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**BUILD A BETTER
LEADERSHIP PIPELINE**

**CEO PUBLICATION
G 04-1 (453)**

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January 2004

Build a Better Leadership Pipeline

Succession planning and leadership development ought to be inseparable. So why do many companies manage them as if they had nothing to do with one another?

By Jay A. Conger and Robert M. Fulmer

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What could be more vital to a company's long-term health than the choice and cultivation of its future leaders? And yet, while companies maintain meticulous lists of candidates who could at a moment's notice step into the shoes of a key executive, an alarming number of newly minted CEOs fail spectacularly, ill-prepared to do the job for which they have been groomed. Look at Coca Cola's Douglas Ivestor, longtime CFO and Robert Goizueta's second-in-command, who succeeded Goizueta on his death. Ivestor was forced to resign within three years, thanks to a serious slide in the company's share price, some bad PR moves, and poor handling of a product contamination scare in Europe. Or Mattel's Jill Barad, whose winning track record in marketing catapulted her into the top job – but didn't provide her with the insights into the financial and strategic considerations needed to run a large corporation. Ivestor and Barad failed, in part, because while each was quite accomplished in at least one area of management, both had failed to master more general management competencies such public relations in the CEO role, the impact of acquisitions, building consensus, and supporting multiple constituencies. And they're not alone. It's not just that the shoes of the departed are too big. It's that succession planning, as traditionally conceived and executed, is too narrow and too hidebound to uncover and correct skill gaps that can derail even the most promising young executive.

However, in our research into the factors that contribute to a leader's success or failure, we've found that certain companies develop deep and enduring bench strength by moving beyond succession planning as a mechanical process of updating a list. Indeed, they've combined two practices – succession planning and leadership development – to create a long-term process for managing the talent roster across the organization. The two practices usually reside in separate functional silos and do not connect, but they are natural allies

as they share a vital and fundamental goal, which is to get the right skills in the right place.

In this article we'll look at a handful of far-sighted companies – including Eli Lilly, Bank of America, and Dow Chemical – that have broken down the functional silos to develop a new process that we'll call succession management. Drawing on their experiences, we'll outline five rules for setting up a succession management system that delivers a steady and deep pipeline of leadership talent.

Rule One: Make Development the Focus

The fundamental rule – the one upon which the other four rest – is that succession management must be a flexible system oriented toward developmental activities, rather than a rigid list of high potential employees and the slots they might fill. By marrying succession planning and leadership development, you get the best of both: attention to the skills required for senior management positions along with an educational system that can help managers develop those skills over time. It's a lesson that Coca Cola and Mattel could have benefited from. Coke's Ivestor was given the top job largely as a reward for his financial savvy and years of loyalty to Goizueta, with insufficient thought to how his particular skills might translate for the broader role. And as for Barad, she had grown Mattel's Barbie brand nearly ten-fold in under than a decade yet her controlling management style and lack of experience in finance, strategy, and the handling of Wall Street – essential capabilities for any CEO – proved to be her downfall. Some early intervention might have exposed her limits and provided an opportunity to develop these skills – and perhaps would have prevented a career derailed. Thanks to its new CEO Robert Eckert, Mattel now links succession to directly to development efforts.

It's not just about training. Leadership development, as traditionally practiced, usually focuses on one-off educational events, but research at the Center for Creative Leadership in Greensboro, N.C., has shown that participants often return to the office from such events energized and enthusiastic, only to have these new behaviors quickly stifled in the reality of corporate life. It's far more effective to pair classroom training with real-life exposure to different jobs and bosses – using techniques like job rotation, special assignments such as establishing a regional office in a new country, and “action learning,” which pulls together a group of high potential employees to study a pressing topic such as whether to enter a new geography or experiment with a new business model, and present a recommended course of action to the management team.

Eli Lilly and Company, for example, has a structured bi-annual action learning program that brings together potential leaders, selected by line managers and HR, to focus on a strategic business issue chosen by the CEO. Eighteen employees identified as having at least executive director potential, representing a mix of functions and geographies, participate in a six week

session in which they meet with subject matter experts, best-practice organizations, customers, and thought leaders, and then analyze what they've learned. In 2000 one such team was charged with developing an e-business strategy as a new avenue of growth – an arena that was at the time of pressing concern. The group interviewed more than 150 people over five weeks, and in the final week developed a set of recommendations to present to senior management – who took their ideas quite seriously. For example, two of the recommendations were to name an e-executive and provide a certain level of funding. Without hesitation the CEO's response was "We will name an e-executive within two weeks and he or she will report to me... appropriate funding will be made available."

Action learning programs such as Lilly's serve a dual purpose, because they provide developmental experiences for employees – who are forced to look beyond functional silos to solve major strategic problems and thus learn something of what it takes to be a general manager – and the company gets a useful work product in the end. And these programs have increased in importance because many companies, in downsizing and creating economies of scale, have eliminated many of the roles that used to be prime training ground for top management. Look at Dow. Under its old organizational structure, some 60 countries had country manager roles that served as training ground for general management talent – the country managers acted as company presidents for the country, with all the business units and functions reporting to them. In 1995 the company consolidated into 30 global business units built around business and functional specialties like the manufacture of a specific set of chemicals. The new global business unit leaders had all functions reporting into them and the country manager role was reduced to essentially that of an integrator. The new structure allows the company to enjoy the economies of scale now permitted by the relaxing of trade barriers, but it reduced the number of developmental opportunities by half, from 60 to 30. In addition, about ten years ago an employee might hold a country manager role at an age ranging from late 30s to mid-40s. Today, the average age for those heading the global lines of business is mid-40s to early 50s, forcing people to wait longer to step into the role. One way to provide general management experience in this environment is to launch small joint ventures or new internal enterprises. Cross-functional and enterprise experiences might also be developed by lateral moves across functions and business units. At Dow, for example, one of the global business unit heads served for a time as president of operations in Asia/Pacific to gain cross-functional experience. And a future leader in the research organization was named vice president for purchasing, to broaden her expertise.

Any of these activities should be captured in development plans, specific to each employee, with mechanisms to trigger developmental activities as needed. Lilly's group development review process (GDR) is mandatory for the approximately 500 employees deemed to have executive potential through the

company's talent assessment process. The GDR is a periodic, in-depth review of a single person, involving input from both past and present supervisors (the employee is not present for the meeting). Through a facilitated 90-minute discussion, the group identifies the next steps the employee should take. The immediate supervisor then shares a summary of the results with the employee who, with the supervisor, is responsible for incorporating the feedback into his or her development plan. A marketing manager we'll call Bob was the subject of one recent GDR session. During the review his current and previous supervisors concluded that he was overly dependent on his strategic-thinking skills and needed more operational experience before he could be promoted to the executive level. Bob's supervisor shared this information with his peers during the marketing function's next succession management meeting, and the team agreed to help Bob round out his skills by placing him in a key sales role in Europe later this year. When an employee goes through a significant transition such as Bob's – taking on a key role without the specific experience usually required – Lilly generally mitigates the risk by putting the person in with a team of other employees who are already strong contributors. Company leaders also make periodic progress checks and may send the employee to a training program or appoint a mentor (not the employee's boss) who can provide hands-on guidance.

Rule Two: Identify Lynchpin Positions

Where succession planning historically focuses only on a few select positions at the very top, leadership development usually begins in middle management. Collapsing the two functions allows companies to take a long-term view of the process of preparing middle managers to become general managers, with all of the steps in between, often reaching down into the director level.

Such systems should focus intensively on lynchpin positions – a select set of jobs that are essential to the long-term health of the organization. They're typically difficult to fill, rarely are individual contributor positions, and they usually reside both in established areas of the business and those that will be critical to future success. In a professional services firm, for example, the partners managing critical industry sectors such as chemicals or automotive would be in lynchpin positions, as would partners managing emerging sectors such as biotech. These positions require broad business perspective and experience, and by monitoring the pipeline for these jobs companies can focus development programs on ensuring an adequate supply of appropriate talent.

At Sonoco Products, one of the world's largest packaging products company, the succession process begins with non-exempt employees who are seen as having the potential to move up in the organization. But the company sees the plant manager role as a lynchpin position that provides important developmental experiences because [reason from Sonoco] and hence extra attention is given at this level. Division vice presidents and their functional area

managers meet offsite for a full day with the division's HR manager to assess plant managers' performance and potential for promotion to area management. The purpose is to identify experience or performance issues that could affect a manager's promotion, rather than to identify specific successors. And the result is thus a pool of potential successors rather than a select few leading contenders.

Every plant manager is plotted onto a matrix, to show areas of strength and weakness. For example, you might find a plant manager who has potential for promotion, but who has lived all of his life in a small Southern community. A promotion would require relocating, but he's reluctant to move. Having identified him as a high potential, Sonoco can design a particularly tempting assignment, one that would be difficult for him to pass up. Or you might find a manager who's risen through the ranks at one of the division's most successful plants. She'd require a different sort of challenge to develop her potential for higher management, such as a turnaround assignment. The analysis is also rolled up into an organization-wide picture, which allows the company to understand which people have division management potential or beyond and assess total group strength. In our research we found that many companies use a similar matrix approach to assessing talent strengths and weaknesses.

One major national retailer identified as lynchpin positions a broad range of management roles from the officer level all the way down to the regional managers because HR had discovered a severe talent shortage for all of these roles and was having difficulty filling them. The company began conducting talent review sessions for these positions, during which the executives responsible for these roles along with HR discuss the people currently in the positions and their likely replacements (which were few in number). In the process they learned that the lynchpin positions were generally filled through serendipity – when a job opened up, it went to whoever was on the radar screen at the time. Today, the company has built a systematic pipeline where it can more accurately gauge bench strength and it now uses the regional manager role as a way to give promising store managers developmental experiences that would groom them for more senior roles.

Rule Three: Make it Transparent

Succession planning systems have traditionally been shrouded in secrecy, in an attempt to avoid demotivating those who weren't on the fast track. The idea was that if you didn't know where you stood (and you stood on a low rung) you would continue to strive to climb the ladder. This line of thinking worked well in an older, paternalistic age, and secrecy has its advantages, from the CEO's perspective. It allows for last-minute changes of heart without the need to deal with dashed expectations or angry departures. But when the employee contract is based on performance – rather than loyalty or seniority – you'll get more out of your people if you let them know where they stand. In short, reward the high performer and shock the low performer.

It's not just because you owe it to them to be honest. Your employees are the best source of information about themselves and their skills and experiences. And if they know what they need to do to hit a particular rung on the ladder, they can take steps to do just that. In fact, an increasing number of companies are making employees themselves responsible for keeping the data in their personnel files complete and up-to-date. At Lilly, each employee is responsible for updating his or her personal information and résumé outlining career history, educational background, skills and strengths, and possible career scenarios. (To curb the urge to exaggerate experience, the plans are reviewed by a supervisor.) Data accuracy has improved significantly since Lilly gave employees responsibility for their own résumés, since nobody cares more about an accurate résumé than the employee.

A few companies even allow participants to know exactly where they stand in the succession system. Indeed, in one company we studied, the succession management system as initially designed didn't show rankings and employees, who were accustomed to candor and transparency, found the system overly authoritarian and refused to participate. In the end the company capitulated and gave employees unrestricted access to their own information. But this level of transparency isn't for every company, and in some it can put a damper on team spirit: an employee who discovers he or she is relatively low on the roster may stop trying to excel and simply do the minimum. And so most companies will most likely elect to limit transparency in some way. At Lilly, for example, people know if they are regarded as having additional potential, but they don't know exactly how high that potential is nor do they know about every role for which they may be a candidate.

Transparency demands that systems are simple and easy to use, with immediate but secure access for participants. Technology – and in particular the Web – is a powerful enabler. The succession management group at Lilly has a simple expression to describe how users should experience the group's succession tools on their computer desktops: "Be like Amazon." Just as the Internet retailer puts customized and relevant information right in front of consumers, its 1-Click model wiping out many of the practical and psychological barriers to online shopping, Lilly's Web-based succession tool is available through an icon on employee computer desktops. A click on the icon takes the employee to a portal on the company's intranet, with personal information and job opportunities customized for each employee, backed by a combined SAP and Oracle database. HR and the succession management team can instantly assess an employee's current level, potential level, experience, and development plans. By putting the information directly in front of employees, succession management becomes less another planning event and more an ongoing activity. In fact, the data has multiple uses, ranging from the company's position posting system to its Web-based internal phone book.

Lilly's succession management Web site also acts as a more general querying and reporting tool, enabling HR to quickly retrieve specific information in various forms. HR managers can request information on any type of position, any geography, any function – or any combination thereof – and pull out a report downloaded into an Excel spreadsheet. For example, you could pull a report showing what marketing positions are available in Europe, which candidates are being groomed for such positions anywhere in the world, and any skill gaps that would make it difficult to fill the jobs. The names on the report are paired with hyperlinks so that the user can click to pull up an online résumé, individual development plan, and skill sets that would be needed before the person would be ready to make the move. The system also allows HR to download statistics on the talent pipelines such as the ratio of potentials to incumbents, specific data related to gender and ethnicity, and the percentage of employees with international and cross-functional experience. With the capability to search for multiple criteria, Lilly can view any segment of the organization in one query – from functional views like marketing to geographical regions like Latin America.

Like Lilly, most of the best-practice companies we studied now rely on Web-based links to the system to promote greater transparency and ease of use in succession management. At Dow, the Job Announcement System posts openings online for positions below the top 800 jobs (the cutoff for the succession pool). Employees nominate themselves for the positions online, and if a hiring manager has a preferred candidate, he or she must expressly state this along with the posting. Dow's Web tool also includes career opportunity maps that detail the sequence of jobs one can expect in a function or line of business. In some companies, compensation ranges are even shown by level and by positions on the company.

Rule Four: Measure Progress Regularly

When you collapse leadership development and succession planning – and thus move away from the “replacement” mindset of succession systems of the past – the measures of success take a long-term view. No longer is it sufficient to know who could replace the CEO, but you have to know whether the right people are moving at the right pace into the right jobs at the right time – with the ultimate goal of ensuring you have a solid slate of candidates for the top job. You also need to know who is where and which jobs they're being groomed for, to avoid overly stretching the candidate pool – what Sonoco's identified as the “Roger Jones phenomenon.” According to company folklore, divisional executives who were having trouble developing their own candidates would simply identify one of the company's superstar performers as a potential successor. But when succession plans were consolidated at the corporate level, a single employee, Roger Jones, was found to be the potential successor for most of the key jobs at the company. (Sonoco now requires each division to generate most of its own successors from within, to avoid this.) You also want to make

sure that high potential employees have sufficient options to prevent their growing restless – royal heirs can be expected to be patient in waiting for the throne, but corporate heirs have many other options. Frequent checkpoints throughout the year allows you to spot such problems before they become problems.

One key test of a succession management's success is the extent to which an organization can fill key jobs with internal candidates rather than outside hires. At Dow Chemical, for example, an internal hire rate of 75% to 80% is considered a sign of success (the assumption is that you need room for some external hires to maintain a fresh perspective and to fill unanticipated roles). An outside hire for a functional-critical or corporate-critical role is considered a failure in the internal development process. Dow also measures the attrition rate of its "future leaders" – defined as those employees who have the potential to manage cross-functionally and across business units or geographies – against that of its global employee population. In 2000, the future leaders' rate was 1.5% as compared to 5% globally – a signal to Dow leaders that the future leaders are getting the developmental opportunities they want and need. It's worth noting that of the company's top 14 executives, all have had cross functional developmental opportunities, designed to prepare them for the demands of top management.

Lilly tracks several specific succession management metrics, including the overall quantity of talent in its managerial pipelines, and the number of succession plans where there are two or more "ready now" candidates. For positions at the director level and above, it shows the employee who currently holds the position as well as three potential successors. Lilly can also call up summary metric reports that show real-time data on a number of prescribed measurement areas such as the ratio between incumbents at each level and individuals with potential to that same level. There are specific goal ratios for each level of management (for example, 3:1 for the director level). Additionally, both groups are segmented to track diversity, on the assumption that diversity in "potentials" is a leading indicator of the diversity of its overall employee population.

The succession plan metrics also help the company identify gaps more broadly. With the click of a button Lilly can learn how many "ready now" candidates it has for its top 500 positions. Where there are none, that information triggers both a search for internal development opportunities as well as executive recruitment activities. Lilly can also identify hidden vulnerabilities by producing a report on how many employees are on more than three succession plans as "ready now" candidates – if high potentials are spread too thin, then the pipeline is thin as well. Using a quarterly scorecard the company tracks progress on goals and positional and pipeline data, diversity elements (gender, race, ethnicity), job rotations, and turnover rates. This is reported to HR who then shares the scorecard with the executive team.

At Bank of America, CEO Ken Lewis meets every summer with his top 24 executives to review the organizational health of the business. In two- to three-hour sessions with each executive he probes the financial, operational, and people issues that will drive growth over the next 24 months, with the majority of time spent discussing the organizational structure, key players, and critical roles necessary to achieving the company's growth targets. The meetings are personal in nature, with no presentation decks or thick books outlining HR procedures. But they are rigorous. Business leaders come to the sessions with a concise document (three pages or less, to ensure simplicity) describing the unit's strengths and weaknesses in its talent pipeline. During these conversations they make specific commitments regarding current or potential leaders – specifically identifying the next assignment, special projects, promotions, and the like. Lewis follows up with the executives in his quarterly business reviews, to ensure that they've fulfilled their commitments. In one of these talent review sessions last year, for example, one executive made a pitch to grow his business unit at a double-digit clip. This would require some shifts among top talent and a significant investment in building the sales and distribution workforce. Lewis agreed, and a year later in the talent review meeting, he requested specific progress reports relating to the change, checking that people had been put into the right roles and that the sales management ranks had been filled out.

Rule Five: Keep it Flexible

Old-fashioned succession planning is fairly rigid – people don't move on and off the list fluidly. The best-practice organizations that we studied practiced the Japanese notion of *kaizen* or continuous improvements in both processes and content. They refine and adjust their systems as they receive feedback from line executives and participants, monitor developments in technology, and learn from other leading organizations. Indeed, despite their success none of the best practice companies in our research expected their succession management system to operate without modification for more than a year. Most had made recent changes to make the system easier to access and use. Sonoco had recently integrated four separate software systems to improve the speed and consistency of the data, while Dell actually cut back on the use of technology in its push for speed and simplicity. And while Lilly keeps close tabs on its high potential employees, it's not unusual for people to move on and off the list.

These systems are only effective when their owners and users find them highly responsive to their needs and when the tools and processes are easy to use and provide reliable and current information. Particularly in the early years of a new system, owners and users are likely to find any number of shortcomings, so HR officers and staff must be open to continual improvements – to make it simpler and more user friendly, and to add functions as needed.

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At the foundation of a shift toward a more strategic approach to succession management is a belief that leadership talent directly affects the performance of the organization. This belief sets up a mandate for the organization – to get and keep leadership talent. Jim Shanley, who oversees staffing, learning, and leadership development at Bank of America, explains: “You need a strong leadership development and succession process, but it is not the process that really makes the difference. Executives need to have a talent mindset where they feel comfortable talking about their A players as well as their low performers. Our CEO, Ken Lewis, has institutionalized a performance based meritocracy. We reward top performers with stretch assignments and we take action on low performing leaders.” Shanley’s focus on the bottom performers isn’t based just on the traditional measures of performance such as productivity. Sub-par leaders may block key developmental positions. What’s more, they may hamper the overall succession management process as their failure to develop subordinates properly may drive away high potential people. Top performers want good bosses and great challenges at a fast pace.

And so, perhaps the underlying lesson is that good succession management is possible only in an organizational culture that encourages candor and risk-taking at the executive level. It depends upon a deep comfort with differentiating individual performance and in turn a corporate culture where the truth is more highly valued than politeness or tolerance for average or poor performance.

SIDEBAR: Our Research

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The research for this article was conducted in collaboration with the American Productivity and Quality Center (APQC) and 16 sponsoring companies. We identified a total of six organizations who had achieved a high degree of success in succession management – Dell Computer, Dow Chemical, Eli Lilly, PanCanadian Petroleum, Sonoco Products Company, and Bank of America. Their “best practice” approaches were compared to those of the companies supporting the research. We used two principal methods to gather information across the two samples: 1) detailed questionnaires to collect quantitative data across all participating organizations and 2) site-visits involving in-depth interviews. The objective was to understand how the best practice firms differed in their approaches to succession management and to learn more broadly about trends and challenges in the field.

SIDEBAR

It's Not the Job of HR

It used to be that HR was the primary owner of both succession planning and leadership development, but that's an enormous mistake. Both processes need multiple owners – not just HR but the CEO, supervisors, and employees themselves – if an organization is to develop a healthy and sustainable pipeline of future leaders.

It's become a cliché to say that the CEO has to be involved in any strategic process, but this is not a request for gratuitous support. Without active commitment at the very top – as well as from the executive team – managers will sense that succession management is a tangential activity and you won't get consistent and coherent commitment. Instead, you may find that division executives hide and hoard their talent by manipulating their assessments. (The converse is also true: unless succession management is aligned with the overall business and corporate strategy, top management support will be short lived.) Bank of America's Ken Lewis exemplifies CEO commitment. When he took over as Chairman and CEO, he immediately set out to make the bank one of the world's most admired companies, and he knew that to succeed he'd have to signal to his direct reports and key leaders the importance of recruiting, developing, and retaining top talent. He owns the talent management process and holds business unit heads personally responsible for meeting development objectives within their units. As Brian Fishel, senior vice president of executive recruiting and development, explains: "The language and feel of our leadership model is very much Ken Lewis, our CEO. His expectations pervade – about the performance and results we expect, about how to deliver them, about the need to constantly raise the bar on ourselves because the customers we serve demand that we deliver to ever higher standards."

But it is not realistic or desirable for CEOs and their executive teams to have sole responsibility for the development of talent and leadership. They don't have the time or the expertise in talent development. Both corporate HR and functional or regional HR heads need to be involved – corporate HR provides standards, tools, and processes, and functional or regional HR people make sure that the local unit abides by the rules but customizes them as appropriate. At Bank of America, the corporate human resources team defines the process and provides common sets of templates and tools which result in a single corporate-wide talent management database of key leader information. Certain elements are non-negotiable, such as the look and feel of reports and information, the timing of rollup reports, replacement charts, and the rating system. The central HR function is also responsible for Lewis's leadership competency model organization-wide (the model lists behaviors and skills leaders are expected to have, values that they are expected to model, and "derailing" behaviors such as betraying trust or resisting change that they are expected to avoid). Then, the HR people within each line of business, working with the leaders of those

organizations, may add one to three technical or functional competencies to the organization-wide list as needed. Local HR also helps prepare the unit heads for the talent review meeting and manages the process at a local level.

And board members, too, should be actively involved in the process. This is most relevant when it comes to the choice of the successor to the CEO. But in this process, board members are often exposed to candidates only through formal presentations, usually candidates hand-selected by the CEO. That leaves succession decision in the hands of one individual's judgment – and that person's judgment may be seriously impaired by the wish to leave a lasting legacy or denial of impending retirement. Companies thus should find a way to allow Board members to assess potential internal candidates in a critical light, perhaps by holding succession meetings without the CEO present, hosting visits to the operating units of potential candidates, or arranging social or sports outings where informal assessments can occur.