

# Who Will Lead?

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## When Succession Management Fails

XYZ Corporation is one of the world's oldest and largest manufacturers of specialty components. Despite the organization's success over much of the last century, a poorly conceived and executed succession plan would eventually lead to innumerable political and financial problems.

The CEO of XYZ Corporation held the post for many years. The organization performed well financially under his leadership, but his obsessive focus on bottom-line results precluded leadership development. When an economic downturn affected the company in the late 1990s, the leadership team reduced costs through layoffs, further reducing the pool of qualified successors.

As the millennium approached, the Board of Directors recognized a problem with the succession management process and requested that the CEO groom a successor. The company selected an outsider – he failed within one year, in large part because the CEO refused to relinquish control. A second candidate, this time from within XYZ Corporation, was selected, but he failed within two years – because, according to the CEO, he was dumb and untrustworthy. At this point, the Board became heavily involved in the process. A third successor, hand-picked by the Board, came aboard and was quickly promoted to COO. Within one year, the CEO and his entire senior leadership team were ousted.

XYZ Corporation's financial performance plummeted during the succession management fiasco. From the time the process began until the eventual successor assumed control, the organization's revenue declined by nearly 68%.

Succession management is the process through which potential leaders are identified, assessed, developed, and prepared to assume control of key organizational roles – it is the embodiment of an organization's future. *The Economist*<sup>1</sup> ranks succession management as one of the most important issues facing organizations today. *The University of Georgia's Carl Vinson Institute for Government*<sup>2</sup> estimates that 87% of senior managers and 78% of middle managers will retire within the next

"Succession [management] today is a bankrupt exercise that often misses the best candidate and, moreover, discourages scarce talent from joining or staying with a company. What we see are companies that have failed to master the skill most urgently needed in this economy: choosing the right CEO." *Fortune*, April 7, 2000.

decade. Adding to the problem is that only 13% of companies with a defined succession management process actually adhere to it when making personnel decisions, according to a *Hewitt Associates*' survey of 240 major U.S. corporations<sup>3</sup>.

Implementing strategically-driven processes to sustain a steady supply of leadership talent is akin to taking out a life insurance policy on an organization's future. Unfortunately, it seems that many organizations have abandoned long-term planning in favor of a just-in-time philosophy – the same approach used to manage physical inventory – in which a bevy

of talented successors can be identified by a quick visit to the nearest executive staffing firm. For example, Jeffrey Cohn and Rakesh Khurana<sup>4</sup> reported that between 1980 and 2000, the percentage of CEOs hired from outside sources soared from 7% to 50%. Despite the trend toward external talent, research suggests 34% of senior managers hired from other organizations fail<sup>5</sup>, and organizations that rely on external candidates have nearly twice as much turnover as those who rely on internal candidates<sup>6</sup>.

One reason many companies choose to seek talent from external sources may be because they lack confidence in their ability to identify talented employees. A study by Watson Wyatt<sup>7</sup> indicated that only 24% of companies expressed confidence in their ability to staff key leadership positions over the next 5 years. This statistic paints a bleak portrait for the future of many organizations. Clearly, the yellow-brick road is not paving the way to the future.

## So What Should Companies Do About It?

Effective planning begins in the here and now, but focuses on the future. Regardless of whether the plan is for retirement, education, or strategic staffing, the principles remain the same. Yet, some companies create succession plans that clone existing leaders rather than help to ensure that high-potential candidates develop skills that will be required in the future. These "replacement strategies", as they are sometimes referred to, are similar to retirement plans based on savings accounts and safety deposit boxes – they provide a sense of security, but do not generate notable long-term value.

Succession management programs should be evaluated based on whether the candidate pool has the essential skills and experience to address future business needs. The implication is that succession management is about managing talent, not just having a process to fill a key position. With that in mind, the best succession management systems have the following qualities:

### Did you know...

Nine years before he left his post as CEO of General Electric Corporation, Jack Welch said "From now on, choosing my successor is the most important decision I'll make. It occupies a considerable amount of thought almost every day."

- **Customized.** Succession management programs should be designed specifically for each organization. In today's consultant-for-an-hour approach to strategic problem solving, industry standard succession plans represent the antithesis. It's inconceivable to think that the same succession management program that would work for Microsoft would also work for Amtrak. For companies that seek off-the-shelf solutions, a long

journey of uncertainty awaits them prior to ending at the precipice of failure.

- **Strategic.** Succession management should focus on future leadership requirements. In doing so, the succession plan will prepare leaders for the challenges they will face when they assume key leadership roles.
- **Supported.** Few, if any, succession plans have ever succeeded in the absence of high-level and far-reaching support. The CEO and other senior leaders need to promote the succession management process, gain support, and ensure the process is followed. Without support, the succession plan will have a short and, at best, mediocre existence.
- **Open.** Historically, succession management occurred behind closed doors and in back offices. Today, however, succession plans are being discussed openly. Employees are generally aware of their candidacy and understand their role in the process.
- **Dynamic.** A key requirement of any succession plan is that it must be flexible. Business environments change and, as a result, so do the requirements of leaders. If the plan is too rigid, it will stagnate and become ineffective.
- **Objective tools.** Objective assessments offer at least three tangible benefits beyond employee nominations. First, using objective assessments is an excellent way to identify high-potential candidates earlier in their careers. Nominations may not begin to emerge until after several years of service, which could significantly delay the development cycle. Second, objective assessments can help minimize bias. By applying the same standard to each candidate, the succession process will develop a reputation as being fair and not subject to whims of the CEO or senior leaders. Finally, research indicates that objective assessments are better predictors of performance than are people. Companies that use well-validated assessments will make better decisions than companies using intuition and personal judgment.
- **Development.** Succession plans offer an excellent way for organizations to prepare structured development programs for high-potential leaders. The plans help candidates focus on skill and knowledge development, and also provide opportunities for new experiences.

- **Talent pool.** Having sufficient depth in the talent pool is essential if succession management programs are to be viable over time. Organizations should not allow themselves to be pacified by a false sense of security when they have only one or two qualified people in the queue.

### Building the Model

Succession management is the means through which an organization defines its strategic goals and then translates them into leadership needs, skills, and competencies. Building a succession plan can be a complicated process that involves the support, guidance, and participation of many people. If done properly, however, succession management programs can help secure the organization's future.

There are seven broad steps that must occur in order to develop a good succession management process. Each of these steps is discussed next.

- **Formulating organizational strategy.** As a first step in the process, senior leaders must decide upon an organizational strategy. What will be the organization's focus in three to five years? Will the competitors be the same? What new markets will the organization enter? Answers to these and many more questions need to be considered. Then and only then should senior leaders move to define the key positions that will be involved in the succession management process.
- **Defining key positions.** With a clear understanding of the organization's strategy, the leadership team will need to define the positions that will be fed by the succession management pool. Obviously, not every leadership position in the organization will require a succession plan, but the top 5 or 10 positions may provide a good starting point.
- **Clarifying performance metrics.** Once the positions have been selected, the organization should identify the competencies that will define success in the coming years. This step will likely require a review of the job, an evaluation of future needs, and the specification of an endorsed organizational performance model. From this information, the organization should be able to develop position-specific performance metrics that will form the foundation of the succession plan.
- **Evaluating bench strength.** With performance metrics clearly defined, the next step is to evaluate current employees. This step will provide a

benchmark from which to compare candidates over time. If candidates show little or no improvement, the plan may require alterations. Moreover, by clarifying current bench strength, the organization will gain a better understanding of areas that will need to be addressed in the coming months and years.

- **Building the succession management pool.** The succession management pool should be built based on a combination of nominations from supervisors, assessment results, and performance data. Supervisors have the best information about individual employees – they know who’s good and who’s not. They can help senior leaders select from among a dizzying array of potential candidates. However, nominations aren’t enough. Each prospective candidate should also undergo a thorough assessment battery so that decision makers can understand their strengths and developmental needs. The ultimate question to be answered is whether the candidate is likely to succeed, and therefore, worth the investment. Finally, each prospective candidate should undergo a regular performance review, which can serve as one metric from which to gauge improvement.
- **Professional development.** At this stage, individuals who are in the candidate pool should work closely with their supervisor to specify a development plan. This plan should focus on three to five goals that can realistically be accomplished within six to twelve months. The candidate and his/her supervisor should integrate the assessment results with the performance feedback to more clearly understand development opportunities and strategies for addressing them. If better performance is the destination, assessment results provide the directions.
- **Promotion.** Candidates should have a clear career path. “Ready Now” candidates should know that they are in line for a senior leadership position and that this transition will occur within a specified timeframe so long as they meet pre-defined performance metrics. Of course, these performance metrics should be communicated to candidates. It is essential for the organization to delineate succession opportunities in advance and present a general timeline to the candidates.

## Talent Management

A succession management system generates a tremendous amount of employee data that must be stored in an easily accessible form. Background, assessment, and performance data represent the heart of a succession management system, yet, all too often, little thought is given to the management of these data. Fortunately, technology provides many effective

alternatives to managing data. Electronic databases allow organizations to store, organize, and search data to identify candidates who are best suited for a particular position. Furthermore, data searches can occur from anywhere in the world. So if a position opens in the Congo, a senior leader might find a suitable candidate located in Kuala Lumpur. The optimal result is an electronic talent management system that allows remote and easy access.

## Benefits of Succession Management

Succession management systems can help transform organizations from ordinary to extraordinary. By forcing an organization to plan its strategic future, define the requirements of future leaders, and prepare plans to ensure a steady stream of talent, organizations are in some ways being forced to think outside the box. The results of this type of thinking can prepare organizations to compete in a global enterprise for years to come. Succession management programs often yield a wide range of benefits, some of which include:

- motivated and well-trained employees,
- a qualified and seasoned talent pool,
- an established reputation as a good workplace,
- a disciplined view of talent,
- integrated selection and development systems,
- improved confidence from key stakeholders, and
- defined career paths.

## Common Pitfalls

A failed succession plan impacts the company, employees, and stockholders. There are many reasons why succession management systems fail, but the following list reflects some of the most common causes.

- **Lack of formal plan for each position.** Some organizations run the risk of assuming that all leaders are interchangeable. Although many leaders succeed when they move to different functions, some fail. To reduce the likelihood of failure, organizations should prepare a clear succession plan for each position and specify the level of experience necessary for promotion.
- **Rigidity and inflexibility.** Business environments, technology, and competitors change constantly. Therefore, succession plans need to be designed with flexibility in mind. This doesn’t mean that change should occur for its own sake, but the plan should be able to adapt to strategic changes in the business environment.

- **Too long to wait for promotion or movement.** Some organizations bring people into succession management programs and then forget about them. High-potential employees will eventually become irritated if they do not see a reward or clear direction in their professional future.
- **Superficial approach.** Succession management systems need to be taken seriously by organizations. Sometimes the term succession management refers more to an organization's closet than leadership development; once you enter, you never come out. In other instances, succession management programs exist but there is no commitment from the organization to actually select talent from the candidate pool.
- **Selecting unmotivated or unqualified people.** If organizations do not make a commitment to select the best candidates for a position, frustration will ensue. The consequence can be disastrous for an organization: mediocre talent ascends and superb talent leaves.

### Contingency Plans

If a situation arises in which no candidate is ready to move into a senior leadership role, outside help may be a viable alternative, but only if the organization has clearly articulated its strategy, key competencies, and the qualities desired in a leader. For example, Yahoo! hired Terry Semel out of retirement in 2001 after his successful stint at the helm of Warner Brothers. The grey-haired, soft-spoken Semel has helped focus Yahoo!'s strategy and leveraged its large consumer base. Why did Semel succeed when so many other outsiders fail? The answer seems to be that Yahoo! employed due diligence when defining the nature of the leadership role and the type of person necessary to fulfill their expectations. With clarity comes specificity, and Yahoo!'s example reinforces that notion.

### How to Evaluate the System's Effectiveness?

Perhaps the greatest danger facing most succession management systems is that there is no formal approach to evaluate the program's success. You probably would not want to invest money in a venture without a way to gauge performance, so why do so many companies develop succession management programs without a defined plan for evaluating its effectiveness? The answer appears to be that most organizations simply do not understand how to evaluate the success of their program.

So how can organizations evaluate their succession management program? The following five indices will help

organizations better understand whether their succession management systems are working properly.

- **Bench strength prior to the succession management system.** One important question that most organizations fail to consider is "what is our bench strength prior to implementing a formal succession management system?" Organizations that fail to conduct a thorough review of their candidates' qualifications, development needs, and strengths may over/underestimate the depth and talent of the succession pool. Key stakeholders involved in developing the succession management process should insist on research to provide a baseline from which to evaluate future success or failure.
- **Ongoing evaluation of bench strength.** The initial bench strength review is only a starting point. Organizations should conduct an annual review of bench strength in terms of competencies and development programs, and then use this information to identify necessary alterations in the succession management system. This review process will help the organization capitalize on changes in the business environment.
- **Number of qualified, "Ready-Now" candidates.** A critical performance metric for any succession management system is the number of available, "Ready Now" candidates. Organizations must be prepared for potentially awkward situations, such as when a senior leader retires early or leaves the organization for other opportunities. The succession management system should ensure that the organization has a bevy of talented successors who are able and willing to assume a leadership role in a very short period of time. If not, the succession management process will not work as intended and will need to be reevaluated.
- **Developmental improvements.** It is expected that employees' performance will improve continually throughout their careers. The succession management process should include avenues through which a candidate can be evaluated on an ongoing basis. Multi-rater tools and other organizational metrics (scorecards) provide a way to assess performance improvements over time. The succession management system should provide candidates the development assistance they need to become "Ready Now"; if not, the planning process should be revised. A decision to revise or enhance the succession management process, however, should be made on the basis of group-level, not individual-level data.

- **Organizational performance.** The succession management process should help organizations achieve and sustain growth over time. If working properly, succession management systems should help organizations ensure the viability of their future by providing a steady stream of talent. Programs that are unable to fulfill an organization's leadership needs should be overhauled and redesigned to capitalize on future organizational needs.

## Case Study

One of the largest and most highly regarded companies in the U.S. wanted to enhance its succession management process for District Managers (DM). A quick review of their existing approach to succession management was startling. It was nearly unfathomable that an organization with hundreds of thousands of employees and well over \$20 billion in revenue could be successful playing a politicized game of “go fish” – “I’m looking for this type of person ... do you have a candidate?”

Expectations can be funny things; they invigorate emotions and sometimes prepare us for eventualities, but all too often they are based on incomplete information or irrational ideations, and as a result, they lead to disappointment. Let me provide an example: the first time my 5-year old daughter saw pictures of the Taj Mahal, she thought it was a castle. She stared in awe at its breathtaking beauty and marveled at the pristine reflection pool. Yet, when I told her that it was a tomb for Mumtaz Mahal, the fascination quickly turned to apathy. I experienced similar thoughts and emotions at the onset of this succession management project.

My first thought was “Oh my, I have really underbid this one.” After 10 or 15 minutes of carrying on a rather intense and private self-deprecating conversation, I realized we had to do something, anything.

I organized a team and scheduled a planning meeting with the CEO and other senior leaders. Our first question to them was “What constitutes success as a District Manager (DM)?” After a long pause, they said “growing revenue.” “Great,” we replied, “So what characteristics enable DMs to grow revenue?” The senior staff talked a lot, but said little. It became clear that there was no consensus on what characteristics DMs needed to be successful. The only area in which the leaders agreed was that candidates should achieve outstanding results. Although our team didn’t obtain the insight we sought, we all sensed that, given the opportunity to kick their arch rival’s ass in marbles, each of their 300,000+ employees would show up with a bag of Cat’s Eyes.

Given the lack of clarity surrounding the characteristics of successful DMs, the team proposed a large-scale job survey

project. Now, this was no ordinary job study project – it may have been the most senior-level study ever conducted. The DMs in this organization are essentially CEOs; many of them manage districts with revenues in excess of \$1 billion. Fortunately, the CEO and senior leadership team provided support for this project. They personally requested participation from the Region Managers (RM; revenues for each region averaged over \$2.5 billion annually) and their subordinate DMs.

The job study clarified the key performance indicators. Overall, four leadership factors emerged from the study:

**Business Leadership.** The ability to think through issues, generate innovative ideas, and promote change.

**Results Leadership.** The ability to take charge and make process improvements.

**People Leadership.** The ability to work well with others, inspire others to action, and communicate clearly.

**Self Leadership.** The ability to control one's emotions, act with integrity, and perform well under stress.

The team created a multi-rater tool (MRT) to measure the four leadership factors. The MRT served two purposes: (a) to provide senior leaders with an index of each candidate’s performance, and (b) to form the foundation for professional development.

A model of performance and a method to evaluate it on the job was not a wholly sufficient foundation on which to build a succession management process. The process also needed to include assessments that would provide objective information about a candidate’s leadership strengths and development opportunities. The team recommended three types of assessments:

1. A normal personality inventory that measured, at a minimum, the Big Five personality factors: Emotional Stability, Extraversion, Agreeableness, Conscientiousness, and Openness to Experience. In this case, the team suggested the Hogan Personality Inventory based on its excellent reputation and supporting research.
2. A measure evaluating the interpersonal tendencies that cause people to fail in their careers; i.e., derailment. Managerial failure is a big problem facing organizations; however, there are only a couple of psychological tools designed to identify the derailing tendencies before they create serious problems. The team recommended the Hogan Development Survey.

3. A tool that would enable the organization to evaluate a person's ability to solve complex, business-relevant problems. Unfortunately, there are only a few measures that evaluate these abilities and also have demonstrable validity. The team proposed the Watson-Glaser Critical Thinking Appraisal.

The assessment battery was relatively brief, but remarkably comprehensive. Feedback for each candidate would describe what he/she did well, where there was room for improvement, and how to leverage strengths and overcome shortcomings.

Succession management is about *managing* talent. The question we faced in this project was "How will candidate data be managed?" Talent management concerns two issues: (a) managing candidate records and data to maximize their usefulness to the organization, and (b) creating clearly delineated development paths to help candidates extend their skills, knowledge, and experiences.

The organization built an electronic talent management system that served as a searchable repository for candidate information. The system stored each candidate's work history, educational background, assessment results, performance results, development plans, and even feedback reports. With this database, the organization could produce reports summarizing candidates' qualification levels, assessment results, or virtually anything else. The system allowed a candidate, located in any part of the world, to be identified and evaluated for an opening so long as s/he met the minimum criteria.

An equally important aspect of talent management is employee development. The team created seamless links between the multi-rater feedback tool and the psychological assessments to help candidates and their managers focus development efforts where they were needed most. The multi-rater data informed candidates and their managers of potential problem areas; the assessments helped the candidate understand why the development need was a problem and what to do about it.

Monitoring and administering a system like this can be complex ... really complex. However, three components provide a framework from which to understand the system:

- **Evaluating candidates.** Pre-screening of candidates in terms of their educational level, job grade, experiences, etc. was managed by the organization. The client then prepared a database and uploaded it into an online assessment engine. Each candidate completed all of the assessment tools; reminders were automatically sent when a candidate was late.
- **Generating reports.** As assessments were completed, the system generated a series of reports –

one for each assessment tool (except Watson-Glaser) and one summary report that integrated information from all assessments. The system automatically sent the reports to each candidate, and the candidate's manager also received a report that summarized the candidate's strengths and development needs.

- **Sending data.** Candidate data were automatically sent to the organization. The organization received a complete data file for each candidate along with copies of the feedback reports.

### How Well Did the System Work?

The assessment-based succession management process outperformed the succession management committee. The team compared the performance of candidates nominated by RMs and DMs to the leadership potential ratings generated by the assessments. In each case, the assessments identified high performers more effectively and reliably than either RMs or DMs. For example, "Ready Now" candidates scored 85.40% (RMs) and 90% (DMs) on one index of Results Leadership, but candidates who possessed strong Results Leadership potential according to the assessments scored 92.14% (a significant difference in this sample). A similar example appeared in relation to Business Leadership: the assessments identified candidates who scored nearly 14% higher on average than candidates nominated as "Ready Now" by RMs and DMs.

The developmental aspects of the system will take time to evaluate. The process has been in place for nearly one year, and the second round of multi-rater evaluations are scheduled to begin in the next couple of months. At that time, we'll be able to review the multi-rater results and compare performance feedback over time.

### Conclusion

Creating and implementing a well-conceived succession plan is one of the most important steps an organization can take toward solidifying its future. A review of the current landscape suggests that many organizations lack viable succession management processes. In many cases, the plans are not adhered to in any systematic fashion; in other cases, plans are nonexistent. Regardless of reason, organizations can no longer afford to ignore long-term leadership planning in favor of short-term success. The marketplace is too dynamic and opportunities for talented people are too plentiful to assume that outstanding leaders will always be readily available and capable of taking over senior roles at a moment's notice.

Creating a succession plan is a time-consuming endeavor that requires a tremendous amount of strategic planning and

technical work. However, designing and implementing a state-of-the-art succession plan is achievable if organizations follow the steps outlined above.

In some cases, seeking external consulting assistance is probably the most efficient way to establish a succession management process, but organizations that choose this path should be cautious – *caveat emptor*. Consulting firms that offer one-stop shopping will be unlikely to design a system that capitalizes on the unique features of an organization. The ultimate consequence, of course, is that the succession management system will be devoid of components crucial to the decision making process.

Organizations should also use objective assessments to facilitate decision making. On average, assessment-based decisions will deliver better results than the same decisions made on the basis of human intuition. Although most people think they are excellent judges of talent, over 50 years of research suggests that assessments almost always perform better. Obviously, succession management decisions are critical to an organization's future, so many senior leaders may at first be skeptical of the assessment tools. One way to mitigate senior leaders' concerns is to use assessments as feedback tools that can help inform the decision-making process.

Succession management is and will always be the link between the present and future of an organization. Organizations that plan well and ensure that future leaders have structured and diverse development opportunities will be strategically positioned for success. Those organizations that adopt a more lackadaisical approach to succession management are likely to remain mired in a perpetual search for talent.

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