14 Leaders

Why many CEOs don't have the leadership

Here's a common scenario in many companies: A key executive job becomes vacant. Senior management sizes up the level of internal talent and tries to identify a replacement. There are many capable, hard-working people in middle management, but they lack the required skills and breadth and depth of experience. There's no one exceptional leader in the bunch who could hit the ground running and maintain the momentum of a successful strategy. No one with experience enacting organization-wide change or redirecting key resources. Not a single rising star capable of moving in a new direction. A headhunter is called in.

Going outside of the organization for talent makes sense in many instances—especially when the organization stands to benefit from new technology, an infusion of new ideas, or a fresh perspective. But, generally, most CEOs would like to fill top-management positions from within. A survey conducted by Development Dimensions International of more than 1,000 executives and HR professionals found that, in most cases, organizations prefer to go outside to fill only 20 to 30 percent of senior leadership positions.

The reasons it's better to promote from within:

- Insiders can take on the new responsibilities more quickly because they know the organization, its people, and its strategy.
- There's less organizational disruption, as when people are waiting to find out who the new executive will be and what changes he or she will make.
- Promotional opportunities are created, increasing retention.
- The organization saves money because it's almost always cheaper to promote people than to go outside.
- A CEO promoting from within leaves a human legacy.

Still, many CEOs are unhappy with their organization's ability to fill vacancies with internal candidates. Looking down through the ranks, they come to the conclusion that their succession management efforts, whether formal or informal, aren't working.

My colleagues and I at DDI have, over the past three decades, had the opportunity to work with 19,000 organizations, including 470 of the *Fortune* 500, to design and implement succession management programs. We've observed and interviewed numerous CEOs who have struggled with the challenge of filling 70 to 80 percent of positions with qualified internal talent. Good intentions, we've discovered, are undermined by critical errors that can cause seemingly sound succession management strategies to fail. In our work, we identified 14 common traps that often result in a dearth of organizational bench strength.

Trap 1

Believing that having a succession management system will lead to success

Many systems in mid-size and large organizations are outdated. Consider systems in which managers are asked to nominate people as their replacements and rate them on their readiness to assume a leadership role. Our experience has shown that in most organizations, designated replacements fill only about one-third of

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bench strength they need.

By William C. Byham

Acceleration Centers

An acceleration center is different from the traditional assessment centers developed by AT&T in the 1950s, but its purpose is the same: to obtain a holistic view of a person's strengths and areas needing development by having multiple, trained assessors observe the person as he or she confronts issues and circumstances typical of the targeted higher-level positions.

High-potentials are told to visit a Website, where they learn about the purpose of the acceleration center and the job they'll hold for one day as part of the experience. They learn about the hypothetical company they'll work for—its products, people, challenges. They'll get to know the job, their boss, and staff and can delve into various issues facing the company as much as they'd like to. They also take two personality tests online.

On a day of their choosing, they show up at an acceleration center, where they're shown an office and given that day's meeting agenda. At 9 a.m., they meet with two of their staff who aren't cooperating with each other for the good of the organization. At 11, there might be a product planning meeting or a meeting that deals with an unhappy customer who represents a good business expansion opportunity. In the afternoon, they might meet with a rep from a potential strategic partner or a TV reporter. In-between, they handle their in-baskets, email, and voicemail. The day ends with a presentation to senior executives on a new product and a behavior-based background interview.

Highly skilled professional assessors examine videos of the potential's interactions with role-players and examine outputs from voicemail and email to evaluate the potential against organizational competencies.

The best acceleration centers

- use outside, professional assessors rather than the company's managers
- use CBT to speed the assessment and video to study behavior
- integrate strategic simulations into the process to mimic day-to-day activities of executives
- make available facilities built specifically for assessments, thus adding to the realism and reliability of the simulations
- provide high-quality feedback of the acceleration pool findings.

Acceleration centers help define specific, individual development needs and help organizations estimate how far and fast a candidate will progress. The centers look beyond résumés and current performance to help predict someone's potential for meeting the company's future challenges. Acceleration centers can fairly, accurately, and objectively compare candidates in corporate locations worldwide, enabling an organization to tap its global talent fully.

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the management positions for which they're targeted. Jobs and organizational strategies tend to change too fast for the replacement approach to be successful.

Making matters worse, organizations often sink a lot of precious executive time into filling out forms and attending meetings. PepsiCo, for example, found that it was spending 250,000 executive hours a year on replacement planning activities. It has since nixed that system in favor of one that aims people towards an organizational level rather than a specific position and then seeks the best match of people to jobs as vacancies occur.

Having a well-designed system doesn't mean it will prove successful. Many CEOs err in thinking that once they've implemented a new system, they don't have to follow up. Their measure of success is the number of people in the system rather than the quality of people available to fill positions. Other CEOs consider completion of an event (such as talent review meetings or training experiences) as evidence of effective succession management. But it's a CEO's job to set meaningful, measurable goals (such as number of positions filled internally) for tangible succession management outcomes, and to assign people to monitor the system's effectiveness through periodic reports.

Trap 2

Thinking they know all of the high-potential people

CEOs tend to think they have a good feel for who are the up-and-coming people in the organization when, in reality, they don't. They fail to look throughout the entire organization and, instead, select candidates for accelerated development based solely on their personal knowledge of them. That helps perpetuate the "good old boy" system and can give managers who interact regularly with the CEO an advantage.

Some CEOs rely heavily on chance observations. For example, a CEO might observe some managers making presentations and might make hasty estimations of their potential, forgetting managers who might be equally or better qualified but don't have opportunities to make presentations before the CEO. Personal observation alone won't do it; there must be other systems for finding people who don't typically interact with senior executives.

Trap 3

Believing in the accuracy of an internal nomination system

Many large organizations determine their list of high flyers by asking senior executives to nominate people. That has three common problems: 1) The criteria for selection isn't clear, 2) the evaluation standards vary across departments and globally, and 3) some nominators are more conscientious than others about submitting names and backup documentation.

An increasingly difficult challenge for organizations is to tap all of their international talent, not just the high-profile expatriates. It's becoming more common for organizations to want people they can move from one country to another and eventually tap for senior executive positions in the home office. But finding such people across international borders is challenging because of the variety of performance appraisal standards in different areas of the world. Talent identification challenges are exacerbated when global organizations grow or morph through international acquisitions or mergers. M&As offer new talent, but finding high-potentials in new, geographically dispersed organizations is like looking for a needle in a haystack. A common standard is needed to reflect the challenges inherent to senior field and corporate leadership assignments. Further, it's important to ensure that unknown emergent leaders from newly acquired segments of the organization be afforded the same recognition and credibility shown high-potentials in the parent organization.

Many companies—such as Cisco, PPG, and General Motors—use Acceleration Centers to provide consistent standards. Candidates are put through simulations of the challenges they'd face in a senior leadership position, such as handling interdepartmental conflicts, negotiating a merger, dealing with government officials, handling the press, and making quick decisions without having all of the relevant facts. Each person's behavior is evaluated by professional assessors and he or she receives extensive, behavior-based feedback on development needs. That's a significant benefit whether or not someone's selected. The organization receives a summary report. Because candidates go through the same simulations and have the same opportunities to exhibit their skills, the organization can make relevant, objective, and fair judgments on people who work in different functional areas and environments.

Trap 4

Being fooled by someone's excellent experience record or lack thereof

Obvious candidates are people with a broad range of experiences. The assumption is that they know a lot about the organization, its products, and its systems and have proven their abilities. But not all potential leaders have access to choice job and developmental assignments, opportunities to take on significant responsibilities early in their careers, or the chance to hold high-visibility positions. Too often, people with innate skills get trapped in organizational silos or by managers who don't want to lose key contributors, so they miss early development opportunities. Those skilled but unfortunate potential leaders end up with good performance appraisals but a narrow record of responsibilities and achievements. Meanwhile, others who are less skilled benefit from opportunities to hold broader, more important assignments, and thus look better to the decision makers who rely on achievements.

To level the playing field, base evaluation of high-potentials on such basics as results achieved, interpersonal skills, self-development orientation, support for and modeling company values, leadership, business acumen, entrepreneurial ability, and the motivation to be a strategic leader.

Trap 5
Treating all high-potentials the same

A "one size fits all" approach to developing high-potentials doesn't work, is ridiculously expensive, and can lead to retention problems. When people are identified as having potential, it's important to diagnose their development needs and give them unique experiences and training to prepare them for success at higher levels. To achieve that, it may be necessary to move them horizontally instead of vertically and expand or contract job responsibilities to fit their individual needs and abilities.

Positions in which people interact with vendors and customers can be appropriate development assignments. A company wanted a future executive to gain experience in running a manufacturing firm in China because it planned to open several plants there. Because the company didn't yet have any operations in China where the candidate could develop the appropriate skills, it loaned him to a Chinese vendor for a one-year assignment. The executive learned about the vendor's operations and doing business in China.

When a system provides the same development to all high-potentials, time and money can be wasted as particular needs are overlooked and people are trained in skills they're already good at. What's more, people can become frustrated by a lack of meaningful development experiences.

Trap 6
Developing people who can handle last year's problems

An effective succession management system will produce people who can handle the organization's future challenges, which are often different from current challenges. For example, when Ken Freeman, the CEO of Quest Diagnostics, set up a new leader acceleration program, his aim was to "make Quest a very different company." He selected the factors to be evaluated and developed based on that vision.

The debate about what makes a good leader continues to be reflected in an evolving list of characteristics that define an effective leader. Over the past decade, effective leadership has been discussed in terms of competencies, roles, experiences, tasks, personality traits, and values. But executive descriptors can be boiled down to these main categories:

- organizational knowledge. What one knows—the functions, processes, systems, products, services, or technologies of an organization.
- job challenges. What one has done—the kinds of situations that someone entering top management should've experienced or at least been exposed to, such as carrying a key functional assignment through from beginning to end.
- competencies. What one is capable of—the behavior, knowledge, technical skills, and motivation important to success in senior management, such as strategic relationships, change leadership, and global acumen.
- executive derailers. Who one is—the personality traits that might cause an otherwise effective senior leader to fail, such as being approval dependent, argumentative, or risk-adverse.

With the exception of the derailers, executive descriptors must be specific for each organization and tied to its strategy. Too many companies use competencies that are outdated or place undue emphasis on jobs held rather than skills and knowledge. Focusing on job challenges and organizational knowledge enables a broader range of development opportunities and gives senior executives greater flexibility in making job assignments.

Trap 7
Assuming that once someone commits to a development plan, it will be implemented

The greatest pitfall of succession management is lack of follow-through. Every year, thousands of executives and aspiring executives fill out individual development plans, incorporating feedback from their bosses, peers, multirater instruments, or assessment centers. Only a few plans are actually carried out, and a smaller number produce the desired outcomes. Ineffective plans can be traced to inappropriate success criteria, poor diagnosis of needs, and lack of organizational support.

High-potentials generally aren't good at prescribing development actions for themselves. They often don't know about the options, or the best strategies—such as being sent on a temporary international assignment. Many times, leaders will say they'll take a class to meet their development needs when that's useful for only a few needs and is usually just a first step in a larger development process requiring on-the-job practice and feedback. High-potentials are worse at implementing their self-development plans because of conflicting pressures. Though they may get verbal support for development from their bosses, they get little tangible help or reinforcement, such as coaching.

Ideally, a development discussion should include setting job goals at the start of each new assignment, assessing the person's knowledge of the tasks, and determining the timeframe and degree of support. That will help high-potentials know realistically which development needs (diagnosed against organizationally relevant criteria) they can meet in their new position. It also aligns development objectives with job objectives. People see how accomplishing development goals also helps them achieve job success, while their managers are encouraged to lend support because they see how the development helps ensure tasks get done.

At some organizations, such as PPG and Bristol-Myers Squib, the development of high-potentials is the responsibility of a team made up of the candidate, his or her manager, a mentor, and sometimes an HR representative. All team members meet at least twice a year, have clear responsibilities, and are prepared for their roles.

Trap 8

Assigning responsibility for succession management to HR

HR can manage, facilitate, handle paperwork, act as a catalyst, and provide expert advice regarding assessment and development, but the CEO should exert ownership. Jim McIlvenny, a division president at Dow Chemical, works with his senior team to devise development plans and sees that they happen.

A management committee committed to the process must support the CEO. In most organizations we observed, that committee is made up of the CEO, COO, and heads of major departments. The committee meets at least twice a year to make decisions about the people identified for accelerated development. It considers how they're doing in their current jobs and their readiness for new assignments. If someone's ready, the committee determines what position best meets his or her development needs (relative to the executive descriptors) and the needs of the organization.

An involved CEO can force tough decisions and ensure that managers feel compelled to part with their star performers for new assignments.

Trap 9

Thinking short-term issues are more important than succession management

Quarterly operating numbers, organizational change, competitive pressure, and other factors cause CEOs to put off or abandon succession management activities. But the best CEOs we've interviewed act on the belief that the future of their organizations lies in the hands of the people they develop, and they make time for succession management because they believe that their boards and the stock market are concerned about the company's talent.

It's detrimental to cut back on recruitment and development of high- potentials during a bad business cycle. That might appear wise in the short-term, but it positions an organization poorly when the upturn comes.

Trap 10

Not getting to know high-potentials and failing to support their development

Effective CEOs make a point to talk to high-potentials and observe them in presentations and other situations. It lets the CEO learn about their issues and challenges. Simply asking, "What are you up to?" can start a meaningful conversation.

Being a mentor to a high-potential is another excellent opportunity for a CEO to get involved. Another way is for the CEO to be involved in development programs. Former chairman Jack Welch

Personal Development Tied to Business Goals: A True Story

A highly successful high-tech executive could never get around to improving her interpersonal skills even though she knew they needed developing, and her bosses agreed. Over the years, she'd written goals into her individual development plans but never accomplished them. At the start of a new assignment, she met with her boss and mentor to set job goals. They discussed the importance of interpersonal skills to the job and arranged for training and immediate on-the-job application, with ongoing coaching from the manager and the mentor. All agreed that proof of development would be job success.

And it happened.

visited GE's management development center every two weeks for 17 years.

Trap 11
Thinking diversity can be mandated

Many leaders recognize the importance of diversity and set goals, but little changes. Once a succession management system is in place, diversity goals must be reinforced aggressively through the actions of the CEO.

Trap 12
Excluding high-potentials from development decisions

Management often places a high-potential in a job assignment, but he or she doesn't get the experience or learning anticipated, typically because the person didn't understand what he or she was supposed to gain. That breakdown leads to the high-potential picking up a supervisor's bad habits or failing to see how the training relates to the job. Avoid such missteps by involving high-potentials in selecting their development assignments.

Trap 13
Not letting people learn from their mistakes

Many of us have heard the story about a middle manager who's called into the CEO's office expecting to be fired because a business decision he made resulted in a $1 million loss. But the CEO gives him another meaningful assignment and says, "Why should we fire you? We just invested $1 million in your education!"

Many CEOs aren't so forgiving, so they lose good people and foster a culture of fear that stifles creativity and discourages bold decision making. When someone makes a bad decision, that should be considered only part of his or her total performance.

Trap 14
Being impatient

CEOs and other senior leaders often become frustrated and give up on succession management when the system fails to yield people immediately to fill executive positions. It takes time to build a client base or penetrate a new market; likewise, people—even talented ones—need time to grow. Succession management is a multiple-year strategy that must be viewed long-term.

Many times, impatience is exacerbated by people being nominated for accelerated development who aren't top quality. When that happens, the executive committee should sort through the nominees to select the appropriate pool. The nominators should learn the committee's criteria, and the committee should work out its own procedures.

Organizations can succeed in crafting successful succession management systems, but CEOs must get involved and stay involved over the long haul to make them work. Jack Welch says he spent 50 percent of his time identifying and developing managers. I'm not suggesting that a CEO make succession management the top priority, just an important priority. He or she should, with other executives, determine the priority relative to the organization's short- and long-term goals. Then, the CEO's job is to see that succession management gets the appropriate attention and commitment of resources. TD

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