



# Succession Planning

## How Seven Organizations Are Creating Future Leaders

by Diane Kubal and Michael Baker

“The future tends to arrive late  
and in unexpected ways.”

Maxim from those who predict trends in the future, especially  
as they relate to innovations in business and technology

Effective organizations do not passively wait for the future; they create it by investing their time, thoughts, and planning in order to ensure the continuity of their leadership talent. This process is otherwise known as succession planning. “Succession planning is a process by which an organization ensures the continuity of its leadership into the future. It is a critical aspect of business strategy, requiring an organization’s best thinking” (Goudy, 2002). The need for it has never been greater.

Unfortunately, planning for succession is often neglected or takes place when it is too late—after key people have left the organization and there are no internal candidates to fill the leadership positions. As a result, organizations may find themselves in the midst of a crisis without clear leadership for the future. This topic has been explored by a number of authors, including Robert Barner, Morgan McCall, Jr., Michael Zwell, Ram Charan, Stephen Drotter, and James Noel.

Many organizations, including the U.S. government, now face a leadership crisis: In the next 10 years, a large number of employees in upper and middle management positions, mostly Baby Boomers, will retire. According to *The Impending Crisis, Too Many Jobs, Too Few People* (Herman, 2002), by 2010 the United States will have 10,033,000 more jobs than skilled workers to fill them.

This fact may put some organizations at risk of losing key knowledge and capabilities. Identifying and developing the best people for key leadership roles is basic to future organizational success.

At People's Energy, senior management within the company realized two years ago that they did not have a pool of leadership talent to draw from within the organization. As they developed new energy businesses, they found themselves hiring from outside the company to fill senior positions. Not addressing succession planning before the need arises can leave an organization with gaping holes in critical leadership positions that significantly impact the business. Many organizations include development of internal talent as a key part of their succession planning process. Some also include hiring a portion of the new talent externally to bring in fresh ideas and different perspectives.

## The Challenges of Succession Planning

Succession planning can be delicate. The process itself is sensitive in that it includes some people and excludes others. It can be interpreted as a proclamation to the organization that not all people are equal; that some are "worth" more than others are, particularly if the program is publicized. This may motivate the "chosen few," but others may feel discouraged if the process is not positioned appropriately.

Succession planning may also challenge human resource (HR) professionals, as executives may view the process as a non-value-added HR exercise. Their perception may be based on previous experiences with the activity. And too often the process, if not clearly articulated, can be muddled—to both employees and management.

Seven organizations that had succession planning processes in place in various stages of development took part in our attempt to represent a variety of approaches and philosophies concerning the topic (see sidebar for participating companies and leaders interviewed).

Often those employees identified as high-potential candidates are not necessarily the ones eventually selected for upcoming leadership positions. Rather, these decisions are more commonly relationship-based or politically influenced. Ownership of the process itself may also prove difficult. Typically, HR builds and improves processes—while management of the business units use the processes. The business unit owns the content, and HR owns processes, from an administrative and consultative perspective.

Moreover, firms grapple with whether to let high-potential candidates know that they have been identified as leaders-in-training. For example, at Wheaton Franciscan Services, this decision has not yet been made, but it is likely that the company will develop a process for identifying high-potential leaders and will let them know they are under consideration. However, at People's Energy, high-potential candidates traditionally are not singled out for special notice.

## HR Professionals Interviewed for this Article

**Dennis Johnson**, Senior Vice President, Human Resources, ABN AMRO, financial services industry

**Stephanie Bush**, Director of Management and Organization Development, Automatic Data Processing (ADP), Dealer Services Division, technology industry

**Paul Ramsey**, Vice President of Human Resources, Automatic Data Processing, Dealer Services Division, technology industry

**Sherry Duda**, Director, Human Resources, British Petroleum, oil and gas industry

**Craig Morgan**, Senior Vice President, Team Member Growth and Support, Neumann Homes, home building industry

**David Jewell**, Senior Organization Development Consultant, People's Energy, utilities industry

**Paulette Peters**, Director of Organizational Effectiveness, RR Donnelley, manufacturing industry

**Kathleen Buchman**, PhD, Vice President of Leadership Development, Wheaton Franciscan Services, health care industry

## Process Approaches

A variety of methods support the succession planning process. What follows are examples of some current and emerging approaches: talent management, advocacy, multi-rater feedback, and job fit.

### Talent Management

RR Donnelley recently began developing a talent-management process based on best practices provided by Hewitt Associates, which was contracted to assist with the talent-management process. The goal of the succession planning effort is to have the process become a daily way of life as opposed to a one-time event each year.

Donnelley's rigorous process generates lists of candidate names based on performance and criteria that become a means for making decisions regarding the importing and exporting of talent among the business units, offering greater flexibility and competitive advantage. Using labels such as "ready now," "ready future," "well placed" and "mislplaced," the company provides ratings of leader candidates based on criteria that were created to reflect the various stages of readiness in which leaders could be in their development. A talent committee reviews the list of candidates when leadership positions open, makes changes, and updates the list before forwarding it to the hiring manager. The hiring manager must then select an individual from among the list of candidates.

RR Donnelley's process is to be included in the quarterly business performance reviews conducted by the senior team. The CEO and a few senior executives are responsible for ensuring that the process is used with integrity and hold themselves accountable by making sure that people brought forward are delivering measurable results for the company while demonstrating its values. Furthermore, the committee members are accountable for how these people are rewarded, communicated to, mentored, and coached by management.

Data regarding the ratings of each candidate are available electronically and can be easily updated by the succession planning committee, senior team members, or HR. Compared to the previous process RR Donnelley used, this new approach is substantially streamlined. Before implementing this process, succession planning was an administrative exercise dreaded by management. The process did not involve the right people, and hiring and promotion decisions were not based on the results of the succession planning process.

*The goal is to have the process become a daily way of life versus a one-time event each year.*

Currently, the process is used as a tool to help make decisions regarding the placement of people into key leadership roles. Employees feel encouraged that the performance and readiness data collected informs decisionmaking and that it may truly affect their careers. Instead of a vertical career path, RR Donnelley's process acknowledges that people go in and out of various business units, as well as up. Leaders are encouraged to make developmental moves throughout the organization that allow them to leverage talent among a variety of different functions within the organization.

### **Advocacy**

At British Petroleum (BP), each business unit has its own succession planning process. Digital Business, a division of BP, relies heavily on the concept of "advocacy." Every month different employees can nominate themselves for upward movement within the organization. Employees work with their manager to prepare a presentation to the Staff Development Committee defending why they should be considered for upward movement within the company.

The committee, which includes HR professionals and business leaders, then meets to discuss each candidate. In turn, the committee, through a discussion with an HR representative and the candidate's manager, provides feedback to each candidate about his or her status and developmental needs.

Digital Business also uses a process called "People and Posts." Its leaders create a list of individuals who, based on the submissions from the Staff Development Committee, require development over the next three to nine months prior to promotion into open jobs. It is not publicly known who is considered a high-potential candidate. Rather, candidates are informed of their status based on the feedback they receive from their presentation and defense. The culture at BP is very performance driven, so the succession planning process tends to be simple and straightforward.

### **Multirater Feedback**

Wheaton Franciscan Services and ABN AMRO use internally developed 360-degree feedback instruments as one tool in their succession planning efforts. This process solicits input on developed leadership characteristics from a manager's boss, peers, subordinates, and others with whom they interact. These data are gathered anonymously and formatted into a report that identifies the manager's strengths and areas for improvement. The report typically provides statistical scoring and narrative comments from those providing input. Instead of competency-based 360-degree feedback, Wheaton Franciscan has developed what it calls a "values-based 360 process," built around behavior statements derived from Wheaton Franciscan's set of organizational values. In 2002, the organization identified behaviors reflective of living out those values so they could be observed behaviorally and incorporated into the first 360-degree feedback process for the top 61 managers. In 2003, Wheaton Franciscan is expanding the scope of its 360-degree feedback process from senior managers down to the next level of management. The Organization Development Institute recognized Wheaton Franciscan's 360-degree feedback process in May 2002 for its outstanding contribution to the field of organizational development.

Having been in the process of developing its succession planning program for four years, ABN AMRO believes its succession planning efforts grow more sophisticated every year. When the company started, it was basically a name-taking exercise along with agreement from various levels of management concerning key success factors of leader candidates. Since then, a leadership model has been added that compares all managers to 360-degree feedback around eight internally developed leadership competencies, and 180-degree feedback on work style and organizational climate from each manager's direct reports, as well as executive coaching for each of 27 targeted executives.

ADAPTABILITY	INNOVATION
<p><b>Description:</b> Reacts and adjusts positively to changes and new ways of doing things.</p> <p><b>Behaviors:</b></p> <ul style="list-style-type: none"> <li>▪ Adopts new approaches to novel or unusual situations rather than always relying on established practices.</li> <li>▪ Reacts and adjusts positively to changes and new ways of doing things.</li> <li>▪ Seeks different perspectives that expand how the organization thinks and acts.</li> </ul>	<p><b>Description:</b> Develops imaginative solutions and new ways of thinking about situations, problems and opportunities despite the element of risk.</p> <p><b>Behaviors:</b></p> <ul style="list-style-type: none"> <li>▪ Implements new ideas to improve effectiveness and customer responsiveness, despite lack of precedent.</li> <li>▪ Takes a stand or makes decisions that are controversial or that involve significant personal risk.</li> <li>▪ Systematically keeps up to date with developments in technology, his or her functional discipline, and the industry.</li> <li>▪ Maintains and develops a wide network of individuals (internally and externally) who can increase his or her knowledge of an issue or business situation.</li> </ul>

**Figure 1. Sample ADP Leadership Competencies.**

To help managers better recognize the talent among their subordinates, ABN AMRO asks each of the 27 executives to evaluate their direct reports against two questions: What is going to change in the marketplace in the next three years, and how is that going to affect the critical skills of the people you need in order to succeed? Managers' answers usually are additive; in other words, managers tend to add to their list of needs without removing others. This allows the company to inform executives about the identification and prioritization of the company's true needs. It also enables richer discussions with managers when the time comes to fill a subordinate position. For instance, if an executive decides to promote someone without the skills forecasted, the discussion can focus on changes in the marketplace and the strategic needs of the business.

The 360-degree feedback system Automatic Data Processing (ADP) uses is based on 10 leadership competencies, with behavioral items underneath each one. A sample of two of these competencies—adaptability and innovation—appears in Figure 1.

ADP's 360-degree feedback is the starting point for considering candidates as high-potential leaders. The feedback is used by managers to help employees make developmental and career path decisions. In turn, development plans are created for the employees, and data sheets are completed that include employee photos, education, mobility, major accomplishments, work experience, career path information, key competency strengths, and developmental competencies. This information is included in presentations conducted by management to the executive committee and divisional president, which are used to better understand ADP's internal talent pool and managers' performance and potential. Although some managers are much more committed to the process than are others, the process is an effective one. It is labor intensive but, from ADP's HR standpoint, it is worth the effort.

### Job Fit

Neumann Homes is attempting to simplify and demystify the process of succession planning. The HR team's philosophy is that employees come to their jobs with existing talents and abilities. The organization does not see itself as creating talent, but rather as helping team members discover and develop their own talents. Alignment of the self-interest of employees and their unique abilities with the business is called "engagement," a term coined by Gallup's Curt Kaufman and Marcus Buckingham, in *First Break All the Rules* (1999). In the model put forth by these authors, employees direct their own careers. The company provides training and systems to support employees' growth and development, and leaders provide the HR team with support for professional development. The company's job is to identify talent and then allow the HR team to operationalize it, focusing on matching the work to be done to the strengths of each employee. The key distinction is to manage toward strengths and abilities, ensuring a job fit that allows each employee the opportunity to do the work at which he or she excels.

The key questions involved in succession planning include: Do the team members understand and support the vision of the organization? Do they connect their personal values with the firm? Are they committed to the growth of the company? Do they understand the business of the business, and are they committed to it?

The process at Neumann Homes values "job fit" and looks into whether the employee has already "gone past the greatest job they ever had." That happens when it is obvious that an employee is no longer enjoying his or her job. Neumann Homes wants to create new avenues to allow people to be in the greatest job they ever had. That means, partly, including employees in the decisionmaking process—before applying for leadership positions. Assessments of

INSTRUCTIONS: Mark the top number within each section to answer the question “Where are we now?”  
 Mark the bottom number within each section to answer the question, “Where do we want to be?”

	CONVENTIONAL APPROACH	←————→	EMERGING APPROACH
1	Priority is placed on candidates with extensive experience and time in grade in the organization.	1 2 3 4 5 6 7 1 2 3 4 5 6 7	Company has defined and seeks candidates with leadership potential and adaptability to high-change environments.
2	Succession planning is restricted to top-level management; candidates come exclusively from next layer down.	1 2 3 4 5 6 7 1 2 3 4 5 6 7	Planning extends to mid-level managers.
3	Planning assumes a uniform organizational structure.	1 2 3 4 5 6 7 1 2 3 4 5 6 7	Planning considers multiple business units, including those composed of merged or acquired companies.
4	Replacement decisions are influenced by cultural bias.	1 2 3 4 5 6 7 1 2 3 4 5 6 7	Replacement decisions take into account multiple cultures.
5	Planning spans 5-10 years, and succession reviews are conducted every 1-2 years.	1 2 3 4 5 6 7 1 2 3 4 5 6 7	Planning spans 1-2 years, and succession reviews are conducted biannually or quarterly.
6	Succession plans are owned by the HR department.	1 2 3 4 5 6 7 1 2 3 4 5 6 7	Succession plans are owned by the company’s senior team.
7	Planning is “stable state,” based on the current organizational structure.	1 2 3 4 5 6 7 1 2 3 4 5 6 7	Planning is “dynamic,” based both on the current structure and on anticipated business challenges and accompanying structural changes.

**Figure 2. Succession Planning Diagnostic** (Note: Adapted by David Jewell from *Executive Resource Management* by Robert Barner, 2000).

their skills and goals helps employees see what may be in store for them with regard to future employment within the company. The process is new, but the CEO and the entire leadership team are striving to be the best practice, not follow it.

### A Tool to Ensure Success

One important factor of succession planning is to view it as a strategic activity. The organizations that were most successful with their process were those that based their leadership strategy on a clearly articulated business strategy. HR needs to be part of the conversation to help business leaders define their leadership competencies for the future. Once the criteria for leadership are defined, the succession planning process can move ahead.

Use the tool in Figure 2 as a discussion document with senior executives to identify where your organization currently is with respect to a continuum of approaches for succession planning and where they want to be.

Creating a succession planning process is a challenge and needs to evolve over time. Organizations that are successful in this process start with a process and continue tweaking and adapting it to meet the needs of the business, identifying what works in the organizational culture and what does not. Senior management commitment and accountability are key. HR systems that support employee development and performance management need to be integrated, linking the organization’s strategy to the developmental needs of its leaders and then following through and rewarding those who produce the desired results. 🏔️

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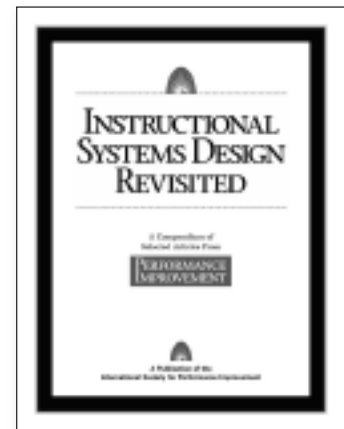
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