SOLVING THE CHALLENGES OF EXECUTIVE TRANSITIONS

HOW WILL TRANSITION IMPACT YOUR ORGANIZATION?

Unlocking seamless leadership transitions: navigating the complex challenges of executive change with strategic foresight and resilience.

Forbes Magazine

"Research from the Corporate Executive Board (CEB) estimates that 50% to 70% of executives fail within 18 months of taking on a role, regardless of whether they were an external hire or promoted from within. At the highest level, the 'turnover rates of CEOs of major North America corporations' jumped about 50% from the 'last half of the 1990s to 2000-2007', and the average CEO tenure dropped 17% between 2013 and 2017."

"Why Most New Executives Fail" March 13, 2020

Is Transition failure really a problem?

Is transition failure truly a pressing issue? Surprisingly, nearly 50% of new CEOs fail within their first two years, with some surveys suggesting a staggering failure rate as high as 70%.[1] Why do leaders in senior positions often falter, and how can organizations improve their success rates? To address these questions, we must first identify the common pitfalls to avoid and then take action to solve the challenges ahead.

The transition of senior leadership roles can be both uncertain and costly, leading many organizations to hesitate when faced with the inevitable shift from one leader to another. The fear of 'what's next' presents an additional barrier for executives contemplating a change in roles. These challenges are pervasive across organizations of all sizes, particularly affecting small to medium-sized firms heavily reliant on a few key leaders.

While these transition fears are valid, the core issue arises from a reluctance to implement a comprehensive approach to developing future leadership capabilities within the organization. While succession plans may exist, they often languish on shelves, failing to add tangible value to the transition process.

Poor Choice of New Leaders

In a study conducted by leading consulting firm McKinsey & Company, one common reason for executive transition failure is the inadequate selection of new leaders. Organizations sometimes default to individuals earmarked as future heirs, who later prove to be ill-suited for the role. These trusted lieutenants may lack their own vision, strategic acumen, or the ability to inspire internal followership, let alone influence external

[1] Why Most New Executives Fail -- And Four Things Companies Can Do About It (forbes.com), https://www.forbes.com/sites/forbescoachescouncil/2020/03/13/why-most-new-executives-fail-and-four-things-

stakeholders. Consequently, when they assume the CEO role, they often fall short. McKinsey reports that the 'heir apparent' falls short 53% of the time.[2]

Our experience, supported by external research, indicates that designating a single individual too far in advance for a specific future role can be risky. The best lieutenant does not always make the best captain. This challenge is particularly pronounced in family successions. By defaulting to 'whoever is next in line,' there is a high risk of business failure. Has the organization objectively assessed the qualities and characteristics necessary and valuable for the future role?

As McKinsey notes, "In today's dynamic and fast-changing environment, companies need a disciplined succession process that produces multiple viable options and optionality."[3] Often, it is not the new leader's fault when they fall short; rather, a flawed process of selecting and preparing the right leader has set too high a bar. Identifying and grooming the next best leader takes time. A deliberate process is crucial at every level of the organization.

Lack of Qualified Leadership Pool

Choosing from a pool of qualified internal candidates will most often have the highest likelihood of success; but how deep is that pool of potential leaders? We have observed repeatedly with clients that their choices are too limited and too predetermined. They too often are required to then turn to outside choices.

Yet, choosing an external option has even worse results, with some studies showing as many as 90% of outside executive hires fail. A recent Harvard Business Review article pointed to key research that indicated hiring an outside executive is justified only 6% of the time, [4] demonstrating poor development and visibility of internal capabilities. So, if the better answer is hiring from within, an organization must find a way to build a diverse and deep group of candidates in a timely fashion.

Not Anticipating Potential Issues

Even the most adept leaders can encounter significant difficulties when transitioning into new roles. While the

CASE STUDY

A Private equity firm was beginning to grow inpatient with their rapidly-hired Senior Executive.

What were the indicators:

- Lack of Communication
- Disappointing results
- Inconsistent progress on strategic objectives and financial goals

What were their options?

- They were already beginning to think about radical changes, but realized the negative impact on the organization and their brand in the marketplace
- They suspected the leadership team was frustrated with their CEO, and maybe the Board as well for their choice of the new key executive. Loss of key leaders would bring disaster.
- Corrective action was needed, but visibility into the necessary changes kept them from candid discussions with the leader and drastic actions.

What were the Solutions?

- An analysis of the real issues: the CEO, bringing a new work style to the team, was getting resistance to this new approach. A thorough analysis was undertaken and plan established.
- Since the CEO was not part of the original strategic planning, it was reviewed collaboratively with the board and leadership teams, creating new agreed-upon goals and objectives and new commitment to timely and achievable results.
- A revitalized leadership team began to report consistently on key progress, not just financial numbers, working together to achieve success.

2 Beware the Transition from an Iconic CEO (hbr.org), https://hbr.org/2023/02/beware-the-transition-from-an-iconic-ceo
3 Ibid.
4 Succession Planning: What the Research Says (hbr.org), https://hbr.org/2016/12/succession-planning-what-the-research-says

challenges of succeeding a previous leader, whether successful or not, are not as mysterious as often perceived, they are far from easy. Both the organization and the new executive must understand that challenges are inevitable with every transition. The list of challenges is extensive: adjusting to new responsibilities, managing new personalities, addressing new goals and strategies, solving problems, and potentially adapting to a new organizational culture. External candidates are likely to struggle more with assimilating to a new culture compared to internal executives. However, there is also a risk that promoting a long-term employee to a new role may encounter difficulties in team acceptance and ultimate success. It is crucial to proactively anticipate and methodically address these new challenges for as long as necessary to overcome any obstacles to success. Declaring "victory" too soon is a common mistake.

Waiting Too Long to Implement a Transition Plan

In their article, "The High Cost of Poor Transition Planning,"[5] Harvard Business Review emphasizes that the ideal time to begin the transition process is when a new executive position is filled. This means that if an executive is already in the role, there should be a swift initiation of a future transition plan. Life events and organizational demands can present unforeseen challenges. Given that the costs of failure can far exceed the annual costs of a single executive, it is never too early to start identifying and preparing future executives. Most research suggests that it takes 3-5 years to fully prepare a new senior executive for their next challenging role. As previously discussed, predicting the speed at which someone may need to assume a future critical position is challenging.

If a departing executive or their Board of Directors is only now beginning to identify potential executive-level successors, they are already two to three years behind. Moreover, the presence of high-caliber, talented leaders open doors to numerous growth opportunities.

Is it possible to catch up? It will require hard work, and the risk of failure will remain higher than necessary. However, there is no need to anticipate disaster just yet if you take action now.

AVOID DISASTER

You're already behind…

- Fully Define the new role, resist depending on an outdated definition from the past
- Candidly assess the list of internal candidates, they know the organization, culture and objectives the best.
- If necessary, assess external candidates, remembering the importance of cultural fit and shared goals and objectives.
- Carefully consider the challenges ahead for the new leader and identify the best resources available to them to achieve success.

Avoiding Disaster

You can succeed in your next transition, even if it is imminent or you are flailing in a process already begun (skip #2 and #3). Here are four actions you can take immediately to increase your chances for success:

[5] The High Cost of Poor Succession Planning (hbr.org), https://hbr.org/2021/05/the-high-cost-of-poor-succession-planning

1. Fully define the role and expectations for the successor to the executive you are replacing. Determine how the role will differ. Don’t be afraid to set high expectations, but establish clear, measurable success criteria for the first 90 days, 180 days, and the first year.
2. Identify and assess your full list of internal candidates. Evaluate their experiences and potential, determine what is needed for them to be fully qualified and prepared for the new role, and adjust your timeline if necessary.
3. Identify potential external candidates if needed. Based on the role definition, create a clear and compelling description of the ideal candidate. Work closely with internal or external recruiting services to express the desired candidate experiences and develop a thorough interview process.
4. Consider the challenges your new executive might face and the available resources to support them in the first 12 months. List potential challenges and resources both internally (Board Members, executive peers) and externally (executive coaching, external mentors, consultants).

Remember, both inadequate planning and declaring victory too soon are often precursors to disappointment in ongoing results. Stay focused and success can be achieved!

One Final Note!

The cost of failure in executive transitions is significant (as much as 10x annual salary). However, the rewards of success are immense. While the transition may seem daunting, taking the time to make informed decisions and methodical actions will position your organization for a bright future and unlock opportunities beyond your current imagination.

AUTHORS

Rick Hasty has been a management consultant, executive coach, and facilitator to senior executives and their teams for more than 30 years. working with leadership teams in multi-industries in North America and throughout the world He is an author and keynote speaker on the important topic of leadership development.

He formed LNG after serving in management roles at PwC for 12 years. He previously founded Conequity Resources. a management consulting firm acquired by PwC in 2010.

Aaron Andrade has 20 years’ experience as a senior leader, executive coach and management consultant creating organizational development programs that increase employee engagement, develop leaders and achieve business goals.

Working in multiple industries, his coaching and team building strategies have received recognition in leading companies like The Boston Globe, Year Up and the U.S. Army where he was awarded a bronze star for his service in Iraq.