

Coherent CEO Transition

Not just a change, a repurposing



“...change is something that “happens” to people. Transition, on the other hand, is internal: it is 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.”

Source: *Starting strong: Making your CEO transition a catalyst for renewal* – McKinsey Quarterly, Nov 2022

CEO Transition is an inherently high-risk event. The stakes are high; to business results and stakeholder expectations externally, continuity and growth of the ethos and culture of the organization internally. The upside of getting it right is substantial, as is the downside of getting it wrong.

Increasing business complexity adds to the stakes. The longevity of business models and industry structures is a fraction of what it would have been when currently transitioning CEOs started their careers. They are now expected to demonstrate competencies that were never demanded of the CEOs they held as role models.

A more subtle but even more powerful force is also at play. Business, as an institution, is now more trusted than others like Government, NGOs or Media. This raises expectations from CEOs that may have traditionally been demanded of Government Leaders (see illustration 1). CEOs are never sure what they may have signed up for, because the platter is large and growing but nothing ever comes off it. It is little surprise; therefore, that business literature is filled with news of CEO failure. We dare say that a portion of the interest in CEO failure is also a fallout of CEO compensation, which has been thought of as disproportionate to the contribution vs. an average employee. There is an element of “... they had it coming...” in the common reaction when CEOs fail visibly within months after their move up and compensation were celebrated in business and popular media.

The dice are loaded against new CEO success. How new CEOs navigate the transition process is going to be critical for themselves, for their organizations and, by extension, for industry and society in general.

Illustration 1: Reshaping expectations from CEOs (Edelman Trust Survey Index India)

83%

Those who believe CEOs should step in when government does not fix societal problems.

76%

Those who believe CEOs should take the lead on change rather than waiting for government to impose change.

OUR PERSPECTIVE ON CEO TRANSITION

Individuals transitioning into CEO roles are under-prepared, period ! Partly for the reasons discussed above, but also because the expectations of the CEO are broader than what their prior experiences would have trained them for. This is visibly true for first time CEOs, but also for tenured CEOs switching into new organizations. Nuances of geography, industry dynamics, stage of growth and the accumulated history of the new organization set up a development and adjustment agenda for all incoming CEOs.

All the above challenges notwithstanding, we believe CEO Transition is an event of hope; the firm (re-) affirming its faith in the individual and the individual, occasionally daunted, but excited at the opportunity to contribute and leave a legacy.

WHAT ACTUALLY “TRANSITIONS”?

When CEOs transition, there is willy nilly an expectation for them to be “fully performing” in the new role in a quarter or two. There is hope that the CEO will transition or translate from their current to the new role or, at least, demonstrate innate potential that comes into play quickly. This calls for the CEO to establish self-efficacy quickly, in terms of a clear “Why” (Inner Motives and Assumptions) for themselves, a clear and distinctive “How” (methods and competencies) and a really Tangible “What” (Results and other) outcomes.

Ideally, if a transition is a consequence of a well-run succession process, the organization as well as the transitioning CEO can substantially transition the WHY, HOW and WHAT. However, in most transitions, organizations can secure only a “part of the whole”. The process usually prioritizes **downside protection vs. really assuring the long term potential** of the candidate and the transition. Here is the usual sequence.

WHAT: Always Sought (Guiding belief: “The past is a strong predictor of future success”)

1. The clearest focus of the search / selection process is on the relevant experience. The candidate would ideally be from the same industry, potentially at the stage of growth targeted over the next 3-5 years.
2. The next filter is Performance. Has the executive delivered an industry beating or at least competitive business performance?

These are usually elicited and assessed from resumes, reference calls, published data and background interviews.

HOW: Occasionally Sought (Guiding belief: “Culture fitment is a strong predictor of future success”)

3. Next comes Competencies and Behaviors. Competencies are skills that are so deeply rooted in the individual’s experience and personality that they will likely carry them over to their new roles. The question is: has the Executive acquired and demonstrated these competencies in diverse contexts? Even though competencies have been “assessable” since the seventies, it is surprising how few organizations assess that in incoming CEOs; even those that have rigorous competency frameworks for the broader organization.
4. Fewer organizations still, those who pride themselves in their culture would like the best of it to sustain across the transition. They seek a view on how the new CEO will behave based on an assessment of her personal values and how that squares with the desired culture.

The HOW is usually elicited via Behavioral Interviews and Psychometrics. In our experience, these assessments are necessary but insufficient for effective appointments, and therefore for effective transitions. However, given the “War for Talent” and Executive Talent still being a seller’s market, any further assurance may not be possible during the Search Process. Herein lies the importance of **Structured CEO Transition Support** to assure that the new CEO recognizes and puts in place a plan for needed incremental competencies.

WHAT ELSE MUST TRANSITION? THE WHY!!!

To answer that question, we lean on human neurology. As is evident from the illustration below, what is missing in the Search and thereby the Transition process is the “Why?”. Simon Sinek and others have brought the “Why” into focus recently, and some of the best employers have added this aspect to their Leadership Profile (e.g., Unilever’s “Inner Game”). However, few companies are really talking this language, and fewer still have made this a part of their hiring, promotion, and transition processes.

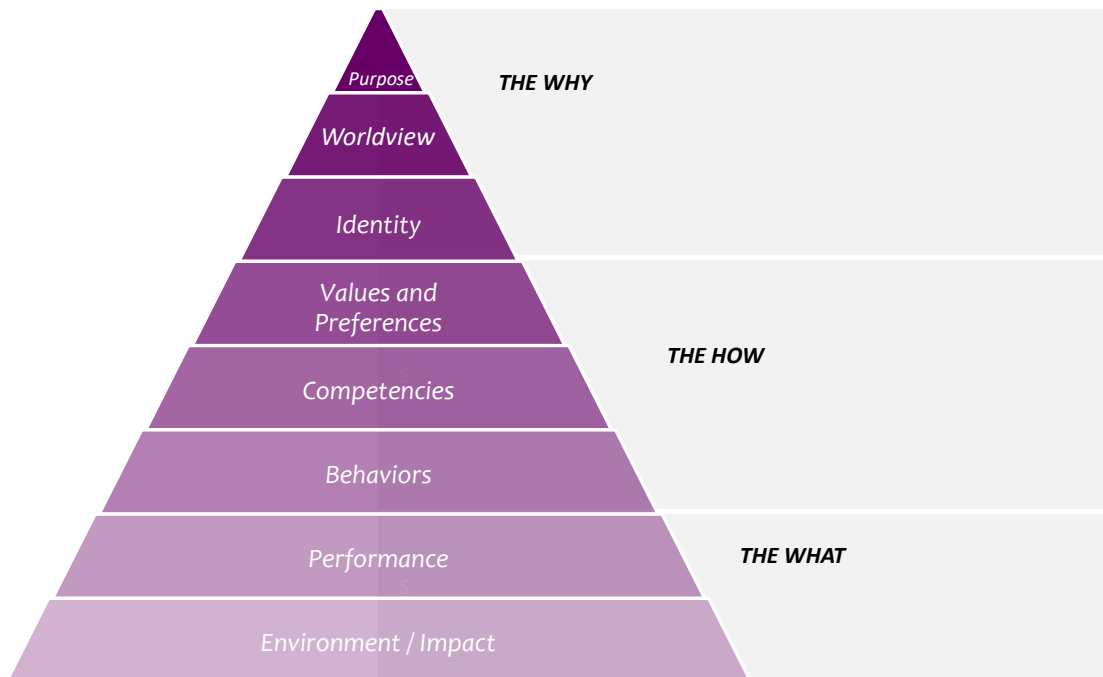


Illustration 2:

Based on the Neurological Hierarchy by Robert Dilts

For truly sustainable CEO performance, the Transition Process must help connect the “Why” of the Transitioning CEO with the “Why” of the Organization.

Addressing the “Why” becomes critical. “The Why” emanates in the limbic system of the brain; and has no language. It likely shows up in an intuitive connection or rejection that all parties in a transition experience but struggle to articulate. The Transition process must enable the Transitioning CEO to become aware of these inner thought structures (of self and the organization) and use that to understand and navigate the organization, create meaningful change, and feel fulfilled in the process.

A COMPREHENSIVE FRAMEWORK FOR EXECUTIVE ASSESSMENT AND DEVELOPMENT

A coherent transition process will help the new CEO refresh and rearticulate her “What, How and Why” in a manner that enables the delivery of the mandate that she has signed up for and is also deeply meaningful internally. In this paper, we will focus on a transition of the “Why”. For limiting the length of this perspective, we made a deliberate choice to exclude the “What and How”.

Purpose: There is a rich body of literature available on the importance of business being purpose-led. The CEO is the primary steward of the organizational purpose (especially for Public companies). The critical transition question is how the CEO's personal purpose will find expression in delivering the organization's purpose. This creates an intriguing dilemma.

A CEO who is not in touch with her own purpose would struggle to truly serve the purpose of the organization. However, in the very act of becoming aware of own purpose, a CEO may realize that her purpose would only be partially served in the organization. A deliberate process of aligning own purpose with the organizational purpose with endorsement from the board would positively impact both effectiveness and longevity of the CEO.

Worldview: A Worldview is a set of beliefs so deeply ingrained that one does not even recognize being driven by them. The worldview asserts itself in non-negotiables. Differences based on the worldviews are sharp and emotional because the part of the brain that holds these worldviews has no language to express them.

An illustration for instance, can be a CEO who is brought up in the traditional Japanese worldview that shareholders are no more important than commercial lenders and their voice must always be subjugated to that of the customers. If such a person is working for an organization that gives primacy to shareholder value at all costs, the internal resistance would be quite defining. In my own experience, the difference in worldview emerged in an organization that used a Distributor network. The sales team struggled to reconcile internal Worldviews on the following question: Are these distributors customers or vendors? The organization was split in half. A new CEO who had cut his teeth in the US retail environment and considered distributors as customers ran afoul of the legacy sales team that treated Distributors as vendors and needed to have them "under our thumb". The differences were intuitive and subversive rather than being out in the open. The Transitioning CEO would do well to become aware of her own worldviews as well as elicit that of the organization and work to reconcile / influence them firmly but respectfully.

Identity: Preservation of identity is tied to the human need to be seen as consistent and, therefore, worthy of trust. This aspect is best reflected in the statement "This is just not me" if things are not going right or "I am bringing my whole self to work" if things are going well. All individuals have a self-image and reputation. It is natural for incoming CEOs to expect that their tenure will bolster and enrich their self-image and reputation. Projected outwards, this becomes the Leadership Brand of the CEO. Transition processes must help leaders articulate and work towards an aspirational leadership brand that is supported by the company's brand and reputation.

What" and "How": Values, capabilities and behaviours also require transition. These are "visible" parts of the CEO's persona, and all involved are likely more conscious of them. Most organizations have a handle on this via cultural diagnostics or talent processes like 360 degrees. While they require attention too, we may not refer to them in the scope of this document. In addition, we take courage from the adage (adapted) that "If a person is clear on their Why, they can work through any How and What."

CALL TO ACTION

The above considerations make the CEO transition a process of “Sculpting” vs. “Templatization”. The criticality of the role and self-determinism of individuals who rise to be CEOs necessitates self-expression hand in hand with the commitment to sustainable business results.

While the Chairperson or another board member (e.g., Head of the NomCo) can be sponsors and allies, the onus for finding that fit lies largely with the CEO herself.

However, some of these “Why” questions are so deeply embedded in the neurology that CEOs may need facilitation to be aware of and eventually work with Purpose, Worldview, and Identity. A “Transition Coach” is needed to help Transitioning CEOs play and synergize the Inner Game and the Outer Game. A 9-12-month **Structured Transition Support Process** is vital to create the launchpad for a successful tenure.

The process, however, is predicated on the readiness of the organization (via the Board) to sanction this support but equally for the transitioning CEO to be vulnerable enough to engage with this process with a learner’s mindset.

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ABOUT COHERENCE



Coherence is a Leadership and Organization Design Advisory Firm that aligns Purpose with Performance. We can help you with your dilemmas in Leadership and Organizational Development. Dilemmas occur when you choose between one right and another right, and the choice that you make defines who you are. We bring domain expertise, advisory experience, an integrated toolkit; but most importantly our intent to serve as you work through your dilemmas.

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