

# How Does the CEO Get to Be CEO?

**Lynne Morton** (*President, Performance Improvement Solutions*) explains why succession planning needs to focus on building bench strength and go beyond having 'a name in the box'

## ■ Holistic Approach to Succession Planning

**IN** talent management, we often use the phrase 'having the right person in the right job at the right time' because the challenge of the work is being able to balance those three 'rights'. When we think about the top job we need to remember that those 'rights' are still all factors. We also need to remember that, by acknowledging the importance of the 'rights', we are thinking holistically, or in terms of a process. Yet we talk about succession planning for CEOs, while planning is an act rather than a process. Why are we doing that and shouldn't that change?

Today's business world is not the same as yesterday's business world and we have no way to know to what extent it will look like tomorrow's world. But, for now, we know that we need to be especially diligent about how we are placing people at the top of our organisations. These people need to be able to react faster than ever before and to understand that their actions will have implications beyond the traditional scope or reach. We ought to question if it is not time to behave somewhat differently than we have to date. I think it is that time.

It is critical that we think holistically about who sits at the top of our organisations, and about how they got there. Many inputs are needed; in fact, more inputs will provide more value. We want to be proactive in obtaining those inputs, whether they come from external sources such as executive recruiters, or internal sources such as performance appraisals. In fact, the more we include the whole spectrum of succession management – recruitment, performance management, professional/leadership development and career management – the more likely it will be that our organisations will have a robust and rich way to ensure that their leader is the 'right' one. We need to get beyond thinking of having to have 'a name in the box', as the succession planning process requires, and to think in terms of bench strength for the future. After all, who knows if our future will even have the same boxes?

Yet, sadly, this is not happening. The majority of companies in North America, at



least, continue to apply the same old approaches to the placement of their CEOs. The profile continues to be a male, approximately 55 years old, who has, more often than not, been with the company for 20 or more years. Sometimes, when a company is at a critical period in its history, external candidates are brought in, since that is the time when 'new ideas' seem needed. But are many companies using the expertise of executive recruiters to compare their internal CEO 'candidates' with external candidates? Are many companies revisiting the competencies required of their CEO in keeping with the changing market, to see if they are developing people appropriately? Aside from reassuring the Board that there will be no succession 'gap', are companies utilising the expertise of their Board members to assure that they have the 'right' people moving along the path towards CEO succession? It appears that this is not happening.

A recent study conducted by Bersin Associates showed that only 40% of organisations do succession planning and that only approximately 25% have an enterprise-wide approach. Research by Aberdeen Associates was not more optimistic: in their 2007 study on succession, 44% of organisations said they had formal succession initiatives in place. That is despite the continued emphasis, since the 1990s, on the ageing workforce, potential labour shortages, the need for greater accountability within senior management, etc. Aberdeen's 2008 study shows consistent data: the top two pressures forcing organisations to enhance their succession processes are the shortage of leadership candidates and the shortage of leadership skills. We still rely on old ways of thinking and myths like the ones mentioned below:

*If you have been successful at GE, you are likely to make a good CEO:* 'Talent' in one culture is not always 'talent' in another. In fact, we have seen high level executives move unsuccessfully from strong cultures like IBM or GE, to other organisations (*Xerox and Home*



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*Depot*) where they failed as CEOs. Experience is still our best gauge of likeliness of success, but more use of competencies can provide good cross-validation for decisions.

*The 80/20 rule should apply to senior leadership mix:* Certainly there is a need for promotion from within, to build/support the corporate culture and to provide career advancement, but is there really a formula for the leadership team? Governments are comprised of cabinets whose members are meant to offer diverse points of view. We know that ideas and innovation come from discussions that include diverse points of view, yet we often do not look for that among in our CEOs.

*The Board's role is to ensure business continuity (protecting investment value), not to help plan:* Strategic planning probably should not be the Board's role; oversight and risk management should be. Yet there seems to be a wide range of opportunity for Board members to help in the areas of risk management. If we use the Corporate Leadership Council's analysis of the four risks that the succession management process addresses – vacancy risk, readiness risk, transition risk and portfolio risk – it becomes clear that corporate Boards can play a role in the latter two, and work more closely with HR on all.

On the other hand, there are some excellent holistic approaches being used by leading global companies. Johnson & Johnson's succession process looks for 'growers' and 'keepers'. They evaluate people against four dimensions – performance, potential, record of people development and span of control (or a position's level of accountability). As they groom people to move up the leadership ranks, they balance these points of view. This has worked well for them, in a unique culture in which there have only been six CEOs in the history of the company.

IBM places similar value on development and they look at developmental needs in three ways: experiences, competencies, and derailment factors. They also think in terms of years to readiness. In their culture, long tenure with the company is common and CEOs tend to have had 20 or more years with the company. Leadership development works well here too.

Schlumberger focuses on another aspect of the equation, bench strength. One of the hallmarks of their succession management process is their nomination of at least three successors for positions. They look not only at the 'ready now' aspect, but also the 'ready in the future' aspect. Future leaders are moved based on their need for development while also considering the balance of (*potential*) short-term business risk vs. long-term business benefit. Simply put, the organisation is willing to take a chance that a future leader may not immediately, or ever, be successful in a new position. However, it acknowledges that the individual will gain from this experience and that the learning will benefit both the individual and the organisation.

All these examples are strong evidence of the continued importance of leadership development and its connection to succession management. There are many other organisations whose processes support this. Yet leadership development is a proven technique and it seems like the right time to explore some newer ways of thinking, certainly given the heightened focus on CEOs right now.

First, we need to think more broadly about strategic needs – more forward into the future and deeper into the organisation. Scenario planning is already being used in workforce planning, so why not in CEO or leadership development? If we identified all the critical positions within our organisations, we should have several levels

of successors being groomed for each. We also should be able to imagine, or model, the organisational impacts of moving people into different roles. Lastly, potential CEOs, or future leaders, should have experience in a couple of the critical roles.

Second, we ought to consider additional sources of input for decisions about CEO selection. We know that sound decisions are based on multiple inputs. The perspectives of Board members are used to validate CEO selection, but are they used to help define CEO competencies? There may also be new ways to utilise the high-value outside perspectives of executive search firms, with assessments or on-boarding.

Third, we need to challenge our paradigms regarding CEOs. Are we really developing the kind of people who can lead us in this rapidly changing and more global business world? Should we put a term limit on CEOs, just as we do our elected officials? If our workforce is getting younger, should our CEOs be younger?

Overall, the special challenges and demands on our business and their CEOs now make it more important than ever that we have that 'right' person in place. The functional area to lead this strategic work is HR. As the recent report 'The Cold War for Talent' published by The Economist says, "Only HR can provide the link between the success of the business and the effectiveness of the people who work for it." It is time for HR to ask the important questions that will guide CEO selection.

Does this person really have what it takes now? Do we really know what it takes now? Is it time for some degree of change? HR is making some good and important connections between leadership development and succession management. Now it is time to make some equally good connections between strategic thinking and CEO selection.

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