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By Paul Cantor

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Succession Planning: Often Requested, Rarely Delivered

Quick, or even ad hoc, decision making may be appropriate in certain situations, but choosing the next CEO is not one of them. Surprisingly, many organizations lack a proper succession plan. One reason is that they do not have an effective succession planning process. This author draws a detailed and comprehensive road map that every organization should use.

By Paul Cantor

Paul Cantor is Chairman, Russell Reynolds Associates Canada.

Succession planning cannot take place in a vacuum. It should also be an intensive, comprehensive initiative, much more than a preparation of a list of names that will be tabled if the CEO is hit by a bus. Similarly, succession plans will not increase the productivity growth rate of the firm if they are designed only to allow the internal auditor to tick the box: Succession Plan in Place.

Instead, succession planning must be part of the overall planning process, one that starts with the strategic plan and an assessment of the resources needed to implement it. These resources include human resources. To achieve the strategic plan, the firm will need people with both the industry skills and the leadership skills needed to implement the plan. We call these both of these types of skills "competencies." Developing a management group with the leadership competencies needed to achieve the strategic plan is our preferred definition of succession planning. A strategy that includes this kind of depth in succession planning helps ensure that the best people will be in the right places at the most important times.

We have often seen strategic plan presentations to move the firm from its current market position to the proposed platform, only to have the Board say: "That's fine as a plan, but can our people achieve this?" Too often the response is: "We'll need to do some training and we'll have to hire some people to fill in the gaps." However, there is no thorough analysis of the skills and competencies needed to get the job done.

Sometimes, succession planning has not taken place because the firm does not use competencies methodology as the basis for human resource decisions. Sometimes, it is missing because the strategy is introduced early in a Chief Executive Officer's tenure with the belief that succession planning can be deferred. Sometimes, the process is started but loses momentum because the CEO does not drive it. Often, succession planning is too narrowly focused on just the most senior management.

This paper outlines a process to address these issues by linking the strategic process to competency methodology and to succession planning. The steps in the process may be summarized as follows:

1) Ensure that the CEO leads each of the next four steps.
2) Establish a strategic direction for the firm
3) Identify the core leadership competencies needed to achieve the strategy
4) Identify the people inside the organization

who have (or can acquire) these competencies and provide them with the development opportunities to become succession candidates. Be prepared to recruit externally as well.

5) Implement a succession plan

In the following sections, we elaborate on each of these propositions. The examples used in this paper are drawn from our experience in recruitment and executive assessment at Russell Reynolds Associates, coupled with my personal experience as President, CIBC Investment Bank; President & CEO, Confederation Life Insurance Company; President and CEO, National Trust; and Executive Director, Toronto International Leadership Centre.

1) Ensure that the CEO leads every step of the process.

A. Controlled companies

Getting the succession planning process under way can be delicate. In proprietor-controlled businesses, the CEO, often the founder of the company, may be unwilling to recognize that the company has grown and that different management and leadership skills are now required. Staff members will have a tough time convincing these CEOs to initiate succession planning. Meanwhile, the board, often stacked with old friends and long-time advisers, has a vested interest in maintaining the status quo. In such cases, minority shareholders, often with non-voting or low voting, shares, may need to get vocal to get action. This is hardly an orderly process.

The transition to new leadership can be difficult even when the owner recognizes that it is time to take a step back. We worked with one owner who did wish to relinquish the CEO position and to serve only as the chairman. He asked us to recruit his successor for the CEO's post. We approached this gingerly as we were uncertain if he had really thought through what giving up the CEO's job would mean. Instead of drafting a job description for the CEO, we worked with him to draft a job description for himself as chairman. By doing so, we enabled him to think through what he could not do as chairman that he did as CEO. In parallel, the process helped us identify what competencies the CEO would need. It also gave our CEO candidates a measure of confidence that the proprietor had given careful thought to taking the requisite steps back from the CEO's job. Even then, we always maintain contact with both our client and our candidate for about a year following an appointment, so that we can provide counseling where necessary, and trips out to the woodshed when more direct talk is needed.

B. Widely-held companies:

In widely held companies, the CEO may see the board's insistence on a succession plan as a termination plot. Moreover, when succession planning is initiated part way through a CEO's term, employees may see it as time to start jockeying for position. Some of this potentially damaging activity can be minimized when succession planning is integrated into strategic planning and leadership training at the outset of the CEO's term. This positioning is reinforced when the CEO takes the lead on succession planning.

C. The role of the Chief Human Resources Officer:

It is the Chief Human Resources Officer's job to ensure that succession planning is presented in a way that allows the CEO to take responsibility for it. The parallel example is the CEO's responsibility for the financial well-being of the company, even though it is the Chief Financial Officer who is charged with managing financial stability.

The challenge is to get the CHO to think strategically. When I have asked human resource officers I worked with to tell me what's important, their responses generally flagged key problems in following areas: Hiring, Promotion (& more recently

Termination): Salary, Benefits (& more recently Pension); Job Classification & Grading; Training; and Health & Workplace Safety. In the last few years, the list included; Gender, Visible Minority & other equality issues; and Leadership Training. No one had the temerity to mention succession planning.

However, the above list represents the functions of the human resource department and not the strategic human resource issues of the firm. More recently, we reversed the question and asked: "What does the CEO want from the CHO"? We found that this question prompted HR people to identify issues that were truly strategic. The relevant issues for this paper are:

- Establish the key competencies needed to fulfill the firm's strategy.
- Identify the employees who have or can learn these competencies as leaders.
- Develop a succession planning process for these leaders.

While the CHO can provide the legs for these initiatives, it is our experience that there will be no progress unless the CEO demonstrates a commitment to them. To do so, the CEO must do more than talk about their importance. He or she should meet with subordinates at least annually, not only to discuss their progress, but also to review each subordinate's direct reports, and ensure that a similar process is being conducted at that particular level. In addition, the CEO should participate in the development programs so that, on this issue, the CEO is seen to lead from the front.

The trouble is that as soon as the human resource professionals start to talk about "leadership," executives roll their eyeballs and the MEGO Factor takes effect (Mine Eyes Glazeth (sic) Over)

2) The strategic planning process.

A vast body of literature on strategic planning exists already. This paper only seeks to link strategic planning and succession planning.

It is generally agreed that the firm's financial capital is used inefficiently when it is not deployed to implement the strategic plan. Thus, the firm needs the best mix of equity and debt to maximize results. More equity and less debt, or vice versa, may yield a suboptimal result. Similarly, the firm's human resource capital is deployed inefficiently if it is not used to implement the strategic plan. To maximize the probability of success in implementing the strategic plan, one needs the right mix of human resource skills and competencies. Just as financial capital requirements of the firm can be planned, so too can human resource needs. Competency gap analysis is the methodology needed to implement this linkage.

3) Identify the core competencies needed to realize the strategy

The rollout of a strategic plan calls for an identification of the human resource competencies needed to achieve the plan. These vary. For example, Confederation Life Insurance Company, which placed itself under bankruptcy protection in 1994, required very different human resource skills in 1992 than did National Trust Company in 1994, which was sold favourably to Scotiabank in 1996. At Confederation Life, the leaders had to establish a sense of urgency because the company tottered at the financial brink. At National Trust, the leaders had to establish a sense of urgency even though the company was financially sound, because systemic change in the financial service sector was bearing down like a juggernaut.

A. The MEGO Factor

Everyone agrees that a firm needs "leadership" as well as technical or industry-related skills to run a company and implement a strategic plan. The trouble is that as soon as the human resource professionals start to talk about "leadership," executives roll their eyeballs and the MEGO Factor takes effect (Mine Eyes Glazeth (sic) Over - attributed to futurologist Herman Kahn). In my days in CIBC's Taxation Department, we created the MEGO Scale, calibrated between 1 and 10, to measure how far a professional can get in a presentation before the executive eyeballs glaze over.

B. Leadership, implementation and industry-related competencies:

To combat the MEGO factor, we first distinguished industry-related skills such as risk analysis or sales skills from other competencies. We then grouped the remainder under either implementation competencies or leadership competencies. "Implementation" refers to how one gets things done, while "leadership" refers to competencies that are often, in effect, personal attributes.

In the Bible, Noah demonstrated the differences among these three types of competencies. God told Noah that it was going to rain and that he wanted Noah to build an ark and put all kinds of animals on it. Therefore, Noah knew what the industry risks were (it's going to rain) and what should be done about it (build an ark and put the animals on it). However, knowledge of what the risks are, and what should be done about them, doesn't get the job done.

But Noah, starting with the limited instruction on ark building provided by God, did get the ark built on time -- and today we would say on budget -- demonstrating that he had the implementation skills needed to take action and manage risk.

Noah's implementation skills can be distinguished from his leadership skills. He demonstrated leadership skills by convincing all those animals to board the ark and not eat each other up during the voyage.

C. Grouping competencies into subgroups

We have found that leadership, implementation and industry-related competencies can each be further subdivided. We have about 10 such competencies for each of these three categories. With these additional subdivisions, linkage can be made to the competencies needed for the strategic plan. For example, our methodology subdivides "leadership" into competencies such as: Strategic Agility (including Vision), Integrity & Trust, and Developing Subordinates. It divides "implementation" into competencies such as: Flexibility & Adaptability, Communications Skills, and Results Orientation. Industry-related skills, in addition to professional competencies, include: Industry Knowledge, Client Focus and Global Perspective. Russell Reynolds Associates has developed a methodology in our executive search practice that allows us to predict if people are likely to have the needed competencies. In our executive assessment practice we have identified 'Flexibility & Adaptability' as a key competency for the personal development needed to progress in leadership training, and hence, succession.

Does this sound like motherhood? We don't think so. We did a search for a large Canadian financial institution that had worked through a competency framework similar to ours and had identified the competencies that were needed in all of their senior officers, in addition to any specific industry-related skills needed for each job. Their list of key competencies was as follows: Dealing with Ambiguity, Strategic Agility, Integrity and Trust, Managerial Courage, Decision Quality, Results Orientation, and Client Focus. We would call the first five "leadership" competencies, the second-to-last an "implementation" competency, and the last an "industry-related" skill. We were able to match our competency framework to theirs, and therefore, our methodology to their competencies. As a result, we presented them with candidates most likely to meet both their leadership and implementation needs as well as industry-related requirements.

D. Building competencies into the strategic plan:

This is where a key part of the strategic planning process should include a review of the competencies that will be needed to fulfil a firm's strategic plan. Mapping the industry- related competencies such as "customer focus skills" or "chemical engineering expertise" is relatively obvious. However, even here, commonly held views need to be established.

In our Strategic Plan at National Trust, we believed that superior customer service would be a key to our success; we wanted everyone focused on it. We asked employees who they believed their customer was. As often as not, operations staff identified a senior officer or a supplier as their customer. For example, the Chief Accountant believed his customer was the Superintendent of Financial Institutions, and any number of others thought their customer was the CEO. On the Treasury side, they believed their customer was the owner. We helped them understand that National Trust's only customers were the people who paid us for the goods and services we provided. Everyone else was not a customer but a supplier. We urged all our staff to think as if the customer was on fire, that National Trust was a fire brigade, and that we could only put out the fire if everyone passed the water buckets forward to the customer service representative who could meet the customer's need by dousing the fire with the water from the buckets.

Building a commonly held institutional view of key leadership competencies is harder. However, the executive management team can achieve this goal by comparing competencies listed as leadership competencies above to the firm's current culture, and then determining what needs to change at the leadership level in order to get to where the firm wants to go. One firm summarized their current competencies as subsets of; "This is how we do things around here," and then went on to say, "This is how we will have to do things around here in the future."

Executives prefer quantitative benchmarks. Leadership as a concept is just too subjective for many people. In the absence of using specific leadership competencies such as those described in Section C (above), our experience tells us that decisions about people will tend to be based on industry-related skills rather than on leadership competencies. Our methodology makes executives more comfortable in assessing leadership because it has been broken down into meaningful concepts such as; "Developing Subordinates", "Results Orientation" and "Client Focus".

4) Identify the people who have or can achieve leadership competencies and treat them as the Succession Plan candidates.

A. Executive assessment:

Equipped with a statement of key leadership competencies such as those illustrated above, an organization can begin to map its competency gap against the needs of its strategic plan. Executive assessment, behavioral testing, or both, can do this. The practice of executive assessment is now well grounded and Russell Reynolds Associates has developed methodology and practice experience that allow us to do competency reviews of groups as small as the executive suite and as large as several hundred senior staff. A combination of interviews, psychometric testing, and references provides in depth reviews of individuals, competency gap analysis for the firm as a whole, and benchmarking against industry standards.

When we begin to talk about leadership assessment, initial executive responses more often than not, are one of the following: "I know them when I see them," or "Leaders are born not made."

In fact, neither of these statements is habitually true. The database does conclude that leadership skills, if weak, are the hardest to learn and that industry-related skills, if inadequate, are the easiest to learn. Implementation skills lie somewhere in between. Hence, selection decisions made on the basis of industry-related skills rather than leadership skills carry a greater risk of failure because a new employee who lacks many of the firm's core leadership competencies is unlikely to acquire them after he or she joins the firm.

One of the most important uses of executive assessment is to respond to executives who believe that "they know leaders when they see them." The trouble with this assumption is that, in the absence of concrete criteria, people tend to recruit in their own image. Thus, the benefits of recruiting from gender, racial, age, and other diversity sources are at risk. It deepens the experience base for decision-making when diverse candidates are recruited to the leadership pool.

For example, at National Trust we did not use a competency-based approach to find the leaders. As a result, it took us three tries, using trial and error, to find the firm's leaders. On the first pass, long-time employees identified only the senior managers of the company. On the second pass, some younger employees were identified, but all were still men. It was only on the third pass that women and people of diversity were included in the mix. If we had used a competency-based approach, we would have got there sooner, and we would have found the newer employees who also had the needed leadership skills.

B. Using training to improve leadership skills

We also believe that people can improve not just their industry skills, but that they can also improve their implementation and leadership skills. At the Toronto International Leadership Centre for Financial Sector Supervision (Toronto Centre), we were seeking to strengthen the leadership skills of the government officials who supervise the financial services sector in emerging market countries. It was our theory that, like Noah, these officials knew what the financial sector risks were when financial markets are liberalized. However, many lacked the experience to know how to build the ark and get the animals on it.

During one session at the Toronto Centre, we wished to use role-playing to demonstrate the use of "persuasion" in an environment where officials believed that simply giving an order would actually cause things to be done. Concerned about the loss of face in role-play situations, we invited participants to state what they would say if they were to role-play, rather than actually engage in the role-playing. The first rapporteur, who was a senior official from the central bank of an advanced eastern European country, exceeded instructions and role-played his response. The second rapporteur was the deputy governor of one of the most important central banks in Africa. He agonized over the potential loss of face he would suffer from engaging in role-playing on the one hand, or the loss of face by not matching the performance of the previous rapporteur. Opting for the second risk, he reached back to his skills as an Oxford University debater and brilliantly rolled out his argument. By doing so, he made the leap of applying his Oxford debating skills to using persuasion -- rather than giving orders -- as a means of getting things done in his central bank.

Thus, while some people do seem to be born leaders, others can be helped along the path. In short, while one cannot turn a sow's ear into a silk purse, it is possible to turn a sow's ear into a pigskin purse. That may be sufficient to help someone become better at what they do.

C. Identifying the leadership pool:

Having said that, there will still be those who are not able, or not willing, to make the sacrifices demanded of leaders. For example, early in my career, I "Peter-Principled' a sound technical officer. Soon, we were both nervous wrecks. One day he came to me and said that I had over promoted him, that he was happier in his previous job, and that he wished to have it back. I readily agreed. Years later, long after my wings had melted from flying too close to the sun, he was still there, fulfilling his technical responsibilities, until he retired with full pension at the end of his career.

When the executive assessment competency testing is done, the employee pool will be divided between those who are in the leadership pool and those who are not. There should still be senior technical positions available in most companies for non-leadership candidates. One does not have to be part of the leadership pool to be an outstanding derivatives trader or a key nuclear physicist. Some of these people will be among the highest paid in the firm. The rest, who are neither the leadership candidates nor the technical stars, are the backbone of the company. They are the much-needed foot soldiers who make the rollout of the strategic plan into a desired experience for the firm's customers through direct service or by supporting the employees who provide that service.

Those who are not in the leadership pool should be told that this is so and the results of the competency testing should be shared with them. At Russell Reynolds Associates, we believe that it is even better to make the results available to each person. These employees should be given the opportunity to elect to stay in technical or operational roles if they are performing well, or to leave and seek a leadership position with another firm where their leadership competencies are more closely aligned. We understand that it takes managerial courage to communicate this split. Creating a training program for those who wish to try and acquire the needed competencies alleviates part of this problem.

We have seen cases where executive management has skipped executive assessment and decided to provide leadership training for the entire senior management team. The advantages of doing so are that it builds morale and helps senior managers learn what is happening in other parts of the business, thereby increasing the opportunities for cross selling. We believe that there are cheaper ways of doing this. The disadvantage is that not all senior managers are leaders or potential leaders. Their involvement makes the leadership-training program less effective. It is therefore a misallocation of strategic resources. Moreover, some junior employees, who are potential leaders, are excluded from the leadership pool until they are promoted into the eligible ranks.

5) Implement the succession plan

Our comments in the first four sections of this paper have been directed to linking the Chief Executive Officer, the strategic process, the human resource competencies needed to achieve the strategy, and employee selection for the leadership pool. These lead to the formal succession planning process. The key elements of a Succession planning process are A) Candidate selection B) Experience C) Leadership Training, and D) Visibility

A) Candidate selection:

It is improbable that all of the skills needed to achieve the strategic objectives will be found within the organization. In those circumstances, recruitment from outside the organization will be needed to augment the leadership pool. Recruitment that emphasizes the firm's core leadership competencies as well as the needed industry-related skills reduces the risk of recruitment failure.

We believe that a healthy mix of internal promotions and external hires creates both a foundation of continuity and an infusion of new ideas. There is an opportunity to test the candidates in the company before they take on the most senior management positions if intake is at least a layer or two below the CEO.

At Confederation Life Insurance Company, the old-line insurance operations were inbred and there was insufficient external recruitment. The company was still selling its product in bulk while some of its competitors were calibrating their margins in basis points. Inbreeding and a lack of relevant training meant that the company had lost track of the competitive forces in the marketplace. On the other hand, auxiliary operations such as Confederation Trust and Confederation Leasing were staffed almost entirely with outsiders, and the lack of integrated risk management discipline created inappropriate exposure. Both of these problems flowed in part from inadequate leadership and succession planning.

B) Experience:

Conventional wisdom for succession planning says that leadership candidates should be given experience in different parts of the company. We agree, but the purpose isn't solely to learn how to run those businesses; it's also to learn which questions to ask, and to learn to listen to the answers.

When I became Treasurer at CIBC, I was for the first time faced with accountability for a discipline that was outside my area of expertise, taxation. Desperate to cling on to something I knew, I asked to retain responsibility for tax, even as I assumed my new responsibilities. But my boss, who wanted nothing to do with the taxation line reporting through him, said: "You have so many questions to ask that you won't have time to retain responsibility for the taxation function." He was correct.

The first thing that landed on my desk was a request for me to approve the Toronto trading desk's foreign exchange limits. For me, the whole presentation was incomprehensible. After some legwork I was able to ask; "What proportion does this represent of the Bank's global exposure to foreign exchange?" It appeared that the global exposure had never been formally consolidated. I then asked my staff, who were seeking this authority; "Where do I get the authority to approve these limits?" It appeared that the board of directors had only delegated credit limits and that foreign exchange trading limits were "different". In the end, it took about a year to consolidate our global foreign exchange limits and to get a delegation from the board of directors that gave me the authority to act. Of course, I still had to learn whether or not to approve the trading limits that had been requested.

Another purpose of moving succession candidates around is to allow them to meet key employees, key suppliers and important customers. Trust is built on personal relationships, and succession candidates need to build trusting relationships as they assume increasing levels of responsibility.

For example, Dennis Weatherspoon, the then-Chairman and CEO of J.P. Morgan, came to Toronto for a courtesy visit when I was a senior officer at the CIBC. At the time, J.P. Morgan was an excellent credit risk with an AAA rating, but Mr. Weatherspoon wanted protection against a liquidity run. He explained that if there was a liquidity run on his bank, even J.P. Morgan could survive only for a very short period in the absence of support from the industry or from government. If he had to call for help, he wanted the people he called to be people who knew him personally.

On a smaller scale, when we got into trouble with a systems implementation initiative at National Trust, I brought in a colleague who had recently retired from CIBC, and who had helped me fight in the trenches on a systems issue there. When there's a crisis, as Brian Mulroney once said, "You want to dance with the lady who brought you."

And finally, and most obviously, the purpose of moving people around is to test their ability to succeed in different circumstances. The tests should be quantitative in nature. At General Electric, Bill Blundell, then CEO of GE Canada would meet twice yearly with Jack Welch to discuss human resource issues. These meetings went well beyond Bill's own performance, and dealt with the performance of each of his subordinates and whether their targets were really stretch targets that would provide an effective measure of their potential as well as their performance. As a result, Mr. Blundell was in no doubt about Mr. Welch's commitment to human resource development and he demonstrated to his subordinates that he too believed in the importance of this issue.

C. Training and development

Corporate training falls into three general groupings. i) Training for product knowledge and selling skills, ii) Training in management or implementation skills, and iii) leadership development.

Teaching product knowledge and selling skills improves customer sales and service. It does not do much for leadership development. Teaching management or implementation skills is often billed as leadership training. To the extent that it teaches people to work more effectively together, to communicate better, or to be more persuasive, such programs do add value in leadership training.

At the leadership training level, there are credible firms that can help executives strengthen leadership skills such as "strategic agility" and "developing subordinates." There's not much you can do for "integrity and trust" if a person doesn't have them by the time they are, say, 20 years of age. Beyond such programs, making coaches available for personal counseling and attending Outward Bound type programs to build trust can be employed. We have seen good successes and some failures with both.

It makes sense to use a coaching framework for more than training on particular subjects. Some companies, like GE, set aside a day several times throughout a leader's career with the firm to thoroughly and professionally review the strengths and needs of the individual. This creates a framework both for personal development and for corporate decisions on future assignments.

D. Visibility

Most succession plans include a succession chart where the CEO presents an organization chart and reviews the progress of succession candidates in each of the positions. At Russell Reynolds Associates, we call these charts depth charts, and their purpose is to identify who the potential candidates are for each position, what development is needed, and how long it will take before each candidate is ready. A succession book that provides details on each candidate's background and education, career progress and training achievements usually accompanies this. The list is not static and employee potential will fluctuate, both upward and downward, as a result of performance. To demonstrate accountability for the process, we believe that it is important for the CEO, rather than the CHO, to make this presentation to the board.

It is also standard practice for succession candidates to make presentations to the board at least annually so that it can see the candidates in action, as well as reading about them in the book. However, the board setting is removed from the day-to-day activity of the firm. As a result, it is useful to arrange for Board members to see succession candidates in action in their jobs. This serves a double purpose in that it also helps board members get to understand the firm better than they ever would by sitting in the board room.

It is also important to encourage leadership candidates to be active in the community. Community activity also allows board members to see leadership candidates in action in different settings, and helps the board get comfortable with the candidate's ability to represent the firm in the community. In addition, community activity requires candidates to develop and use their communication and persuasion skills, as "command and control" is not a management tool in the voluntary sector. It also helps the candidates widen their contact base in the community, build trust and respect, and bring in business.

We have used the first four sections of this paper to demonstrate that succession planning candidates are not necessarily those who are 'there' at the time that the firm decides to establish a succession planning process. Succession planning can be linked to the success of the company when it is tied to leadership training and that in turn is linked to the competencies needed to achieve the strategic plan. Overall, this is hard to do. As we said at the outset, it cannot be done without the leadership of the CEO. Even then, there are a lot of moving parts in this approach.

Any CEO who can deliver the program outlined in this paper to his board of directors will have made ample provision for succession. If things are going well, chances are the board will be able to draw from the succession pool. If things are going poorly, the board will feel the need to make a more radical change. Internal candidates will need to be able to tell the board how they are going to change the direction of the firm. If the board has to go outside to recruit a CEO for a company that has followed a succession planning process like this, then there is a lot more wrong with the company than the succession plan. In fact, one of the first things the shareholders might wish to do is to change the board of directors.