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Leadership

Mastering the move from COO to CEO

By Nathan Bennett and Stephen A. Miles

In the United States, the chief operating officer is often considered to be the CEO-in-training. Yet remarkably few companies have a rigorous succession plan in place to make that transition successful. Here's what it takes to groom the COO for the top job.

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When McDonald's chief Jim Cantalupo died suddenly in April 2004, the board quickly named another veteran, president and chief operating officer Charlie Bell, as the new CEO. Not long after, Bell found out that he had cancer, and the board had to find another CEO. Thanks to continual, years-long preparation and a deep commitment to the development of a leadership pipeline, the McDonald's directors did not have to go outside the company to make the appointment.

But among US companies, McDonald's is highly unusual in that respect. A recent survey by the National Association of Corporate Directors found that 43 percent of US public companies had no formal CEO succession plan, and 61 percent had no plan for replacing the CEO in the event of an emergency.

Today, there is growing pressure in the United States to improve those kinds of statistics. For US-based companies, succession planning concerns are further accentuated as the issue of separating the CEO and chairman roles receives greater attention. Indeed, the topic of CEO succession planning has never been hotter—or debated so urgently.

Questions about the rigor of succession planning are being driven out into the open not only by the soaring complexity of business but by new regulatory developments. On October 27, 2009, the Securities and Exchange Commission's Division of Corporation Finance published new guidelines that effectively put the agency behind shareholders who want boards to make the succession process more transparent.

The SEC document minces no words: "We now recognize that CEO succession planning raises a significant policy issue regarding the governance of the corporation that transcends the day-to-day

business matter of managing the workforce."

To borrow a term from the recent banking crisis, it is critical in this environment for boards to stress-test their succession plans. Accenture's work with boards and top management teams, as well as our analysis of research by others, makes it clear that many plans would be unlikely to pass such a test. The good news is that the lack of a properly prepared successor—which is the outcome of many flawed plans—is something that can be addressed.

Ready or not?

The best way for an organization to mitigate that risk is to develop strong candidates internally and then carefully manage the succession event, as in the McDonald's case. These candidates are known as "relay successors," and research indicates that companies that appoint such successors outperform those that hire from the outside.

But which insiders to short-list? Of all the internal executive candidates, the COO is most often considered to be the CEO-in-training. Even when not formally designated as the heir, the chief operating officer—where that role exists—is usually given consideration by the board for the top job. After all, the COO position offers a portfolio view of the company as a whole; when properly designed, it includes regular access to the CEO's in-box.

In many cases, COOs are being groomed for the top spot, or even being tested as the organization's CEO-elect. And there is a steady migration from COO into the top position. In a recent sample of former COOs, Accenture found that one in nine stepped into the CEO's shoes within a year of her departure.

Research also indicates that a little over half of all chief operating

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officers see themselves as the “heir apparent.” Almost all think of themselves as “the other half”—offering competencies, experiences, expertise and a management style that complement those of the CEO. Nearly all of the COOs surveyed believe that top operations executives are responsible for the long-term performance of their organizations. And more than 85 percent say they are able to affect their organizations’ long-term performance.

Few guarantees

Yet the COO’s readiness for the highest executive office is by no means a given. A central element of the challenge is that there are aspects of the CEO position that simply can’t be experienced as an understudy—even when the COO has been formally designated as the heir.

Virtually every CEO we work with agrees that there are important elements of the position that cannot be fully understood until you are wearing CEO shoes. Time in the COO job is no guarantee of success in the top spot, because the one role simply isn’t the other.

But the more pressing—and soluble—part of the challenge lies in boards’ understanding of what is needed to prudently manage the transition risks involved with any CEO succession. Even at companies that recognize the need to prepare the successor, boards may underestimate just what that preparation requires. After all, replacing a CEO is not something that most boards have a great deal of practice doing.

Further reducing the risks involved in any succession requires that everyone—board members, CEOs and heirs—fully appreciates the time and effort it takes to get the relay successor ready.

So what does it take to get the COO as prepared as possible for making it to that top rung on the ladder? In a general sense, the key is to develop and then continually refine a nuanced understanding of the gaps between the capabilities and credentials of an heir and what, looking forward, the CEO position is likely to demand.

The gaps will be very different for the COO than they will be for rivals for the top job, such as the CFO. One part of assessing the capabilities of an heir is to understand where he is now.

The COO role is highly contextual, and the characteristics of the current CEO and the challenges the company is facing are just two of many situational elements that determine the nature of the role. Other elements can include the skills the COO has demonstrated and the reputation she has earned. As a result, we contend, the degree to which the role is instrumental in the preparation of the heir depends largely on situational factors like these.

For that reason, it is important to be realistic about specific challenges the COO faces when being considered for the corner office. These challenges can perhaps be best illustrated through a series of questions.

How fast is too fast to move?

It is easy to underestimate the difficulties associated with the move from COO to CEO, because it is assumed that the COO, as an insider, understands the company, and vice

versa. Performance expectations may be inflated to the point where they are quite unrealistic, possibly setting the new CEO up to fail.

The desire to get things moving is understandable. New CEOs want to establish themselves in the role. Board members and coworkers are anxious to learn what the new leader will be like. However, when the subtleties of bringing the new chief on board are ignored, it is not uncommon to see new CEOs taking on too much in their efforts to make their mark quickly.

In many cases where the new CEO's personality is very different from that of his predecessor, and when the changeover happens too quickly, the organization experiences a sort of paralysis. People who are used to interacting with the CEO in a certain way often don't know how to respond to a different style.

Although there is enormous pressure to perform, new CEOs have told us that one challenge is actually applying the brakes a bit. One executive noted that as COO, his

job had been to make things move forward as quickly as possible, but that as CEO, his job is often to slow things down—to make sure the final decision is the right one for the company.

The key is for the board to ensure that the same thoroughness and patience that would be afforded a successor from the outside during her acclimation period be given the former COO as well. That way, the new boss has time to actually learn the role, to evaluate the executive team from her new vantage point, to understand how to relate to each team member from the new position and to deepen her relationships with board members.

Even when the executive jobs and the people holding them don't change—or at least not much—many of the interpersonal dynamics will change because, in effect, the top team is a new team.

How do I find time to work with the board?

The new CEOs we have spoken to were unanimous in expressing their surprise at how time-consuming their relationships with board members can be. As one told us, "I've come to understand that it isn't a single relationship between me and the board . . . it is 10 relationships—one with each board member."

Often, COOs are not used to devoting so much energy to something that doesn't directly concern running the company. But when preparing for the CEO role, they have to recognize that running the board is part of their job as well. When they do move into the corner office, they will have to invest heavily in building relationships with board members, understanding what is important to each one and discuss-

ing how they will operate together, how they prefer to communicate and so on. That is especially critical when they inherit the previous CEO's board.

Further complications may arise when the former CEO joins the board. In this situation, the challenge is all about how comfortable he can be with his successor. The new boss may be slow to act on her agenda, worrying that doing too much too fast may appear disloyal to her former boss.

But failing to move quickly to establish that agenda can reinforce the perception that the former COO is skilled only at execution. So it is vital to get early agreement on how quickly the new agenda should be rolled out.

Where do I find the time for everything else?

Since CEOs never have enough time, they have to be ruthless about how they prioritize their responsibilities and disciplined in sticking to these priorities. As one new CEO put it, “I have always been very busy and active, but I was unprepared for the amount of requests for my time or for participation in outside activities. I don’t have a problem saying no. The problem is finding time for things I want to say yes to!”

Some COOs who have made the move to CEO have noted that the way they allocate their time now sometimes seems unnatural. Said one: “I am constantly reprioritizing my time away from [the areas where I have proven expertise] to what the company needs and what only I, as CEO, can do.”

COOs who make it to the top often have to recalibrate their image, particularly within the organization.

Where's my cover?

Several former COOs concede how uncomfortable it can feel to be the final decision maker. “Sometimes I feel a bit naked,” confided one, “in that there isn’t someone next door to bounce ideas off. My board is a help—and my team is a help—but it still feels different than when I was COO.”

A second source of discomfort: being in the spotlight all the time. “I think I have reasonable self-awareness,” said one former COO. “But as CEO, I am surprised at how hard those around me work to interpret my actions, comments, even my body language—even when no message is intended.”

How do others see me in this role?

Easily the single biggest challenge that COOs face as heirs is the way they are perceived by others, both inside and outside the company. Because the COO role is chiefly about good execution, it is easy for others—including board members—to see the COO as lacking in strategic capabilities. Those looking to champion the COO as the next CEO must find ways to demonstrate his strategic potential to the board.

COOs who make it to the top often have to recalibrate their image, particularly within the organization. Used to driving operations, they have had deep webs of relationships across the company. But we find that we often have to coach new CEOs not to use those networks in the ways they have been used to.

Those who do use their old networks—however innocently—soon discover that even a whisper from the CEO becomes a shout across the company. They also realize that they are no longer in a position to act on every snippet of anecdotal information they receive through the networks. Not only do they lack the time to do so, but much of the information is about day-to-day operations, and is therefore no longer their primary remit.

Nor can they be seen to be as accessible as they probably were in the COO role; they must master the art of keeping some “professional distance”—without becoming overly distant, of course.

Do I need someone the way my predecessor needed me?

Boards are often anxious to have the CEO tap a new COO right away. However, that may not always be the right thing to do.

Our research has found that the COO role is most effective when it fully supports the CEO. To get the best person for the job, the new CEO must first have a sense of how she wants to play her role and where the potential gaps in the leadership team could be.

Naming their successors too quickly can have a significant downside for relay successors. Not only does immediately having a new COO make it more difficult for the CEO to establish himself as the company's new leader, the situation adds a layer of organizational and reporting complexity. Ed Zander, who had plenty of experience in the COO role at another high-tech company before he became CEO at Motorola, is a good example of a leader who did not rush to add a COO when he took on the top job.

From our research, it's clear that the right preparation matters a great deal. COOs who were explicitly named as the departing chief executive's heir found the transition to CEO to be relatively smooth. When there is one clear heir, the CEO, the board and other stakeholders can invest in the evolving relationship without appearing to play favorites.

The transition is smoother still when the CEO is ready to move on. Said one former COO: "As an heir, the best thing to have is a CEO who is clearly comfortable about leaving the position."

Besides the COO herself, the directors and the exiting CEO have important roles to play in getting the new chief

off to a good start. Seven action items stand out for the succession team as a whole.

1. The COO should run a P&L. Several relay successors stressed how valuable and important it was to run a profit-and-loss center while they were still COOs. As one of them shared with us, "Some COOs are strictly about operations. Running a P&L forces you to think as much as seven years out; it forces you to think strategically." COOs without experience at running a P&L noted that it was critical to at least have opportunities to work closely with business unit leaders on their strategic planning activities.

2. The COO should flex his strategy muscle. One former COO appreciated that his predecessor had pushed him into strategy roles by, for example, putting him in front of the board to present issues with strategic ramifications. In those situations, the CEO would "be just another member of the board" and would let the COO take the lead—without letting him fail at it. As a result, the board became comfortable talking strategy with the second in command.

3. The COO should get to know external constituents. It is equally important for COOs to be exposed to situations such as investor meetings, meetings with political officials, trade association gatherings and so on. At McDonald's, replacing the chief executive on very short notice was made much easier by the fact that the CEO had long made a serious effort to give his COO some of the spotlight during meetings with analysts and other constituents. Whenever possible, the designated heir should attend these

meetings on her own, on behalf of the company.

4. The directors should craft a complete onboarding plan. The board's job is not complete when the successor is announced. The directors must monitor and support the transition in order to manage the risk. Although much is made of "the first 100 days" for new leaders, our coaching suggests that a 12-month transition and coaching plan is more appropriate, even for an internal successor.

5. The board must understand the outgoing CEO's plans and motivations. The exiting CEO can often create challenges—especially when he moves on to the chairman's role. Our studies indicate that the former CEO's new role should really be reevaluated within six months. We have seen former CEOs overstay their welcomes; when boards are not strong enough to ensure that those new chairs transition onward, the resulting conflict can be very disruptive indeed.

6. The new CEO should establish his own group of trusted advisors. Although the chairman and the board are there for the CEO, they should not be used as sounding boards for everything. It is indeed lonely at the top; it is often a big adjustment for new CEOs to realize that they have to make the big decisions without a safety net. A good way to make it easier is to establish a network of senior advisors—even if the network and meetings are fairly informal. The best such networks blend outsiders with carefully selected insiders.

7. CEOs-designate must build shared expectations with the board. A good way to accomplish this is to have third-party facilitators who can lead sessions between the incoming CEO and the board to help establish powerful working relationships from the start. The more that can be done early on to remove the guesswork and potential misunderstandings, the lower the risk of a mishandled COO-to-CEO transition.

For further reading

"Chief operating officers: Off to a fast start," *Outlook*, September 2008

In this article, we have focused solely on the COO's move to CEO. But it must be remembered that any succession plan involves many moving parts. Other valuable executives may have been part of the succession process; some may even have been in line for the top job themselves. So it is crucial that any succession planning takes into account the retention of other valued senior managers.

At the same time, the COO-to-CEO transition has to be viewed as just part of a broader approach to the development and sustenance of a leadership pipeline. The best-prepared boards and management teams are working several layers deep to ensure that there is a flow of high-potential candidates from the middle management ranks on up.

Eight years ago, the Sarbanes-Oxley Act prompted boards in the United States to begin to talk the talk about succession planning. The SEC's recent bulletin will force them to finally walk the walk.

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