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

Kevin Coyne is a director in McKinsey's Atlanta office, and **Bobby Rao** is a principal in the Silicon Valley office.