Starting strong: Making your CEO transition a catalyst for renewal

mckinsey.com/capabilities/strategy-and-corporate-finance/our-insights/starting-strong-making-your-ceo-transition-a-catalyst-for-renewal

> It is when we are in transition that we are most completely alive.
>
> *William Bridges*

Some experiences in life you simply can't prepare for. You can imagine how you might feel and what you might do, but you can never actually know how you will respond in a situation until it happens. Falling in love, becoming a parent, and facing one's mortality all fit into this category. In the workplace, your first interview, first day on the job, and first time given the responsibility of managing others are of this ilk. For a select few who successfully climb the corporate ladder, becoming CEO can be added to this list. As Bill George, former CEO of Medtronic and current Harvard Business School professor, puts it, "No one is prepared to become CEO, no matter how much they think they are. You have to grow into the job. You think you know how to run a business, but that's really more the COO role."

What makes the top job so different from the leadership roles that come before it? To start with, new CEOs discover quickly that they are accountable for *everything*, that their reporting relationships have changed dramatically, and that the job is extremely lonely.

Dick Boer, former CEO of the Dutch food giant Ahold Delhaize, explains how accountability changes: "As the company CEO, it's solitary. You can't say, 'Look, I can't do it because . . .' No. It's you. You can't blame anyone anymore for anything. It's you to blame." Ecolab's former CEO Doug Baker illuminates the uniqueness of reporting relationships: "Our synapses are designed for one boss. Our whole career, we have had one boss, and now, all of a sudden, you've got 13 versions of a boss. Oh, and by the way, they don't come to work every day, like all your other bosses did." Microsoft CEO Satya Nadella reveals where the loneliness comes from: "Nobody who works for you sees what you see. And nobody you work for sees what you see. That's the fundamental problem of a CEO, which is you see it all, and nobody else around you sees it, so you can get very frustrated."

For these reasons and many others, no one should assume that they have it all figured out when transitioning into the role of CEO. In fact, one-third to one-half of new CEOs are considered to be failing within 18 months of taking the role, and more than 90 percent of those CEOs confess that they wish that they had managed their transition differently. Those who get it right realize early on that they will need to lead differently than they did on the way to the top. They know that their success will depend on whether they can reinvent themselves by rewiring the many work habits they built up over decades (on average, new CEOs have worked for 24 years before taking the role).

Savvy CEOs recognize that the renewal opportunity isn't just for them but for the entire organization. A transition of leadership creates what German American psychologist Kurt Lewin refers to as an "unfreezing" moment for the institution. According to Lewin's theory, organizations exist in an equilibrium state largely constrained ("frozen") by resistance to change and group conformity. Movement becomes possible only when there is a jolt to the system (an "unfreezing"). Such jolts often come in the form of a crisis—such as when GM's Mary Barra used the company's ignition switch crisis as a catalyst for needed culture change. A CEO transition creates a similar opportunity—albeit without the crisis—to reset an organization's aspirations and ways of working.

The best CEOs don't miss the opportunity to make their first six to 12 months (not just the vaunted 100 days) both a personal transition of great import and a profound moment of institutional renewal. While each leader will act in ways befitting their unique situation, there are at least four common ingredients for success:

- not making it about you
- listening, then acting
- nailing your firsts
- playing "big ball"

In his 1979 book *Transitions: Making Sense of Life's Changes*, the late author and consultant William Bridges wrote about the difference between transition and change. According to Bridges, change is something that happens to people. Transition, on the other hand, is internal: it's what happens in people's minds as they go through change. Change can happen very quickly, while transition usually occurs more slowly. The distinction is subtle but vital to understand for a new CEO who is pursuing both personal and institutional renewal.

The day you become CEO, you undergo an enormous amount of change. For one, all the attention becomes laser-focused on you, often in ways that distort reality. Says Brad Smith, former CEO of the accounting software giant Intuit, "It's no secret that we all get ten inches taller and our jokes get funnier the day we assume the role." At the same time, your power gets magnified. "Every time you say or do something," says DBS Bank CEO Piyush Gupta, "it's got a massive consequential effect. The whole company pivots."

All this attention and power can quickly create a celebrity CEO phenomenon where the transition becomes all about you. Successful CEOs don't let this happen—they keep their minds focused on the institution. As former Itaú Unibanco CEO Roberto Setúbal explains: "All CEOs need to ask themselves, 'What do you want to be remembered for—as a great person or a person who made the company great?' If you want to make the company great, then you must think about the company first, yourself second. It's human nature to want to be recognized, so it's not easy to put the institution ahead of yourself."

Former Mastercard CEO Ajay Banga reinforces the point with a memorable analogy: "You want them to not remember you. You want the company to be successful where it's headed. You do not own the business unless you created the company and were Steve Jobs or Bill Gates, and then they *should* remember you. Guys like us, we're just stewards of the system in a ship sailing through the sea. You have to make sure that the boat doesn't sink while you're there and that during the voyage it picks up a couple of extra sails and some new engine technology. You make the boat work better. But you don't brand the boat with your name and call it the *Ajay Banga* boat."

Such advice sounds laudable in theory, but what does it mean in practice? Taking this approach starts with asking different questions, which then lead to different answers. For example:

Topic	'It's about me'	'It's not about me'
Vision	What legacy will I leave?	What organizational purpose do I serve?
Leadership	What are my "nonnegotiable" expectations of others?	Who does the company need me to be?
Team	Who on my team will complement my weaknesses?	What conditions will I need to put in place to maximize my team's success?
Change	What is broken that needs fixing?	How will we respect our past while accelerating or disrupting our future?
Engagement	How will I get the organization on board with my vision?	How will I engage the organization in creating our shared vision?
Measurement	How will I know if I'm successful?	How will we know if we're winning?

Microsoft's Nadella embodies the "it's not about me" mindset by ascribing a meaningful portion of his success to his predecessor. "My dad, a civil servant in India, always used to talk about institution builders as those people whose successors do better than they did themselves," he says. "I love that definition. I feel that if the next CEO of Microsoft can be even more successful than I am, then maybe I've done my job right. If the next CEO of Microsoft crashes and burns, that may result in a different verdict. That's why I think too much credit is given to me and not enough to Steve [Ballmer, Nadella's predecessor] for what he set in motion. I don't think I would have been able to achieve what I've achieved if not for his work."

Israel Discount Bank's former CEO Lilach Asher-Topilsky used a daily ritual to remind herself that the job was not all about her: "Every morning, when I went to my office, I entered the room, looked at my chair, and reminded myself that people were going to walk in and talk

to the chair. I sit in this chair now, but I have to remember that I have to be humble. I have to remember that everyone is the same. I sit in this chair, and it makes me powerful, but tomorrow I'm not going to be in this chair."

When a new CEO takes over, anxiety levels can run high within the organization. Everyone wants to hear what the new person thinks, what will change, and what the change will mean for them. With people overanalyzing every word and move the new CEO says and makes, the urge to decide, declare, promise, and explain is strong. The best leaders in transition know that it is better to listen and find out what is really going on before making broad declarations or premature moves. Of course, context matters—in a turnaround situation, there will be a premium on action—but in most contexts successful leaders subscribe to Albert Einstein's edict of, "If I had an hour to solve a problem and my life depended on the solution, I would spend the first 55 minutes understanding the problem." Practically speaking, this ethos translates to the following practices:

- Start with a broad-based listening tour.
- Create a fact-based "one version of the truth."
- Lock in a short list of bold moves.
- Communicate those moves in an elegantly simple, engaging manner.

On his listening tour after being announced as the next CEO, Intuit's Smith asked the same three questions of board members, investors, fellow CEOs, and employees: "What are the greatest opportunities we haven't yet capitalized on? What are the greatest threats that could end this storied franchise if not addressed? What is the one thing I could do to screw it up?" Examples of other powerful questions you might consider asking are: What do you hope will change? What should *not* change? What aren't people telling me that I need to know? What am I not hearing that I should be hearing? Lockheed Martin's former CEO Marillyn Hewson explains why such questions are uniquely powerful during the transition period: "People tell you things because you're the newbie that they're not going to tell you two or three years from now."

The perceptions you pick up during your listening tour should be validated with facts where possible and augmented by analytics that can help answer tough questions about the state of the business. The goal is to create one version of the truth that you can use as a baseline for the organization's aspirations and against which to judge its future performance. Ed Breen, the CEO of DuPont and former head of Tyco and General Instruments, discusses his methodology: "As a CEO, when you go into a company, even if you've been in the company and you get promoted to CEO, you need to take a good, clean look at everything: return metrics, cash conversion—all the key metrics. Then you can see where you sit vis-à-vis a really good company that has a business model like yours, and you can ask, 'Well, why aren't we there? If they can be there, why can't *we* be there?' There's always a way to get there." Financial and operational metrics are key, but so are metrics on talent, teamwork, culture, and stakeholder perceptions.

Explore the book

Once you have a strong, fact-based understanding about what is needed to propel the business forward, it’s time to identify the biggest needle-moving actions that you will lead. What will you buy and sell? Where will you invest differentially? How will you improve productivity? Where will you create more differentiation? How will you reallocate capital? McKinsey research shows that making even two big moves across these arenas more than doubles the likelihood of rising from mid- to top-tier performance, while executing three or more makes such a rise six times more likely.[1]Strategy to beat the odds,” *McKinsey Quarterly*, February 13, 2018. Furthermore, CEOs who make these moves earlier in their tenure outperform those who move later, so there is a premium on mobilizing the organization quickly.

You may be wondering, “If moving fast is important, why do great CEOs invest so much time in listening first?” Alain Bejjani, the CEO of Dubai-based conglomerate Majid Al Futtaim, explains this paradox of going slow to go fast: “We aimed to have the most inclusive process possible. Doing so built a broad sense of ownership, and we also found that some of the most insightful answers came from people we wouldn’t normally have approached for input, which in hindsight would have been a significant loss.” Best Buy’s former CEO Hubert Joly reinforces the point: “Of course you have to create a plan, but you have to cocreate it. It doesn’t need to be perfect—the key is to create energy and manage energy.” Bejjani’s and Joly’s experiences are supported by social science that suggests that people are up to five times more motivated to execute initiatives that they have had a hand in creating versus ones that have been handed down from on high.

A powerful tool to mobilize the organization in the desired direction is to distill the company’s transformational vision and strategy down to an elegantly simple “one-pager.” Says DBS’s Gupta, “We put together a one-page visual we call the DBS House. On it is everything: our vision, strategy, values, targets, etcetera. It allows us to all talk the same language about what we want to do and, more importantly, what we do not want to do.” Similarly, Ivan Menezes, the CEO of beverage maker Diageo, carries around a one-pager called the “Diageo Performance Ambition” that has the company’s purpose and vision at the top and then lays out the company’s six strategic pillars—written in simple English with no jargon. Menezes describes why it’s so useful: “Whether you’re on a bottling line in Kenya or doing sales in Vietnam, you can find yourself on the page and know where you could make a difference. It’s very helpful in depicting the clarity of the strategy and the change that is needed.”

In a famous social-science experiment conducted in 1946 by psychologist Solomon Asch, participants were given one of two sentences. The first began, “Steve is smart, diligent, critical, impulsive, and jealous.” The second read, “Steve is jealous, impulsive, critical, diligent, and smart.” Although both sentences contained the same information, the first one led with positive traits while the second one started with negatives. When asked to evaluate what they thought of Steve, subjects who were given the first sentence evaluated him more

positively than those given the second. This is an example of what social scientists refer to as the "primacy effect," and it's why the adage "You never get a second chance to make a first impression" matters—first impressions tend to last.

Early in your tenure, everyone, even those you have worked with for years, is forming their first impression of you *as the CEO*. Getting your first impressions right will send strong messages about how you intend to lead differently (from the previous CEO, as well as versus how you have led in previous roles) and the renewal opportunity you see for the organization. Applying the following four principles will go a long way to ensuring that your first impressions are positive:

- Understand people's "why?"
- Keep to a single narrative.
- Err toward complete candor.
- Prepare intensely for moments of truth.

If you know what motivates a person and can connect at that level, the chances are greater that you will make a positive and lasting impression. "It goes beyond just listening to what they say," Lockheed's Hewson shares. "If you take time to understand why they're saying what they're saying, you can [then] help shape their longer-term thinking." Netflix CEO Reed Hastings gives an example of how understanding the "why?" of the press shapes his actions: "They want to be truth tellers, but they are forced to be entertainers." Hastings makes it a point to give reporters a bit of both and can convey his message more effectively as a result.

Jacques Aschenbroich, former CEO and current board chairman of the global automotive supplier Valeo, hews to the second principle: "What I present to the board of directors is exactly the same that I present to our shareholders, exactly the same that I present to leaders, exactly the same that I present to the unions." Israel Discount Bank's Asher-Topilsky expands on the point: "When something happens, internally or externally, you continue to communicate in the same way." On the one hand, adopting a single narrative is liberating—one CEO confided in us, "I'm not smart enough to have two versions of the truth!" On the other hand, you'll need to brace yourself for having to endure, in the words of Proctor & Gamble's former CEO A. G. Lafley, "Excruciating repetition."

Asher-Topilsky speaks about the third principle—candor: "Don't overpromise. Be frank about the problems, not just the opportunities." Even if you are uncomfortable in the moment, such sincerity lays the foundation for real trust and credibility. To facilitate this level of candor with his board, Diageo's Menezes starts meetings in an executive session (just him and the board) with a list of seven or so things that are going well, matched by an equal number that *aren't* going well. Doing so offers his directors a better perspective on what he's dealing with, which allows them a chance to give better guidance. US Bancorp's former CEO Richard Davis

shares how this translates to communicating with investors: “I often said, ‘Look, you deserve the truth, and we deserve for you to believe us. So when we tell you that things are going amazingly well, you will remember us telling you when they weren’t.’”

Successful CEOs prepare intensely for important moments of truth, such as the first time they have their team together, their first board meeting, their first investor presentation, and their first quarterly earnings report. In these situations, it’s important to heed the words of US college football coach Paul “Bear” Bryant: “It’s not the will to win that matters—everyone has that. It’s the will to prepare to win that matters.”

Aon CEO Greg Case learned this the hard way. When he took the top job at the professional-services giant, he was told he had to present at an investor day that was scheduled to take place a month after he arrived. Having come in from the outside, he knew there wasn’t time to prepare a thoughtful, compelling, and meaningful view of the future strategy of the firm. Case recalls, “Had I been more seasoned, I would have said: ‘We’re going to cancel that.’ But I didn’t know any better. So I said, ‘OK, we’ll get ready.’ It was a massive fire drill from hell.”

Case also shares the hard-gained learning that new CEOs should treat early interactions with individual board members as moments of truth. “Spend more time, substantial amounts of time [with them] early on as a new CEO,” he advises. “It’s absolutely essential that your board understands you, and you understand them individually. It builds trust and transparency. I wish I’d spent more time early on.” Former Caterpillar CEO Jim Owens describes the practical application of this advice: “For the first six to nine months, I personally met with each board member at their place of business, took time to have dinner, got to know them a little better, and talked about the business in depth.”

Getting your first impressions right doesn’t guarantee success, but it does increase the odds. As in golf, putting the first shot on the fairway is the way you want to play.

“Play big ball, not small ball,” advises Sandy Cutler, the former CEO of the power management company Eaton. “By that I mean spending time on things that no one else can in ways that magnify your effectiveness without getting mired in things that don’t make a difference.”

This advice may sound like common sense, but it’s too often not common practice for new CEOs who suddenly find themselves accountable for everything and to everyone. Mastercard’s Banga confesses, “The first two years were really hard. I started badly, because I was trying to do everything—communicating, getting to know people, leading change, finding the people I could build new relationships with, and getting them to carry my message.” His life quickly spun out of control. “I was traveling as well. It was hard to sleep. I’d come back to my hotel room in Asia at 11 o’clock at night and I’d have 100 emails from the US waiting to be answered. And I’d promised my team that I’d respond to every email and every phone call within 24 hours.”

Like Banga, many new CEOs enter the role thinking that they will go hard for the first 90 days and then back off a bit. That's easier said than done. "I didn't know whether I'd be successful and so I went 100 percent, totally all in," divulges former LEGO CEO Jørgen Vig Knudstorp. "My health suffered quite badly. I went to a checkup, and the doctor said, 'You have the fitness of a 65-year-old.' I was, at the time, approaching 40. I then started becoming a bit more sensible." Knudstorp's experience is a cautionary tale—as a new CEO, you should be disciplined about playing "big ball" from day one.

To play big ball throughout their tenure, new CEOs can put three foundational elements in place early:

- *Time management:* Set clear boundaries and stay extremely disciplined.
- *Talent:* Put "A" players in critical roles, move on "C" players, and help "B" players succeed.
- *Operating rhythm:* Combine accountability with urgency and targeted coaching.

At Mastercard, Banga learned to become extremely careful about how he used his time: "If you, as CEO, can't figure out what matters to you, and if you are not willing to make the time for it, then it's your problem. No one can help you." He set boundaries and adopted a color-coding system in his calendar. The time he spent for travel, with clients, regulators, in internal meetings, and so on were each assigned a different target time allocation and color. "If I wasn't spending time in the right places in any of these areas, a quick look at the calendar would make that abundantly clear," he shares. "One of my chief of staff's primary jobs was to make sure that the balance of meetings was correct."

Flemming Ørnskov, CEO of the skin care company Galderma, shares the hardest part of getting balance: "The thing I had to learn was to say no. When someone calls me and says, 'I want you to be the keynote speaker' or 'Don't you want to do this off-site?' or 'Let's do a dinner,' saying no feels uncomfortable initially, because people mean it in a friendly way. But to say no politely is important." Ørnskov is highly disciplined about making what he says yes to as productive as possible. "I really prepare for meetings and make sure the agenda is tight and focused," he explains. "I read the pre-reads, I think about it, I start and finish meetings on time. All meetings start and end with a recap of action items and follow-ups."

The second area to get right early is talent management. GE CEO H. Lawrence Culp shares why: "Your people decisions are really where all your leverage is. As a CEO, you absolutely have to get those right." The best CEOs create a short list of roles (30 to 50) that will have the most impact on driving their company's strategy. Then they make sure those roles are filled with A players. They also make tough calls on C players, even those who have been loyal to the organization for decades. JPMorgan Chase CEO Jamie Dimon clarifies the rationale for this: "If we were 'loyal' to them by leaving them in the job, we'd be hugely disloyal to everyone else and to the company's clients."

Further, and often neglected, is creating the conditions for B players to up their game: role modeling, setting expectations, and providing incentives and capability-building opportunities. Having done so, if no improvement happens in a discrete time frame (months, not years), it's time for a colleague to move on. Gail Kelly, the former CEO of Westpac Banking, explains why: "It very rarely gets better if you've put the conditions in place for their success and they aren't succeeding. That's why you want to make those decisions early. It's the most elegant way of dealing with it, because you can discuss that it's not the right fit. If you let it go on too long, you can't have that discussion."

The third foundational element that will enable you as CEO to play big ball is establishing a robust operating rhythm for the company. This is harder than it may seem because it also involves deciding the altitude at which you will fly. As the corporate CEO, you have business unit CEOs reporting to you who have the operating responsibility you no longer have. Although you will need to empower those people, there is a trap to avoid, as GE's Culp explains: "I've seen a lot of my peers giving their business unit CEOs a lot of room because that's what they always wanted when they were in the role. Then someone surprises them in not a good way, and they start to think differently."

For Culp, as for the best company CEOs, the key is to have a regular rhythm of reviews covering organizational, operational, and strategic issues. The altitude at which to fly is determined by the substance of those sessions. Mastercard's Banga explains: "My operating rhythm is that if you're not performing, it will be a longer operating review, we'll dig into what's going on. If you're growing market share and growing on the priorities we agreed to in the KPIs, it'll be a very short review."

Your operating rhythm doesn't just reinforce your priorities; it also sets the metabolism of the organization. As Microsoft's Nadella states, "That's a fascinating thing—what is tempo? Only the CEO can decide that." It's important to set a pace that allows you to get early runs on the board. Best Buy's Joly explains why: "The key with any stakeholder is to get the 'say–do' ratio right: the ratio between what we said we were going to do and what we actually did. That's how you get credibility. If you do what you say you'll do, they'll want to see less of you. They'll want you to spend your time working on the business and delivering on your commitments."

We began by discussing how, like falling in love, transitioning into the CEO role is something you can't fully prepare for. As such, it's a profoundly uncomfortable but also wonderous time for those fortunate enough to have been chosen to lead at the highest levels. We also noted that the impact of the transition extends far beyond the leader. The ascension of a new CEO is an unfreezing moment that can catalyze significant institutional renewal.

GE's Culp describes how it feels when it all comes together: "I liken it to the flow I remember when I was on my high-school basketball team. We ran fast, took care of each other, and we were successful. Running fast with incredible people working at this level—I just find it to be great fun and rewarding in a whole host of ways."

By not making it about you, listening then acting, nailing your firsts, and playing big ball, you'll soon hit your stride.

About the author(s)

The authors wish to thank Blair Epstein, Selin Neseliler, Lindsey Wilcox, and Jessica Zehren for their contributions to this article.

This article was edited by Rick Tetzeli, an executive editor in the New York office.

Explore a career with us