

# Leadership succession planning “affects commercial success”

## *Chief executives crucial to developing high-potential employees*

Careful planning for leadership succession at major organizations has a significant impact on their commercial success.

Research entitled *Practices in Developing Future Leaders* reveals that there is a “significant, positive correlation” between an organization’s ability to develop senior executives internally and its confidence in its ability to meet future growth needs.

The research, by global management-psychology firm RHR International, indicates that organizations with a good selection of highly able executives who are definitely senior-management material are frequently the organizations that also have a strong, well-organized program to develop high-potential employees.

The two activities that have the greatest impact in developing these high-potential employees are developmental “stretch” assignments within a company, and the personal involvement of the chief executive.

Dr Robert Kovach, managing director of the UK office of RHR International, said: “Many organizations appear to underestimate the importance of the role of the chief executive in developing a high-potential employee. Another problem is that it is not until stock prices are falling because of a gap in senior-management succession that organizations realize how important a good reserve of quality potential senior managers is to their bottom line”.

The survey also reveals a corresponding significant negative correlation between an organization’s need to hire outside leaders and its confidence to meet future growth needs.

### **How to identify and nurture talented employees**

The survey highlights what respondents consider the most effective methods of identifying and nurturing talented employees who have leadership potential. The most effective techniques are considered to be:

- defining leadership abilities based on the strategic challenges confronting the organization;
- one-on-one coaching or mentoring for high-potential individuals;
- allocation of resources for leadership development; and
- making the development of talent a strategic priority for the organization.

The survey also investigates the personality characteristics organizations would be likely to look for in current staff members they were assessing for future leadership potential.

A striking aspect of the findings is that organizations appear in the current business climate to value personal leadership traits more highly than business-orientated capabilities when

This article was written by *Human Resource Management International Digest* editor David Pollitt, based on information provided by RHR International, Egginton House, 25-28 Buckingham Gate, London SW1E 6LD, England. Tel: +44 (0)20 7828 6652; e-mail: rkovach@rhrinternational.com

**“The two activities that have the greatest impact in developing high-potential employees are developmental stretch assignments within a company, and the personal involvement of the chief executive.”**

seeking future senior-executive material. In particular, the following characteristics are regarded as especially important:

- an ability to build strong relationships both internally and externally;
- openness to change and growth;
- courage to make the decisions that feel “right”;
- an ability to motivate and inspire others; and
- a strong level of self-confidence.

Despite this evidence that organizations wishing to maximize their chances of achieving their plans for commercial growth should place a concerted emphasis on attending to leadership-succession planning, three out of four organizations surveyed report that they are not confident their current talent pool will meet their future leadership needs.

Other principal findings of the survey are:

- 71 percent of respondents expect to hire 25 percent or more of their leaders from the outside over the next five to seven years;
- 57 percent of all organizations surveyed have been formally identifying and developing high-potential talent for less than three years;
- the larger organizations surveyed have been formally developing future leaders for significantly longer than the smaller ones; and
- 62 percent of all organizations surveyed tell particular individuals that they are perceived to have high potential but many say that the conversations happen informally and inconsistently.

Finally, on the question of the specific resources organizations use as tools to develop future leaders, the following are regarded as most important:

- an actively involved chief executive;
- giving high-potential individuals new, significant roles that really tax their abilities;
- encouraging senior executives to enter mentoring relationships with high-potential individuals;
- providing high-potential individuals with coaching relationships within the organization; and
- providing high-potential individuals with external executive-education programs.

Dr Kovach said: “Recent succession scrambling and embarrassing early departures of externally-recruited senior executives at many UK organizations illustrate the trauma that an organization can suffer when it is inadequately prepared for leadership succession. With a majority of survey respondents reporting that they have been formally identifying and developing high-potential talent for less than three years, it is doubtful that consulting firms that claim to be able to advise on best practice for high-potential individual development are really justified in making this claim”.



Instead, Dr Kovach recommends the importance, attested by the survey results, of a chief executive and other senior executives committing time and energy to on-the-spot development of high-potential individuals. He said: "Sending talented individuals who have growth potential along to leadership-development events may seem an easy, ready-made solution to the problem of developing their talents, but generally it turns out to be too easy and too ready-made a solution to be effective".

### Pool of talented potential future senior managers

He continued: "Instead, what organizations need to do is to craft a high-potential development strategy that will result in a pool of talented potential future senior managers being stretched and developed on the job, with other talented people being invited into the pool when their performance justifies it. In order for this strategy to work, the chief executive needs to take a clear, consistent and in-depth interest in the executives who are being developed and on the impact of their development on achieving the organization's strategy".

Bob Thomas, vice-president of human resources for Philips Electronics, commented: "The survey highlights the risks run by organizations that do not properly develop talent from within. Organizations need to be much more deliberate and communicative about identifying and grooming future leaders".

The survey reflects the findings of 115 respondents – 46 percent of whom report an annual turnover in excess of \$1 billion – from 19 industries. About 90 percent of respondents were based in the US, with the remainder being located in the UK, France, The Netherlands, Switzerland, Canada, Russia and central and eastern Europe.

The survey was designed to investigate how organizations are currently:

- identifying and developing future leaders;
- identifying good and bad practices in development;
- specifying areas for practice improvement; and
- building on previous research in this area.

The job titles of respondents included chief executives, senior line managers, senior vice-presidents of human resources and directors of human resources. More than 35 percent of respondents were senior vice-presidents of human resources and more than 15 percent of respondents were chief executives.

*Keywords:*

Succession planning,  
Management development,  
Senior managers,  
Chief executives