The Brave New CEO Transition

By Anna A. Tavis

This installment of Perspectives focuses on the persisting challenge of CEO transitions. Our panelists offer new context for the obstacles and opportunities such transitions entail. Is it more common for governance experts and consultants to focus on the question of top executive qualifications and selection, or to discuss a 90- to 100-day onboarding plan? In this debate, we chose to diverge from that tradition and directly address the concern about a new leader’s relationship with his or her predecessor and the role of the board as the overseers of the new CEO transition. The different perspectives throw new light on the discussion of how to transition the new CEO into the responsibility that comes with the highest executive office.

Mark Nadler, the lead contributor, sets off the debate with the hypothesis based on his extensive research and consulting practice as a board advisor, author, and an outside observer of a great number of executive transitions. As current research suggests, the majority of the newly appointed CEOs’ ascensions to the top leadership post is “muddled” by the outgoing executive’s shadow. The ex-CEO often stays as the chairman or a board member for two to five years, on average. Nadler believes that this practice inhibits the new appointee and slows down the organization’s progress. As a solution, Nadler proposes that the newly appointed CEO be given full authority to function independently and be completely in charge from Day One. If the robust succession process were followed properly and the strong governance structures were fully in place, there would be no need for a lingering dependency on the retiring CEO.

Nadler calls on boards to “seize the initiative and proactively assume the responsibility for building the relationship with the new CEO, rather than deferring to the retired predecessor.”

Our panel of experts diverges in their views on Nadler’s recommendation.

Seymour Adler, whose current practice is focused primarily on executive transitions, agrees that the trend of an ex-CEO’s influence lingering exists. However, he sees the old CEO’s influence as a necessary deterrent to the desire of new CEOs to rush in with the need to imprint their own signature on the organization’s makeup. This “out with the old, in with the new” culture often results in “change for change’s sake” disruption. A chronic transformation fatigue may lead to failure, Adler argues. To master the intricacies of the new job and develop a complex network of key relationships with internal and external stakeholders, the new CEO may need “air cover” and the mentorship of his or her predecessor for at least six to 12 months.

Tom Manning of the University of Chicago expands on Nadler’s point about the central role boards need to assume in the CEO selection and onboarding process. Manning recommends that boards hire future CEOs for their “depth and breadth of character and tolerance for managing through uncertainty and chaos.” In most cases, the internal hires would not be as well-rounded and experienced as the new CEOs must be. Yet, Manning advises, rather than search for the perfectly groomed candidate, boards should be selecting a candidate with high potential and—most importantly—the ability to lead through uncertainty and change. Manning advises boards to approach the task of selecting and onboarding CEOs with imagination and insight and to cultivate in advance the best CEO candidates possible.

Dean Kenneth W. Freeman, a former CEO of Quest Diagnostics, agrees with Nadler’s recommendation to boards. He supports without equivocation cutting the umbilical cord of dependency on the outgoing CEO and
granting new CEOs the independence they rightly deserve. Dean Freeman sees two main obstacles to the successful execution of this recommendation. One is the ego of the outgoing CEO and his or her unwillingness to give up the power that comes with the job. The second is the board’s own fundamental risk aversion and the reluctance to sever long-standing ties with the executive they have worked with before.

In Freeman’s judgment, the clear and definitive separation from the ex-CEO removes ambiguity, encourages the outgoing CEO to think about his or her impact from Day One, and prepare his or her legacy well in advance of the actual departure. Freeman speaks from experience when he notes that departing at the right time and leaving behind a strong record of achievement is by far more gratifying than lingering in the twilight.

David Reimer, CEO of Merryck & Co, an executive coaching firm that focuses on senior executive onboarding, adds yet another supporting argument to strengthen the case for the board’s active involvement with the incoming CEO’s onboarding. Based on Merryck’s extensive executive practice, Reimer recommends that boards not fall back on the tried and true old processes and systems. In the world of disruptive change, the new CEO is more often than not brought in to navigate a fast-changing new business world. “Falling back” actually raises the organization’s vulnerability. “Blind spots get deeper, not illuminated,” Reimer reminds us, and offers a step-by-step guide on how to achieve the desired outcome.

This Perspectives is refreshingly novel. It reveals the intricacies of transition at the top of an organization and offers not only informed reflection on the subject of the CEO succession, but also practical advice to the boards, executives, and CHROs charged with the important onboarding mission.

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Rethinking the CEO Transition

By Mark B. Nadler

While most discussion of CEO transitions leaves us awash in roadmaps and game plans for the CEO’s first 100 days, that focus misses the bigger picture. Simply put, the most daunting obstacle to successful hand-offs transitions is the reluctance of too many boards to actually let the new CEO be the CEO.

Here’s my hypothesis: The combination of a first-class succession process and an appropriate governance structure should enable organizations to appoint a new CEO who is professionally prepared and structurally empowered to operate as a fully functioning CEO on Day One. The board should have such confidence in the new CEO’s readiness to do the job that it feels no need to hang onto a security blanket in the form of the retiring CEO.

But at the majority of public companies, and many private ones, that’s not what happens.

According to the Conference Board, 52 percent of departing CEOs remain, at least for a while, as chairman, up from just 33 percent in 2011. Spencer Stuart reports that 36 percent of retiring CEOs remain on the board for two years or longer, and fully a quarter stick around for five years or more. That number is likely to keep growing, as more and more companies—now approaching 80 percent of Fortune 500s—select their CEOs from among internal candidates with no prior CEO experience.

It’s easy to understand why that happens. Most boards are change averse; a gradual overlap between the old CEO implies an orderly transition, and the old CEO’s continued presence is considered an insurance policy against the successor’s rookie mistakes. In short, boards feel much more comfortable handing the wheel to a new CEO if the old CEO shares the front seat. Which inevitably poses the question: Who’s driving this thing?

Academic research and my own advisory experience suggest at least three problems that can result from that model of muddled, even conflicting leadership:

- **Loss of strategic dexterity.** Having the former CEO presiding in the boardroom often limits the new CEO’s strategic options and ability to change course. In a landmark study of 181 high-tech companies, Donald Hambrick of the University of Pennsylvania and Timothy Quigley of Lehigh University found that the presence of these “shadow emperors”—the 39 percent of departing CEOs who stayed on as chairman—imposed either “implicit or explicit constraints” on the new CEO’s ability to significantly change their predecessor’s strategies and policies. Consequently, these new CEOs majored in avoiding problems and minored in pursuing new opportunities.

- **Delayed talent changes.** A study I led in 2013 at Heidrick & Struggles, in which 60 CEOs were interviewed about their early experiences in the job, found that their greatest regret was that they hadn’t moved faster and more forcefully to make key changes—and talent ranked first. But replacing the team is tough with the old boss looking on. As the CEO of a privately-owned electronics firm once told me, “If I had it to do over, I would have taken faster action on changes in top leadership. Unfortunately, I was saddled with the old CEO for the first three months I was there. As soon as he left, I was able to make some personnel moves that I couldn’t do while he was there.”

- **Muddled leadership roles.** Just watch what happens in the boardroom when the new CEO’s proposal is interpreted as a repudiation, no matter how polite, of the previous CEO’s position. The directors’ heads sometimes swivel like spectators at a tennis match, looking for reactions from each side of the table. Nothing so clearly illustrates the uncertainty about who’s really in charge. Recalls the CEO of a household products company, “It’s very easy for the board to vector toward the previous CEO, particularly on something controversial where their instinct might
be to turn to him and ask him if this is ok...It took two or three meetings for the board to get totally comfortable with me in the CEO role, and I think one of the biggest things that helped was that the previous CEO had left immediately.”

The combination of a first-class succession process and an appropriate governance structure should enable organizations to appoint a new CEO who is professionally prepared and structurally empowered to operate as a fully functioning CEO on Day One.

The Solutions
Getting to the point where the transition marks the true beginning of a new CEO’s tenure, rather than extended apprenticeship with ambiguous leadership, requires serious commitment from all the key players: the board, both the new and departing CEOs, and, in a very major way, chief HR officers.

Fix the Succession Process
If directors aren’t confident the new CEO is ready, that means there’s a serious flaw in the succession process. To be sure, no brand-new CEO enters the job as seasoned, capable, and savvy as one assumes he or she will become after several years on the job. But if the board isn’t in a position to promote a candidate—or, even better, choose from among several candidates—with the demonstrated business skill, leadership talent, and personal capacity to do the job, then the succession process has failed.

Together, the board, the CEO, and importantly, the CHRO, should execute a succession process that starts early enough to provide promising candidates time to develop and demonstrate their readiness. Boards should never be in the position, as I’ve observed, where the succession event approached and directors nervously admitted that they really did not know much about any of the internal candidates.

Time to Say Goodbye
As difficult as it is for both the retiring CEO and the board, it is almost always in the organization’s best interests to make a clean break. Boards could make that easier by adopting bylaws prohibiting the retiring CEO from remaining on the board, so that it becomes standard practice rather than an individual decision. But according to the National Association of Corporate directors, only about 10 percent of public and private companies have such provisions.

Some CEOs say their own experience would lead them to voluntarily make that choice. “The biggest lesson I’ve learned, in terms of how I will handle the transition to my successor,” says the CEO of a Fortune 500 manufacturing company, “is to step away as smoothly as possible—to demonstrate to all the constituents that the individual who has been chosen is absolutely the best possible person for the job—and then to step away as rapidly as possible. And I mean totally step away.”

Just to be clear: I’m not proposing that the new CEO automatically assume the title of board chair, as well, which only 9.5 percent of new public company CEOs are doing now. Far from it I believe companies are in much better shape pairing a new CEO with an independent, non-executive chairman, and waiting several years before deciding whether to combine the roles.

Properly Orient the New CEO
A number of studies—including “Move Faster, Drive Harder,” the Heidrick & Struggles project mentioned earlier, and “Expect the Unexpected,” a recent study of 75 CEOs by The River Group—underscore how shell-shocked most new CEOs are by the complex, time-consuming challenge of learning how to work with a board for the first time. Even COOs and CFOs were badly unprepared for the unique relationship between the CEO and the board.

Unfortunately, the great majority of boards leave it to the new CEO to take the initiative and figure all that out, at the same time they’re learning all the other new requirements of the job. As Peter Thies of The River Group and I have been advocating for some time, it’s time for boards to seize the initiative and proactively assume the responsibility for helping new CEOs to fully understand the board’s individual members and collective role. Rather than maintaining the old relationship with the former CEO, they should focus their attention on building the relationship that will take them into the future.

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COUNTERPOINT

In Defense of Continuity

By Seymour Adler

Mark Nadler accurately describes the inhibiting effect of the lingering presence of an outgoing CEO on the new CEO’s ability to lead. My response is: So what’s so bad about that?

Nadler, like many others, seems to presume that new CEOs are brought in to “shake things up.” Of course, I recognize that CEO transitions sometimes do occur in turnaround situations where immediate, forceful change is absolutely critical. However, I seriously doubt that in those circumstances boards are excessively deferent to an outgoing CEO reluctant to yield power.

Indeed, from my experience, in more typical transitions, the new CEO is often too quick to initiate change, for the most part simply for change’s sake. They are driven to do so to put their personal stamp on the enterprise. They are looking to quickly justify the faith put in them by the board and the outgoing CEO. In the view of too many CEOs, demonstrating firm executive leadership as CEO signals decisive change—“out with the old, in with the new”—whether needed or not.

One example: Why is it that so many
CEOs begin their tenure by sponsoring a major overhaul of the business strategy? Wiser boards instead make sure there is a well-articulated strategy in place in advance of a transition to help guide them on choosing the successor most equipped to execute against that strategy. That doesn’t mean the strategy shouldn’t evolve under the leadership of the new CEO. But if the strategy evolves too far and too quickly in ways unanticipated when the successor was named, well, then did the board pick the right person to lead?

I worry that new CEOs do not take enough time to adjust to the new view from the top. Mark cites the River Group study results which “underscore how shell-shocked most new CEOs are by the complex, time-consuming challenge of learning how to work with a board for the first time.” And the board relationship is only one dimension of a more complex network of stakeholders—and particularly, external stakeholders (e.g., analysts; investors; regulators; community constituencies; politicians, local, national, and global; national labor leaders)—who they need to better understand and who they need to develop strong relationships with. It is not at all a waste of time in most cases for the new CEO to invest an initial six to 12 months on discovery and on forging new relationships while the outgoing CEO still has a role as mentor, provides “air cover,” and shares some of the burden, accountability—and potential blame—for early missteps.

Finally, in today’s world, there may be an even stronger case than ever for the value of initially maintaining continuity, offering a measure of steadiness in a culture going through a period of major change at the top. Change, we know, adds to the dysfunctional stress and disengagement employees already feel in great measure in today’s VUCA environment.

Before we decry constraints on the new CEO’s ability to implement wholesale changes in the executive committee, radical redirection of business strategy, and the introduction of new ways of leading, let’s consider the value of continuity—certainly in the context of transition in a successful enterprise—on the emotional state of employees, the perceptions of external stakeholders, and the viability of the business. Continuity may not give new CEOs quite the dramatic entrance they’d like to make, but great leadership is a balance of stability and change played out over a hopefully long and impactful term in the top leadership role.

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The Reality of Onboarding New CEOs

By Tom Manning

Without question, boards want to appoint a perfect candidate to the CEO role. Unfortunately, that is rarely possible. It is far more usual to see candidates who are a fit on many dimensions but who still have certain skills gaps that must be accommodated. Some of these gaps are quite real, and others are perceived but real enough to affect the optics of the decision. In short, candidates are often very good but not quite perfect.

What does a board do in such cases? Continuing the search for perfection is certainly one option, but the process might be too time-consuming to continue and the existence of attractive-but-not-perfect candidates too tempting to pass up. The reality is that many boards recognize perfection to be subjective and that candidates scoring below 100 percent could still be the right answer given a well-defined and appropriate onboarding process. Importantly, boards who take this tack—appointing a CEO who will grow into the role or adjust to the job requirements in a reasonable time with some coaching or supervision from the prior CEO or designated board members—are not abdicating their responsibilities.

On the contrary, such boards are being pragmatic about making a choice in a timely manner and acknowledging that imperfections exist in nearly any CEO candidate. By declaring a solid choice and simultaneously identifying key performance and improvement variables that would benefit from strong onboarding and possibly temporary structural accommodations, such as conveying the CEO title but not the title of chair, boards are actually enhancing the quality of the appointment process and raising the likelihood of success.

Acknowledging Imperfection

One might wonder why candidates are not perfect at such an advanced stage of their careers. Executives are generally highly experienced and battle-tested by the time they are considered for a CEO role. They have established a style and reputation that leaves little doubt as to how they manage and whether they can lead. A more careful matching of a first-time candidate to the requirements of a given CEO opening, however, often reveals certain gaps and deficiencies, some of which are minor and others that require quite a lot of judgment and commitment to overcome.

For example, strong internal candidates, such as the fast-rising EVP, will typically have had some exposure to the board but little or no exposure to Wall Street. As a result, a board typically has concerns about a rookie CEO managing the demands of a public company. Furthermore, in multi-division companies, some CEO candidates have managed one portion of the business but not the entire business before being elevated to the top role, raising concern about the person’s range and comfort across the portfolio.

Boards also fret about a candidate’s ability to take on new external respon-
sibilities while also dealing with an expanded portfolio. This is the case in pharmaceutical firms where CEOs spend a significant amount of time dealing with regulation. There are also candidates who are known for operations but not strategy. Boards generally eliminate candidates who have a lopsided profile, and yet boards are often willing to place a bet on candidates who have growth potential and seem open to broader visioning, even if unproven at the task, provided that there is a guidance mechanism in place. This might be the board itself or a coaching representative from the board.

The prior CEO was long the go-to actor for this role, but increasingly, we are seeing less of this given the complications. When it does happen, the timing is usually quite short and the parameters well-defined. Witness the recent transition at Boeing as an example of a smoothly managed transition that was enabled by a short continuation of the prior CEO’s tenure on the board.

**Dynamic Business Demands**

Most boards today admit that neither CEO candidates nor CEO appointments are perfect. Today’s fast-moving business environment is simply too dynamic to expect even a so-called perfect fit to last for any length of time. Boards therefore recruit candidates who exhibit real growth potential and who appear ready to evolve with the job. By definition, this means that the fit with the role at the moment of recruiting might be adequate but not exact in the conventional sense. In certain industries that are undergoing change or discontinuity, this approach is absolutely necessary to position the company for transformation in the near future.

With the need for change often playing the elephant in the room during succession decisions, boards are becoming more astute about choosing among candidates who can champion change and thrive in situations that most candidates might consider chaotic.

and a tolerance for managing through uncertainty.

Such candidates, once identified, often give rise to conversations about how a board can facilitate the candidate’s success by providing temporary leeway on certain conventional expectations, such as chairing the board while acting as CEO. While some boards prefer to play a hands-off role or apply a light touch to CEO onboarding, others increasingly see the recruiting and onboarding of CEOs as an integrated process and one of the board’s most crucial areas of responsibility. In such cases, the directors see it as quite logical to design an onboarding process that will smooth the candidate’s entry and first year in the role, perhaps by designating one of the directors as a coach or by temporarily parsing certain aspects of the CEO role until the CEO comfortably demonstrates her or his capability.

Does this mean that candidates are increasingly being given tryouts like pro athletes? Not exactly, but the trend is definitely to recognize that the CEO role is evolving at a pace at least as fast as that of business and that conventional attitudes about fixed definitions of fit and standard ways of ascending the throne are no longer sufficient, and in some cases, no longer applicable.

**Attracting More Candidates**

Boards which are flexible in recruiting are rewarded with a larger pool of candidates. By accommodating different onboarding needs, companies can engage a wider range of CEO candidates than if they follow a perfect-fit model only. The wider range can reveal unusually strong alternatives to conventional candidates and help the board in reconciling competing views about the company’s future direction and future leadership needs.

Just as important, by being ready to accommodate a wide array of candidates and the attendant onboarding process requirements, a board will define a new CEO’s professional development plan and key goals for growth in the role, which historically have often remained ambiguous.

In any CEO hiring process, there will be hesitancy at some point on the part of some board members. Some directors might harbor concerns that
Knowing When to Let Go

By Kenneth W. Freeman

I wholeheartedly agree with Mark Nadler: Boards should make a clean break with the incumbent when appointing a new CEO. As he rightly points out, one of the chief obstacles to a definitive handover lies in the board’s aversion to change. But I think there is often another obstacle as well—the ego of the outgoing CEO.

Few chief executives are eager to bring up the topic of succession. They don’t want to give up all the power and prestige that the job confers. They can’t imagine that an adequate replace-ment exists. And they want to see their legacy extended. So they drag their feet in preparing a successor or do an inadequate job, subtly or not so subtly reinforcing the notion that they should be kept on in some capacity or other.

Consider one chairman and CEO I know. He brought in a chief operating officer who he intended to groom as his successor, but before the hand-off could take place, he fired him. He then brought in another COO and heir apparent. He, too, was fired, prompting the board to insist that the next COO who joined the company would become CEO. It’s not hard to imagine how the outgoing CEO, had he been kept on as chairman, might have stifled and perhaps even undermined that successor.

Letting go is difficult—I know. When I was CEO of Quest Diagnostics, I had 37,000 employees looking to me for direction, ready to follow wherever I led, and depending on me to help maintain their livelihoods. Then, on the day following my succession, I woke up and those 37,000 people had a new leader. I loved the company and the people I worked with there, and when all of that disappeared virtually overnight, I felt as if some essential part of my identity had been stripped away.

One of the unstated and often unconscious reasons boards may feel tempted to keep the former CEO on is a reluctance to bruise the ego of someone they have worked with long and fruitfully. But before succumbing to the temptation, boards should first consider this: When it comes to succession, CEOs who are made to check their egos at the door make better chief executives. And the farther in advance the board lets the CEO know that there will be no second act at the company, the better the CEO is likely to perform.

Knowing that you have only so much time to make your mark as CEO can inject a real sense of urgency into your work. And because you don’t expect to hang on after vacating the corner office, you are forced to think clearly and carefully about the skills your successor will need and thus about your own strengths and weaknesses. In the process, you may also identify larger organizational problems that you have neglected because of your limitations. You can then tackle those problems, leaving the company in even better shape for your successor and definitive-ly sealing your legacy. In the long run, leaving an unambiguous and clearly circumscribed record of achievement can be far more gratifying to the ego than lingering in the twilight.

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So, If You’re a New CEO...

By David Reimer

Effective CEO onboarding, more than anything else, helps fast-track a leader’s self-awareness and situational awareness. That requires facilitating a mindset-shift, not providing a process map.

In a forthcoming study of Fortune 250 boards, CEOs, and talent leaders, we have found that nearly 95 percent of companies today face “forms of disruption that will require fundamental changes to our business model.” Trends such as automation, mobility, digitization, guerrilla innovation, and the gig economy, for example, wreak near-term havoc, while presenting longer-term risks to established ways of leading and organizing enterprises. Given this larger context, the vast majority of CEO transitions can usefully be thought of...
as an internal disruption taking place simultaneous to external disruption, and often while the organizational structure itself is being changed to become more flexible, innovative, and matrixed. As Mark Nadler points out, the natural reaction for many boards has been an attempt to manage risk by falling back onto traditional systems and protocols.

This reliance upon the familiar is a deeply human response to the threat of large-scale change. Unfortunately, trying to control a nonlinear world by falling back on linear process not only does not work, it actually raises the organization’s vulnerability. Blinds spots get deepened, not illuminated.

So, if you’re a brand new CEO who’s company hasn’t done any of the things Mark recommends in his piece, or a CHRO who is onboarding such a CEO for the first time, what to do?

• **Recognize that success is contextual.** Ensure that the new CEO, the board, and ultimately the senior leadership team are aligned on both context and success. “This is a universal truth,” a Fortune 100 senior talent leader told us in our study.

  “We predefine success, then build in a CEO who now owns definitions that he didn’t fully appreciate until immersed in our business context, and so he sets out pursuing what he thinks the board wants.”

  Meanwhile, we have a search firm assess the person against those competencies we drew up without him, and so we assume we’ve got the right guy—he’ll sort it out. And we just let him go. We create our own mess.”

  While prehire due diligence and definitions are critical, one of the first priorities of a new CEO must be to make her own assessment of her landscape and to come back to the board to drive a defining conversation of success, and the leadership it will require.

• **Map the relationships that matter most.** A new CEO inherits a strategy, his predecessor’s commitments to investors, and a host of in-process initiatives. It’s easy to get subsumed by execution—to assume that he will demonstrate that the organization made the right hire by jumping right in and “doing,” rather than leading.

  In our work with more than 1000 new CEOs, we find that deliberately mapping the relationships of stakeholders both within and outside the organization, and defining how and why they are critical to the CEO’s and the organization’s success, is something less than 10 percent of new leaders undertake. By holding the web of relationships solely in his head, the CEO’s own assumptions about those relationships go unchecked—including by himself. Knowing who matters, why they matter, and what it is the leader needs from them (and what they need from him)—and then building a follow-through plan—helps a new CEO start to understand his role completely differently than any past functional or operating position.

• **Drive clarity within those relationships—especially with the chairman.** Nadler’s example of the former CEO being appointed to the chairman’s role is Exhibit A of this need. One of your first priorities as CEO has to be to drive clarity with the chairman. *(How will we two work through disagreements? If I need to depart from past practice, how can I approach that so that it won’t feel like an attack on your legacy? If someone wants to back-channel to you, what will your response be?)*

  Creating such overt alignment does not prevent all ills—this is an emotional problem as much as a logical one—but it does give both parties a common frame of reference when something goes off track. One Silicon Valley CEO who inherited an aging business model, a former chairman as CEO, and who subsequently transformed the entire business told me, “We spoke very respectfully, but I said, ‘If you’re hiring me to just operate the company, then you have the wrong guy.’” That humble beginning opened a critical level of honesty.

• **Communicate the clarity you’ve established.** Communicating those relational “guard rails” across the matrix will set clear expectations at a time when every one of your new stakeholders will be trying to interpret your expectations, motivations, and operating style as the new leader. Far better for you to provide those interpretations yourself than to leave them to chance.

• **Recheck and redefine both context and success frequently, involving as many key stakeholders as possible.** “We talk about the pivot like it’s an event that happens, and then you stabilize,” one Fortune 50 CIO told us. “If your period of stability is an hour, then stability is a myth and the pivot is what you need to optimize the organization for.” Leading that mindset is the CEO’s responsibility, and it’s something new CEOs are often tentative about doing when they first step into the role.

In the context of simultaneous market and organizational transformations, the added complexity of a CEO transition generates a host of risk. In that setting, relationships are the fuel that will either spark the new leader’s success, or spread a shrapnel of confusion and distraction. The board, CEO, and CHRO have the obligation and the privilege to move intentionally beyond the hiring process to ensure the onboarding facilitates a new mindset and a set of clear, functioning relationships. Leaving that to the new CEO to sort out on the job is a roll of the dice.

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