

Does Your Succession Plan Reflect the Future Needs of Your Business?

By Aaron Sorensen, Ph.D.,
Axiom Consulting Partners

Succession planning should flow from the strategy and follow the same guiding principles.

It's that time again to update your succession plan. Where do you start? Instinctively you pull out the organization chart you created last year with the names of incumbents in key leadership roles and the slate of successors beneath each box. As you scan the names of successors and reflect on their readiness rating last year, you are interrupted by an email from the CEO previewing the new five-year strategic plan. It is quickly evident that this plan will stretch the leadership team and introduce significant change across the organization. You begin to question whether the short list of candidates can meet the challenge. In addition, two key executives will retire in the next few years and the board and shareholders are breathing down the CEO's neck to drive shareholder value. The stakes couldn't be higher to ensure there are highly capable successors ready to move into the top leadership roles.

Just as businesses adapt to stay relevant and compete in their markets, so should the succession plan for the types of leaders needed to achieve future success. The previous vignette, taken from a prominent financial

Just as businesses adapt to stay relevant and compete in their markets, so should the succession plan for the types of leaders needed to achieve future success.

services organization, is becoming a more common scenario, adding another layer of complexity for succession planning practitioners to manage. While there are certainly exceptions, a fundamental error many organizations make when it is time to revisit the succession plan is that they fail to appreciate the business strategy's implications on the leadership capabilities needed to deliver future business results. Succession planning can have many layers practitioners need to manage, and simply pulling out the succession plan document from the previous year, refreshing the data and checking the box that it has been completed is not enough. Just as businesses adapt to stay relevant and compete in their markets, so should the succession plan for the types of leaders needed to achieve future success.

Simply put, assuming that the talent currently in the succession pipeline is the right talent for the future is like driving ahead while looking in the rearview mirror. Bad things are bound to happen. Consider, for example, the recent turmoil Yahoo! Inc. has experienced finding a capable CEO to lead the business through the transformative revolution that occurred in Internet search business. Co-founder Jerry Yang, a brilliant entrepreneur and Internet pioneer who helped make Yahoo!

a top search engine, didn't have the operational skills and agility to anticipate and adapt Yahoo! to the changes that occurred in the industry with the rise of the likes of Google and Facebook — during the past five years Yahoo!'s shares are worth less than half their value while the likes of Google continue to show strong shareholder returns. To Yang and co-founder David Filo's credit, they recognized early on that they needed new leadership to run the business and brought in other talented executives to navigate the dramatic changes in their market. However, failing to build a pipeline of leadership talent under the watch of Terry Semel (Yang's replacement in 2009) that could steer the organization through these significant changes has ultimately resulted in a revolving door at the C-suite that continues with the recent firing of Carol Bartz.

To be clear, developing a deep pipeline of leadership talent can provide a distinct competitive advantage, which has been supported by recent empirical research on succession planning. For example, in the *Strategic Management Journal* (March 2010), Yan Zhang and Nancy Rajagopalan analyzed the performance of 193 CEOs and found that “...the negative effect of strategic change on firm performance when the level of change is relatively

high are more pronounced for outside CEOs than for inside CEOs.” However, an insider-only succession management strategy that doesn't critically assess the internal talent pipeline against future business needs can lead to catastrophic results — as illustrated at Yahoo!.

To help ensure your business has a strong bench of future leaders to execute three and five years from now, this article explores three key steps you can take: 1) identify the organizational capabilities needed to support the strategic plan; 2) map leadership competencies to organizational capabilities and assess the gaps; and 3) develop a purposeful approach to close the gaps.

Identify the Organizational Capabilities Needed to Support the Strategic Plan

A sound strategic plan clearly identifies the choices your organization is going to make to compete in its chosen markets in the next one, three and five years. A good strategy should have a clear end game as well as a domain to define what markets and customers are in focus and the means to win in these markets. In other words, it should demonstrate how the organization will be different at the end of a planning period and clearly lay out what the business needs to win at to achieve the desired future state. Succession planning should flow from the strategy and follow the same guiding principles. That is, a good succession plan clearly aligns leadership talent requirements to the organizational capabilities the business needs and maps out what steps will be taken to build the leadership bench in the next three to five years.

While this may sound simple in theory, in practice the well-documented challenges that many companies have in articulating their strategy, let alone identifying a coherent set of organizational capabilities, present formidable barriers. A value tree approach can be a useful

tool to help articulate the strategy in a way that is accessible to all employees, as well as to identify the organizational capabilities needed to deliver on the strategy drivers. (For a more detailed discussion on value trees, see the September 2008 *workspan* article “Hardwiring Your Talent to Your Business Strategy.”)

Briefly, a value tree is a pictorial map of the bundles of capabilities, processes and systems that a business needs to perform well. It is constructed by starting with the organization’s ultimate measure of value. The critical capabilities, processes and systems needed to support this outcome are then extrapolated to the right until all of the elements related to value creation are mapped on the tree. This process creates a clear path that outlines strategic purpose and growth, which more easily articulates the strategy by breaking down lofty platitudes into clear tactics, allowing for a more coherent analysis of the organizational capabilities a business must be excellent at to gain a competitive advantage. In addition, it reinforces a big picture and value mindset versus an intermediate or short-term focus, which is critically important to align the leadership pipeline to the organizational capabilities that matter most to the business in the future.

Figure 1 on page 42 represents a value tree that shows how two of the three strategic pillars from a logistics and materials handling business was translated into the key value drivers. The organizational capabilities were then mapped to the strategic business drivers (see color coding) such that the business could see what it needs to excel at during the next five years to achieve the strategy.

Map Leadership Competencies to Organizational Capabilities and Assess the Gaps

Effective succession planning includes a thorough and reliable evaluation of leadership talent to identify the strengths to leverage across the

All too frequently boards and leadership teams rely on false assumptions, old data [and] loosely defined selection criteria ... when it comes to evaluating leadership talent.

business and the leadership gaps that need to be closed. There is considerable variance, however, in terms of what and how businesses assess their leadership bench strength. In the author’s experience there is a vast divide between businesses that devote serious efforts to talent assessment and those that do not.

It is worth mentioning here that organizations like Agilent Technologies, Cisco Systems Inc., Colgate-Palmolive Co., Dow Chemical Co., Tyson Foods Inc. and Herman-Miller Inc., whose investments into their leadership assessment and development process have, over the long term, produced extraordinary results, especially in terms of identifying leaders who are most capable of leading global expansion efforts (a key strategic driver for these businesses). All too frequently, however, boards and leadership teams rely on false assumptions, old data, loosely defined selection criteria and inadequate assessment techniques when it comes to evaluating leadership talent.

In fact, a 2006 study by the National Association of Corporate Directors (NACD) titled “The Role of the Board in CEO Succession: A Best Practices Study” is particularly revealing. According to that report many boards still rate their ability to plan for a CEO change as ineffective, and about one-third of

the boards surveyed do not use an assessment process to identify development needs for internal CEO candidates. This is troubling because the competencies needed to be an effective line or functional leader are different from those needed to lead an enterprise. Furthermore, what often prevents the best operational leaders from crossing the threshold as a capable CEO are the factors that are most difficult to measure, such as creating synergies, dealing with complexity, systems thinking, interpersonal awareness, learning agility and the ability to lead significant change efforts.

While many senior leaders and board members may truly have a nose for talent, it is hard to argue with the results of the mathematical models that Claudio Fernández-Aráoz, Boris Groysberg and Nitin Nohria used to quantify the expected returns of effective assessment techniques. In an article titled “The Definitive Guide to Recruiting in Good Times and Bad” (*Harvard Business Review*, May 2009) the authors make clear that “a good assessment yields more than a good candidate — it can actually improve the company’s bottom line and market value in a significant way. Specifically, a company can increase its yearly profits and market value by about one-third through the disciplined

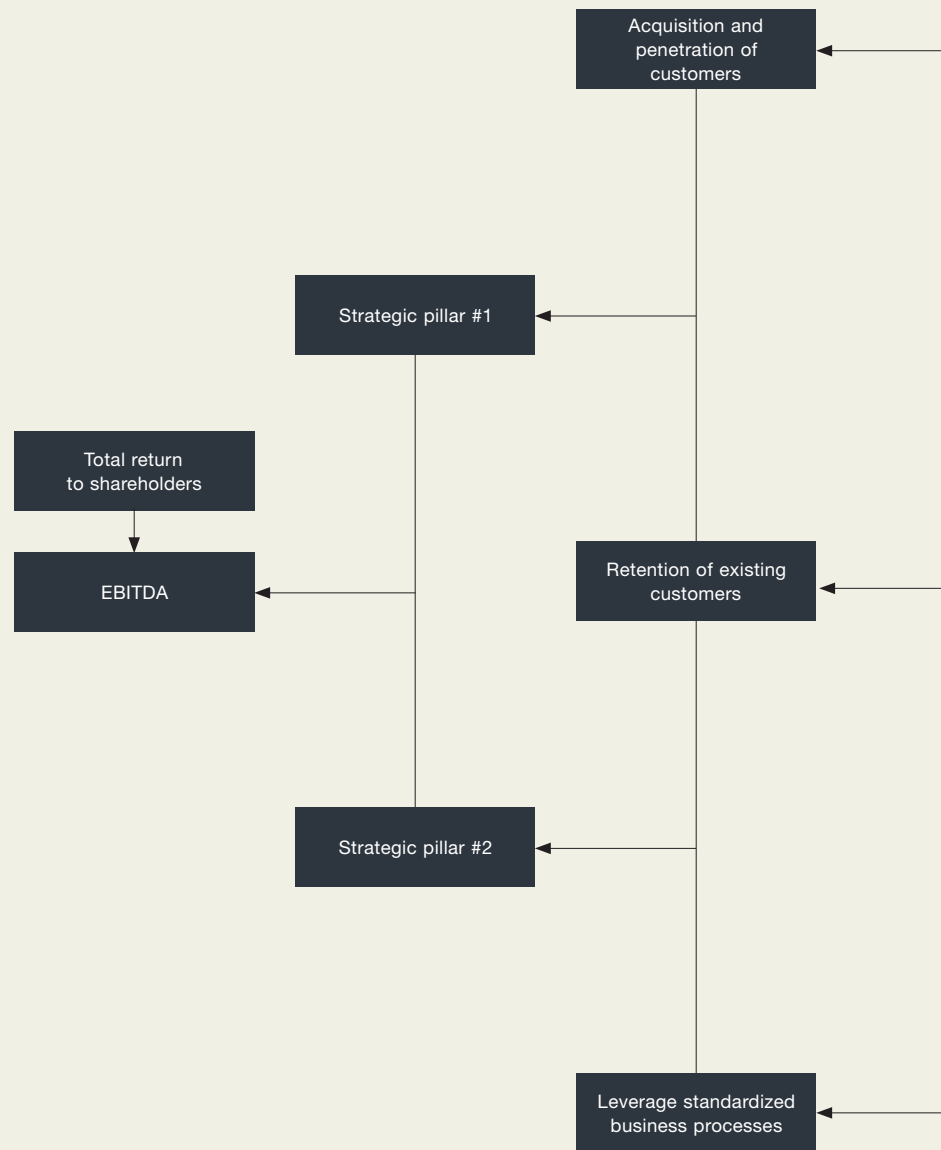
generation and assessment of candidates for a CEO position.”

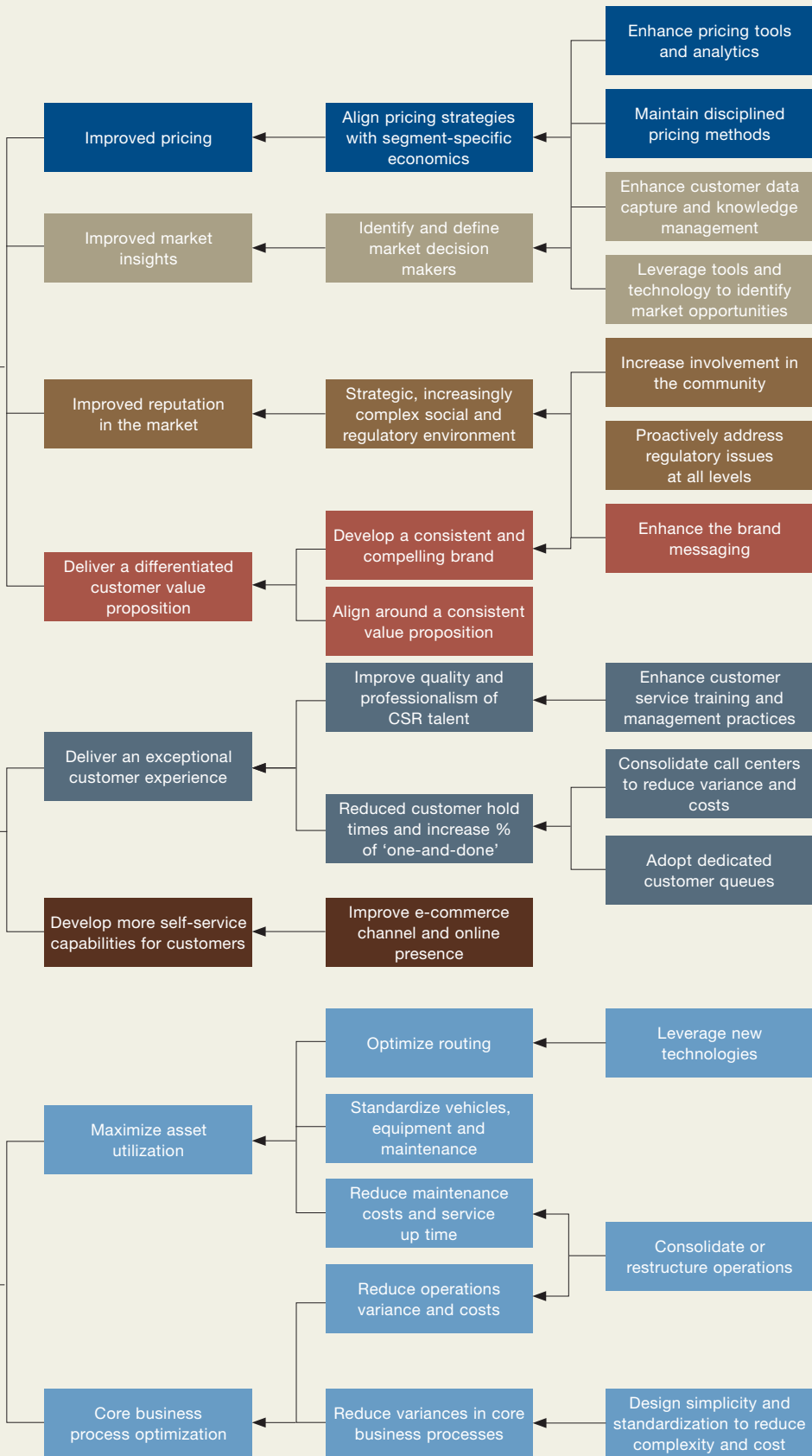
Even in organizations with robust succession planning processes, many businesses are evaluating leaders solely on the competencies that are needed now versus needed in the future. In the author’s experience many companies assess talent against an existing leadership competency model that has been cast for the current state of the business, rather than for the organizational capabilities that leaders will need to build and manage to remain competitive during the next three to five years. Leadership assessments should overweight the assessment approach toward the future competencies most critical to drive the strategy forward.

Once the organizational capabilities associated with the strategic plan have been identified, identifying the most critical leadership competencies is intuitive. Figure 2 on page 44 shows how the key leadership competencies at the logistics and material handling business is mapped back to the organizational capabilities and key strategic priorities.

While there are a variety of different approaches to assess the competencies identified through the mapping exercise, not all are created equal. Carefully consider the portfolio of tools and techniques deployed, as there are diminishing returns. Do not overlook the power of combining multiple assessment methods so that a holistic perspective of a leader’s strengths and weaknesses emerges. A combination of a reliable and validated 360-degree competency-based survey and psychometric instrument, along with a focused 360 competency-based behavioral interview (focusing on demonstrated mastery of the key competencies), can yield a robust and holistic picture of leadership potential. In addition, case studies based on a relevant strategic business issue, which can simulate on-the-job performance, also produce unique insights about a leader’s competence to execute the strategy.

Figure 1 | Value Tree and Mapped Leadership





Core Organizational Capabilities

Things the business must do well to execute the strategy and deliver meaningful business results

- Pricing Excellence
- Market Insight
- Community/ External Relations
- Marketing & Branding
- Customer Intimacy
- Channel Management
- e-Commerce
- Operational Excellence
- Leverage Technology
- Margin Management

Figure 2 | Leadership Competencies

Organizational Capabilities	Sample Leadership Competencies Associated with Core Organizational Capabilities
Pricing Excellence	Business Acumen Decision Making
Market Insight	Intellectual Horsepower
Community/External Relations	Executive Image/Presence Acts with Integrity Public Affairs
Marketing and Branding	Vision Brand Building
Customer Intimacy	Customer Focus
Channel Management	Forging Synergies Leading Change
e-Commerce	Technology Savvy
Operational Excellence	Operational Discipline Systems Thinking
Leverage Technology	Innovation
Margin Management	Value Management Results Orientation

*Other competencies associated with interpersonal and intrapersonal effectiveness are also typically included in leadership assessments.

Develop a Purposeful Approach to Close the Gaps

Good assessment without a purposeful and planned approach for developing leaders yields little value for building a pipeline of future leaders. As documented in leadership development literature, development assignments that have the greatest impact are those that are most closely related to the job (e.g., stretch assignments, special projects and developmental jobs). The author believes, however, that many companies are suboptimizing their leadership development efforts by not capitalizing on the opportunities where high-potential leaders can contribute directly to key strategic initiatives while building competencies needed to deliver future business results. When leadership development is integrated with strategy execution, not only do leaders emerge with

greater competence to lead the business, they become more facile with strategy. In addition, these experiences are often the best test cases to separate the leaders who can truly perform on a bigger stage versus those who top out.

For example, W.W. Grainger Inc., with 2010 sales of \$7.2 billion, is a leading broad line supplier of maintenance, repair and operating products, with expanding operations in Europe, Asia and Latin America. The company's growth strategy is supported by a Global Leadership Development Program (GLDP) that provides high-potential leaders with a six-month action-learning program. Fifty to 60 percent of the leaders' time in the program is devoted toward looking at a major business challenge strategically. They dig into issues that for many are purposefully

outside their scope of control. They are encouraged to challenge assumptions, collaborate with their peers and reach out to more experienced leaders across the company. Finally, they are called on to present specific recommendations to the board of directors. Other initiatives — formal networking, mentoring and courses offered by Grainger's Learning Center — are important. But Grainger reports that the most effective way to develop leaders is to put them in stretch assignments and provide great feedback and support along the way.

Grainger's Global Leadership Development Program (see March 2011 *workspan*) is a prime example of how a business can create a win-win scenario by deploying high-potential leaders to work on a strategic challenge facing the business.

Conclusion

There is a real opportunity for businesses to better align leadership talent with strategic needs over a longer-term horizon by mapping the key leadership competencies to the organizational capabilities needed to execute on the strategy. As part of this process, assessment techniques should be dynamic and used to determine the readiness of and potential for leaders to assume roles that drive future growth. Finally, companies must continually scan for opportunities where high-potential leaders can directly contribute key strategic initiatives that create win-win scenarios for the business and the leaders' growth. **WS**

Aaron Sorensen, Ph.D., is a principal at Axiom Consulting Partners in Chicago. He can be reached at asorensen@axiomcp.com.

resources plus

For more information, books and education related to this topic, log on to www.worldatwork.org and use any or all of these keywords:

- Succession planning
- Talent strategy
- Employee retention.