A Seamless Transition

Improving the CEO Succession Process

BY BYRON STOCK

One of the toughest situations corporate boards face today is the emotionally charged issue of CEO succession. It's also one of the most important decisions that a board makes. While much has been written about what management consultant Dan Ciampa termed the "successor's dilemma," the issue of succession is a dilemma for more than just the successor.

"Choosing a successor puts a strain on the entire management team," wrote Jay W. Lorsch and Rakesh Khurana in a recent *Harvard Business Review* article. (*HBR* May-June 1999.) "As the visibility and power of CEOs have increased in recent years, so too have the stakes in CEO succession."

Often, when someone is brought in as a president or chief operating officer, with the implied or overt promise that they are heir to the throne, things don't work out and the number two person leaves before ascending to the top job. For example, within the last five years, John Walter at AT&T, Michael Ovitz at Disney, Jamie Dimon at Citigroup and Herb M. Allison at Merrill Lynch all left their companies (for various reasons) when they were the president or COO. They gave up (or were ousted) before they made it to the top position.

These moves are not unusual. In November, Gary Bloom, considered a potential successor to Larry Ellison at Oracle, left the giant software company to take over as CEO of Veritas Software Corp., a manufacturer of data-management programs. He had ascended to the number two position after the former COO resigned in a dispute with Ellison. These succession difficulties have more than just an internal effect. Bloom's resignation announcement caused a 14 percent drop in Oracle's stock that day. "Virtually by definition, the firing of a fledgling CEO is a corporate failure that reflects at least as poorly on a company's board of directors and on its previous CEO as it does on the failed successor," state Anthony Bianco and Louis Lavelle in their December 11, 2000 *Business Week* cover story, "The CEO Trap."

A No-Win Situation?

Why is this happening? Leadership transitions are fraught with emotional tension. There's a lot at stake, and it is much more than a business transaction. Because they are unprepared to manage the intense emotional turmoil that accompanies such a transition, most boards, CEOs and successors find it difficult to handle the situation well.

The power struggle between a CEO and his successor has gained a reputation as a no-win situation. The CEO, even if he names a successor, has trouble relinquishing the power and letting go of the job that has been his identity.

Likewise, the successor faces a troubling Catch-22: when he attempts to demonstrate his leadership abilities, he is frequently seen as a threat by the CEO. But if he holds back, he's labeled as incapable of the leadership needed for the top job. "The successor may not want to make changes because he doesn't want to hurt the feelings of his predecessor. And the person who is being succeeded may feel resentment if something is changed," stated Harvey Golub, chairman and CEO of American Express Co., in the aforementioned *Business Week* story.

Typically, everyone involved gets anxious, frustrated, worried and even angry at times. It's bad enough to feel these emotions, but brain researchers have recently found that experiencing them actually inhibits cognitive functioning. It's called cortical inhibition, or more popularly "emotional hijacking." So the old saying, "I was so upset I couldn't think straight" is actually true. Think about the last time you got mad at yourself for hitting a bad golf shot. What typically happens to your performance after that? It gets worse. When you experience negative emotions, you are not as likely to make the best decisions.

Experiencing negative emotions is normal, but most people don't know how to positively manage these emotional reactions. The situation often escalates into open hostility or conflict, and the board finds itself caught in the middle.

Planning for Success

The succession issue doesn't have to be so painful and difficult. It can be a win-win. How? By preparing the board, the CEO and his successor for the process. This involves making a plan for succession, including both the CEO and board in the process, but most importantly, educating the board, CEO and upper management ranks on how to handle this emotionally charged transition.

The most successful leadership transitions result when those involved have improved their emotional intelligence (EI) skills. That begins with just acknowledging that a multitude of strong emotions are bound to occur in any leadership transition. Denying that those feelings are there just makes the whole situation more difficult and more volatile.

Let's look at some examples of typical emotional situations during the succession process, from the standpoint of the CEO, his successor, the executive team and the board.

The CEO's Struggle

An outgoing CEO, even one who has chosen to leave, has to deal with the fact that he is not being replaced by a clone of himself. Indeed, the most successful transitions tend to happen when the successor has a different leadership style than the person he is replacing. But that is difficult for the outgoing CEO, because he begins to experience some intense emotions about the transition: *resentment* about the impending changes (many of which undo the things the CEO worked to develop), *defensiveness* about his own legacy, *sadness* about leaving the company, *fear* about the unknown in the next stage of his life (this one can be highly traumatic), *anger* about having to share the limelight, and finally, a bit *guilty* for all of those reactions. In other words, the outgoing CEO can experience emotional turmoil over a period of several months.

Into this mix, throw the fact that the successor is often trying to push for change, to demonstrate his leadership capabilities. Because he's already struggling with his emotions, this tends to cause the existing CEO to belligerently dig in his heels. He will actively resist the successor's efforts, or maneuver politically behind his back in order to undermine his authority.

But those emotions don't have to control the CEO. If he's shown how to manage his emotional reactions, that is, taught emotional intelligence skills, the transition will be smoother and more productive. He can manage those emotional reactions *in-the-moment* and turn them around. He'll be able to help the process, rather than hinder it. The true dilemma is not the power struggle. It's the emotional mismanagement of the situations that arise during the transition.

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The Successor's Dilemma

The successor also faces a difficult situation. As mentioned earlier, his desire to be seen as an effective change agent, but not a usurper requires him to walk a fine line. If he sees the need to move swiftly with major changes, but he doesn't demonstrate empathy or nurture relationships with senior team members, he is likely to alienate the CEO and other senior managers. His ideas can easily be interpreted as a personal criticism of his predecessor and senior team. If he doesn't use the information about others' emotions and their ideas in presenting his ideas as solutions, he will face resistance. If the CEO resists the changes the successor is making, the executive team is likely to support the CEO. The successor's initiatives are resisted and sometimes, blocked altogether, leading to more frustration and anger for the successor.

Sometimes, out of fear, a successor decides to pull back, to act more compliant, because he's afraid of losing support. This usually backfires for two reasons. First, he's likely to feel frustrated and angry because he's unable to move forward as fast as he thinks is necessary. Second, the board or executive team will see him as ineffectual, and therefore not qualified for the top job. Further, he is faced with what Bianco and Lavelle call "the CEO Trap," that is, "expectations of CEO performance have been inflated to the point where mere mortals no longer qualify."

If he's been hired from the outside, as many would-be successors are, he's usually not attuned to the nuances of the corporate culture he's just been thrown into. Listening empathetically with compassion and actively building and nurturing relationships can shorten the cultural learning curve and increase his likelihood of acceptance.

If the successor is able to recognize emotions, both his and those of the people he's trying to work with, he can make better decisions about what to do or not do when facing opposition. He'll be able to spend more time doing his job and waste less time worrying about political maneuvers. He'll contribute to making the transition smoother, which will help him and the company as a whole.

The Senior Team's Trials

Often, when a successor is named, many in the executive ranks begin to feel threatened. Their security, self-esteem, dignity or even goals they've been pursuing are on the line. They feel overwhelmed, especially if the successor is trying to implement big changes. Or, they are afraid they're going to be replaced or put into a new position in which they might struggle or even fail. Some might be concerned that their own chances for development and advancement are thwarted.

If these emotions are not managed positively, most executives decide to operate around or without the successor. Or, they may decide to leave the company. Anytime there is a change in leadership, a corporation will experience anything from losing a few good people to a mass exodus. How can that be prevented?

If executives in an organization are taught to improve their emotional intelligence skills, they will still feel somewhat anxious and worried as the succession process unfolds. That can't be prevented. But the emotionally intelligent executive can positively manage the emotions. He can use the information from his emotions to step back and get a rational look at the big picture and take positive action.

Using emotions as a source of information and learning to choose emotions in-the-moment allows rational thinking to prevail. Executives who exercise these EI skills are able to think clearly about how they can work within the changes. They are much less likely to make an irrational decision to leave the company just when they are needed the most.

The Board's Quandary

As the CEO succession process moves forward, the board often finds itself caught in the middle of a power struggle, because the person whom they've hired and put in line for the CEO's job is not as qualified as they once thought. This realization is sometimes based on reality, or it may be tainted by their loyalties to the out-going CEO.

Often, the board is divided, or afraid to take charge of the situation. But it is the board's job to select and put into place the next CEO and to effectively manage the succession process. Mishandling of emotions like fear and anxiety cause them to second guess themselves and make a series of bad decisions.

If board members have not taken steps to improve their personal and collective EI skills, the board's deliberations can spiral downward, bringing the board into a crisis mode that puts the entire corporation at risk.

Developing the EI skills of the board will allow them to better manage the negative, draining emotions so often connected with the succession process, so that they don't negatively impact the rational decision making process.

Moreover, if the board has taken steps to enhance their emotional intelligence skills, its members are more likely to select a successor who possesses fully developed emotional intelligence skills. They'll look for and hire someone whose strengths are not just economic results or even management skills, but also seemingly intangible qualities (such as empathy, the ability to inspire, ability to manage relationships) that are signs of emotional intelligence and, not coincidentally, true leadership.

Managing Emotions

How are emotional intelligence skills enhanced, so that emotional mismanagement doesn't occur? Through simple strategies that can be learned and practiced, so that you can have an improved way of handling situations you perceive as threatening. An overall management development strategy needs to include training in EI development.

While a few people have naturally high emotional intelligence, (just as some people are mathematical geniuses) most of us need some skill development in this area. Unfortunately, the typical K-12 educational system includes training in math, reading, writing and other subjects, but doesn't address the key emotional management skills that are necessary for success. Neither do university curricula. In other words, if a person does not have high EI skills, it is not his or her fault. They simply never were taught those skills.

Developing your emotional intelligence skills is not something you can learn by reading a book or an article. It takes training and practice. But the good news is that it can be learned.

The hallmarks of a seamless succession process include effective emotional self-awareness, emotional self-management, and empathy on the part of the CEO, his successor, the existing and transitioning executive team and the board.

In other words, the whole transition runs more smoothly when everyone involved has developed the five competencies of emotional intelligence: emotional self-awareness, emotional self-regulation, emotional self-motivation, empathy and social skills. This includes not only the board but also everyone at the executive level who plays a key role in a successful transition.

For example, throughout his high profile succession process, CEO legend, Jack Welch has continually demonstrated empathy for his successor. At the Nov. 27 press conference at which he anointed Jeffrey Immelt, Welch worked to take the pressure off his successor when he said, "The idea of a guy coming in on a rescue ship for 24 months ... is stupid." He extended his original retirement date to oversee the Honeywell purchase. He also appointed two high level mentors to help Immelt for the first year of his transition. All of these steps reflect Welch's high EI skills.

Daniel Goleman's 1995 book *Emotional Intelligence* brought EI into the mainstream. His research of nearly 200 companies shows that high EI skills distinguish top business performers. "When I compared star performers with average ones in senior leadership positions," Goleman wrote in a *Harvard Business Review* article, "Nearly 90 percent of the difference in their profiles was attributable to emotional intelligence factors rather than cognitive abilities." Later in that same article, Goleman wrote: "...when senior managers had a critical mass of emotional intelligence capabilities, their divisions outperformed yearly earnings goals by 20 percent. Division leaders without that critical mass underperformed by almost the same amount." (*HBR* Nov./Dec. 1998)

So the benefits of developing EI skills are quantifiable. This true story illustrates the impact on the bottom line.

Joe (not his real name) is the director of engineering for a company that invents methods to improve oil extraction and refining processes, then leases the patents on those methods to oil companies. Recently, Joe was able to put his EI skills into practice and help his company's bottom line.

Joe was on his way to South America to talk to a customer who wanted to renew their $15 million contract, but had said they wanted to reduce the fees to $12 million. On the flight down, Joe was feeling, understandably, anxious and worried about the meeting. After all, $3 million in revenue and an important customer relationship were on the line.

Joe recognized his anxiety, and used some specific EI skills he'd been taught to transform those feelings into more proactive, productive, emotions. He was able to develop several positive alternative ideas, which he could put on the table at the meeting.

The meeting went fairly well, but there was one person from the oil company who was picking over the contract details, seemingly trying to thwart the whole negotiation process.

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Again drawing on his EI training, instead of becoming defensive and expressing his frustration, Joe handled his own emotional reactions to the man's objections well, and ended up convincing the oil company to agree to additional services and process improvements and to sign a $17 million contract instead. Joe's improved EI skills meant $5 million for his company, and recognition of his accomplishment by his boss.

Emotional Intelligence is **not** about being soft. It's about a different way of being smart. It's about managing yourself and using your emotions to positively lead others; to engage not just their head and hands, but also their hearts.

Being a CEO requires courage. "There is no talent shortage," states Gary Stibel, founder of New England Consulting Group in the *Business Week* cover story. "The problem is there is a shortage of guts. Too many CEOs are doing what is necessary to placate the Street at all costs rather than saying, 'This is the way we will grow our business, and you folks just may not want to own as many shares.'"

Management Development Program

A key task for the board is not just choosing a successor, but setting up in advance a management development program that will guide the process. If that program is clearly spelled out to everyone, and given attention several years before the potential successors are even interviewed, the whole transition will be much smoother.

When such a process is not in place, the wrong person is often hired, and rather quickly, fired. We see headlines about this type of thing all the time.

"A recent study conducted by Rakesh Khurana, a professor at the MIT Sloan School, for instance, shows that CEOs appointed after 1985 are three times more likely to be fired than CEOs who were appointed before that date." (*HBR*, May-June 2000, "Don't Hire the Wrong CEO" by Warren Bennis and James O'Toole.) Bennis and O'Toole, as well as other observers of a trend some have labeled "CEO churning" say that many companies are using the wrong criteria to choose a CEO. Rather than looking at qualities such as leadership, boards tend to focus solely on financial results a candidate has achieved. While these "hard numbers" are important, those who are going to lead the entire company need to exhibit the strong personal management and relationship skills of truly effective leaders. Unfortunately, these are sometimes hard to measure.

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"Real leaders, in a phrase, move the human heart. And there's the problem. The ability to move the human heart is difficult for most people to talk about—it's nebulous and squishy. It is harder still for board members to talk about as they engage in an activity as fiscally serious as selecting a CEO," Bennis and O'Toole write.

So, it is critical for any board to set up a management development program, and to discuss the succession issue regularly with the current CEO, so that he or she is involved in the process from the beginning.

While that management development program will look slightly different in different companies, a fundamental core of the program should be the development of the EI skills of all executives and high potential candidates at a minimum. The board needs to state what EI skills candidates should possess, and to be aware of how to evaluate these qualities. This helps to ensure more highly qualified candidates in case of an emergency, such as the death or sudden departure of top candidates.

In fact, developing the EI skills of managers and executives can reduce their desire to leave the company. For example, as a result of an EI skill-building program for executives of an international oil company, participants' desire to leave the company and desire to quit their job declined by 44 and 52 percent, respectively, after the training.

Putting EI into Action

Much if not most of the difficulty associated with CEO succession has to do with emotional mismanagement. Paying attention to the development of emotional intelligence skills for the board, CEO and executive team now can help ensure that the next CEO transition is seamless and successful. Even if you are not currently involved with CEO succession, you feel the effects of emotional turmoil daily. What can you do? You can take action to develop your own emotional intelligence.

First, enhance your emotional self-awareness by asking yourself several times each day: "What am I feeling right now?" Notice that the question is not "how" but "what" because we tend to answer the question "How am I feeling?" with the word "Fine" which tells us nothing.

When you figure out what you're feeling (such as fear, happiness, anger, excitement) you can use that information to help you decide what you should do or not do next. In other words, you can make more effective decisions.

Second, begin to disclose and discuss your feelings. If you have an issue on the table at a board meeting, and you find that you are feeling a bit anxious or concerned about it, simply recognize those feelings and share them in a matter-of-fact fashion. So often, if people are feeling anxious, they'll criticize, or find some detail to disagree with: "Those numbers can't be right."

Instead, the more emotionally intelligent thing to say is, "I have to tell you, I'm feeling a bit anxious about this decision." This not only helps your fellow board members by giving them more information about you and your point-of-view, it provides a more complete view of where you're coming from. Discussing feelings improves communication and sets the tone for cooperation.

Third, get some EI skill training. Yes, training! Someone once told me, "You train monkeys, you develop executives." Well, I've got news for you, we train astronauts, doctors, soldiers and others so they can perform at their peak under pressure. We should do the same for executives. EI skill development can be in the form of one-on-one coaching, or group sessions. Either way, be sure the training is skill-based, that is, provides not only information about EI but also the chance to practice practical skills on real situations. And, be sure that the provider has documented quantified results. Business decisions are made based on measured results, and decisions on selecting training should be based on the same criteria.

A smooth and seamless CEO succession process is not an impossible dream. It happens when the board, CEO and everyone involved in the process take action to develop the most important element of true leadership: emotional intelligence.

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