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Spotlight Article

Succession Planning

How CEOs Build Confidence in Their Leadership

It takes longer than you think, but patience pays surprising dividends. **by Claudius A. Hildebrand, Jason Baumgarten, and Mahesh Madhavan**

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New CEOs frequently face a conundrum. While the people around them publicly express high hopes for what they'll be able to achieve, in private those same people are skeptical. As a result many new CEOs underestimate how much work it takes to build confidence in their leadership—something that's crucial to their ability to effectively drive change. Buoyed by outward expressions of support and eager to make their mark, they steam ahead with bold new initiatives before they've won the full support and trust of all stakeholders—and that gets them into trouble.

You can't blame new CEOs for falling into the speed trap. The conventional wisdom, after all, is that they have roughly 90 days to prove themselves to their organizations. But the process actually takes longer than that—far longer, according to our research and experience. Gaining the confidence of all stakeholders, it turns out, takes a full two years. And only by focusing strategically and purposefully on building trust during that period can CEOs genuinely create the conditions for long-term success.

How did we arrive at that two-year figure? By carefully studying nearly 1,400 CEOs who have led S&P 500 firms during this century. First we had to devise a reliable way of defining and measuring confidence in them. Typically, we think of confidence as a quality that has a social value, helping leaders influence others. But it also has a monetary value: Investors assign multiples to stocks that reflect their confidence in companies' continued ability to generate shareholder returns. We reasoned that the enterprise multiple could be considered a measurable proxy for the confidence in their leadership that CEOs build during the various phases of their time in office. (For more on that see "The CEO Life Cycle," HBR, November–December 2019.) The enterprise multiple is a company's total enterprise value divided by its earnings before interest, taxes, depreciation, and amortization (EBITDA); the higher it is, the greater the confidence in a CEO's ability to deliver superior performance in the future.

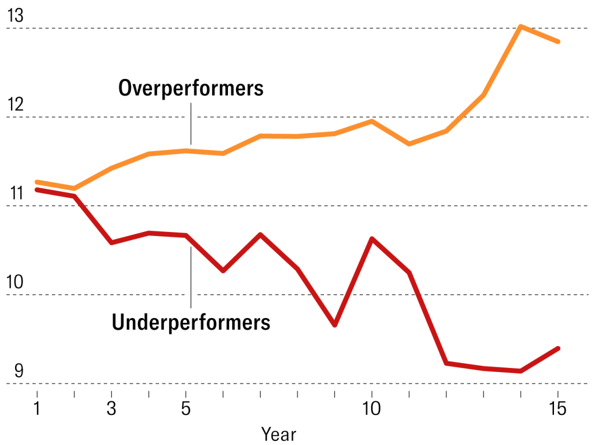
Once we had established a widely applicable measure, we rewound the clock to analyze how the CEOs in our study had gained people's confidence year after year. We combined those insights with interview data gathered by Spencer Stuart, a leadership-advisory firm that routinely partners with organizations to improve CEO performance (and that employs Claudius and Jason). We also looked at a range of other indicators of CEO effectiveness, including revenue growth, total shareholder returns, profitability, and ESG performance. This blend of quantitative and qualitative data provided us with strong evidence about the pace at which leaders earn stakeholders' support over time, the ways they manage that challenge, and the benefits that accrue from getting things right.

This led us to a striking discovery: While it typically takes far longer than we think for new CEOs to get others to believe in them, when they focus strategically on confidence building during their first two years, they set off a virtuous cycle that leads to a remarkable and consistent increase in their companies' enterprise multiples in the years that follow. We call this increase the *confidence premium*. (See the exhibit "Top Performers Take Off in Year Three.")

Top Performers Take Off in Year Three

The chart below shows value creation over the course of CEOs' tenure, as represented by the change in companies' enterprise multiples. For the first two years, as confidence is being built, there is little or no difference, but after that a "confidence premium" grows continuously.

Enterprise multiple, by CEO year



Source: Spencer Stuart CEO Life Cycle Analytics, S&P Capital IQ

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During the first two years of a CEO's tenure little to no premium emerges. During that period a new CEO's words and actions are closely monitored, but it's generally too soon for anybody to meaningfully evaluate their consequences. Starting in year three, however, things change. CEOs who began with comparable multiples gradually come to be seen as higher or lower performers—and from that point on, the gap between the two groups continues to widen, ultimately reaching a difference of nearly four points. That may sound small, but when one considers the effect of such a multiplier on, say, the $30 billion median market cap of an S&P 500 organization, the confidence premium amounts to close to $10 billion.

There's an important lesson here: If you're a new CEO who wants to maximize the value you'll create in the long term, during your first two years you'll need to patiently and methodically earn the confidence of all stakeholders. In this article, drawing not only on our research and analysis but also on Mahesh's personal experiences as a CEO, we'll offer guidance on how to do just that.

A Marathon, Not a Sprint

Few things instill more confidence than a strong track record does, yet if you're a new CEO, you start with a blank slate. So how to proceed? We've identified six key practices that you should apply systematically.

Set a deliberate pace. This is crucial. We've worked with many new CEOs who, feeling the pressure to deliver quick wins, hit the ground at a full sprint, launching a variety of initiatives and pursuing multiple objectives without having secured the alignment of the board, their leadership team, or other key stakeholder groups. Needless to say, that approach backfires because the race they're running is not a sprint but a marathon. A marathon requires patience, endurance, and a sustainable long-term strategy. In a marathon time is on your side. You need to go slow to go fast. Accepting that idea and pacing yourself accordingly will allow you to steady your efforts and help others develop faith in your leadership.

When Mahesh found himself caught in the speed trap as a new CEO at Bacardi, he freed himself from time pressures by making sure all his stakeholders appreciated that they were at the very beginning of a marathon. Assuming the helm after spending 20 years at the company and on the heels of several short-tenured CEOs, he recognized that Bacardi was unstable, lacked a long-term strategic outlook, and had a culture that didn't support its stated values. So at the outset he made it clear—with the board, the ownership family, and the company—that he intended to be in the role for 10 years. Those years, he told them, would be the best the company had ever seen.

His next task was to reboot the culture. He and his leadership team gave their new programs memorable names like the “Best 10 Strategy” and the “3Fs” (for “fearless, founder, family”) and talked about them regularly. Once the employees started to understand that they had a CEO who planned to stick around, provide stability, and bring back Bacardi’s culture of innovation and entrepreneurship, Mahesh and his team began to celebrate small wins in performance and reward long-tenured executives with new leadership positions. They showcased daring ideas, rewarded desirable founder and family behavior, and, finally, traveled across the world to meet workers in town halls and one-on-ones.

Pick your battles strategically. New CEOs can benefit from quickly launching just a few well-structured initiatives, designed to help them gain momentum and signal to audiences inside and outside the organization the direction they plan to take. That approach allows you not only to demonstrate how and where you’ll focus your energies but also to develop a track record that gets stakeholders on your side. It gives you a chance to notch a few early successes while building a foundation for the larger strategic moves you’ll eventually make.

How do you decide what to focus on first? From day one you’ll find yourself besieged with requests from multiple groups, all expressed with the highest degree of urgency, and as you try to build trust and generate support, you’ll naturally feel pressured to address them all. Resist that impulse, which will put you on the fast track to failure. Instead, learn to say no to most requests, no matter how exciting they might seem. Start small and be methodical. Identify which stakeholders you need to prioritize, choose just a few of their most critical demands, and attend to them well.

One new CEO we worked with was swamped by the sheer volume of requests that she received after stepping into the job. Each issue was described to her as the most important and urgent matter she had to contend with. As she took stock of it all, she felt overwhelmed: What was truly important and urgent? When we began working with her not long afterward, we found her struggling to treat all requests equally. That approach, we told her, was a recipe for inaction and failure. To help her move beyond that impasse we sat down with her, mapped out all the requests she'd received across the stakeholder landscape, and then worked with her to identify three primary and five secondary stakeholders whose issues she felt she could successfully respond to with a small set of early signature moves—each of which she knew would earn the stakeholders' confidence. The process allowed her to be proactive rather than reactive: By focusing strategically on the few rather than trying to respond to everyone, she was able to act with purpose, communicate clearly, and gather feedback that would help her make subsequent moves.

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In a well-run succession process, new CEOs will be set up for early wins by their predecessors. In one situation we were involved with, the outgoing CEO had recently acquired a business and deliberately left his successor with a clear mandate: Integrate that business. The new CEO embraced the mandate during her first two years and skillfully merged the two businesses, both operationally and culturally. That accomplishment earned her the trust she needed for a more radical growth agenda, which she was then able to pursue in the years that followed.

Align your team. The most successful new CEOs recognize that to win others' confidence early on, they have to focus right away on assembling a high-performing leadership team. But all too often new CEOs delay that task, which doesn't grab headlines the way the launch of bold new initiatives does—and can involve making difficult decisions about senior personnel. The problem is, if you don't have a team in place that's cohesive, in agreement on objectives, and able to act effectively in support of your plans, it's almost impossible to gain people's confidence widely.

When one new CEO we worked with stepped into the role, he wanted to fill two key positions before he tried to get his top team on board with his objectives. He figured the searches would take a couple of months—three tops. However, as sometimes happens, they took longer than expected, and while they dragged on, another key executive left the company, creating yet another vacant seat. Waiting to start moving forward cost this CEO valuable time and made him appear both ineffective and indecisive.

New CEOs who come from inside the organization obviously benefit greatly from having already developed strong relationships within their firms. But they also have a special confidence-building challenge: They must convince their former peers and colleagues—who have known them in other capacities—that they have what it takes to lead the entire enterprise. This challenge hit especially close to home for one CEO who had spent much of his long career with his company. When he stepped up from CFO to CEO, he wanted the organization to know him better and see him differently. So he actively shared more about himself and his personal life than ever before. He opened up about how he spent his weekends and the challenges he had to overcome, such as the severe illness of his child. Doing so, he believed, was the best way to show his human side, rally his team behind him, and allow the organization to gain trust in him.

New CEOs who come from outside the company face a different conundrum. They're still strangers to the organization, and all eyes are on their every step as stakeholders try to decipher their point of view. One CEO we worked with observed that everyone wants you to say something dramatic. There is a real temptation to give in to that and make bold statements. However, the bigger risk is in being forced into premature opinions that may limit your options down the road and potentially even corner you. This CEO realized that the insecurity of being new in the job made him prone to weigh in too quickly and show off his smarts. To counter those tendencies, we worked with him to develop a clear executive agenda while learning the fundamental parameters of the business that would help him align all stakeholders around the new path forward.

Engage stakeholders at the right time. For most new CEOs, this process starts with the board. Building trust, familiarity, and support here is a priority, but new CEOs rarely recognize just how much time they'll need to invest in learning the subtleties of boardroom dynamics and developing a strong relationship with each director. Mahesh devoted himself to this important task almost immediately after becoming CEO, intent on understanding not only the domain expertise of his various directors but also their preferred engagement rhythms and forms of interaction. He arranged for the directors to spend meaningful time getting to know his senior team. This work paid off: At a stage when many new CEOs become an information bottleneck, he instead became an effective conductor of information and was able to get his executive team to chart a path forward collectively.

Earning the confidence of all employees is also key and should become a daily practice. One often effective approach is to run regular “ask me anything” sessions with employee groups and gather data about what people are thinking, how trends are developing, and where the focus may need to be adjusted. That will help you learn what your employees are concerned about and has the added benefit of making them feel heard—all of which naturally engenders trust. Of course, don’t forget the obvious: To maintain that trust, you’ll need to make sure that your actions match your words (those you speak on the public stage and in private settings).

You’ll need to engage investors too. At a public company a good place to start is during quarterly earnings calls. One new CEO learned the hard way that emphasizing only positive outcomes and bullish scenarios tends to backfire—and when that happens, it harms credibility. He reconsidered his approach and began conducting earnings calls in which he offered a balanced discussion of what was going right and what could go wrong, and at the end of the calls he would spend time with analysts to gather their views on the company. Because he now came across as a thoughtful steward of the company, he found that investors changed their perception of him and became increasingly confident in his leadership.

Communicate clearly and relentlessly. Communication is critical to building confidence in your leadership across stakeholder groups. What’s the best way to handle it effectively? Repetition, repetition, repetition. No matter whom you’re addressing or in what setting, you’ll need to tell people what you’re going to tell them, tell them, and then tell them what you told them. You’ll get tired of this process, but remember: Much of what you'll be saying either will feel new to your audience or will start to sink in only after many repetitions.

Similarly, in all your communications, make sure to repeatedly signal progress: Remind your stakeholders where you started, where you are, and where you're going. To help them recognize advances, break your overall journey into smaller, shorter parts with easily measurable objectives. Map your goals against the calendar—and communicate your achievements reliably. Then make course corrections as necessary. A plan that made a lot of sense six months ago may no longer do so because of changes in your competitive environment. Share the nature of such changes regularly with your audiences and make sure they understand that you're making the necessary adjustments. This is yet another way to inspire their confidence in you over the long term.

Better yourself. With so many constituents to serve, most new CEOs don't prioritize their own learning. That's a mistake. Continued investment in your own abilities will help you gain stakeholders' confidence and build your self-confidence more quickly.

CEOs typically lack peers within the organization who can help them with this goal. Mahesh vividly remembers the ambiguity and uncertainty that came with suddenly being the person who was supposed to know all the answers. Having few people with whom he could share his concerns about the size of the task ahead, he focused on learning, engaging, and adjusting his style, and he developed techniques—such as documenting his intentions and desired outcomes, taking evening walks with his wife, and making time for yoga and meditation—that allowed him to stay anchored in the present.

Most CEOs, new or experienced, benefit from having a coach or an adviser—somebody who can regularly hold up the mirror, help them grow, provide new perspectives, and push their thinking. With one new CEO we did that by focusing intently on strategic goal setting. The process began with her personal purpose and then expanded to her organizational purpose—with an emphasis on determining where they overlapped. With our help and the engagement of an inner circle of confidants, which included her heads of strategy and communications, she got the constructive feedback and encouragement she needed to ensure that she could do her job confidently and with a strong sense of purpose.

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As a new CEO, you'll find it tempting to seek out quick wins and take bold actions that reveal a decisive attitude. When you start your job, the excitement is high—and so is the pressure. But the journey to earning your stakeholders' trust and support is neither short nor easy. By following the steps we've recommended in this article—pacing yourself, strategically picking your battles, mobilizing your team, engaging stakeholders at the right time, communicating clearly and relentlessly, and investing in self-betterment—you'll build confidence in your leadership over time and speed your transition from being the new CEO to simply being the CEO. Patience, persistence, and consistent communication during your early years will be key to navigating the complexities of leadership and maximizing the value you create in the long term. As Bill Gates said many years ago, "We always overestimate the change that will occur in the next two years and underestimate the change that will occur in the next 10. Don't let yourself be lulled into inaction."

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