

**BOARD MANAGEMENT OF THE PSYCHOLOGICAL
DYNAMICS IN CEO TRANSITIONS**



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INTRODUCTION

The selection of CEO's successor is a critical part of a board's responsibility. However it is only a first step. A board's responsibilities continue after the selection. The board needs to ensure that a smooth and productive transition occurs.

Boards typically put effort into the obvious components of a CEO transition. Boards monitor the orderly transition of responsibilities, ensure that the incoming CEO can restaff, make themselves available to discuss relationships with the board, and provide advice and counsel about being a CEO.

Sometimes boards overlook the powerful emotions and psychological dynamics precipitated by CEO transitions. Powerful executives often refuse to acknowledge these issues, yet the success of the transition is heavily influenced by psychological forces. Both the outgoing and incoming CEOs are surprised by the intensity of emotions they experience. It is a board responsibility to not let the tendency to avoid talking about these emotions preclude attention to this critical aspect of an effective transition. Boards can be perplexed when a transition is not going well. They can look at things at too surface a level and fail to consider that emotions may be at the root of the problem.

A transition can be either positive or negative depending on how well these psychological dynamics are handled. On the negative side a poorly handled transition can lead the organization to experience disappointment and lack of confidence in the parties to the transition. This can diminish an otherwise stellar tenure by the outgoing CEO and cause the organization to have doubt about the capabilities of the incoming CEO. The organization can become overly focused on the dynamics of the transition and as a result divert its energy from day to day tasks. A poorly executed transition models dysfunctional behaviors for the entire organization. External stakeholders can make negative interpretations about the company on the basis of a poorly executed transition.

A well orchestrated transition can have major positive effects on the organization and keep the organization focused on critical business issues. The results that had been accomplished by the outgoing CEO are acknowledged and respected. Confidence runs high as the incoming CEO begins his or her tenure. Corporate change often creates anxiety and uncertainty, but when a CEO transition is well-managed the company can move forward with enthusiasm and direction. The board should aim for having the CEO transition positively influence the organization rather than just have the objective of avoiding problems.

How might a board ensure that all aspects of a CEO transition are given appropriate attention? In addition to monitoring the obvious aspects, a board needs to track and influence the emotional components that are often unacknowledged but critical.

PSYCHOLOGICAL PROCESSES IN CEO TRANSITIONS

TYPICAL OUTGOING CEO EMOTIONS

One of the most common emotions for the outgoing CEO is the fear of loss. The many perks associated with the role end when the CEO relinquishes the position. The power associated with being a CEO can be addictive and the fear of this loss can be intense. Often CEOs don't realize how much they need this power until it is almost gone. The realization of the imminent loss of power and perks can precipitate a reluctance to leave. There are also fears about losing affiliation with long term colleagues and friends as well as the loss of identification with the company. These fears can be manifested through the belief that the incoming CEO isn't ready and/or finding other reasons to stay longer than necessary.

The outgoing CEOs can feel as if they are being pushed out and that there is insufficient appreciation for all that they have accomplished during their tenure. This can result in the outgoing CEO making the transition more protracted. When a transition is too drawn out it can cause the organization and others to question whether something else is going on. In these circumstances the outgoing CEO can push too hard to have influence at the end of his or her now extended tenure and inadvertently create concern in the organization.

The outgoing CEO can also worry about becoming a lame duck. This fear can encourage vagueness about a transition date. It is helpful to the incoming CEO to know the exact date of the transition. A firm date can also be helpful to the outgoing CEO in that it forces definitiveness and encourages the individual to confront the reality of the imminent personal changes. One way to reconcile this issue is for the outgoing CEO to be vague in public about the actual transition date but frank in private with the incoming CEO. This reconciliation mitigates the legitimate concerns about being a lame duck and also provides the incoming CEO with needed definitiveness about when he or she will assume the duties.

If the outgoing CEO is going to a new position he or she is likely to be eager to get started. This increases the risk of the individual not paying enough attention to critical transition issues. Too precipitous a transition can result in the organization and constituents questioning whether there are problems. A rushed transition can also lead the organization to question whether the appropriate transfer of knowledge has occurred. Thus an appropriate balance between too precipitous and too protracted a transition must be struck.

It is incumbent on all parties to recognize that an incoming CEO should not be judged against a template of the outgoing CEO's skill set that is based on many years of experience in the role. Incoming CEOs have much to learn and a significant experience gap is to be expected. Failure to recognize these inevitable knowledge differences can lead to strong and dysfunctional emotional reactions on the part of both parties.

TYPICAL INCOMING CEO EMOTIONS

Being appointed the CEO successor is the culmination of years of hard work and success. It also creates anxiety. Incoming CEOs typically worry about making a fatal error at a time when he or she is very close to being named CEO. They fear they might stumble and that the board will reverse its decision. The fear of losing a lifelong goal and opportunity is pervasive, powerful and capable of driving dysfunctional behavior.

Incoming CEOs typically worry about the organization having doubts about their capabilities. The longer the transition, the more likely this doubt will occur. This worry can lead the incoming CEO to overestimate his or her own skills, underestimate the complexity of the job, and attempt too much too quickly. The organization will read this and wind up doubting the incoming CEO's capabilities. As a result the incoming CEO will have precipitated the very thing they fear.

The incoming CEO will bring new energy and excitement to the position. There is likely to be staffing changes. There may be encouragement to try new and different things. All of this fresh thinking, while positive, will create nervousness. The incoming CEO will worry whether the staffing decisions are correct and whether all of the enthusiasm will overcome problems that may have been unaddressed for a long period of time. Thus, the incoming CEO needs to be prepared for this inevitable and healthy doubt.

An incoming CEO can also fall into the trap of overestimating themselves and believing the affirmation and solicitation by others. This fawning can be seductive. Humility about the impending responsibilities sets the ground work for a solid transition while grandiosity has the opposite effect. The admonition to never give power to someone who is easily seduced by it applies in these transitions. The failure to be humble in the face of taking on a position of extraordinary responsibility is worrisome and may be a reason to reconsider the incoming CEO's candidacy.

It is also critical for the incoming CEO to fully avail themselves of the outgoing CEO's knowledge. Anxiety can sometimes make it difficult for the incoming CEO to admit what they don't know and to overcompensate by acting more knowledgeable than they truly are. They thus miss a critical opportunity to learn the unique and subtle requirements of being a successful CEO in general as well as the requirements specific to the organization.

TYPICAL DYNAMICS BETWEEN THE INCOMING AND OUTGOING CEO

The organization will be particularly observant of the dynamics between the outgoing and incoming CEOs. It is important for the parties to privately and publicly express confidence and respect for each other. A transition is an opportunity to model the subjugation of personal needs for the well being of the organization. It is also an opportunity to model techniques for handling challenging interpersonal situations. A thoughtful approach to these dynamics is a powerful opportunity to positively influence the organization.

Because transitions are difficult and emotions run high the individuals can be tempted to avoid each other and as a result create problems. It is vital that both parties communicate with each other and mutually resolve problems, especially those that are particularly difficult to discuss.

Resentment of each other is common. The incoming CEO might start changing things before being officially named CEO. Often what is being changed is what the outgoing CEO had put in place. This can be interpreted as a criticism. In these situations the outgoing CEO can be tempted to slow things down as a way of preventing the dismantling of what he or she had put together. The incoming CEO, born out of anxiousness, starts changing too many things too quickly to demonstrate their impact and perhaps even convince themselves of their acumen. When resentment occurs it typically leaks out to the entire organization despite best efforts to hide it. Executives in the organization then feel pressured into taking sides.

When the transition is appropriately paced the workload of the outgoing CEO should diminish while the incoming CEO's work load increases. The outgoing CEO can begin to experience guilt for not being as busy as usual. The new, and very busy, incoming CEO can experience anger at the outgoing CEO because of this reduced work load. Both parties need to acknowledge and discuss this phenomenon. By so doing, both parties may avoid guilt and anger.

Even after the actual transition has occurred problems and opportunities are still present. Comments or quotations in newspapers have the potential to hurt or reassure each other. The organization as well as external constituents will continue to make inferences about post-transition comments, emotional manifestations, etc. Fundamentally, CEO transitions never end. It is essential that both parties appreciate this phenomenon.

A CEO position is like no other. Only those who have sat in the chair can fully appreciate this. It is incumbent on both parties to participate fully in keeping the knowledge about being an effective CEO as part of the intellectual capital of the corporation. To do this the outgoing CEO needs to inventory what he or she knows. Knowledge around some of the more subtle aspects of being a CEO, such as the relentless array of contradictory demands, the constant fawning, unreasonable expectations, etc. is especially crucial. Only when such an inventory is complete can this full set of knowledge be transferred. The incoming CEO needs to be appropriately humble and fully capitalize on this opportunity to learn. He or she needs to be willing to ask questions and the outgoing CEO needs to offer knowledge that the incoming CEO doesn't know to ask.

BOARD ACTIONS

EDUCATE THE BOARD

Since these psychological processes and emotional manifestations are either not acknowledged or denied, a board should educate itself around these issues. In addition to reviewing the information here, individual board members who have seen or were participants in transitions can share their knowledge, particularly around emotions and dynamics. These individuals can also share the learning points that fall out of both well executed or poorly executed transitions.

EDUCATE THE PARTIES TO THE TRANSITION

Despite commonly seen denials, the parties to the CEO transition are likely to experience many of the emotions and dynamics described in this paper. By understanding these dynamics the parties can recognize how normal and impactful these emotions can be. A positive concrete step can be for a board or a subset of the board to share this paper with these individuals and have some discussion about the criticality of a smooth transition. This would also be an opportune time for the board to inculcate standards of transition performance. The board can make it clear that the avoidance of problems is too low a standard. The board can expect that the transition will positively influence the entire organization.

INDIVIDUAL BOARD MEMBER ACTIONS

There may be individual board members, by virtue of personality, relationships, or experience who can privately work with the parties. Done well, these steps by a board member can play a critical role in preventing problems and positively influencing the transition.

USE OF A CONSULTING PSYCHOLOGIST

Having a consulting psychologist monitor the transition is another step the board can take. The psychologist can help each party process feelings and dynamics, review how the transition is going and discuss specific steps to be taken. Too often the parties to the transition do not recognize the negative impact they are having until it is too late. The consulting psychologist can also monitor how the organization is reacting to the transition. In addition to preventing and solving problems the consulting psychologist can provide ideas on how to further enhance the transition's positive influence on the organization.

CONCLUSIONS

The selection of a CEO is only the first part of a board's responsibility. Boards need to attend to the transition itself. The board should think beyond the obvious and attend to the emotions and psychological dynamics in CEO transitions. When the board takes appropriate steps in managing the transition it prevents problems and ensures that the transition positively influences the organization. Once done the board can take pride in having comprehensively managed the entire CEO transition from selection to appointment.