RESEARCH STUDY

NEW CEOS & THE SENIOR TEAM

Fresh Faces in High Places

WHAT WE THINK

Senior executive team members often become apprehensive when a new CEO is appointed. Is this anxiety justified?

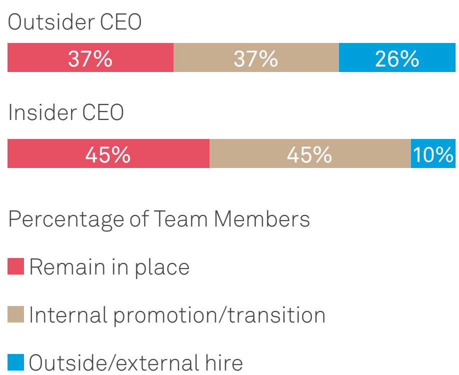
Research from RHR International sheds light on just what happens to those closest to the corner office when a new occupant takes up residence.

While our studies show that the concerns of upper-level executives may be warranted, thoughtful planning can create a senior team capable of achieving an organization's strategic goals with minimal disruption. Easing tensions and building harmony during the transition period can accelerate productivity and maximize bottom-line results well into the tenure of the new chief executive.

Making Their Move

According to an analysis completed by RHR International, it takes new leaders on average less than four months to begin making changes in the structure of their senior teams. In time, a full 60% of those sitting around the meeting table will be replacements. Original members might have a nodding acquaintance with 35% of their new associates, as they joined the team from within the organization. But chances are they will need introductions to a full quarter of the assembled executives, since they will have been hired from the outside to fill perceived talent gaps among the CEO's chief advisors.

AVERAGE CHANGES IN SENIOR TEAM BY NEW CEO



On average, **Outsider CEOs** move faster in making changes to their executive team. They are also less likely than **Insider CEOs** to promote from within, preferring to bring in new talent (although often not "new" to them—many CEOs bring trusted colleagues with them from prior organizations). While internal promotions make up 45% of **Insider CEOs'** changes to executive team membership, they comprise only 37% of the average **Outsider CEOs'** substitutions.

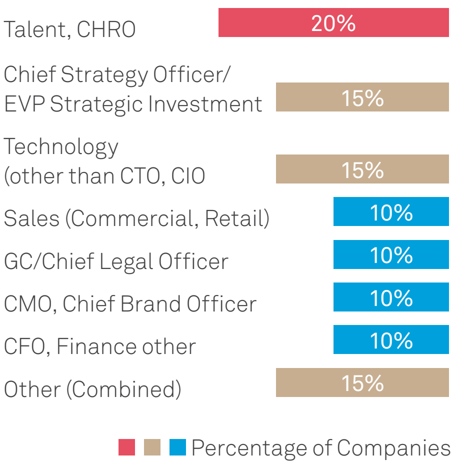
In RHR International's study on CEO transitions, several chief executives shared with us that they should have initiated personnel changes even earlier in their tenure, particularly as they related to executives who were not living up to expectations. While the CEOs expressed the desire to provide substandard performers with ample time to prove themselves, the chief executives also realized that they could have significantly reduced the negative impact of these individuals on the executive team, their direct reports, and the broader organization by taking more immediate action.

First Things First

According to the study, the first role likely to be reviewed by the CEO, on average, is the chief human resource officer (CHRO) or head of talent management. From a tactical and symbolic viewpoint, this is understandable, as it is likely a reflection of the chief executive's desire to make the alignment between talent and corporate goals a top priority.

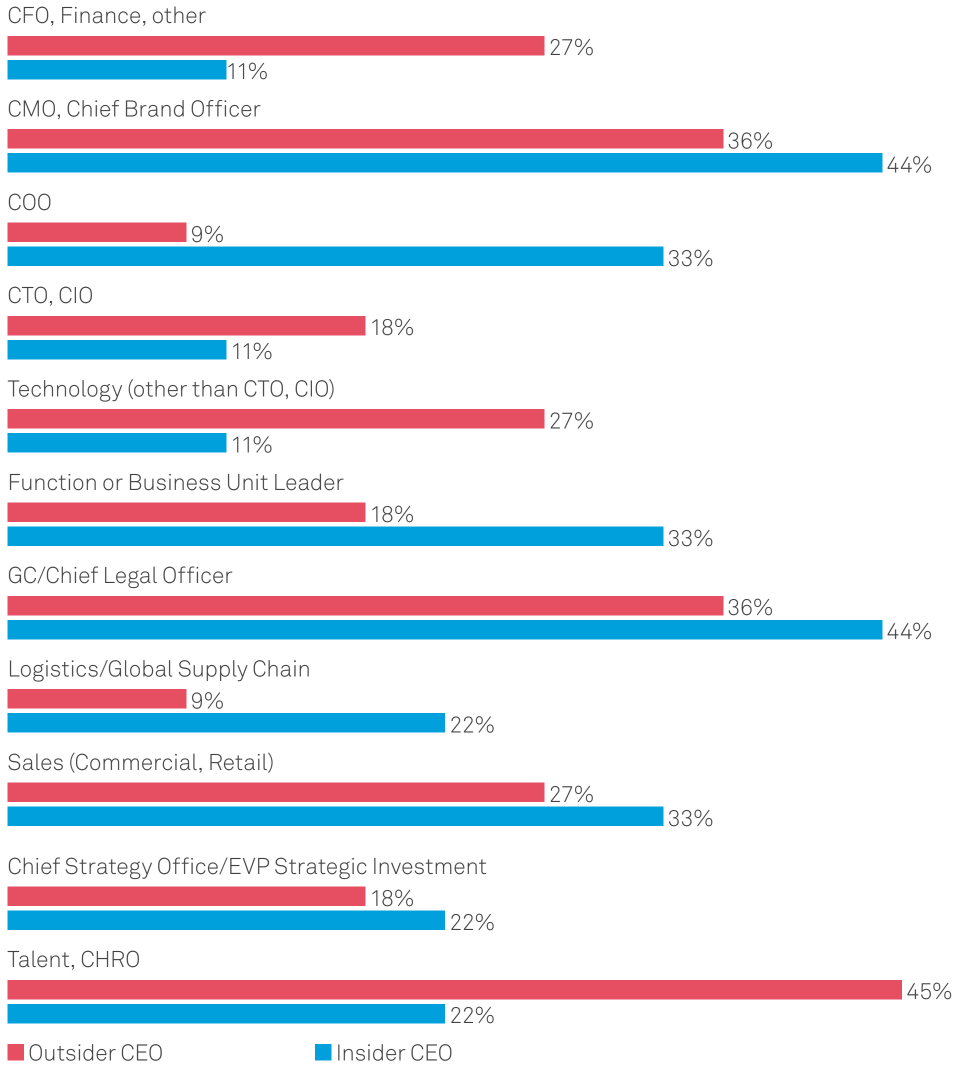
Concurrent with our findings regarding the CHRO role, J.C. Penney transitioned

NEW CEO'S FIRST ROLE CHANGE LIKELY TO BE CHRO[1]



[1] Percentages > 100% due to multiple simultaneous changes.

NEW CEO'S SUBSEQUENT EXECUTIVE REPLACEMENTS[1]



[1] Percentages > 100% due to multiple simultaneous changes.

its chief talent officer at the same time that Ron Johnson came on board in November of 2011. Of the entire J.C. Penny executive committee, only 20% of the original team was in place at the time of our study. Seventy percent of the new members came on board from outside of the company. This would indicate that Johnson was in the process of compiling his own personalized team of star players as part of his marketing and pricing strategy overhaul. Ironically, the board did not agree with his direction and he followed most of the original team out the door. Many of the executives Johnson brought in left as well, replaced in turn by new/old CEO Mike Ullman.

A New Broom

When new CEOs follow up their first replacement with subsequent changes, general counsels/chief legal officers often join CHROs at the top of the list. The origin of the CEO seems to make a difference in this decision: Insider CEOs are more likely to focus on the GC/chief legal officer and the chief marketing officer (CMO) roles while Outsider CEOs still have the CHRO in the lead spot, followed by CMO and GC.

Former CEO of Yahoo! Marissa Mayer is another chief executive whose entry into the position also reflects the findings of our study. Although highly publicized, she does stand out among the crowd for her swift and somewhat avant-garde talent management style. In August of 2012, Mayer hired a new, external CMO while the previous holder of that title was on vacation. Upon her induction into the CEO role at Yahoo! in July 2012, Mayer transitioned out over half of her executive team. The first replacement was the general counsel and security position just 30 days after her arrival. Mayer announced her resignation from Yahoo! on June 13, 2017.

Assess, Analyze, and Act

Whether the new CEO is promoted from within or hired from the outside, our study indicates that changes to the top management team are inevitable. Before making such moves, however, chief executives should ensure that their team members have been professionally assessed against their organizations' strategic plans. Assessing for the necessary skills and behaviors provides a scientific foundation for the CEO's talent management decisions. Additionally, instead of building a team of star players from scratch, performance gaps could be addressed through a strategic and rigorous Executive Development Program that may accelerate productivity more rapidly than starting over with a new roster.

Senior executives, for their part, should make sure to stay current with their skillsets and industry knowledge, develop an agile mindset, and keep an open mind when first meeting their new CEO. Fine-tuned abilities, a professional demeanor, and welcoming behaviors may give each member of the team a better chance to remain at the table.

Methodology

This study was based on an analysis of CEO/team trends from publicly available information on 20 global companies averaging 2012 sales of $41B with CEOs who transitioned into the lead role between 2010 and 2012. Forty-five percent of these new chief executives were appointed from inside the company and 55% were hired from external sources.