

Managing Succession Planning

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Business Week featured the February 2005 article, “Can Anyone Save HP?,” regarding Hewlett-Packard’s succession soap opera, citing significant reservations from the board of directors about former chairman and CEO Carly Fiorina in her first year on the job. The article exposed fatal flaws in HP’s strategy to identify and prepare successors. During Fiorina’s 21 quarters at HP, the company missed profit expectations eight times. While that is better than the 21 quarters before she arrived, it also is more than double the combined misses of rivals Dell and IBM over the same period. Under Fiorina, investor credibility was a big issue, and in 2004 alone, HP’s stock plunged 8 percent, under-performing virtually all of its competitors.

What were the issues behind Fiorina’s downfall? She was a high-level manager, not an operational player, who refused to delegate operations to top lieutenants. She had a tough time getting them to work together and oversaw a mass exodus of some of the most capable operational executives in the industry. Her distant, imperious management style upset people, as did her tendency to over-promise and under-deliver. Fiorina was unable to produce improvements in business performance to match best-in-class competitors. The odds of doing so would have been higher had she been able to attract and retain more highly talented executives. Instead, her approach was to centralize control under herself. The result: a hemorrhage of top talent. How could the board have made such a mistake?

Hiring an Outside Successor

Beauty contests for executive talent are common today. The competitive hunt for leadership too often assumes that solid general management skills are more important than specific industry or organizational knowledge. Expectations can run high that qualified, charismatic leaders will transform businesses. In Fiorina’s case, she was applauded for her polished saleswoman’s style and impressive presentational delivery, bringing an important marketing approach to HP, a high-technology company that was previously led by its engineering prowess. On April 1, 2005, Mark Hurd was appointed CEO. He earned his shot at HP by turning around NCR, a computer services company also known for its automated teller machines. At NCR, Hurd had turned a \$220 million loss into a \$290 million profit in two years, in spite of modest gains in revenue. This time, the HP board has placed its bet on an executive with strong operational experience.

It’s not always a mistake to hire an outsider for a key job. This kind of move can be effective when the culture of an organization has become so dysfunctional that major change is required. However, the outsider who imports his or her own blueprint for change will invariably fail, as Fiorina did, without a fulsome respect for the organization’s deep traditions and core values, as well as a keen eye for spotting outstanding talent to lead the agenda and implement the vision. What is needed at all organizational levels is to zero in on the key positions and determine the knowledge, skills, experience and passion to successfully implement critical activities. For that matter, deciding which skills are not important is as critical as determining which ones are vital. While Henry Ford defined the products and technology of the automotive industry, it was Alfred Sloan at General Motors who defined the structures needed to run it. To avoid making important internal promotional or outside hiring decisions based on distorted information or a “halo” effect (overvaluing certain attributes while undervaluing others), organizations need well-constructed, meaningfully

executed succession planning.

High-Impact Succession Planning

Succession planning is a dynamic process too often given short shrift when it is regarded as an HR-led exercise, thereby leading it to be largely ignored by the top ranks when promotions and hiring decisions are made. However, high-impact succession planning is something different: a continual leadership optimization process with the goal of avoiding costly mistakes in hiring the wrong person for a key position. Effective succession planning results in a pool of talent armed with the skills, attributes and experiences to fill specific leadership positions, as well as the cultivation of a talent pipeline to meet emerging leadership needs. Succession and development processes that are rooted in best practice principles have the following components:

- All levels of management, from the CEO to the first-level supervisor, are accountable for ensuring a strong leadership bench. Given that strong leadership is a strategic driver of success, many companies tie a manager's demonstrated ability to develop others into his or her compensation package.
- Development of the next generation of leaders is achieved primarily through sculpting challenging assignments and "stretch jobs" supported by coaching, mentoring and action learning. Action learning brings high-potential individuals together to work on a pressing issue, such as whether to enter a new geography or launch a new product. It forces emerging leaders to look beyond their functional silos to solve strategic problems and, in the process, learn firsthand what it takes to be a general manager.
- In order to develop a talent pool with the right skill sets and experiences, resources are invested differentially among A, B and C players. While all talent is valued and affirmed, money and time are limited resources that need to be invested where the greatest return can be leveraged. Attention is paid to poor performers with the intention of improving them or moving them out of the organization.
- There is just as an intense focus on identifying promising young leaders as on developing them. High-potential individuals should be spotted early in their careers and moved through experiences of increasing scope and authority, as well as toward larger and larger P&L responsibility.
- Managers are told where they stand on the performance and potential continuum, as well as what they need to do to advance. How to advance up the leadership ladder should be transparent, not a mystery.
- Succession and development processes are simple, tailored to the organization's unique needs and fluid. They are constantly being tweaked and improved to fit the organization's strategic business challenges, aligning talent needs with business requirements.
- There is a clearly defined leadership success profile that articulates the skills and behaviors necessary for success in specific jobs at specific levels. There should be three or four non-negotiable aspects of talent, know-how and experience that are critical to meeting the organization's strategic needs.
- Jobs that are critical for the company's success are often found in established parts of the business, such as product management or plant management, and have clearly developed performance and experience criteria, as well as a pool of potential successors whose experience and track record would make them viable contenders for the position.
- The inclusion of outside third-party assessments is often incorporated into succession and development processes to provide a complete and accurate profile of a candidate's

readiness for a specific position.

At the end of the day, effective succession planning is closely linked to leadership development and employs a wide array of methods to develop talent, including coaching, mentoring, assessment, training and on-the-job experiences. Top managers consider it a business priority and spend a significant amount of time getting high-performers identified and groomed for the business, as well as weeding out the non-performers.

Filling the Leadership Bench

It is perfectly OK to look across your leadership pipeline when planning for succession and say, “It’s not there.” That is a red flag to look at where the needed talent will come from—groomed over time internally or brought in from the outside. Few companies are in the enviable position of a GE or a Microsoft, where positions at the director level and above usually have a minimum of two or three people ready to step in when the current jobholder moves on. Good succession takes planning and development.

For example, Kevin Rollins, an eight-year veteran at Dell, served for several years as president and chief operating officer of Dell before Michael Dell handed him co-CEO duties and finally full CEO status in 2004. On the other hand, in 1999, Ken Freeman, then chairman of Quest Diagnostics, determined there was no internal successor for his position. Under Freeman’s leadership, Quest successfully acquired and integrated SmithKline Beecham Clinical Laboratories. The result was breakout performance—roughly doubling net income in 2000 and improving earnings per share at 60 percent.

However, Freeman realized that Quest’s future lay less in acquisitions (an area of his skill) and more in advancement in science. Searching outside the organization, Surya N. Mohapatra, Ph.D., a doctor and scientist, was brought in from Picker International, a worldwide leader in advanced medical imaging technologies, as COO. Freeman and Mohapatra laid out a challenging development plan that included meeting on weekends to review the business and coach Mohapatra to success. Four years later, in December 2004, Freeman stepped down and Mohapatra was named chairman and CEO in a carefully groomed succession.

Business Success Through Succession Planning

As the experiences at both Dell and Quest reveal, good succession planning is more than just a backup plan for successors. It is a valuable tool used by companies to both grow their own leaders, as well as fill gaps as business needs change. Achieving business success through succession planning is an investment that is becoming valued by more and more business leaders to ensure the long-term viability of their organizations.

It’s important to note that most executive jobs are filled internally and effective succession planning goes well beyond an attempt to place the “best” qualified candidate into a specific job in the hopes that the candidate will then perform the new job effectively. Succession systems that focus only on the assessment and identification of talent, with less consideration for the developmental experiences required to prepare the candidate to perform successfully at a higher level, are a liability for the long-term development of talent. Increasingly, companies are recognizing the importance of incorporating the candidate’s specific developmental needs when making a job placement decision.

Three Ways Leaders Learn to Lead

Developmentally, research tells us that leaders learn in three principle ways: from experience, from mentors and from being coached. Knowledge-based skills may be acquired from formal training. For example, companies working extensively in global markets require leaders who can work across cultures. In order to compete globally, companies such as Johnson & Johnson and Pfizer typically require their highest-potential future leaders to have offshore experience in assignments intended to provide needed exposure and experience to acquire the skills to be effective in other cultures.

Effective succession planning requires significant company investment and senior managers who understand and are committed to individual development. In today's ever-changing business environment, where lifetime employment is not necessarily desired and certainly not taken for granted, good succession planning helps high-potential talent build a repertoire of leadership and managerial skills, and is a useful way to retain these important players. It also ensures that there is a pool of talented leaders to pull from as businesses maneuver to respond to market opportunities.

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Steps to Successful Succession Planning

Many major companies are unprepared to meet their succession needs. Too often, they lack a formal assessment program with which to judge each candidates' capabilities and fit, and as a result, there is significant subjectivity in management's decisions. Here is a synopsis of the process that forward-thinking companies use to develop their succession planning programs:

1. Succession planning must be an integral part of the overall business planning process. It starts with business strategy and goals, and a careful evaluation of the resources needed to achieve those goals. It is based on the commitment of a long-term, strategic view of talent needs over time.
2. Having the right talent in place is a necessity to execute against any strategy. The CEO and senior team must be intimately involved and own the process while also helping to drive it as it cascades to lower organizational levels.
3. While the CEO "owns" the succession plan, the chief HR officer is responsible for developing a process that fits into the culture and unique management practices of the company.
4. The core leadership competencies needed to achieve the company strategy must be identified. These competencies should be integrated into the organization's performance management process, training and development, and compensation system.
5. An analysis should be conducted to determine the current state of performance and potential. The analysis will enable the organization to identify critical positions and the degree of bench strength available to fill them should one become vacant; anticipate retirements, transfers and leave for personal or family issues; and determine the impact of age

demographics. With this information, potential gaps may be made visible and high-potential employees identified.

6. Each business unit and functional area needs to evaluate its managers to determine their readiness for a promotion and assess their performance. A key succession planning goal is to weed out the poorer performers over time. Organizations should work with the highest-potential employees to prepare a professional development plan, and then track their progress and results to ensure they remain on the path to becoming successful leaders. Each manager can be ranked into four categories: highest level, solid performer, needs improvement or poor performer.

7. The organization should utilize comprehensive assessments to objectively pinpoint a succession candidate's strengths, vulnerabilities and development needs in order to craft development plans that work to more rapidly accelerate the succession candidate's readiness to assume a new assignment.

8. Many organizations that are part of a competitive industry provide transition support for newly appointed managers to ease them into their new assignments. Some companies assign mentors to provide early guidance. The mentor should be an individual other than the new manager's boss. In addition, transition coaches are frequently used to help ensure the new manager's success in the critical first 120 days on the job. Given the high turnover rates of newly appointed executives and the revenue deficit that accompanies the loss of an individual in a failed transition, support processes for executive and managerial on-boarding are becoming increasingly common and planned for during the succession process.

9. Succession planning is, at minimum, an annual process. Effective leaders look to see each year whether or not the bottom 10 percent have improved, if appropriate assessment and development activities have been utilized over the year, and whether newly appointed successors are experiencing difficulty or success. They use this information to plan better for the year ahead.

10. Most of all, each company should create its succession planning processes to meet the organization's own unique needs, management practices and business strategy. Resource requirements vary by organization, so following the latest fad or the advice of today's most popular guru isn't necessarily the best path for each company. It's also equally important to remember that planning alone doesn't do the job—it takes effective execution and follow-up over time.