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Making the Move from COO to CEO

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The handoff from CEO to successor is as complex a transition as it is an important one. It poses strategic, business continuity and financial risks to companies. It also contains professional and personal risks for the executives involved—and for members of the board who have been intimately involved in the selection of the new CEO. Naturally it is worth every effort to understand what ensures this process is conducted in a way that produces a great outcome. From our review of research and our experience advising board members and company leaders during succession episodes, it is clear the main avoidable risk concerns successors who are inadequately prepared.

After digging at this a bit deeper, our conclusion is that while board members recognize the need to prepare the successor, they underestimate just what that preparation entails and as a result fail to invest sufficiently in the process. What does it take to adequately prepare a successor? The simple step of naming an heir is unlikely sufficient—though many CEOs have told us the designation helped them at the time by providing a strong signal that changed the manner in which they were treated by co-workers, analysts, and customers.

A more robust process begins by developing and evolving over time an understanding of the gaps between what the heir has or can do and what the CEO position demands—now and in the future. Clearly identifying gaps with regard to preparedness for the future requires a comprehensive assessment of where an individual is today. The position a succession candidate currently occupies heavily influences the opportunities and constraints on efforts to "look" ready and to "get" ready. In some cases the confines of the role are real, based on the way the top management team has drawn boundaries around positions. In other cases the confines are simply manifestations of stereotypes about the strengths and weaknesses of executives with experience in particular functional roles. For these reasons, we contend that one way to evaluate the viability of a successor involves taking a role-based perspective. Beginning with understanding where a successor operates today provides insight into gaps—real and assumed—that need to be attended to in the succession planning process. For this COO Circle briefing, we focus on the role of COO and its utility as a way to develop a new CEO.

The COO as Heir Apparent

When a company has a COO on the leadership team, many consider the incumbent the de facto heir apparent. There are legitimate reasons to think the position is the right place for the preparation of a successor. After all, the position has a vantage point that offers a company-wide portfolio view and it provides exposure to CEO's "in a box." Further, COOs can be positioned in a way that provides exposure to the board both in terms of learning the subtleties of working with this constituency but most importantly so directors can gain comfort in the COO's 'viability' as a potential successor. The role can also be used to position the COO for increased external visibility by giving them a role on analyst calls, by involving them in meetings with outside parties such as government officials, regulators, customers, suppliers, and so forth. In all, the COO position offers great potential when it comes to providing the board, other members of the C-suite, and in fact the entire company and its external stakeholders a chance to get to really know the incumbent.

Although many companies do use the COO role as a way to prepare the heir, that is only one of the many motivations for creating the position. As we discussed in our book *Riding Shotgun: The Role of the COO*, the COO role is highly contextual. Characteristics of the CEO and the challenges the company is facing are just two of many situational elements that determine the nature of the role. The skills the COO gets to demonstrate—and the reputation the COO earns can be very different and as a result we contend the degree to which the COO role is instrumental in preparing an heir depends in large part of situational factors like these. When considering a COO as heir the nature of the role as designed by the CEO and the way it has been enacted by the COO are critical in understanding the level of preparation provided during tenure in the role.

For this COO Circle project we had the opportunity to interview a number of individuals with experience in this COO to CEO transition. We included executives who were COO Circle members as well as other prominent executives. In some cases, our conversations focused on the experience the executive had while making the transition from COO to CEO. In other conversations, we focused on a current COO's concerns as they considered how to best prepare themselves should a CEO opportunity present itself. In other conversations we focused on the way directors consider the factors that make a succession candidate less risky and, consequently, more viable as a successor. From these conversations with people who, in one way or another had "been there," we distilled a number of oft-cited challenges and some fairly specific pieces of advice. Each is presented below; we hope to have the opportunity to hear how it coincides with or contradicts your experiences during future COO Circle interactions.

Challenges & Surprises

"Finding your Pace"

The degree of difficulty associated with the move from COO to CEO is often underestimated because it is assumed the COO, as an insider, "understands" the company and vice versa. The danger this creates is a false sense of how quickly a new CEO can make effective moves. A second danger faced by all new CEOs is that expectations for early performance may be inflated to the point where they are unrealistic. In effect, these high hopes set the CEO up to fail. The desire to get things moving is understandable. New CEOs want to establish themselves in their role. Board members and co-workers are anxious to learn what the new leader will be like. However when the subtleties of on-boarding are paid short shrift or if the new CEO does an insufficient survey of the landscape it is easy to end up taking on too much, too soon.

At the same time that there is pressure to perform, new CEOs have told us one challenge came as the result of recognizing that as CEO a challenge was actually slowing things down. As one former COO expressed, "When I was COO it was my job to make sure things moved forward as quickly as possible. Now (as CEO), I find myself needing to slow things down so that I am confident the actions we are taking have been sufficiently studied and really are in the best interest of the company." In a related challenge, former COOs told us that they were a bit surprised how important it was to revisit the relationships they had with other members of the top management team. Even when executives had years of experience together the simple fact that one had now taken over as CEO introduced a need to recalibrate how everyone was going to work together. Business schools have for years taught that effective work groups must go through a series of developmental stages—**form**, where members come together; **storm**, where members debate what they plan to accomplish; and **norm**, where the ways of working together are negotiated—before they can **perform**. The new CEO and top management team need to invest the time necessary to do this, too.

Board members and the top management team are advised to make conversations around pace explicit. Consensus on how to best prepare the CEO and the team—and an understanding of the time necessary to do this—will help new CEOs avoid the temptation to do too much, too soon. A thorough and patient on-boarding period, perhaps as generous as what would be offered an outside successor, could be a valuable way to get a new team off on the right foot. This provides the new CEO time to learn their new role, to evaluate their team from their new vantage point, to understand how to relate to each team member from their new position, to deepen relationships with board members—and more broadly to "get their sea legs." As anyone who has been promoted to lead a team they were once a part of will attest, it is not something that is guaranteed to go smoothly, particularly when some members of the team may have themselves been jilted in the competition for the CEO position.

"How do I Find Time to Work with the Board?"

New CEOs were unanimous in expressing their surprise at how time consuming relationships with board members can be. As one CEO told us, "what I have come to understand is that it isn't a single relationship between me and the board... it is ten relationships—one with each board member." COOs often are not used to devoting so much energy to something that isn't directly about running the company, but they have to recognize this is exactly what is expected. To some degree, "running the board" is now an important part of their job—not just "running the company" and they need to devote the requisite time and attention to this critical activity.

Additional issues can surface when the former CEO remains on the board. Most of the ways in which this can go right or wrong are intuitive. The new CEO may be reluctant to pull the trigger on their agenda, worrying that doing much may appear an act of disloyalty to the former CEO who is still quite present as chair. On the other hand, failing to get moving on strategy may reinforce a metaphor we repeatedly hear: COO's have an over-developed execution muscle and an under-developed strategy muscle. And, it is often the case that the board the successor inherits is the former CEO's board. The new CEO has to invest heavily in building relationships in order to develop a first hand understanding of what is important to them. Through these efforts, new CEOs can engage board members in discussions about how they will operate together; how they would like to communicate, make decisions, share information, and so on. Our coaching has revealed that many new CEO's 'assume' they know what the board wants and how they want it and guess what, most of the time they are wrong. Simply engaging with the board and understanding what they liked previously and what they would like to add going forward is very powerful and can lead to an enhanced relationship early on.

"Where do I find the Time for Everything Else?"

CEOs don't have enough time. As is true with any insufficient and finite resource the key challenge is how it is best allocated. CEOs have to be ruthless about how they prioritize responsibilities and disciplined in sticking to it. Failing to do so will lead to a CEO who is busy but ineffective at leading the company. As one new CEO told us, "I have always been very busy and active, but I was unprepared for amount of requests for my time or for participation in outside activities. I don't have a problem saying 'no;' rather, the problem is finding time for things I want to say 'yes' to!" Some COOs who made the move noted a challenge here was that the way time needed to be allocated sometimes seemed unnatural, noting "I am constantly re-prioritizing my time away from what I am good at to what the company needs and what only I, as CEO, can do."

"Where is my Cover?"

Several of the former COOs we talked with, noted that a surprise greeting them in the CEO job was just how uncomfortable it sometimes feels to be the final decision maker. For example, one told us "I feel a bit naked sometimes 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." Having an independent, external advisor can be very powerful because many of the people the new CEO has formal relationships with come also with an agenda.

A second surprise related to the unique nature of the CEO position concerned the sense of always being so closely observed. As one former COO reported "I think I have reasonable self awareness, 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. I know some of these interpretations are wrong. What I have learned to do is to spend time and care opening and closing meetings, discussions, phone calls, with making sure the right messages are taken away and that any questions are addressed." New CEOs have to be vigilant about checking to make sure people aren't jumping to conclusions, that they recognize the difference between brainstorming, devil's advocacy, and policy making. COOs generally occupy a role where looking for problems, exhibiting some paranoia about internal and external threats, and generally being a bit of a "chicken little" may in fact be appropriate for survival—the COO's and the company's. When exhibited by the CEO, however, this style can create concern throughout the company. It can be tougher for the CEO to "think out loud" with their team because of how much weight even their speculation may be given. Failing to recognize this can lead to all sorts of complications.

"How do Others See Me in this Role?"

Easily the single biggest challenges that COOs face as heirs, concerns the way others inside and outside the company perceive them. The COO does well at their job by keeping things running—by making sure the company executes on its strategy. Too often the emphasis on execution leads others—including board members—to see them as not very capable of strategy formulation. A tenacious focus on one capability sometimes leads observers to conclude that is all there is. As a result, COOs have to overcome this perception. As mentioned above the question is, do COOs have "that muscle" and can they develop it and/or 'reveal it'? This is required to overcome the widely held perception that most COOs are "not strategic." Those who care about the success of a COO need to help them find ways to reveal this capability to the board. In some cases, creating a president role and then giving them responsibilities beyond operations helps, or tasking them to lead a consequential board exercise around strategy formulation—so the board is socialized to them and sees and experiences this competency.

In some cases, the new CEO is anxious to demonstrate how their leadership will be different from the previous CEO. New CEOs have to be careful here. People inside and outside the company have become accustomed to a certain way of interacting with the CEO. If those expectations are suddenly unrealistic then people in the company may experience a sort of paralysis. Now, surprisingly encountering a different personality, people are uncertain about how to respond. Imagine a situation where the former CEO was a bit of a micromanager. During that regime people were likely told quite directly and specifically what to do. Upon delivering instructions the CEO expected these charges to simply "make it so." A new CEO determined to demonstrate a commitment to empowering subordinates would begin their tenure by asking these same people their opinions about what should be done and how. Subordinates are not going to immediately trust that this isn't a trap. And, even if they trust they won't have had experience approaching the CEO that way. CEOs need to understand this is yet another sort of learning that needs to take place before everyone can work well together.

"Will I need Someone the Way my Predecessor Needed Me?"

Former COOs often struggle with this question after they ascend to the CEO position. Our experience suggests that boards are often anxious to have the CEO introduce a new COO. It isn't clear to us that it is universally good advice. Our research on the COO role has found that it is most effective when it is well designed in a way that supports the CEO. Doing this well requires that the CEO role has been properly understood by the newcomer. Once the new CEO has a sense of how they want to enact their position and where the potential gaps in the leadership team could be, then consideration of who, when, and how to bring a COO on board make better sense. A new CEO instantly naming a successor in the COO role takes them away from the business; does not allow them to establish themselves as the leader of the company; adds a layer of organizational and reporting complexity and ultimately can cause them or both of them and the new COO to fail.

Tips from the Trenches

From our conversations, we have identified a number of common features surrounding a successful COO to CEO transition. Getting a COO off to the right start as CEO is supported by investment in each of the following.

Spend time in the on-deck circle. COOs who were named heirs find the transition to CEO a smoother one. When there is one clear heir; the CEO, the board, and everyone else, is able to invest without the appearance of playing favorites. This doesn't mean time wasn't invested in the development of multiple candidates; it simply means that there was time between the designation of an heir and the assumption of the CEO position.

A CEO who is ready to go. Is the CEO ready to invest in the preparation of successors? This was unequivocal—the "best thing to have as heir is a CEO who is clearly comfortable about transitioning the position." If the CEO is not ready, then the efforts to prepare the successor are somewhere between difficult and futile. This extends beyond just the preparation of the successor to also include the new CEO's first days. One former COO shared that a key to his early comfort in the role came from the former CEO's (and still Chair's) decision to take a long vacation immediately upon stepping down.

Flex your strategy muscle. One executive was appreciative that his predecessor had pushed him out front on strategy by, for example, putting him in front of the board to present issues with strategic ramifications—CEO would just "be a member of the board" and let him lead—wouldn't let him fail at it, but let him lead at it. As a result, the board got comfortable talking strategy with him.

Get to know external constituents. It is similarly important for COOs to have exposure to things like investor meetings, meetings with political officials, trade association meetings, and so on. Whenever possible, the heir should take these meetings on their own. Again, when an heir is announced, it makes it easier for people in these groups to commit properly to these interactions and to see them as "real". This would be a difficult thing to orchestrate in a three horse race.

Develop with the board a complete on-boarding plan. The board's job is not done when the successor is announced. They need to plan, monitor, and support the transition in order to manage the risk. While "the first 100 days" phrase is often thrown about, our coaching suggests a twelve-month transition and coaching plan is more appropriate, even for an internal successor. In fact, narrowing their view to this short time frame can lead to early derailment.

Create or reconfigure a board of trusted advisors. People inside the company may have their own agendas. The chair and directors are effectively the new CEO's boss and as such new CEOs don't want to necessarily use them as sounding boards for everything. As CEO, you must identify and recruit a set of trusted advisors.

Work deliberately during transition to build shared expectations with the board. In our transition work with new CEO's, we have facilitated early sessions with the new CEO and their Board. This helps establish a powerful working relationship from the start and takes the guess work and assumptions away, helping reduce the transition risk. One new CEO made a point of spending several hours in one-on-ones with each director. Then he held a board meeting where he reported what he heard. The effort led to very productive discussions about the company and its challenges—and it got everyone on the same page with regard to expectations for the new CEO.

Replacing a CEO is not something that most boards have a great deal of practice doing. In fact, a board with lots of practice may be in that position precisely because they are not very good at it. For that reason, it is useful to make a deliberate effort to consider how to make sure succession is planned for properly. COOs need to remember that just because their position offers a strong platform from which to take on a CEO role, it does not mean that time in the role is any guarantee of success. One role simply isn't the other.

Our purpose in this paper has been to take from the experiences of several executives who have made—or who are preparing to make—the move. We think from their experiences are actionable lessons for board members, the exiting CEO, and the heir apparent COO. By attending to these lessons COOs and their supporters can enhance the viability and minimize the transition risk associate with a promotion to the top job.

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