

Succession Planning

Power, Influence, and CEO Succession

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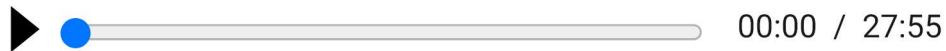


Michel de Broin

Summary. When a CEO transition fails, it's often because the incoming leader isn't skilled at managing the power dynamics. They're complex because the key

players—the board, the outgoing CEO, and the new one—have different agendas. Designated successors need... [more](#)

Of all the decisions that a company's board of directors makes, choosing the next CEO is arguably the most crucial. A failed CEO succession can disrupt employees' work, cause senior talent to jump ship, damage the company's reputation, erase enormous value, and ruin the careers and legacies of the outgoing CEO, the board, and the designated successor.



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According to research by Claudio Fernández-Aráoz and colleagues, the cost of failed CEO and C-suite successions is close to a trillion dollars annually among the S&P 1500 alone. On average, companies that have to fire their CEOs sacrifice \$1.8 billion each in shareholder value, a 2015 study by PwC found. The handoffs from Bob Iger to Bob Chapek and then back to Iger at Disney and from Jeff Immelt to John Flannery to Larry Culp at General Electric serve as powerful reminders of the cost of mishandling successions.

In theory the key parties in the process would be fully aligned on getting a succession right. In reality there are multiple agendas at play.

The outgoing CEO may be eager to burnish his legacy by promoting his accomplishments rather than helping his successor achieve hers. Or he may push to continue his favorite initiatives; for the successor to retain his top team; to leave on his own terms (and his own timeline) rather than the board's; or to play a more significant role in choosing his replacement.

The board's agenda is to pick the right CEO for today who also can grow as the company changes; to be applauded (primarily by investors) for having made a wise choice; and to establish a power dynamic with the incoming CEO that ensures the directors' primacy.

Meanwhile, the designated successor wants to impress the board, the incumbent, and the rest of the senior executive group and affirm that she was the best choice; to build positive working relationships with influential directors; and to lay the groundwork for success after the formal handoff.

When powerful players have diverging agendas, tensions can easily escalate into conflict. The result can be a high-stakes and deeply fraught process that is all about power—who has it, who wants it, and how each party uses it.

That can be disorienting to the successor, especially if she's a first-time CEO. She probably has been promoted for performing well in straightforward operational or functional roles and consistently exceeding expectations. Success in the top job, in contrast, requires acute awareness of political forces, the wise use of power, and skill at influencing others. Mastering these requirements is crucial for incoming CEOs.

We have witnessed these dynamics firsthand. One of us, Dan, has seen them as an adviser to CEOs and boards for five decades and as a director at companies that changed CEOs. He also experienced them as the designated successor to the CEO of a consulting and software firm and then, after more than a decade as CEO and chairman, while orchestrating the search for and handoff to his own successor. As a former business journalist, Adam has interviewed more than 1,000 CEOs, directors, and heads of HR about their key leadership lessons and covered high-

profile corporate successions. Since becoming a leadership consultant, he has worked with many companies and individuals that were navigating this complex process.

Our goal in this article is to illuminate and analyze the role of power and influence in succession and to offer specific guidance on how new leaders can handle the period of overlap with their predecessors. We will bring these insights to life with two case studies—one involving a successful transition and the other a failed one.

Understand the Complexity

CEO successions generally happen in one of three ways. *Strategic successions* take place after a merger or an acquisition, when the CEO of one of the companies becomes the leader of the combined entity. *Forced successions* occur when the incumbent leaves abruptly because of health or performance problems, and the new CEO takes over immediately. *Planned successions* happen when a new leader is hired from the outside or promoted internally after the board and current CEO have initiated the search for a replacement.

In planned successions the outgoing and incoming leaders overlap; the designated successor will report to the current CEO, often taking on a title such as chief operating officer, with the expectation that she will assume the top job after a period that could be as brief as several weeks or as long as 18 months. That overlap makes the process complex—especially if it is extended. The key players must learn to work together, the organization must shift how it operates, and new reporting relationships must be formed.

At the world's 2,500 largest companies, planned successions account for two-thirds of all CEO handoffs, according to a 2018 study by PwC, which is why we focus on them here. Boards prefer

them for a number of reasons. The successor has a chance to learn the full range of responsibilities before taking over. Directors get to see the successor in action. The incumbent can coach the successor but remains fully engaged in case the new leader somehow falters.

A planned succession has two overlapping phases: the *transition phase* and the *taking-charge phase*. The transition phase starts when the board and the CEO agree that the CEO will eventually step aside, initiating a search for the company's next leader. It ends when the incumbent CEO passes the baton and moves to the board (usually as chair) or leaves the company.

The taking-charge phase starts when the board names the successor. But it doesn't end when the new CEO officially takes office; it ends only once she has earned the loyalty of the organization's most influential people and the full confidence of the board. That often takes longer than observers realize (see "How CEOs Build Confidence in Their Leadership" in this issue), but only when both are attained can the handoff be seen as successful.

Planned successions require difficult balancing acts. The designated successor must establish legitimacy and push for change and improvement—without appearing too critical of the current CEO's tenure. She must establish relationships with directors while respecting the fact that she still works for the CEO until he steps down.

Success in the top job requires acute awareness of political forces, the wise use of power, and skill at influencing others. Mastering these requirements

is crucial.

The outgoing CEO must show the organization that he's ready to leave while dealing with his own emotions about ending this chapter of his career. He also must prepare the organization for a new leader—by influencing those loyal to him to support his successor and perhaps making difficult organizational changes now rather than leaving them for the new CEO to deal with.

Meanwhile, the board must ensure that the incumbent departs in the best possible way. The directors must develop a good working relationship with the successor while setting clear expectations and standards for her performance. They must agree on big questions about the company's strategy and culture and, in particular, their power relative to the CEO's.

In our experience the actions of the incoming CEO have the biggest impact on whether the handoff succeeds or fails. After all, she has the most to gain or lose. If things break down, the board can find someone else while keeping (or bringing back) the incumbent CEO or asking a director to serve as interim CEO. But for the successor, failure often means a disrupted career and a damaged reputation. She therefore must use power and influence skillfully.

To be sure, any new CEO, whether she takes over during a strategic succession, a forced succession, or a planned succession, will need to figure out how to influence others in order to implement her agenda. With that in mind, here are the key approaches that will improve the new leader's chances of success.

Match Influence Styles to the Moment

Scholars such as Robert Cialdini and Jeffrey Pfeffer have published best-selling studies on the use of influence and power. However, in the context of CEO successions, we prefer the influence framework developed by Roger Harrison and David Berlew in the 1970s, because it applies more readily to the dynamics of power and influence at the top of large organizations. It describes several approaches useful to the departing CEO, to the board, and especially to the new leader, each of which applies to a different kind of situation.

The first approach, *assertive persuasion*, involves marshaling facts to make a cogent, logical argument, such as “A plus B equals C. Therefore, there’s no other reasonable option but for you to do what I’m asking. The facts are irrefutable, and the logic is clear.” This style requires being forceful and credible in expressing opinions about what must be done and how best to proceed. But it will be more effective if you also make people recognize how their own interests will be served by the suggested plans.



Michel de Broin's sculpture *Possibility* is inspired by oversize roadside signs and their ability to signal destinations to passing traffic.

The second influence style is called *incentives and disincentives*. It's a carrot-and-stick way of explaining consequences by saying things like "Do what I want you to, and I'll give you something you want. If you don't, I'll take away something you have or withhold something you desire." Someone using this style must have the power to deliver or take away what followers want. This approach is commonly used in companies facing a burning platform. ("Here are the bad things that will happen to us if you don't follow me down this new road.") It can also be seen in reward systems that offer bonuses or stock options for extraordinary performance.

Assertive persuasion and incentives and disincentives are "push" styles of influence. There are also two "pull" styles, which require followers' commitment. One is called *common vision*. The leader paints a picture of a future state that inspires followers, pulling them forward—for instance, by saying, "Imagine with me for a moment just how great it would feel if together we could create a place that..." Leaders skilled in this style can describe their ideal state in vivid detail, are good communicators, and appeal to followers' emotions. They project credibility and are at least somewhat charismatic.

The other pull style is called *openness and involvement*. It entails inviting followers to help shape and execute the new plan. Leaders who practice it demonstrate humility and a belief in the power of collaboration. Using active listening skills, they draw out the ideas of followers and meld them with their own, perhaps by saying, "I'm going to tell you everything I can about what I think we need to do and why it's important. Then I need your help. I can't do this by myself. Each of you has different abilities, ones I don't have. Together we can solve this problem and achieve something really special."

During the transition phase, the incoming CEO's main objective should be to make others confident that she is well prepared to take charge. That requires doing four things.

Learn about the audiences you must influence and about how best to convince and persuade them. The new leader must accurately read the hopes, fears, and goals of her new direct reports and of the executives who still report to the incumbent CEO. That will enable her to tailor her approach, choosing which push and pull styles are most likely to win people over to her ideas and get them behind her objectives. Though the CEO and the board may press her for conclusions and quick decisions, she should take time to listen, observe, and ask questions, in hopes of identifying which style will work best where.

Consider culture and context. The optimal influence style will depend partly on the company's norms and practices as well as on the technical, financial, and strategic forces that affect its performance right now. For example, engineering and scientific organizations usually respond best to assertive persuasion because it's based on facts and logic. People at sales-oriented companies tend to respond to incentives and disincentives and to praise for achieving targets and feedback on progress toward goals. Companies that are not performing well, are under stress, and are tired of not succeeding might respond best to a common vision because it's a more inspirational approach. If the strategy and operating model require intense collaboration across the business, leaders will be more effective if they encourage input, show appreciation, and are willing to be influenced themselves—that is, if they use openness and involvement.

Secure the right allies and minimize the impact of opponents.

Any time a new leader is poised to take over, there will be opposition. Some people will believe that the path the new leader represents is not best for the company. If those individuals are important to the company's success, then the new leader should gradually and patiently try to alter their views. Others will resist

for self-centered, political reasons. Perhaps they wanted the CEO position themselves, or the new leader's change agenda threatens to erode their power. Successors should deal with outright resistance firmly and decisively (using push rather than pull styles) to send a clear message that the common good is more important than individual ambitions. But the response should fit the situation: You want influential followers to approve of the way the designated successor responds to honest pushback and the way she responds when dealing with people who have a political agenda.

Enhance your power by acting in a humble manner. Even once she's been publicly identified as the heir apparent, the designated successor should tread carefully and never act as if her promotion to CEO is inevitable. Coming across as too confident offers ammunition to opponents and strengthens resistance. She should solicit opinions and listen so that people feel they're being heard and understood. Admitting that they don't know the answer to a question and acknowledging mistakes also help humanize leaders and open lines of communication.

New CEOs may not be used to thinking so deliberately about influence styles. That's because even in senior executive roles, success is more dependent on people's own behavior than on their ability to influence others. But at the CEO level the work is different. To succeed, especially in large, complex organizations, chief executives must focus primarily on getting others to think and act in ways that will further their leadership agenda.

When the existing CEO steps down and the successor formally takes office, two additional objectives become paramount.

Deepen support from the board. During the transition phase, the new CEO should have learned what the directors expect of her and how they and the outgoing CEO view the board's relative decision-making authority. After taking the reins, she must

ensure that she has the power to accomplish her goals while the board meets its oversight responsibilities. That can require intense relationship building, which is best done by meeting one-on-one with directors, seeking to understand each director's priorities, and using the influence style that is most likely to persuade each. For a new CEO, learning to gain and use power in the boardroom is a critical political task, especially when a board is used to having a lot of input and control.

Clarify and communicate your leadership vision. Once the existing CEO has moved on, the new leader has more freedom to articulate her own vision for the company. It shouldn't be merely a restatement of the existing mission or a set of general aspirations. The new CEO should paint a complete picture of what will be seen, heard, and felt once the firm's new future has been realized. She should describe the behavior of key people and the organization's processes at their best. Particularly in the early days of a new CEO's tenure, followers will expect her to do this. Within the first year she should communicate her vision often and in full detail to encourage others, especially the people who are most important to the strategy, to adopt it as their own. This is an obvious place to use the common vision style of influence.

Cases of Success and Failure

New CEOs who learn to influence others adeptly are better positioned for a long and successful tenure. If they ignore or mishandle this aspect of the role, they're much more likely to become another data point about failed CEO handoffs. Consider the following two stories, which are based on the successions of two actual CEOs.

Beth was one of three CEO candidates at her fast-growing company, which had revenues of almost \$40 billion. She was considered a long shot because she ran an administrative function and had no operational or international experience. She also was not a self-promoter, believing that her results would

speak for themselves. But 18 months after the board began the CEO succession process, she won the top job as the result of a deliberate strategy to prepare herself for it.



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During the transition phase, she focused on getting to know the outgoing CEO better—not to ingratiate herself but to study his leadership style and thought processes. She invested time in envisioning the optimal operating model and culture for the firm and how best to communicate them. After the board offered her the job, she continued to hone and demonstrate the skills she'd relied on to get there: devotion to preparation, the ability to shift from strategic to operational to cultural perspectives, connecting disparate information to produce insights, building close ties with frontline performers, and ruthless prioritization.

As the designated successor, Beth made wise moves to build her credibility and support, including persuading the CEO to put her in charge of a large and vital operating unit. She developed a network of internal and external advisers and learned how to get the most from them. She reshaped relationships with the peers who would soon be her subordinates (including one who'd been the early front-runner for the CEO role). She built relationships with the most influential directors and sought to understand the inner workings of the board without threatening the CEO. Fast-forward five years, and Beth has grown the company at a record pace and was recently elected chair.

Why did Beth's succession go so smoothly? She made the most of her opportunity, and the board and the outgoing CEO played their parts well. The succession process was launched three years before the transfer of power. (Most boards wait too long to get serious about succession.) Most directors had been in place during the previous CEO handoff, so they had the benefit of experience. The incumbent CEO influenced the succession process in his role as board chair. The company also was performing well financially—a condition that makes any leadership change easier.

Contrast Beth's story with Jeff's. At his fast-growing health care company, the board unanimously considered Jeff the best succession candidate, primarily because of his deep operating experience. The incumbent CEO and the board chair convinced the other directors that the existing growth strategy was sound and that the next CEO need only focus on execution. But as Jeff was taking over, warning signs appeared that revenue and profits would soon decline. He had never been a CEO before, and in his previous jobs he'd had little interaction with the firm's independent directors. He struggled to understand the board's points of view and overestimated his power and room to maneuver.

Stylistically, Jeff was a sharp contrast to the incumbent CEO, who was charismatic, effective with investors, and a powerful spokesman for the company. Jeff had a reserved style and tended to emphasize the practical rather than the possible. He also made mistakes that hurt his efforts to win the board's confidence, including criticizing aspects of the outgoing CEO's tenure and keeping on an influential but controversial direct report the directors believed he should replace. Most important, he did not invest enough time in understanding the board's expectations and concerns.

Compounding this situation, the independent directors played a passive role in the succession process. They went along with the CEO's choice rather than critiquing his process or creating their own. Most of the directors had never gone through a CEO succession before, and their inexperience showed. They were faced with limited options because the CEO had decided against an external search, worrying that it would be a sign of failed planning and talent development.

The outgoing CEO decided that the period when he and Jeff overlapped should be a short one. Seeing a chance to gain power more quickly, Jeff conveyed to the independent directors that it would be best if the CEO left even sooner. As their relationship soured, tension increased within the senior management group. Eventually things calmed down, but Jeff never overcame the poor start. Then the pandemic hit, overwhelming the company. Its growth collapsed, and investors became skeptical of Jeff's leadership. Because the former CEO was not in his corner to help with either the board or investors, Jeff was fired before his first anniversary as CEO.

These two situations were quite different, but the same set of factors enabled Beth to succeed and led to Jeff's failure: the relative sophistication and skill with which each handled the pressure of assuming the top spot and, in particular, winning over key decision-makers and securing loyal followers. Jeff needlessly created a conflict with his predecessor that forced senior managers and the board to choose sides. Beth was patient and focused on moving into the CEO job with as little stress and tension as possible.

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No succession is easy. Because the process involves people in positions of power, the dynamics are political in nature and therefore difficult to manage. Planned successions are the most

complex because of the overlap between incoming and outgoing leaders and the reality of three powerful players, each with their own objectives, influencing one another.

Conventional wisdom holds that the best course of action in CEO successions is for the key players to deepen their interpersonal relationships—revealing more about their expectations and objectives, showing appreciation for one another’s wants and needs, listening with empathy, making others feel welcome, seeking common ground, and cooperating. That isn’t enough. The new leader must convince key people, who have their own agendas and biases, that she is the best choice for the job and then earn their loyalty and confidence. Great managers do this by using a broad repertoire of approaches to influence and persuade others. The ability to do that is the essence of leadership, and it is particularly critical for designated CEO successors.

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