control and experimental group methodologies we achieved a 19 percent lift in profit per banker versus 8 percent and a 65 percent reduction in call center customer churn versus 35 percent with conventional approaches alone.

Conventional change management approaches have done little to change the fact that most change programs fail. The odds can be greatly improved by a number of counterintuitive insights that take into account the irrational but predictable nature of how employees interpret their environment and choose to act.

The Inconvenient Truth About Change Management

Why it isn't working and what to do about it

In 1995, John Kotter published what many consider to be the seminal work in the field of change management, *Leading Change: Why Transformation Efforts Fail.* Kotter's "call to action" cited research that suggested only 30 percent of change programs are successful.[1] His work then goes on to answer the question posed in its title and to prescribe what it takes to improve this success rate.

Kotter is perhaps the most famous purveyor of change management wisdom, but in fact he is one of many who have a point of view regarding how managers and companies can best manage change. In the last two decades, literally thousands of books and journal articles have been published on the topic. Today, there are more than 1,800 books available on Amazon.com under the category of "Organizational Change."[2] The field has developed to the extent that courses dedicated specifically to managing change are now part of the curriculum in many major MBA programs. [3]

With so much research done and information available on managing change, it stands to reason that change programs today should be more successful than those of more than a decade ago, right?

The facts suggest otherwise. McKinsey & Company recently surveyed 1,546 business executives from around the world, asking them if they consider their change programs "completely/ mostly" successful: only 30 percent agreed.[4] Further investigation into a number of similar studies over the last 10 years reveals remarkably similar results.[5] The field of change management, it would seem, hasn't really changed a thing.

This failure to live up to its promise is why many senior executives today recoil at the mere mention of the words 'change management'. Memories come flooding back of significant time and effort invested in "the soft stuff" that, in the end, yielded little tangible value.

The focus of McKinsey's applied research over the last four years has been to understand why change management efforts consistently fail to have the desired impact and, most importantly, what to do about it. At this point in our research we don't claim to have all the answers. We have, however, developed and tested a set of perspectives in real-life application that senior managers have found genuinely insightful and that have consistently delivered business results far beyond expectations.

SUCCESSFUL CHANGE REQUIRES UNCOMMON SENSE

Digging deeper into why change programs fail reveals that the vast majority stumble on precisely the thing they are trying to transform: employee attitudes and management behavior (versus other possible sources such inadequate budget, poorly deployed resources and poor change architecture).[6]

Literally thousands of prescriptions are put forward in various change management publications regarding how to influence employee attitudes and management behavior. However, the vast majority of the thinking is remarkably similar. Colin Price and Emily Lawson provided a holistic perspective in their 2003 article, *The Psychology of Change Management*, that suggests that four basic conditions have to be met before employees will change their behavior:[7]

A. **A compelling story:** They must see the point of the change and agree with it, at least enough to give it a try
B. **Role modeling:** They must also see colleagues they admire modeling the desired behavior
C. **Reinforcement systems:** Surrounding structures, systems, processes and incentives must be in tune with the new behavior
D. **The skills required for change:** They need to have the skills to do what is required of them.

This prescription is well grounded in the field of psychology and is entirely rational. Putting all four of these conditions in place as a part of a dynamic process greatly improves the chances of bringing about lasting changes in the mindsets and behaviors of people in an organization—and thus achieves sustained improvements in business performance.

One of the merits of the approach above is its intuitive appeal, so much so that many managers feel that, once revealed, it is simply good common sense. And this, we believe, is precisely where things fall apart. The prescription is right, but rational managers who attempt to put the four conditions in place by applying their "common sense" intuition typically misdirect time and energy, create messages that miss the mark, and experience frustrating unintended consequences from their efforts to influence change.

Why? In implementing the prescription, they disregard a scientific truth of human nature: people are irrational in many predictable ways. The scientific study of human irrationality has shown that many of our instincts related to understanding and influencing our own and others' motivations push us towards failure instead of success. We systematically fall victim to subconscious thought processes that significantly influence our behavior, even though our rational minds tell us they shouldn't. How many of us drive around looking for a close parking place to "save time" for longer than it would have taken to walk from the available parking spaces? How about falling into the trap of spending $3,000 to upgrade to leather seats when we buy a new $25,000 car, but finding it difficult to spend the same amount on a new leather sofa (even though we know we will spend more time on the sofa than in the car)? Are you willing to take a pencil home from work for your children to use, but are not willing to raid the company's petty cash box for the money to buy a pencil for the same purpose? These examples point to how all of us are susceptible to irrationality when it comes to decision making. [8]

The scientific study of human irrationality has shown that many of our instincts related to understanding and influencing our own and others' motivations push us towards failure instead of success.

In the same way that the field of economics has been transformed by an improved understanding of how uniquely human social, cognitive and emotional biases lead to seemingly irrational decisions,[9] so too the practice of change management is in need of a transformation through an improved understanding of the irrational (often unconscious) way in which humans interpret their environment and choose to act.

In what follows we will describe a number of counterintuitive insights regarding human irrationality and implications for putting the four conditions for behavior change into place. We will also offer practical—if inconvenient—advice (as it calls for investing time and effort in areas that your rational mind will tell you shouldn't matter as much as they do) on how to improve the odds of leading successful change. We illustrate these approaches through concrete examples of how various companies have, either by conscious awareness, intuition, or simple luck, leveraged predictable employee irrationality to great effect in making change happen.

Dealing with the human side of change is not easy. As Nobel Laureate Murray Gell-Mann once said, "Think how hard physics would be if particles could think." All told, we don't expect our advice to make your life as a change leader any easier. We are convinced, however, it will have more impact.

A. THE INCONVENIENT TRUTH ABOUT CREATING A COMPELLING STORY

Change management thinking extols the virtues of creating a compelling change story, communicating it to employees and following it up with ongoing communications and involvement. This prescription makes sense, but in practice three inconvenient truths often get in the way of this approach achieving the desired impact.

Inconvenient Truth #1: What motivates you doesn't motivate (most of) your employees

We see two types of change stories consistently told in organizations. The first is the "good to great" story along the lines of "Our historical advantage has been eroded by intense competition and changing customer needs; if we change, we can regain our leadership position once again, becoming the undisputed industry leader for the foreseeable future and leaving the competition in the dust." The second is the turnaround story along the lines of, "We're performing below industry standard and must change dramatically to survive; incremental change is not sufficient—investors will not continue to put money into an underperforming company. We are capable of far more based on our assets, market position, size, skills and loyal staff. We can become a top-quartile performer in our industry by exploiting our current assets and earning the right to grow."

These stories both seem rational, yet they too often fail to have the impact that change leaders desire. Research by a number of leading thinkers in the social sciences, such as Danah Zohar, Chris Cowen, Don Beck and Richard Barrett, has shown that stories of this nature will create significant energy for change in only about 20 percent of your workforce.[10] Why? The stories above all center on the company—beating the competition, industry leadership, share price targets, etc.—when in fact research shows that there are at least four other sources of meaning and motivation that can be tapped into to create energy for change. These include impact on society (e.g., making a better society, building the community, stewarding resources), impact on the customer (e.g., making it easier, superior service, better quality product), impact on the working team (e.g., sense of belonging, caring environment, working together efficiently and effectively), and impact on "me" personally (my development, paycheck/bonus, empowerment to act).

> **What the leader cares about (and typically bases at least 80 percent of his or her message to others on) does not tap into roughly 80 percent of the workforce's primary motivators for putting extra energy into the change program.**

The inconvenient truth about this research is that in surveys of hundreds of thousands of employees to discover which of these five (society, customer, company/shareholder, working team, "me" personally) sources of meaning most motivates them, the result is a consistently even 20 percent split across all dimensions. Regardless of level (senior management to the frontline), industry (healthcare to manufacturing), or geography (developed or developing economies), the results do not significantly differ.

This finding has profound implications for leaders. What the leader cares about (and typically bases at least 80 percent of his or her message to others on) does not tap into roughly 80 percent of the workforce's primary motivators for putting extra energy into the change program. Those people leading change should be able to tell "five stories at once" and in doing so unleash tremendous amounts of organizational energy that would otherwise remain latent in the organization.

By way of practical example, consider a cost-reduction program at a large U.S. financial services company. The program was embarked on with a rational change story that "ticked all the boxes" of conventional change management wisdom. Three months into the program, management was frustrated with the employee resistance inhibiting impact. The team worked together to re-cast the "story" around the cost program to include an element related to society (to deliver "affordable housing": we must be most affordable in our services), customers (increased simplicity, flexibility, fewer errors, more competitive prices), the company (expenses are growing faster than revenues, which is not sustainable), working teams (less duplication, more delegation, increased accountability, faster pace), and individuals (bigger, more attractive jobs created: a great opportunity to "make your own" institution).

This relatively simple shift in approach lifted employee motivation measures from 35.4 percent to 57.1 percent in a month, and the program went on to achieve 10 percent efficiency improvements in the first year—a run rate far above initial expectations.

Inconvenient Truth #2: You're better off letting them write their own story

Well-intentioned leaders invest significant time in communicating their change story. Roadshows, town halls, magazines, screen-savers and websites are but a few of the many approaches typically used to tell the story. Certainly the story (told in five ways!) needs to get out there, but the inconvenient truth is that much of the energy invested in communicating it would be better spent listening, not telling.

In a famous experiment, researchers ran a lottery with a twist. Half the participants were randomly assigned a lottery ticket. The remaining half were given a blank piece of paper and a pen and asked to write down any number they would like as their lottery number. Just before drawing the winning number, the researchers offered to buy back the tickets from their holders. The question researchers wanted to answer is, "How much more do you have to pay someone who 'wrote their own number' versus someone who was handed a number randomly?" The rational answer would be that there is no difference (given a lottery is pure chance and therefore every ticket number, chosen or assigned, should have the same value). A more savvy answer would be that you would have to pay less (given the possibility of duplicate numbers in the population who write their own number). The real answer? No matter what geography or demographic the experiment has taken place in, researchers have always found that they have to pay at least five times more to those who wrote their own number.[11]

This result reveals an inconvenient truth about human nature: When we choose for ourselves, we are far more committed to the outcome (almost by a factor of five to one). Conventional approaches to change management underestimate this impact. The rational thinker sees it as a waste of time to let others self-discover what he or she already knows—why not just tell them and be done with it? Unfortunately this approach steals from others the energy needed to drive change that comes through a sense of ownership of "the answer".

When we choose for ourselves, we are far more committed to the outcome (almost by a factor of five to one).

Consider another practical example in Barclays' Personal Financial Services CEO, David Roberts, who employed a fairly literal interpretation of the above finding. He wrote his change story in full prose, in a way that he found meaningful. He then shared it with his team, getting feedback on what resonated and what needed further clarification. He then asked each of his team members to "write their own lottery ticket": what was the change story for them, in their business, that supports the bigger PFS-wide change story? His team members wrote their change story, again in full prose, and shared it with their teams. Their teams gave feedback and then wrote their own story for their area/department, and so the process continued all the way to the frontline. It took twice as long as the traditional roadshow approach, but for a five-times return on commitment to the program, it was the right investment to make.[12]

Sam Palmisano, current CEO of IBM, in spearheading a change effort to move IBM towards a values-based management system, enabled thousands of employees to "write their own lottery ticket" regarding IBM's values. During a three-day, online discussion forum (dubbed ValuesJam), over 50,000 employees were empowered literally to rewrite IBM's century-old values.[13]

Other applications need not be so literal. At a global consumer goods company the CEO brought together his top 300 for three two-day "real work" sessions over three months where they created the story together. Again, this invested significant time, but having the top 300 five-times committed to the way forward was considered well worth the investment. At BP, to develop a comprehensive training program for frontline leaders, a decision was made to involve every key constituency in the design of the program, giving them a sense of "writing their own lottery ticket." It took a year and a half to complete the design using this model, but was well worth it. Now in implementation, the program is the highest rated of its kind in BP. It involves more than 250 active senior managers from across the businesses willingly teaching the course, and, most importantly, has resulted in managers who have been through the training program being consistently ranked higher in performance than those who haven't, both by their bosses and by the employees who report to them.[14]

At a minimum, we advocate that leaders leverage the "lottery ticket" insight by augmenting their telling of the story with *asking* about the story. Consider David Farr, CEO of Emerson Electric, who is noted for asking four questions related to his company's story of virtually everyone he encounters in the organization: 1) how do you make a difference? (testing for alignment on the company's direction); 2) what improvement idea are you working on? (emphasizing continuous improvement); 3) when did you last get coaching from your boss? (emphasizing the importance of people development); and 4) who is the enemy? (emphasizing the importance of "One Emerson"/ no silos, i.e., he wanted to emphasize the "right" answer was the competition and not some other department!).

On a final note, many executives are surprised not only by the ownership and drive for implementation that comes from high-involvement approaches, but also by the improved quality of the answers that emerge. As one CEO told us, "I was surprised how people stepped up during the direction-setting process – I was worried about everything getting 'dumbed down,' but in the end we got a better answer because of the broad involvement."

Inconvenient Truth #3: It takes both "+" and "–" to create real energy

In 210 B.C., a Chinese commander named Xiang Yu led his troops across the Yangtze River to attack the army of the Qin (Ch'in) dynasty. Camped for the night on the banks of the river, his troops awakened to find their ships on fire. They rushed to the boats ready to take on their attackers, only to find that it was Xiang Yu himself who had set their ships ablaze. Not only that, but he had also ordered all the cooking pots crushed. Xiang Yu's logic was that without the pots and the ships, they had no other choice but to fight their way to victory or die trying. In doing so he created tremendous focus in his troops, who battled ferociously against the enemy and won nine consecutive battles, obliterating the main-force units of the Qin dynasty.

The above story is perhaps the ultimate example of creating a "burning platform" to motivate action—a message that says "We've got a problem, we have to change!" This model is often referred to as a deficit-based approach to change. It identifies the problem (what is the need?), analyzes causes (what is wrong here?) and possible solutions (how can we fix it?), and then plans and takes actions (problem solved!). Advocates of this approach point out that its linear logic and approach to dissecting things to understand them is at the heart of all the scientific progress made by Western civilization. They also cite examples like that of Xiang Yu, where it has a profound effect. Given the case for the deficit-based approach, it has become the model predominantly taught in business schools and is presumably the default change model in most organizations. At success rates of 30%, however, the vast majority of change leaders are not enjoying the same success as Xiang Yu did. Why is this?

Research has shown that a relentless focus on "what's wrong" is not sustainable, invokes blame and creates fatigue and resistance, doing little to engage people's passion and experience, and highlight their success. This has led to the rise of what many refer to as the constructionist-based approach to change. In this approach the change process is based on discovery (discovering the best of what is), dreaming (imagining what might be), designing (talking about what should be) and destiny (creating what will be).[15]

Consider a study done at the University of Wisconsin where two bowling teams were recorded on video over a number of games. Each team received a video to study. One team's video showed only those occasions when it made mistakes. The other's showed only those occasions when it performed well. The team that studied its successes improved its score twice as much as the other team. The conclusion is that choosing the positive as the focus of inquiry and storytelling is the best answer for creating change.[16] Whereas the deficit-based change approach is well suited for technical systems, research into the constructionist-based approach shows that in human systems a focus on "what's right" can achieve improved results. So should enlightened change leaders shift their focus exclusively to capturing opportunities and building on strengths instead of identifying and solving problems? We think not.

Humans are more risk averse when choosing among options framed as "gains" than when they choose among those framed as "losses." For example, what would you do if given the choice between a sure gain of $100 and a 50 percent chance of gaining $200? Social science experiments show that most individuals are risk averse and take the gain. What would you do if given the choice between a sure loss of $100 or a 50 percent chance of losing $200? If you are like most individuals, you are risk seeking in this case and choose a 50 percent chance of losing $200.[17] A single-minded focus on "what's possible," with its bias towards more conservative choices, flies in the face of achieving radical change. The reason for this is that, as humans, we inherently dislike losses more than we like gains.[18]

The inconvenient truth is that both the deficit-based and constructionist approaches to change have their merits and limitations. It is clear that a single-minded focus on today's problems creates more fatigue and resistance than envisioning a positive future. But it is also clear that when it comes to behavioral change some anxiety is good, and that an over-emphasis on the positive can lead to watered-down aspirations and impact.

It is clear that a single-minded focus on today's problems creates fatigue and resistance… But it is also clear that when it comes to behavioral change some anxiety is good.

We believe the field of change management has drawn an artificial divide between deficit-based and constructionist-based approaches. The best answer is an "and" answer. While it is impossible to prescribe generally how the divide should be split between positive and negative messages, as this will be specific to the context of any given change program, we strongly advise managers not to "swing the pendulum" too far in one direction or another. Consider Jack Welch at GE, who took questions of "what's wrong here?" (poor-performing businesses, impending bankruptcy, silo-driven behaviors, bureaucracy, etc.) head on, as well as "imagining what might be" (number one or two in every business, a "boundaryless" culture of quality, openness, accountability, etc.).

Revisiting the University of Wisconsin bowling team experiment mentioned above, we suspect that a team that studied its successes *and* mistakes would outperform teams that studied only either/or.

B. THE INCONVENIENT TRUTH ABOUT ROLE MODELING

Conventional change management suggests leaders should take actions that role model the desired change and mobilize a group of influence leaders to drive change deep into the organization. Unfortunately, this prescription rarely delivers the desired impact because it neglects two more inconvenient truths about change management.

Inconvenient Truth #4: Your leaders believe they already "are the change"

Most senior executives understand and generally buy into Ghandi's famous aphorism, "Be the change you want to see in the world." They, often prompted by HR professionals or consultants, commit themselves to "being the change" by personally role modeling the desired behaviors. And then, in practice, nothing significant changes.

The reason for this is that most executives don't see themselves as "part of the problem," and therefore deep down do not believe that it is *they* who need to change, even though in principle they agree that leaders must role model the desired changes. Take for example a team that reports that, as a group and as an organization, they are low in trust, not customer-focused and bureaucratic. How many executives when asked privately will say "no" to the questions, "Do you consider yourself to be trustworthy?" and "Are you customer focused?" and "yes" to the question "Are you a bureaucrat?" Of course, none.

The fact is that most well-intentioned and hard-working people believe they are doing the right thing, or they wouldn't be doing it. However, most people also have an unwarranted optimism in relation to their own behavior. Consider that 94 percent of men rank themselves in the top half of male athletic ability. Of course this is irrational, as mathematically exactly 50 percent of males are in the top half of male athletic ability. This isn't only true for males and athletics—far more than 50 percent of people rank themselves in the top half of driving ability, although it is a statistical impossibility. When couples are asked to estimate their contribution to household work, the combined total routinely exceeds 100 percent. In many behavior-related areas, human beings consistently think they are better than they are—a phenomenon referred to in psychology as a "self-serving bias."[19] Whereas conventional change management approaches surmise that top team role modeling is a matter of will ("wanting to change") or skill ("knowing how to change"), the inconvenient truth is that the real bottleneck to role modeling is knowing "what" to change at a personal level.

The fact is that most well-intentioned and hard-working people believe they are doing the right thing, or they wouldn't be doing it. However, most people also have an unwarranted optimism in relation to their own behavior.

Typically, insight into "what" to change can be created by concrete 360-degree feedback techniques, either via surveys, conversations or both. This 360-degree feedback should not be against generic HR leadership competency models, but instead against the specific behaviors related to the desired changes that will drive business performance. This style of feedback can be augmented by fact gathering such as third-party observation of senior executives going about their day-to-day work (e.g., "You say you are not bureaucratic, but every meeting you are in creates three additional meetings and no decisions are made") and calendar analyses (e.g., "You say you are customer focused but have spent 5 percent of your time reviewing customer-related data and no time meeting with customers or customer-facing employees").

Consider Amgen CEO Kevin Sharer's approach of asking each of his top 75, "What should I do differently?" and sharing his development needs and commitment publicly with them.[20] Consider the top team of a national insurance company who routinely employed what they called the "circle of fire" during their change program: Every participant receives feedback live in the room, directly from their colleagues on "What makes you great?" in relation to "being the change" and

"What makes you small?" Consider the leadership coalition (top 25) of a multi-regional bank who, after each major event in their change program, conducted a short, targeted 360-degree feedback survey regarding how well their behaviors role modeled the desired behaviors during the event, ensuring that feedback was timely, relevant and practical.

While seemingly inconvenient, these types of techniques help break through the "self-serving bias" that inhibits well-meaning leaders from making a profound difference through their actions to the ultimate impact of the change program.

Note that some readers may be thinking, "But surely there are a few people who *are* fully role modeling the desired behaviors—what does this mean for them?" If the purpose of senior executive role modeling is to exhibit the behaviors required that ensure the success and sustainability of the change program (e.g., collaboration, agility in decision making, empowerment), then the answer is "keep up the good work!" If the answer, however, is expanded to include role modeling the process of personal behavioral change itself, there is more to do. Recall that Gandhi also said famously, "For things to change, first I must change."

We often cite Tiger Woods' reaction to his astonishing, 18-below-par victory in the Masters tournament in 1997: he chose to rebuild his swing. As he practiced many of its 270 elements, he endured a period of awkward performance. The press deemed him a one-Masters wonder. Four years later, he won the world's four major golf tournaments in one year, an unprecedented accomplishment. At one point, Woods' lead over the second-ranked player was larger than the gap between No. 2 and No. 100.[21] The lesson is clear: continued success requires critical self-examination and growth. Few senior executives would suggest they are less in need of personal learning than Tiger Woods.

Inconvenient Truth #5: Influence leaders aren't *that* influential

Almost all change management literature places importance on mobilizing a set of "influence leaders" to help drive the change. Typically guidance is given to find and mobilize those in the organization who either by role or personality (or both) have disproportionate influence over how others think and behave. We believe this is sound and timeless advice – indeed having a cadre of well-regarded people proactively role modeling and communicating the change program is a "no regrets" move. However, since Malcolm Gladwell popularized his "law of the few" in his best-selling book, *The Tipping Point*, we have observed that the role of influence leaders has moved from being perceived as a helpful element of a broader set of interventions to a panacea for making change happen (likely an unintended consequence of Gladwell's work which itself was directed towards marketers versus change leaders).

Influence leaders are no more likely to start a social "contagion" than the rank and file… success depends less on how persuasive the "early adopter" is, and more on how receptive the "society" is to the idea.

Gladwell's "law of the few" suggests that rare, highly connected people shape the world. He defined three types of influence leaders that are among this select group: Mavens—discerning individuals who accumulate knowledge and share advice; Connectors—those who know lots of people; and Salespeople—those who have the natural ability to influence and persuade others. Gladwell famously illustrates his point with the example of Hush Puppies. The footwear brand was dying by late 1994—until a few New York hipsters began wearing their shoes. Other fashionistas followed suit, whereupon the cool kids copied them, the less-cool kids copied them, and so on, until voilà! Within two years, sales of Hush Puppies had exploded by 5,000 percent, without a penny spent on advertising.[22] Compelling stories such as this have been interpreted by many change leaders as evidence that the lion's share of their role should focus on getting the influence leader equation right and – voilà! – all else will follow.

Duncan Watts, a network-theory scientist working for Yahoo!, has conducted a number of experiments that help explain why “influence leaders” are not the panacea the above example implies. In the context of the Hush Puppies story, he essentially posed the more expansive question, “Given East Village hipsters were wearing lots of cool things in the fall of 1994, why did only Hush Puppies take off? Why didn’t their other clothing choices reach a tipping point too?” His research shows that influence leaders are no more likely to start a social “contagion” than the rank and file. He concludes that success depends less on how persuasive the “early adopter” is, and more on how receptive the “society” is to the idea. To start a social epidemic is less a matter of finding the mavens, connectors, and salespeople to do the infecting and more a matter of developing the “virus” that society is a fertile spreading ground for. Watts suggests a better metaphor than a virus—a forest fire—for the way social influence really works. There are thousands of forest fires a year, but only a few become roaring monsters. Why? Because in those rare situations the landscape is ripe: sparse rain, dry woods, badly equipped fire departments. In these situations, no one will go around talking about the exceptional properties of the random smoker who unwittingly tossed a smoldering cigarette butt into a patch of parched grass in the middle of a forest during a drought.[23]

The inconvenient truth is that it is not enough to invest in a few rather than in many as a way of catalyzing desired changes, no matter how appealing the idea is. We warn against overestimating the impact a group of influence leaders can have and, in turn, overinvesting in them in a world of scarce resource (time, money, people). We advocate that change leader attention should be balanced across all four conditions for change – a compelling story, role modeling, reinforcement systems, and the skills required for change – to ensure they are reinforcing in ways that maximize the probability of the change “spark” taking off like wildfire across the organization.

C. THE INCONVENIENT TRUTH ABOUT REINFORCING MECHANISMS

Conventional change management emphasizes the importance of reinforcing and embedding desired changes in structures, processes, systems, target setting and incentives. If you want collaboration, create cross-functional teams. If you want customer focus, make sure your systems give you a full picture of the customer relationship. If you want just about any behavior, make people’s paycheck dependent on it, and so the logic goes. Again, these are all perfectly rational until confronted with two inconvenient truths.

Inconvenient Truth #6: Money is the most expensive way to motivate people

Upton Sinclair once wrote, “It is difficult to get a man to understand something if his salary depends upon him not understanding it.”[24] If a change program’s objectives are not linked somehow to employee compensation, this sends a strong message that the change program is not a priority, and motivation for change is adversely affected. The flip-side, however, is not true. When change program objectives *are* linked to compensation, motivation for change is rarely meaningfully enhanced. The reason for this is as practical as it is psychological in nature.

Consider the change manager who is working to link the change program with compensation. He or she is faced with existing executives’ annual compensation plan that is typically comprised of three elements: a portion dependent on how the corporation does (typically an earnings or return-on-capital number for the whole company), a portion dependent on how the leader’s specific business or function does, and a portion dependent on individual goals, often related to operations or people.

The rational change manager dutifully builds change-program impact into earnings forecasts and business unit/functional financial operating plans. Come review time, however, he/she realizes that with the myriad of controllable and uncontrollable variables that influence the financial outcomes, the link to specific change program implementation becomes weak at best. Operational (non-financial) impact from change program implementation creates a stronger link to outcomes and individual efforts. Unfortunately, however, the weighting of non-financial outcomes from the change program in the context of the vast array of other metrics also "linked" to rewards (e.g., compliance, safety, social responsibility, diversity, talent development, leadership competencies) renders any link to compensation hardly relevant.

The reality is that in the vast majority of companies it is exceedingly difficult to meaningfully link a change program to individual compensation. So why not just change the compensation approach? This is of course an option, but easier said than done and certainly not without risk and potential unintended consequences when considering that change must happen in real time—the organization must continue to carry out its day-to-day tasks and functions while at the same time fundamentally rethinking them. The good news is that there are easier, relatively inexpensive ways to use incentives to motivate employees for change.

In one study, researchers gave people a tiny gift and measured the increase in satisfaction with their lives. Specifically half of a group of people who used a photocopier found a dime in the coin return. How much did the gift increase their satisfaction with their lives? When asked about how satisfied they were with their lives, those with the dime were 6.5 on a 7 scale whereas those without were only 5.6.[25] Why such a lift in satisfaction for such little reward? For human beings it holds that satisfaction equals perception minus expectation (an equation often accompanied by the commentary, "reality has nothing to do with it"). The beauty of this equation for change managers is that small, unexpected rewards can have disproportionate effects on employees' "satisfaction" with a change program.

Gordon M. Bethune, while turning around Continental Airlines, sent an unexpected $65 check to every employee when Continental made it to the top 5 for on-time airlines. John McFarlane of ANZ Bank sent a bottle of champagne to every employee for Christmas with a card thanking them for their work on the company's "Perform, Grow and Breakout" change program. The CEO of a large multi-regional bank sent out personal thank-you notes to all employees working directly on the company's change program to mark its first-year anniversary. Most change managers would refer to these as merely token gestures and argue that their impact is limited and short-lived. Employees on the receiving end beg to differ. Recipients of these "dime in the photocopier" equivalents consistently report back that the rewards have a disproportionately positive impact on change motivation that lasts for months, if not years.

For human beings it holds that satisfaction equals perception minus expectation – small, unexpected rewards can have disproportionate effects.

The reason these small, unexpected rewards have such impact is because employees perceive them as a "social exchange" with the company versus a "market exchange." To understand the difference, consider the following: Assume you are at your mother-in-law's house for Thanksgiving dinner. She has spent weeks planning the meal and all day cooking. After the meal you thank her and ask her how much you should pay for the experience. What would her reaction be? Most people report that their mother-in-law would be horrified and the relationship damaged as a result. Why? The offer of money takes the interaction from a social norm, built around a reciprocal, long-term relationship, to a market norm that is more transactional and shallow. Back to your mother-in-law, would she have accepted a nice bottle of wine for the table as a gift from you? Likely yes, as small, unexpected gifts indicate social norms are at play. [26]

Consider the study of a daycare center where a $3 fine was imposed for parents picking up their children late. When the fine went into place, incidents of late pickups went through the roof. Why? Before the fine was imposed, the daycare staff and the parents had a social contract—for the parents, feeling guilty about being late compelled them to be more prompt in picking up their kids. Once the fine was imposed, the daycare center had inadvertently replaced social norms with market norms. Free from feelings of guilt, parents frequently chose to be late and pay the fee (certainly not what the center had intended!)[27]

When it comes to change, social norms are not only cheaper than market norms, but often more effective as well. By way of example, consider the AARP (American Association of Retired Persons) which asked some lawyers if they would offer less expensive services to needy retirees, at something like $30 an hour. The lawyers said no. Then the program manager from AARP had the idea to ask the lawyers if they would offer free services for needy retirees. Overwhelmingly, the lawyers said yes. When compensation was mentioned the lawyers applied market norms and found the offer lacking. When no compensation was mentioned they used social norms and were willing to volunteer their time.[28]

Inconvenient Truth #7: A fair process is as important as a fair outcome

Consider a bank which, as part of a major change program, diagnosed that its pricing did not appropriately reflect the credit risk that the institution was taking on. New risk-adjusted rate of return (or RAROC-based) models were created, and the resulting new pricing schedules delivered to the frontline. At the same time, sales incentives were adjusted to reward customer profitability versus volume. The result? Customer attrition (not only of the unprofitable ones) and price over-rides went through the roof and, ultimately, significant value was destroyed by the effort. The rational change manager scratches his or her head in confusion wondering, "What went wrong?"

"Ultimatum games" offer a compelling example of the inconvenient truth at play here. Give a stranger $10. Tell them they must split the money with another stranger however they wish. If the person accepts the offer, the money is split. If they reject the offer, no one gets any money. Studies show that if the offer is a $7.50/$2.50 split, more than 95 percent will reject it, preferring to go home with nothing than to see someone "unfairly" receive three times as much as they do.[29] You may be thinking to yourself that with a total pie of $10 to share, unequal allocations are rejected only because the absolute amount of the offer is low. Seemingly irrationally, however, the "ultimatum game" findings are the same even when the absolute amount of the offer is equivalent to two weeks of wages.[30]

Employees will go against their own self-interest (read: incentives) if the situation violates other notions they have about the way the world should work, in particular, in relation to fairness and justice.

The inconvenient truth is that employees will go against their own self-interest (read: incentives) if the situation violates other notions they have about the way the world should work, in particular, in relation to fairness and justice. In the case of the banking price-rise example described above, whether right or wrong, the frontline view of the pricing and incentive changes was that they were unfair to the customer, a symbol of increasingly greedy executives losing sight of customer service. Even though it meant they were less likely to achieve their individual sales goals, a significant number of bankers vocally bad-mouthed the bank's policies to customers, putting themselves on the customer's side, rather than the bank's. Where possible, price over-rides were then used to show good faith to customers and inflict retribution on the "greedy" executives.

In making any changes to company structures, processes, systems and incentives, change managers should pay an unreasonable amount of attention to employees' sense of the fairness of the change process as well as the outcome. Particular care should be taken where changes effect how employees interact with one another (headcount reductions, changes to processes such as talent management, annual planning, etc.) and with customers (sales stimulation programs, call center re-designs, pricing, etc.). Ironically, in the pricing example described above, the outcome is inherently fair (customers are asked to pay commensurate to the risk the bank is taking on), and therefore the downward spiral described could have been avoided (and has been by other banks adopting RAROC-based pricing) by carefully tending to employees' perceptions of fairness in the communications and training surrounding the changes.

D. THE INCONVENIENT TRUTH ABOUT CAPABILITY BUILDING

Conventional change management emphasizes the importance of building the skills and talent needed for the desired change to be successful and sustainable. Though hard to argue with, in practice there are two more inconvenient truths that demand attention if one is to successfully build the needed capabilities.

Inconvenient Truth #8: Employees are what they think

Many managers believe in their heart of hearts that the "soft stuff"—employees' thoughts, feelings and beliefs—has no place in workplace dialog. "All that matters is that they behave in the ways I need them to; it doesn't matter why," they will say. While rational—behaviors drive performance after all—this view misses the point that it is employees' thoughts, feelings and beliefs that drive their behaviors. Ignoring the underlying mindsets of employees during change is to address symptoms rather than root causes.

Consider an analogy from operations management. When a motor burns out on a machine on the shop floor it is replaced, right? Effective managers will only replace the engine once the root causes are known: "Why did the motor burn out?" Because it overheated. "Why did it overheat?" Because it was insufficiently ventilated. "Why was it insufficiently ventilated?" Because the machine is too close to the wall. The operator then moves the machine away from the wall and replaces the motor. Not doing so would mean the fix would be short-lived (the new motor would have quickly burned out too, due to the lack of ventilation). A far better solution is achieved by addressing the root cause.

Let's see how this applies to change management. Consider a bank that through a benchmarking exercise found that its sales per banker were lagging the competition. "Why are sales per banker lower?" the rational manager asks. Analysis shows bankers are not spending enough time with customers. "Why aren't they spending more time with customers?" Because a significant amount of their time is spent completing paperwork. With this diagnosis the bank set about reengineering the loan-origination process to minimize paperwork and maximize customer-facing time. Not only that, bankers are provided with new sales scripts and easier-to-use tools so that they'll know what to do with the extra time in front of the customer. Training on the new processes and tools is administered and, voilà, problem solved. Except for the fact that six months later, the levels of improvement are far lower than envisioned.

Ignoring the underlying mindsets of employees during change is to address symptoms rather than root causes.

What went wrong? A further investigation into "why", with an eye to the bankers' mindsets, provides a much fuller view of the root causes: Is there anything about how they think and feel, or what they believe about themselves and their jobs, that explains why they wouldn't be spending more time with customers? Faced with a stalled improvement program, the bank in question proceeded down this line of inquiry. They quickly found that most of the bankers in question simply found customer interactions uncomfortable and therefore actually preferred paperwork to interacting with people (and, in turn, created reasons not to spend time with customers). This was driven by a combination of introvert personalities, poor interpersonal skills and a feeling of inferiority when dealing with customers who by and large have more money and education than they do. Furthermore, supervisors (who had mostly been recruited from the banker ranks) were also insecure with their selling and interpersonal skills, and therefore placed more emphasis on managing paper-based activity, further exacerbating the problem. Finally, most bankers loathed to think of themselves as "sales people"—a notion they perceived as better suited to employees on used-car lots than in bank branches. Efforts to create "more sales time" flew directly in the face of their vocational identity.

Armed with these root-cause insights, the bank's change program was enhanced to directly address the mindset challenges as well as the process and tool barriers. Training for bankers and supervisors was expanded to include elements related to personality types, emotional intelligence and vocational identity (recasting "sales" as the more noble pursuit of "helping customers discover and fulfill their unarticulated needs"). This enhancement not only put the program back on track within six months, but also ultimately delivered sustainable sales lifts in excess of original targets.

Those skeptical of the importance of mindsets are encouraged to consider the Roger Bannister story. Until 1954, the four-minute mile was considered to be beyond human achievement. Medical journals of the day went so far as to declare it an impossible "behavior." In May of that year, however, Roger Bannister broke this barrier, running the mile in 3 minutes, 59.4 seconds. What is perhaps more amazing is that two months later it was broken again, by Australian John Landy. And within three years, 16 other runners had also broken this record. What happened? A sudden spurt in human evolution? Genetic engineering of a new super race of runners? Of course not. It was the same human equipment, but with a different mindset—one that said "this can be done."

Bannister emphasizes in his memoirs that he spent as much time conditioning his mind as he did conditioning his body. He wrote, "the mental approach is all important… energy can be harnessed by the correct attitude of mind."[31] While perhaps inconvenient, when it comes to building capabilities required for change, we believe a balance should be struck between building technical skills and shifting underlying mindsets (to enable the technical skills to be used to their fullest).

Inconvenient Truth #9: Good intentions aren't enough

It is well documented that after three months adults retain only 10 percent of what they have heard in lecture-based training sessions (e.g., presentations, videos, demonstrations, discussions). When they learn by doing (e.g., role plays, simulations, case studies), 65 percent of the learning is retained. And when they practice what they have learnt in the workplace for a number of weeks, almost all of the learning can be expected to be retained.[32] Accordingly, effective skill-building programs are replete with interactive simulations and role plays to ensure time spent in the training room is most effective. Further, commitments are made by participants regarding what they will "practice" back in the workplace ("My Monday morning takeaway is…") to embed the learnings. This is all well and good, except that come Monday morning, very few keep their commitments.

Consider a social science experiment at a Princeton theological seminary. Students were asked a series of questions about their personality and level of religious commitment and then sent across campus. Along the way, they met a person slumped over coughing and groaning and asking for medical assistance. Did self-proclaimed nice people help more? Absolutely not. Neither did religious commitment correlate to who provided help. The only predictor of the seminarians' behavior was that half were made to think they were late for an appointment across campus, while the others believed they had plenty of time. Sixty-three percent with spare time helped, as opposed to just 10 percent of those in a hurry. When short of time, even those with "religion as a quest" did not stop to help.[33]

Given this aspect of human nature, it is unreasonable to expect that most employees will genuinely practice new skills and behaviors back in the workplace if nothing formal has been done to lower the barriers to doing so. The time and energy required to do something additional, or even to do something in a new way, simply don't exist in busy executives' day-to-day schedules. Ironically, this is particularly the case in the days following training programs, when most managers are playing catch-up from their time away. This failure to formalize and create the space for practice back in the workplace dooms most training programs to deliver returns that are at best 65 percent of their potential.

We advocate a number of enhancements to traditional training approaches to "hardwire" day-to-day practice into capability-building processes. First, training should not be a one-off event. Instead, a "field and forum" approach should be taken, in which classroom training is spread over a series of learning forums, and fieldwork is assigned in between. Second, we suggest creating fieldwork assignments that link directly to the day jobs of participants, requiring them to put into practice new mindsets and skills in ways that are "hardwired" into to the things for which they are accountable. These assignments should have quantifiable, outcome-based measures that indicate levels of competence gained, and certification that recognizes and rewards the skills attained.

Failure to formalize and create the space for practice back in the workplace dooms most training programs to deliver returns that are at best 65 percent of their potential.

Consider one company's approach to building lean manufacturing capabilities. The first forum offered a core of basic skills and mindsets in performance improvement. Fieldwork then followed, involving cost, quality and service improvement targets over a three-month period. Anyone delivering on these targets was awarded a green-belt certification in lean. The next forum provided much deeper technical system design skills and project and team leadership training. The fieldwork that followed involved participants redesigning entire areas of the plant floor and overseeing a portfolio of specific improvement teams—all aspects of which had quantitative targets (both in terms of financial results, and people and project leadership in 360-degree evaluations). Anyone achieving their fieldwork targets then became a black belt in lean. The final forum built more advanced skills in shaping plant-wide improvement programs in the context of pressing strategic issues, applying improvement concepts to more complex operations, and coaching and mentoring others. Fieldwork again put these lessons into practice with quantitative improvement goals attached, resulting in a set of "master black belts" emerging from the program.

SHOW ME THE MONEY!

So far, we have tested the incremental impact of applying these inconvenient truths in practice above and beyond more conventional approaches to influencing behavior in three longitudinal studies. Each study has employed control versus experimental group methodologies (comparing impact with like customer and employee demographics, ensuring minimal distortions of trial over a one-year test period). In each of these cases, the results have been profound.

In retail banking, for example, applying conventional change management approaches in a salesforce stimulation program achieved an 8 percent lift in profit per business banker and 7 percent per retail banker. While respectable, this was below management aspirations of achieving a 10 percent lift in both areas. Where inconvenient truths were acted on beyond conventional change management approaches, however, the program achieved a 19 percent lift in profit per business banker and 12 percent per retail banker, far exceeding management's expectations.[34]

In the call centers of a large telecommunications company, the results of a customer churn reduction program applying conventional change management approaches resulted in 35 percent churn reduction, falling short of management's aspiration of a 50 percent reduction. Acting on the inconvenient truths, however, delivered 65 percent churn reduction to the delight of management, employees and customers.

An insurance back office which had implemented lean operations improvements found that performance six months after the "step change" was stagnant, not fulfilling the continuous improvement expectations of the program. Revamping the program to leverage inconvenient truths, the company has now posted more than two years of 5 percent improvement (above and beyond the step change) in cost, quality and service, exceeding the 3 percent continuous improvement target built into the budget.

As mentioned above, we acknowledge that our research into the impact of applying approaches based on the inconvenient truths about change management is still in its relatively early days by virtue of the fact that sustainable impact can only be measured over numbers of years. The longitudinal examples mentioned above, however, give us confidence and motivation to broadly share the thinking above.

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David Whyte once wrote, “Work, paradoxically, does not ask enough of us, yet exhausts the narrow part of us we bring to the door.”[35] Our research and experience has led us to believe that the impact of conventional change management thinking is held back by exactly this paradox. More activity is undertaken, less energy is tapped into, and ultimately change impact is disappointing. By acting on the inconvenient truths discussed above, Whyte’s paradox is at least in part resolved by tapping into motivations that are uniquely human. In doing so, tremendous individual and organizational energy for change is unleashed.

End Notes

1. Kotter, John, "Leading Change: Why Transformation Efforts Fail", *Harvard Business Review*, March–April 1995, p 1.
2. For a list of about 100 highly recommended books on change management see Nickols, Fred, 2006. http://www.managementlogs.com/2006/04/change-management-books.html. As of March 7, 2008, Amazon had 1,861 books listed under the official category "organizational change" and 8,604 books under the category of "change."
3. Examples include Harvard: "Managing Change", Michigan: "Navigating Change", MIT: "Planning and Managing and Change", Duke: "Human Assets and Organizational Change", Columbia: "Organizational Change", IMD (Switzerland): "Managing Change", London Business School (U.K.): "Managing Change", INSEAD (France/Singapore): "Leadership & Change", ESADE I (France): "Change Management", Queens University (Canada): "Strategy Implementation & Change Management."
4. Isern, Joseph and Pung, Caroline, "Organizing for successful change management: A McKinsey global survey", *The McKinsey Quarterly*, June 2006.
5. In 2002, D. Miller reported that 70 percent of change programs fail in "Successful change leaders: what makes them? What do they do that is different?", *Journal of Change Management*, 2(4), pp 359–68. In 2005, M. Higgs and D. Rowland reported that, "Only one in four or five change programs actually succeed" in "All Changes Great and Small: Exploring Approaches to Change and its Leadership", *Journal of Change Management*, 5(2), pp 121–51.
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7. Price, Colin and Lawson, Emily, "The Psychology of Change Management," *The McKinsey Quarterly*, 2003, Number 2, Special Edition: Organization.
8. The leather seats and red pencil examples have been borrowed Ariely, Dan, *Predictable Irrationality: The Hidden Forces that Shape Our Decisions*, Harper Collins, 2008, p. 20 and p. 218.
9. Behavioral economics and behavioral finance are closely related fields which apply scientific research on human and social cognitive and emotional biases to better understand economic decisions and how they affect market prices, returns and the allocation of resources. Daniel Kahneman with Amos Tversky and others, established a cognitive basis for common human errors using heuristics and biases (Kahneman & Tversky, 1973, Kahneman, Slovic & Tversky, 1982), and developed Prospect theory (Kahneman & Tversky, 1979). He was awarded the 2002 the Nobel Prize in Economics for his work in Prospect theory as a psychologically realistic alternative to expected utility theory.
10. See Zohar, Danah, *Rewiring the Corporate Brain: Using the New Science to Rethink How We Structure and Lead Organizations*, Berrett-Koehler, 1997; Barret, Richard, *Liberating the Corporate Soul: Building a Visionary Organization*, Elsevier, 1998; and Beck, Don and Cowan, Christopher, *Spiral Dynamics: Mastering Values, Leadership, and Change*, Blackwell Business, 1996.
11. Lottery tickets study as described in, Langer, Ellen J., "Chapter 16: The Illusion of Control" in Daniel Kahneman, Paul Slovic and Amos Tversky, eds., *Judgment under Uncertainty: Heuristics and Biases*, Cambridge University Press, 1982.
12. See Barclays' Personal Financial Services CEO David Roberts, "Easy to Do Business With: The Way Ahead for PFS," April 2002, London, England: Barclays, Reg. # 1026167.
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16. University of Wisconsin research as cited in Bernard J. Mohr and Jane Magruder Watkins, *The Essentials of Appreciative Inquiry*, Pegasus, 2002.
17. Risk-taking research cited in Terry Burnham and Jay Phelan, *Mean Genes*, Perseus, 2000.
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20. McKinsey & Company Organization Practice, *Building Exceptional Leadership Strength*, 2005.

21. Note that in an interview with *Time* magazine published August 14, 2000, looking back on his decision, he told writer Dan Goodgame: "I know I wasn't in the greatest position with my swing at the [1997] Masters. But my timing was great, so I got away with it. And I made almost every putt. You can have a wonderful week like that even when your swing isn't sound. But can you still contend in tournaments with that swing when your timing isn't as good? Will it hold up over a long period of time? The answer to those questions, with the swing I had, was 'no'. And I wanted to change that." Rankings reported by Harig, B., "Wood 'Uncomfortable' with his Game," ESPN.com, April 26, 2004.

22. Gladwell, Malcolm, *The Tipping Point: How Little Things Can Make a Big Difference*, Little Brown, 2000.

23. Thompson, Clive, "Is the Tipping Point Toast?" *Fast Company*, February 2008.

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25. The dime in the photocopier study, Schwarz, Norbert, *Stimmung als Information : Untersuchungen zum Einfluss von Stimmungen auf die Bewertung des eigenen Lebens*, Springer, 1987, pp 12–13.

26. The 'mother-in-law' example has been borrowed Ariely, Dan, *Predictable Irrationality: The Hidden Forces that Shape Our Decisions*, Harper Collins, 2008, p. 72.

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28. Ariely, Dan, *Predictably Irrational: The Hidden Forces that Shape Our Decisions*, Harper Collins, 2008: p. 71.

29. The seminal ultimatum game study is by Guth Werner, Rolf Schmittberger and Bernd Schwarze, "An Experimental Analysis of Ultimatum Bargaining," *Journal of Economic Behavior and Organization*, December 1982, 3(4), pp 367–88. Note that new ultimatum game research in the field of neuroeconomics shows us exactly what part of the brain operates the bilateral anterior insula (not part of the prefrontal cortex) in rejecting small offers (As reported by Sanfey, A.G., K.K. Rilling, et al., "The Neural Bias of Economic Decision-Making in the Ultimatum Game," *Science 300* (2003): pp 1755-1758.

30. Cameron, Lisa, "Raising the stakes in the ultimatum game: experimental evidence from Indonesia," *Economic Inquiry* 1999, 37(1), pp 47–59; This assumption was also tested t by having U.S. participants play the game for $100. They found no difference between play for $100 and play for $10 as reported in Hoffman, E., K. McCabe, et al., "On Expectations and the Monetary Stakes in Ultimatum Games," *International Journal of Game Theory* 25 (1996): pp 289-301

31. Bannister, Roger, *The Four-Minute Mile*, Guildford: The Lyons Press, 1981, p 210.

32. IBM research; Whitmore, "Coaching for Performance."

33. Darley, J. M. and Batson, C.D., "From Jerusalem to Jericho: A study of situational and dispositional variables in helping behavior," *Journal of Personality and Social Psychology*, 1973, 27(1), pp 100–108.

34. Experimental and control group clusters of bank branches were chosen that matched each other and the organizational average on the following dimensions: Performance: NPBT (growth and average over longest coherent period available), economics of customers, average income per customer, industry composition in business banks (split between service and manufacturing industry), and characteristics of centers; Staff: performance rating, tenure (+2.5 years min.); and Size: footings per banker. During the study we ensured no distortions of trial occurred in terms of change of management, restructuring of operations, test of other initiatives in an incomplete subset of trial participants. Performance was compared over 1 year between three groups: 1) No intervention, 2) Salesforce effectiveness improvement program with "rational" change management interventions, 3) Salesforce effectiveness improvement program with "rational" change management interventions. This approach is illustrative of all longitudinal studies mentioned.

35. Whyte, David, *The Heart Aroused: Poetry and the Preservation of the Soul in Corporate America*, Doubleday Currency, 1996, pp. 22.

RESOURCES AND PEER FORUMS

NAME

A CEO PRIMER

OTHER CEO-SPECIFIC TOPICS WHERE WE ARE HAPPY TO CONNECT YOU WITH MCKINSEY COLLEAGUES FOR ADVICE

Managing board dynamics

Managing investors

Driving growth and long-term value

Driving growth through M&A & JVs

Integrated performance management

Managing performance and operating rhythm

Managing talent

Building your top team

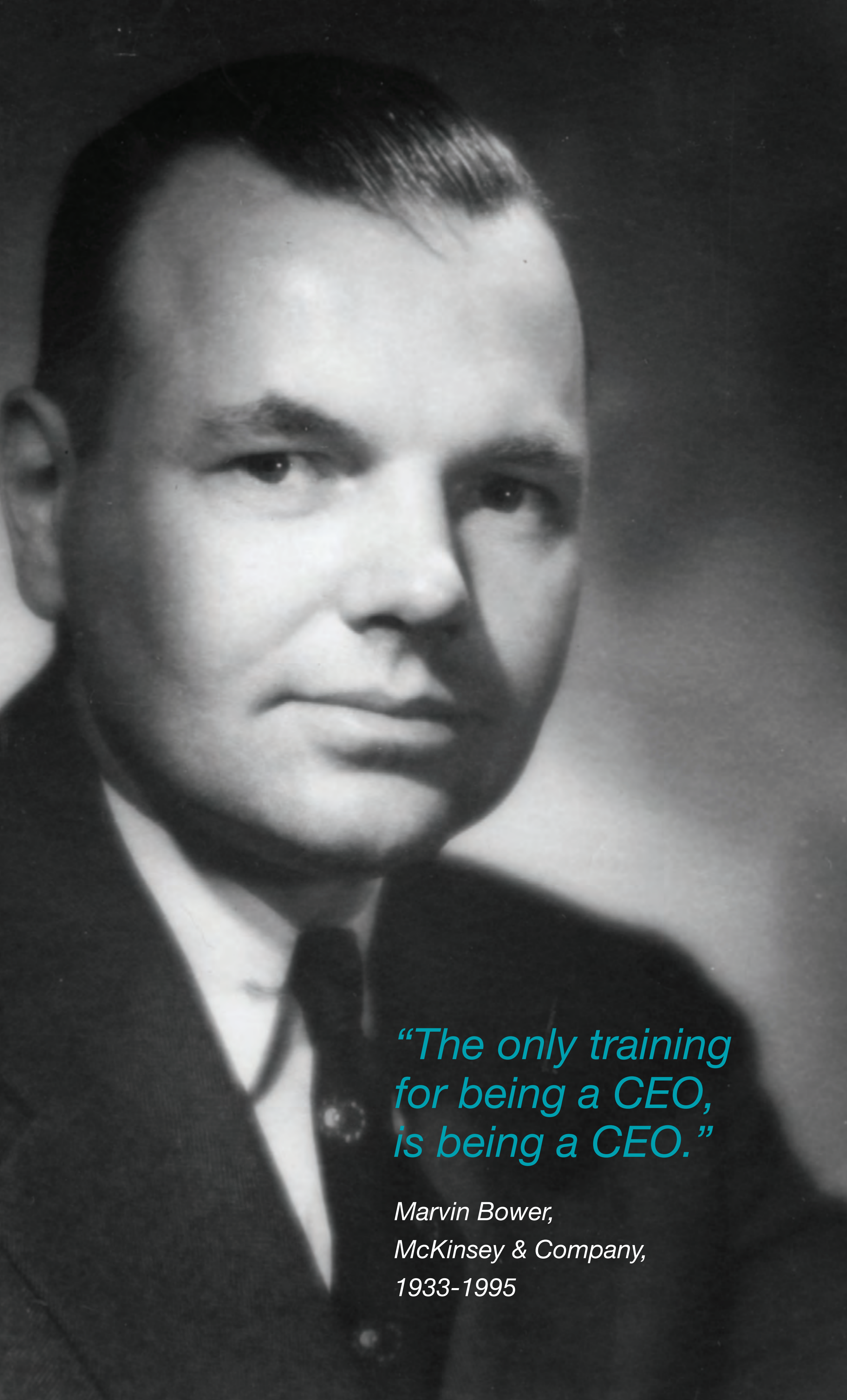
Creating a high performing organization

Winning the productivity game

Private equity: friend or foe

Driving a step-change in sales performance

Pricing as a competitive advantage


"The only training
for being a CEO,
is being a CEO."
Marvin Bower,
McKinsey & Company,
1933-1995

CEO NETWORK: THE BOWER FORUM

A McKINSEY LEADERSHIP DEVELOPMENT PROGRAM

The Bower Forum is a unique platform for CEOs to counsel and learn from fellow chief executives. Led by a highly respected and experienced CEO with an excellent record of leading a global organization, a small, exclusive cohort of chief executives convenes at a workshop to engage with each other, experts, and McKinsey senior partners. This provides a rare opportunity for CEOs to share experiences, discuss aspirations and challenges, debate CEO-specific issues, and reflect on the legacies they want to build. In addition, personal coaching and "fieldwork" supported by a dedicated McKinsey senior partner helps the CEOs to bring the learnings from the workshop back to the office. Participation in the Bower Forum is by invitation only.

THE BOWER FORUM PARTICIPANTS

Bower Forum was designed for CEOs who aim to build lasting legacies of outstanding performance and who share a willingness to exchange ideas in a candid, confidential setting.

The Bower Forum workshop groups are assembled to reflect similar needs among participants—but deliberately go beyond industry and geographic boundaries. This ensures the opportunity to learn from leaders across industries and the globe—and allows participants to share personal circumstances without confidentiality risks. Participants can partly co-create the agenda as they go along and in discussions with their McKinsey partner in advance of the program.

Participants are CEOs of global companies and have a direct board relationship. Depending on which program CEOs are invited to join, they fulfill additional criteria to ensure best possible prerequisites for an engaging, meaningful conversation among participants.

THE BOWER FORUM WORKSHOP

Participating CEOs choose one of the proposed workshops as the starting point of their Bower Forum experience and commit to confidentiality.

The workshop modules are tailored to the needs of the participants and are led by an experienced CEO/chairperson and functional experts. Topics are specific to the CEO role and include driving organizational performance and health, developing strategy, strengthening governance, transforming the top team, and managing stakeholders. A strong focus is also given to personal topics, such as ensuring a healthy work-life balance.

With its discussion-based setup and the involvement of a variety of McKinsey subject-matter experts, the content of the workshops can be adapted to current topics and events. During the workshop, Bower Forum members will engage in open, confidential group discussions, personal and group reflection, and close interaction with their McKinsey coaches.

FIELDWORK AND COUNSELING

Members have the option to work closely with McKinsey senior partners before, during, and after the workshops to get the most out of the Bower Forum.

In particular, McKinsey senior partners will offer personal support as CEOs create and implement their plans after the workshop. CEOs and partners will engage regularly to translate workshop learnings into practice and generate momentum on key initiatives.

THE BOWER FORUM PROGRAMS

This advanced leadership program gives CEOs a personalized learning environment characterized by extensive peer counseling and learning led by world-class faculty of global CEOs/Chairpersons and McKinsey experts.

We offer different Bower Forum programs to address the specific situation and context of individual leaders.

Bower Forum—for CEOs
This field-and-forum experience encompasses a two-day workshop followed by optional field work. It is a unique platform for CEOs to counsel and learn from fellow chief executives. Hosted by highly respected and experienced "lighthouse" CEO(s) /chairperson in partnership with McKinsey, the Forum gives a small (four to six), exclusive cohort of CEOs the opportunity to convene and engage with each other, privately share experiences, discuss aspirations and challenges, debate CEO-specific issues, and reflect on the legacies they want to build. Participants can partly co-create the agenda as they go along while keeping alignment with the broader frameworks.

"A unique opportunity to have open, honest discussions with other CEOs."

Bower Forum—for CEOs of Family-owned Businesses
CEOs or chairpersons of family-owned businesses discuss dynamics, challenges, and opportunities specific to their situation. Discussions include skills and capabilities required to address and manage different generations, and to ensure the right governance.

"Excellent program to share and gain insights from peers, with concrete counseling on potential areas of concern."

Bower Forum—for Chairpersons
Four to five chairs of the board will discuss aspirations and priorities. The program will help chairpersons engage in a candid dialogue between peers in a private environment and to discuss aspirations and challenges of managing a board of directors. The program is complemented by topic specific breakouts featuring a selection of today's critical governance challenges. The agenda will be finalized based on their specific needs following a discussion prior to the program.

"The opportunity to learn from peers and a seasoned CEO in such an intimate setting is truly unique."

Additionally, the Bower Forum offers deep dive programs for past Bower Forum participants as well as regional variations in specific languages (Spanish, Chinese).

"Candid feedback to the point we could let our guard down and address the real problem."

THE BOWER FORUM FACULTY

In addition to senior McKinsey director faculty, the forums are hosted by experienced chairpersons/ex-CEOs. These include Bruno Pfister (Rothschild Bank), Daniel Vasella (Novartis), Ian Davis (Rolls Royce), Klaus Kleinfeld (Alcoa), Marcel Rohner (UBS), Rolf Dörig (Swiss Life/Adecco) amongst many others.

EXECUTIVE TRANSITIONS MASTER CLASS

HOW TO HAVE THE GREATEST IMPACT AS YOU TAKE ON YOUR NEW ROLE

Congratulations! No doubt, being chosen for your new role is a powerful acknowledgment of all that you have accomplished to date. It also represents a great opportunity to make a difference on a bigger stage and leave a legacy that will last far beyond your tenure.

HOW A MASTER-CLASS IN TRANSITIONS CAN BE HELPFUL TO YOU

It will come as no surprise to hear that the higher up you go, the higher the bar for success. Research shows that 40 percent of newly hired or promoted senior executives are considered a failure after their first 18 months. This is a particularly startling fact when one considers that these executives were promoted because of their continuous track record of moving up into larger and more demanding roles. What is more, this statistic has remained true for the last 15 years, suggesting that prevalent management advice has not helped.

Why is this? As one gets closer to the top, there is a dramatic increase in the breadth of responsibility (often from thousands to tens of thousands of employees to align and mobilize), complexity of decision making (as more and more variables have to be considered and trade-offs made), and scrutiny from stakeholders (the spotlight is brighter and often opposing demands are greater). Added to that, the window to demonstrate performance and set a new tone as a leader is exceedingly short. The aphorism, “you never get a second chance to make a first impression” is apropos in transitions, yet these factors make it exceedingly difficult to get it right.

McKinsey & Company has recently concluded a multi-year research effort aimed at “cracking the code” on how transitioning executives can beat the odds. We found that while most executives appreciate what needs to be done, they often misstep when it comes to how, when, and with whom they choose to act. You are invited to tap into everything we have learned in these areas during a two-day leadership forum.

WHAT YOU WILL GAIN FROM THE SESSION

During the session, we will share our findings with you and a small group of, at most, 20 peer executives from around the world who are also in transition. The interactive format enables participants to learn fully from faculty, special guest speakers, and one another. It also creates ample time and thought partnership to apply the insights to your specific situation so that you walk out with a clear and practical game-plan to make your transition a resounding success.

Should you attend, you will walk away with the means necessary (across business, culture, team and personal leadership topics) to get your organization to work at full productivity in the desired direction that you are leading them as quickly as possible, including tools, approaches and counter-intuitive insights to:

Have more impact

- Find “hidden” value creation opportunities that previous leaders may have missed

- Gain clarity as to where and how you should spend your time to make the biggest difference across multiple priorities that need to be simultaneously managed

Implement faster

- Get the right team members in place and build them into a high-performing, high-trust team

- Create buy-in and energy for execution at scale as a result of the co-creative process employed to set direction

Make changes sustainable

- Quickly and methodically understand the organizational culture and prioritize needed mindset and behavior shifts

- Influence these shifts in the course of driving performance improvement — an essential part of making change happen at scale without overloading the organization with initiatives

You will also have the chance to hear lessons learned and any questions you have answered by senior executive guest speakers who have a track record of successful transitions. Last but not least, you will leave with an expanded network of peer relationships with other executives as well as with McKinsey partners who can act as an independent sounding board as your transition unfolds.

The session will take place at the Langham in Chicago on October 15 and 16, 2014. Participation is on an invitation-only basis. The format uses a proven learning model that involves client executives and McKinsey partners attending in pairs.

If you would like to attend, please let us know by emailing jacqui_miranda@mckinsey.com

We hope to see you there!

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