**Succession Planning and Management:**
**A Comparative Study**

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# Executive Summary

This benchmark study provides an overview of the succession planning and management practices of 14 companies. It is intended to sharpen the understanding of the choices some of our clients face as they consider creating or enhancing their own systems for succession planning and management. While questions and interest stemming from the financial services industry have led to initiation of the study, the themes and implications which emerged are relevant across industries.

Information about the practices of the 14 companies were obtained through telephone interviews. The interviews were conducted with company personnel (mostly from human resource departments) who had either direct knowledge or were responsible for managing these processes in their respective companies. The firms interviewed were:

| Finance | Professional Services | Other Companies |
|---|---|---|
| Bankers Trust | Andersen Consulting | Bristol Myers-Squibb |
| Citicorp | Deloitte & Touche | Merck |
| Paine Webber | KPMG Peat Marwick | Motorola |
| JP Morgan | McKinsey & Company | Unilever |
| Merrill Lynch | | |
| Morgan Stanley | | |
| Solomon Smith Barney | | |

**Findings**

Nearly all organizations have some sort of succession planning or management system with varying degrees of formality, sophistication and development. These systems range from those that build "bench strength" to those that concentrate on "slating" --ensuring that replacements are prepared for specific role. Of those interviewed from organizations that did not have a formal process in place, all expressed a desire to develop such a system, and most indicated a recognition that addressing issues of succession has become a standard practice across their industry and a key issue within their company.

Among the companies surveyed, the greatest differences were in the types of systems in place and the underlying goals upon which they are constructed. Many organizations have developed elaborate and highly articulated systems oriented toward slating and developing candidates for important positions. Others focus almost exclusively on developing bench strength by identifying a pool of high potential candidates and investing in their growth. Often, organizations attempted to define hybrid systems that addressed both purposes. In highly turbulent settings, it is extremely difficult to establish replacement systems based on the slating approach, since the definition of roles and structures fluctuates so rapidly. Recently published articles point to two clear examples of the impact this turbulence has on an organization's ability to plan for leadership succession --the lack of senior leadership at Citicorp and AT&T and the difficulty in holding onto and finding appropriate internal candidates led both companies to radically alter its leadership landscape, the first by merging with an organization that has substantial leadership talent (though we do not mean to imply that this was the sole reason for this endeavor) and the second by hiring a substantial talent from outside of the organization's management ranks (a first for AT&T).

Among those organizations that were identifying and investing in high potential candidates, the criteria by which people were chosen varied considerably. In many cases, the system was linked to some leadership criteria, such as competency and/or value models that were felt to represent the future requirements of successful leadership in their respective systems. In two cases, the planning process was explicitly linked to the strategic concern of the kind of people likely to be needed to ensure the successful execution of future strategic directions.

**Themes**

Several additional themes stand out from the data set:

1. **Role of Human Resources**
   The relationship between human resources (HR) and the business units appears to have a major impact on the ultimate program. When HR manages or dominates the program, there is a tendency toward over bureaucratization, rigidity and a sense of disconnection from business reality. When the business units are the sole managers of the program there is a tendency toward haphazardness, inconsistency and diffuse focus. The most robust programs arise out of a genuine partnership between HR and the business units.

2. **Criteria for Identifying High Potential Candidates**
   For succession planning systems to be credible, reasonably objective, and distinct from the basic promotional/advancement process, the choice of high potential candidates needs to be based on some criteria that has meaning in the business context. The range of criteria used is great, including: competency analyses, guiding values, leadership principles, and performance models.

3. **Does Succession Planning = the Promotional Process?**
   Several organizations indicated that the succession planning system was identical to the promotional process and, therefore, that the pool of potential candidates was made up of all professionals or managers. Others have developed succession planning practices that ensures the availability of a pool of candidates with skills and talents suited to particular high-risk positions. In some cases, organizations simply identify existing "high-risk" positions; in others, they anticipate future needs for skills and capabilities.

4. **What Is the Relationship Between Performance and Potential?**
   Many firms assume that current performance is the best predictor of future potential. Others suggest that the skills, values and orientations that lead to achievement in current roles may not be as suited to the requirements of other roles, particularly as the "managerial component" of roles develops and becomes more complex. Also, some who achieve in highly technical or focused roles may not do as well in roles requiring broader focus or less technical proficiency.

5. **Back-up / Replacement or Development of a Pool?**
   For those organizations with career planning processes, there is a basic distinction between those who slate one or more candidates for each "high risk" position and those who are trying to develop a pool of candidates (i.e. bench strength) that will be suited to future demands, independent of specific roles.

**Implications**

Succession planning and management systems clearly provide companies with methods for developing certain aspects of the leadership it requires to remain competitive and for managing risk. In the financial community, succession planning has moderate success and has suffered from either a lack of attention or too much bureaucratic detail. Whether within or outside the financial services industry, the findings of the study yield several diagnostic factors and design principles for determining appropriate Succession Planning and Management systems. We recommend that companies take these factors and principles into account when considering their approach to Succession Planning and Management, whether initiating the design of a new system or evaluating an existing one.

1. **Diagnostic factors**
   Diagnostic factors for consideration of a succession planning and management system should include:
   a. **Managing Operational Risk**
      Managing the inherent risks associated with increasing organizational spans of control, larger sums of business throughput, and increasingly complex and turbulent market conditions. Are current risk management processes directed at enabling only the technical and operational aspects of the business in response to the turbulence, or do they also include the required resource management, formal decision making processes, and leadership clarity?

b. **Strategic Leadership Development And Assignment** --The process for identifying key future leaders and providing them with the kind of assignments and experiences that ensure their successful development. Are current leadership development processes linked with an understanding of the future needs of the organization, and are they formally tied to other dependent systems, such as performance review, management development, and strategic planning?

2. **Design Principles**
   Effective Succession Planning and Management systems have the following features:

   a. **An Established Succession Planning/Management Process**
      These processes are critical to the life of most organizations today, directly impacting their continuity in the marketplace and their future competitiveness.

   b. **Simplicity**
      Those companies that have developed cumbersome processes are suffering more than gaining from their system.

   c. **Business Unit and Human Resource Partnership**
      The most successful systems are those created by both the business unit and the human resource department, allowing both the needs of the business and the expertise in human resource management to be appropriately joined.

   d. **A Model of Competency**
      A model of competency for management (that addresses all levels of management) provides people with a developmental guide and a clear understanding of their functional role expectations.

# Succession Planning and Management Practices: Comparative Features: Interview Data

**Introduction**

The decision to include interview data in this report is prompted by the:

1. Richness of material within the interviews themselves, and

2. Recognition that readers may want more specific information on a particular company than what is available in the "Succession Planning and Management Practices: Comparative Features" matrix.

In most cases, the data was provided by a single key informant within the organization who had direct knowledge of and/or responsibility for these processes. The interview responses have been summarized for the most part, allowing for more detail and for some quotations where appropriate.

**Andersen Consulting**

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| 1. Description of career planning/management system. | Informal career planning system: "We know who [the candidates] are and they get moved up on the basis of performance and potential." More formal management development system includes core training curriculum through partner level and performance management based on leadership at the project. |
| 2. How extensive is the system? | Key leadership positions and management development process reach across all market units and competency groups. (100% of professional staff and 85% -90% of workforce) |
| 3. Are high-risk positions identified and, if so, how? | 300 senior partners represent key positions targeted |
| 4. How are the occupants of high-risk positions assessed? | Annual performance review. |
| 5. Are critical competencies defined and assessed? | Candidates for partnership move forward on the basis of skills they are demonstrating, and they are matched with criteria required for certain leadership positions, but the latter is not formalized. Partners are recognized for having/not certain skills, rather than a match of skills for certain positions. |
| 6. Are high potential candidates designated and, if so, how? | While all mangers are included in the management development efforts, only partners are considered as candidates for the 300 key leadership positions. There are 1100 partners, representing approximately 2.2% of the total manager group. Candidates are identified the same way that they become partners: targeted based on unit award process – assessment of their contribution to the practice (sales, administration, managing consulting projects) – and key characteristics required of leaders managing the business. |
| 7. If candidates are selected, how is this differentiation managed? | Open process. Anyone can see growth of units which is a key indication of performance. Best strength comes from these in the partnership pool. Every partner has potential and sometimes "their number just isn't up yet to manage a particular segment." Some want to grow; they get careful counseling. "One just became managing partner of a huge segment after 15 years as partner." |
| 8. How are future leaders developed? | "They're self-starters and self-motivated. They work with senior partners on biggest jobs so they're aligned with senior leaders who are already in the positions targeted; natural grooming process in place that emphasizes mentoring." Training is looser, we have some training, but development is more related to mentoring." Succession is into key positions largely based on performance in client environments. Leadership on project teams translates into leadership capability in the firm. |
| 9. Is the career planning/management system linked to other HR systems? | Formal partnership process is directly linked, through partner evaluation system, all the way through – performance management, compensation, recruiting and selection, management development. Career path development is thought about but not for specific leadership positions and not in terms of the 300 managing partner positions. There are positions for people to move into in order to further their growth. Skill development and growth in firm is taken into account, but the senior positions are not considered in this regard. |
| 10.Other comments/notes. | |

**Bankers Trust**

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| 1. Description of career planning/management system. | Senior executives develop succession plans for their positions annually. High potential candidates are provided special developmental support. Goal is to ensure that Bankers Trust builds bench strength and motivates future bench strength. Each year the top 150 -200 people are asked to develop succession plans for their positions. 50 people are selected as high potential candidates and provided special developmental support |
| 2. How extensive is the system? | Applies to top 150 -200 people out of 20,000 worldwide. Applies to all businesses. |
| 3. Are high-risk positions identified and, if so, how? | The CEO, 19 additional people on management committee and their direct reports are considered critical. |
| 4. How are the occupants of high-risk positions assessed? | Each manager assesses their subordinates, rating incumbent in terms of their performance. Replacement candidates are given a time frame in terms of when they'll be ready, i.e. long, short, immediate. |
| 5. Are critical competencies defined and assessed? | Developing a framework, similar to competencies, called the Senior Management Model. Though still of validating the model, it is now be used to identify and give feedback to high potential population. The model was developed from a customized 360o instrument and a lot of individual interviews. Benchmarked against externals by outside consultant. |
| 6. Are high potential candidates designated and, if so, how? | 50 worldwide high potential (HIPO) people have been chosen.    Each goes to 2.5 day training, participates in a 360o feedback process, and receives an external coach. A development plan approved by the management committee sponsor (internal coach) is developed and reinforced through meetings with head of HR. The Management Committee has a regular "emerging leader" discussion to review their progress. The group of 50 are either partners hoping to join business council or management committee or they are about to become partners. |
| 7. If candidates are selected, how is this differentiation managed? | BT tries to use HIPO's as successor pools but because of technical skills invol.ved in so many of the businesses people must sometimes be found outside of the HIPO pool. Those not chosen as HIPOs don't know about it so that the system would not be de-motivating. Management Committee members know who the HIPOs are; emerging leaders know about it the system and that they have been chosen. Some have chosen not to be on it. Some see it as "a pain" because it takes them away from the business. Very low profile program. |
| 8. How are future leaders developed? | Noel Tichy's Leaders Developing Leaders program – a 2 day program designed to give a conceptual framework around leadership. It asks questions such as: "Given your strategy, what values do you and your people need?" "What is emotional edge required?" "How to use strategy to get best ROE?" While this has been for senior people it is being moved to middle managers this year. |
| 9. Is the career planning/management system linked to other HR systems? | 1. All businesses develop strategy in Sept. They then review the strategy and tell HR what the likely future organization chart will be, including who the incumbents are and their likely successors. Then performance, diversity, anyone at risk, etc. are looked at.<br>2. A customized form is developed to look at statistics in each business. Who are new key people coming in? Who are key people who have left and are we losing those we want to? What are the costs from ex-pat perspective? It also asks (based on behavioral anchors) whether managers are motivating staff and providing a good ambience. The form asks them to rate the organization on these dimensions.    3. Then managers look at the information, talk about strengths and weaknesses from people perspective and develop action plans. Also have HIPO population tied into it by asking them to identify future leaders of the organization that are currently managing complexity in ambiguous worlds who, if developed appropriately, can reach top tier of management in 3-5 years. |
| 10. Other comments/notes | |

## Bristol Myers–Squibb

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| 1. Description of career planning/ management system. | A program of evaluating, assessing and managing the careers of the top 600 to 1000 managers in the company. Two analyses are maintained: Gold Book – The top 100 mangers in the company Silver Book – The next 500 manages in the firm. Each book contains a management profile of the individual, their mobility, career and development needs and the position(s) that they have been identified as potentially filling. |
| 2. How extensive is the system? | 100% of management; the top 3 of 5 levels in all units. |
| 3. Are high-risk positions identified and, if so, how? | All management positions level 3 and above are considered key. For each division head two people are identified as potential backup, with each candidate's career development mapped to the position they are being groomed for. |
| 4. How are the occupants of high-risk positions assessed? | Annual performance review. |
| 5. Are critical competencies defined and assessed? | In the evaluation process and in the manager's development plan against competencies that have been benchmarked and are reviewed annually. |
| 6. Are high potential candidates designated and, if so, how? | All managers are part of the pool but only certain people are designated – "a weeding of those is in and who is out" in the management ranks. Approximately 20% to 30% of the management are in the pool for consideration. They are identified by the direct management and then further discussion occurs quarterly and annually amongst senior management. The CEO and the board actually review the "Gold Book" at least once a year. The CEO used to review the "Gold Book" quarterly. The HR heads of each division play a crucial role in managing and administering the system. |
| 7. If candidates are selected, how is this differentiation managed? | While It is a transparent system in that the guidelines are published, only top management and HR are informed about who gets included in "Book" Eventually a manager finds out but this is more informal than formal. |
| 8. How are future leaders developed? | Managers are developed in a comprehensive training program that is both internally and externally derived. Management assignments vary depending on the development "need." For example, a "second" in charge of some aspect of manufacturing in a division in Illinois might be sent to Europe for a two year assignment in marketing. BMS has an extensive training program and a training and development infrastructure. |
| 9. Is the career planning/management system linked to other HR systems? | The management review process is not directly linked to the annual review and developmental process. It is experienced and is managed as a build-on but distinct from the other processes. |
| 10. Other comments/notes. | The system has functioned well for many years in ensuring the development and succession of key positions within the company. It has also served as a mechanism to further develop global leaders in distinct business areas. |

**Citicorp**

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| 1. Description of career planning/management system. | A formal process initiated yearly in which all management are tracked across the organization. Quite stringent and regimented. Extensive program in which managers are identified and evaluated by two sets of criteria – performance evaluation and an HR assessment of the individual against predetermined criteria for each position. |
| 2. How extensive is the system? | Top four levels of each division – 1000 managers of the firm – go through the process. About 1% to 2% of the firm as a whole; 100% of units. |
| 3. Are high-risk positions identified and, if so, how? | Top 1000 positions included in the career planning system are considered high-risk positions. |
| 4. How are the occupants of high-risk positions assessed? | Each person goes through an annual (sometimes twice yearly) evaluation. The firm also performs a yearly manpower review in which John Reed and the HR head assess the top three to four executives in each division. |
| 5. Are critical competencies defined and assessed? | For Most. Used as a tool for evaluation, career path development and as a way to identify successors for positions. Also used in grooming next management for key positions. |
| 6. Are high potential candidates designated and, if so, how? | All managers are candidates (about 1000 managers). |
| 7. If candidates are selected, how is this differentiation managed? | A well known and publicized process that has become overly bureaucratized: "Many managers dislike the system while HR seems to hold onto it. Most hate the system. Placements |
| 8. How are future leaders developed? | There are a variety of tools available including coaching with executive coach from outside, training (i.e. public speaking or diversity or specific skill), mentoring, stretch assignments, cross functional assignment (i.e. assigned to MD, steering, or firm-wide diversity committee) to give further exposure, or inviting people to certain meetings. It depends on gaps identified and is based on a targeted, individualized approach. Management team and HR creates development plan together with the individual. HR would be combination of generalist and development specialist. HR keeps a list of on-going cross functional projects and initiatives that people could serve on for developmental purposes. For all managers JP Morgan has leadership development courses geared to either individual contributor, team, or manager level. Coaching is available to senior people and high potential people just below them. Other tools are available, depending on need, i.e. getting to know new team or helping in new leadership position. |
| 9. Is the career planning/management system linked to other HR systems? | Not direct link to compensation. Strongly linked to performance management, since same skills, etc, are focus of both. Efforts are made to reinforce what people have been told in yearly performance review. Career Path: Difficult to map out. Senior people receive some "directional" coaching: "you can tell them what kind of business is likely to utilize their highest value." Indications of where their greatest opportunities are seen is sometimes provided. Senior people have all had 360 degree feedback |
| 10. Other comments/notes. | Board keeps consistent tab on team assessments of skills, gaps, individual assessments and succession plans. The effort is to move away from positionally driven system to one that focuses on skills and needs of teams. |

**JP Morgan**

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| 1. Description of career planning/management system. | Management teams meet to prepare for senior meeting by identifying key leadership candidates, skills, and refining development plans on the unit level. Next there is a meeting of the most senior people in the firm that focuses on people issues around achieving their plan – skills, gaps, assessment of team, individual situations, progress from last year – and have them focus on leadership bench and talent pool (incl. diversity pool). Chairman oversees the integrative level, which leads to a written "scorecard" output. Finally, there is a Board Meeting on succession planning in June. Chairman talks about leadership & skills issue about the 15 most senior most people. |
| 2. How extensive is the system? | Applies to all senior people in each unit. |
| 3. Are high-risk positions identified and, if so, how? | One day "house arrest" meeting discusses successors to that group and to the next layer down. The discussion is not positionally driven, it is development driven. Discussing the skills and gaps of team implicitly addresses issues of depth of bench for one job or shortage of potential candidates for another. Positions are not reviewed name by name, except where people are getting overused as potential successor and it is unlikely that they will be available then questions of highest and best use will be raised. Succession templates are not focus, resources & gaps are. Emphasis is on array of skills and abilities present on team. |
| 4. How are the occupants of key positions assessed? | Board assesses top tier; CEO assesses next layer down. |
| 5. Are critical competencies defined and assessed? | Only in a superficial sense. It is a competency based discussion, but no formal competency process exists. |
| 6. Are high potential candidates designated and, if so, how? | Certain people have been identified and certain messages in terms of general recognition were conveyed to them: "You were discussed in a number of places as being an important candidate and in order to get you there we'd like you to do x, y, & z" No promises are made, nor has everyone been spoken to – spoken to most likely successors where there is unanimity. "In effect, they are messages from the chairman." |
| 7. If candidates are selected, how is this differentiation managed | Not publically apparent. Some knowledge exists about the process – public statements are made about succession planning, but no specifics or individuals are named. Placements resulting from the system seem odd to most. |
| 8. How are future leaders developed? | Competency analysis, rotational assignments, and formal leadership training. There is also a leadership development program that varies by level of the firm. Citicorp has career development model that looks at skills across business units and addresses particular models for behavior in each position |
| 9. Is the career planning/management system linked to other HR systems? | Directly linked to performance development, career development, management development, position selection. |
| 10.Other comments/notes | Succession Planning should be a venue for a conversation. In this system the discussions are time consuming – lengthy – and the system has a cumbersome bureaucracy. It is mainly controlled by Reed and the head of HR. |

**KPMG Peat Marwick**

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| 1. Description of career planning/management system. | No real system at this time, key focus of leadership is partnership. Progression is organized around the partnership decision process. Trying to get the business units to introduce traditional succession planning. This format focuses on questions such as: "Who is ready now, who will be ready in a year, where are they going, etc.?" Our objective is to institutionalize succession planning that can be distilled across lines-of-business and then perhaps be able to formalize and manage it. |
| 2. How extensive is the system? | All partners and potential partners are consider potential leaders. Number of new partners is determined on an annual business projection. |
| 3. Are high-risk positions identified and, if so, how? | KPMG considers whether positions are anchor positions, that need an incumbent for a period of time, or pass through positions that can be used for growing talent. Everyone has some management responsibility – KPMG effort is to acknowledge that reality. Analysis around "black holes" – those who aren't here as well as those who are. Same individuals are sometimes identified for 3 jobs, with nothing behind. |
| 4. How are the occupants of high-risk positions assessed? | In terms of performance, not potential. |
| 5. Are critical competencies defined and assessed? | Yes, however we try to preserve a place for intuition and judgment, avoiding the tendency to be overly rigid or treat competencies as a "precise science." |
| 6. Are high potential candidates designated and, if so, how? | All consultants aiming for partnership are candidates. No formal list of candidates is developed but "because it is a relationship oriented environment, you only have to speak to a few people and suddenly you have a pool of people – there is general agreement on perceived capability of others." |
| 7. If candidates are selected, how is this differentiation managed? | For those who "don't get through the screens," there is some fallout. "Sometimes what we're looking for in a partner is different than what we are looking for in highly valued employees." Increasingly for partnership, people with broad commercial knowledge are sought out. For those with a much narrower but deeper focus KPM is trying to develop other mechanisms to satisfy them. Starting using term Director and other ways, and KPMG does not "discriminate" in terms of remuneration "even if they do not have the title." |
| 8. How are future leaders developed? | About 2 years before the partnership decision, prospective partners go through development center that consists of 2 days of group/individual activities, psychometric tests, and other learning experiences. A report is then developed, followed by a development plan to discuss, and work with, the individual over time. Those still improving, and considered suitable, are sent to the assessment center. In this 2 day program they are assessed against a set of competencies based on different business situations by senior partner assessors. Typically this occurs in Oct/Nov, with the partnership decision happening in June for appointment in October The assessment process highlights areas of improvement, and leads to personal cases, written documentation about individuals. Business cases are also developed which determine how many partners will be needed in the future. Those whose personal cases match business cases sit before interview panel with three senior partners. Those successful appointed in October. Also, KPMG has a broad partner base, many of whom were appointed against a different set of criteria. There is a need to refresh them with leadership development activities. That works, in KPMG context, on behavioral change. |

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| 9. Is the career planning/management system linked to other HR systems? | Links are to recruitment and selection. Do not want it too closely linked to performance assessment. "Potential is not nearly as closely correlated to performance as is often believed. Outstanding performers don't necessary have outstanding potential." |
| 10. Other comments/notes | Gradually people understand that the line groups must identify potential candidates. Leaving it in the hands of HR is a recipe for failure. |

**McKinsey & Company**

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| 1. Description of career planning/management system. | No real succession planning system, efforts focus instead on making effective replacement decisions when key positions open up. 1.Replacement planning is mostly done by DRC (Directors Review Committee that includes 16 Directors and the firm's Managing Director) which meets with all 200 Directors to evaluate performance, get input from each Director about leadership opportunities in the firm and about what they would like to do. 2.DRC meets to review all leadership positions in firm and catalogue when someone will be needed for every key leadership position in the firm, reviewing all directors and all open positions. a. DRC members identify individuals, based on what they have heard from other directors, e.g. Principal Review Committee. Then the DRC conducts a confidential vote. b. Decisions are not final because the Managing Director has the power to appoint any one of those positions. But the MD gets all the information and then he makes the decision. Only rarely ignores the vote, but does not have to say why if he does. |
| 2. How extensive is the system? | Replacement system covers all 40 geographical units, 20-25 industry sectors, 30-40 personnel committees, plus a few more committees (across 100% workforce). General management development efforts includes all engagement managers and above. Every professional (4000) is in the firm's 'up or out' philosophy, resulting in annual turnover of around 22%. |
| 3. Are high-risk positions identified and, if so, how? | High-risk positions are defined as: office manager, industry leaders and personnel committee positions as well as some governance committee (monitor conflict situations) membership positions. 120 key positions are targeted. Succession planning is the process for filling those 120 key leadership positions for which all directors are eligible. Each year about 25 such positions will be replaced. 200 Directors comprise the pool of candidates. Nearly all are filled by Directors, but sometimes outstanding Principals are appointed to these leadership positions. |
| 4. How are the occupants of high-risk positions assessed? | DRC performs reviews of Directors annually. Members of the DRC are evaluated by other members of the DRC. Performance review process uses a 5-part leadership model. "Performance reviews drive the process, they're thorough. So the succession planning is tied to that, but the performance review is so thorough, that it's not an issue. It does not need to be formal." People in leadership positions are rarely removed, maybe 10%. "In 60% of cases, someone is just tired and wants to be removed." |
| 5. Are critical competencies defined and assessed? | Not formally for those positions, no specific written competency anywhere for those leadership roles. McKinsey also has a leadership model, developed in consultation with partners and clients. However, members of the DRC are "intuitively aware of specific competencies. They're implicit, that everyone can articulate – industry expertise, client skills, collaborative in the firm." The DRC might review/assess competencies every three or four years, (eg. Leadership definition has changed– more emphasis placed on being able to find best talent in the firm and in bringing McKinsey to the client – internal networking-leadership). In terms of general management development, the firm 'regenerates' about every 5-7 years and regularly assesses whether its system produces the right caliber/type of people. |

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| 6. Are high potential candidates designated and, if so, how? | For replacement of key positions, process is identical for election to partnership. For general management development and career advancement, all professionals receive performance reviews (completed after every project by the engagement manager) that are synthesized by a designated 'development group leader' (DGL). DGL advocates candidates at appropriate committee and committee decides whether to promote, hold or ask to leave. |
| 7. If candidates are selected, how is this differentiation managed? | Information is open and known at Director level. McKinsey's effort is to focus on constant and on-going feedback. For the entire professional staff, those who leave are considered valued members of the McKinsey community. When people leave the firm this process is managed to be as 'win–win' as possible. Alumni of McKinsey is a highly managed and successful marketing and networking mechanism for consultants and alumni alike. |
| 8. How are future leaders developed? | For all leaders, the life cycle approach is delivered in staged programs, with global audiences in key role transitions that amount to 'rites of passage' to key roles, such as becoming an Engagement Manager. Firm-wide role change programs focuses on personal development as well as skill-building. Everyone has a formal DGL and is encouraged to find multiple mentors. Formal training, informal mentoring, and evaluation process are available. Excellent technical training exists, although no training available that teaches people how to be a leader outside the client setting. Discussions are underway to develop leadership training for in-house leadership roles. Little training available on how to be a successful general leader, such as an office manager. Existing programs are similar in that they build on the same model of leadership, most are heavily experiential and are delivered with a mix of internal and external faculty. All programs are "owned" by specific Partners and have a heavy celebratory element. |
| 9. Is the career planning/management system linked to other HR systems? | McKinsey has a leadership model, developed in consultation with partners and clients that is 'cascaded' throughout the development system, and is reflected in performance criteria, development program curricula, and compensation. Recruiting & selecting: "the ideal is to tie it, but we're inclined to hire people that are good analysts and problem solvers and McKinsey is willing to dismiss absence of softer skills. Management development occurs in projects, on client site." |
| 10. Other comments/notes | Previously, they had made both the performance review and partner selection processes transparent in the organization. However, the partner selection process has suffered. As a result, they felt that the transparency of the partner selection process had limited the ability of the organization to be honest, forthright, and so on. Now the partner selection process is secretive again. The performance review process remains open. |

**Merck & Co.**

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| 1. Description of career planning/management system. | Each division President meets with direct reports to discuss possible replacements. Then each division President meets with the CEO to discuss replacement candidates for their positions. Formal documentation maintained by division Presidents, CEO and respective HR business partner. |
| 2. How extensive is the system? | 100% of organization. |
| 3. Are high-risk positions identified and, if so, how? | Management Committee (CEO, Division Presidents, their direct reports) and other positions selected because they are felt to be critical. About 150 positions |
| 4. How are the occupants of key positions assessed? | Annual performance appraisal. Candidates are assessed according to on-going business performance and their leadership skills in accordance with Merck's "Leadership Principles." |
| 5. Are critical competencies defined and assessed? | "Leadership Principles," developed by the management committee, principles define how Merck "wants to do business." No formal competencies articulated. |
| 6. Are high potential candidates designated and, if so, how? | Specific managers are targeted for each of the positions. No number is prescribed; it is in part to determine how many candidates are available. |
| 7. If candidates are selected, how is this differentiation managed? | People don't know. |
| 8. How are future leaders developed? | Each individual has a customized development plan. Well established training program that varies by level |
| 9. Is the career planning/management system linked to other HR systems? | Though no formal linkages are made, effort is made to have Merck's "Leadership Principles" drive all of HR programs. All employees are evaluated not only on results but how they have achieved them through these principles. To extent that our leadership principles driving all of our HR programs. |
| 10. Other comments/notes | |

**Motorola**

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|---|---|
| 1. Description of career planning/management system. | In succession planning program, back-ups are identified for all division level positions and talent pools are identified. The key issue is "rare talent." Areas that will need greater talent pools in 5 years are identified in order to execute strategies not yet defined. Questions in succession planning include: "do we have the flow of talent to staff the organizational structure that will be needed in 5 years in order to execute strategies not yet defined? Areas where talent will be needed in 5 years are addressed. Unlike oil companies where structure doesn't change much, ours changes a lot." Reviews conducted twice yearly. |
| 2. How extensive is the system? | Across all 5 sectors (100% of exempt workforce) In some sectors, succession planning includes non-exempt workforce. Not required, but has permeated because it "pays off" for the operating management. |
| 3. Are high-risk positions identified and, if so, how? | Key positions identified are: division general manager positions and above. For every division level position and above back-ups and a talent pool are identified. Each position screened in terms of the criticality of the position and degree to which talent is available. Motorola focuses on areas where talent pool is likely to be inadequate. |
| 4. How are the occupants of high-risk positions assessed? | Everyone in high-risk positions is assessed in terms of current and relative performance, current and relative potential and in terms of their ability to execute current strategies and the probable strategies of the future. |
| 5. Are critical competencies defined and assessed? | Competencies generally not considered useful and not used per se. More relevant is whether the results needed in the future circumstance can be defined.. For example, for GM positions certain factors are defined. Most people in the talent flow look good against those competencies so it does not help much in terms of developmental needs. No specific set of competencies for specific positions -leadership is a third of the factors, management a third and others are strategy-related factors. |
| 6. Are high potential candidates designated and, if so, how? | Initially 100 % of total manager group is targeted. Conceptually, each manager considered high potential when hired. Only when they demonstrate they do not have high potential are they dropped out of the pool, i.e. would stay at that level. Motorola's definition of high potential (most pragmatic definition, not universal across Motorola): if a person is estimated to have 50% or greater chance of losing 2 organizational echelons in remainder of their career. ("In my case, for example – If I lost 2 echelons, I'd be Chair of Board. Not realistic, at my level and tenure, no matter how well I perform in my current role. So I'm dropped from the list of targeted candidates.") "The real question is: should a particular person be moving into another position quickly? Can we do better, should we do better? If there's no potential at all to do more, theoretically you might argue that they don't belong in the organization; but the reality is you can't get anyone better." Motorola's goal is to focus less on targeting individuals and focus more on targeting organizational needs – to staff the organization of the future and to meet the needs of the organizations. This analysis begins not with managers but with the positions, the need to get certain types of work done, and the need for rare skills. |

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| 7. If candidates are selected, how is this differentiation managed? | Motorola's core values include respect for individual and integrity. Not being designated as high potential does not prevent anyone from improving the system overall. |
| 8. How are future leaders developed? | It is not Motorola's obligation to ensure anyone's success; it is the obligation of each employee. Motorola provides developmental opportunities and makes sure people understand it is their obligation to participate in a plan. HR responds to requests for help to be in a better competitive position for future positions. Those identified as an "Emerging Leaders" (Motorola's term for "High Potential") and their managers are encouraged to work together on a developmental plan, with manager as a resource, that captures strengths, developmental needs, actions, resources, commitments. General management training is extensive and stratified. It includes a development program for VP's generic needs; an intensive program for those with highest potential at sector level (120 people are put through this each year in 3 groupings); a week-long Advanced Leadership Academy for all sector leaders; and a Leadership Institute for people assigned to their first supervisory position. 1000 people per year go through leadership training programs. (Every Motorola employee has 40 hours per year designated for training.) |
| 9. Is the career planning/management system linked to other HR systems? | Career path development: No, Motorola cannot determine what positions will even look like in future, "it's such a dynamic industry." Succession planning is minimally linked with other systems, though efforts are being made to link them more closely. It is most linked to Strategic Planning Process. Most significant link is to the future strategies of the organization, and it is what differentiates Motorola's succession planning process from others. All other systems, i.e. Performance Management, Recruiting & Selection, Compensation, etc., are linked to the future needs of the organization as well. Strategies drive building of organizational capability, of which succession plans are one element. Questions other than which candidates are available are asked first, such as: staffing flows; skills needed and whether the skills exist generically or whether current skills will not be needed in the future; culture; and realignment needs. Systems, i.e. reward, performance management, etc. need to be aligned with strategies for required organizational capabilities. |
| 10. Other comments/notes | |

**Paine Webber**

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|---|---|
| 1. Description of career planning/management system. | No system. |
| 2. How extensive is the system? | N/A |
| 3. Are high-risk positions identified and, if so, how? | N/A |
| 4. How are the occupants of high-risk positions assessed? | N/A |
| 5. Are critical competencies defined and assessed? | N/A |
| 6. Are high potential candidates designated and, if so, how? | N/A |
| 7. If candidates are selected, how is this differentiation managed? | N/A |
| 8. How are future leaders developed? | Leadership development gets little to no attention. Development is basically on the job, with exposure to more senior people and through informal mentoring |
| 9. Is the career planning/management system linked to other HR systems? | HR function focuses on sophisticated compensation structures. No formal career paths. Formerly, corporate intern programs hired people right out of school, rotated them through positions with the idea that they'd become the management in two or three years. Little success. Current approach is to hire them after they have gotten initial experiences at another firm. Turnover is still high. |
| 10. Other comments/notes | |

**Salomon Smith Barney**

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|---|---|
| 1. Description of career planning/management system. | No system of succession planning or management development.. Done ad hoc, a system of "who you know." (An experiment was conducted that invol.ved putting senior peoples' names in a box and pulling them out when a job became available; it stopped when the merger took place.) |
| 2. How extensive is the system? | N/A |
| 3. Are high-risk positions identified and, if so, how? | N/A |
| 4. How are the occupants of high-risk positions assessed? | N/A |
| 5. Are critical competencies defined and assessed? | Has several competency models "scattered around the company." No formal review. |
| 6. Are high potential candidates designated and, if so, how? | Not formally; an informal process exists. People are evaluated on their ability as "producers," not managers. Compensation tied entirely to producing revenue. "Talent isn't compensated for management --a dilemma we have to deal with every day." |
| 7. If candidates are selected, how is this differentiation managed? | N/A |
| 8. How are future leaders developed? | Most talented people are paid exceedingly well in order to keep them in firm. Development through experience. Incentives completely grounded in revenue. No hierarchy of management exists. The one exception is the retail division (from old Smith Barney) does have an assessment center. Competencies are used to look at sales professionals who might make good branch managers. They have rigorous training, where they go off-site, for a period of a few weeks, then get on-the-job follow-up. No leadership development in any other part of the firm. This year one is being created for the investment bank; Morgan Stanley recently developed leadership models that has created pressure for other investment banks. |
| 9. Is the career planning/management system linked to other HR systems? | Every part of the organization has different competencies. The competencies are linked to the different systems for entry level hire. For example, "in the bank, there is a grid – 4 years as an associate, 4 years as a manager… director -- something like Career pathing, but we don't help them get there. Higher, it's only about producing as long as it's not illegal. This is the first year HR is getting them to think about these things." No formal career path development exists. |
| 10. Other comments/notes | "Wall Street is finally looking to see what other ways they need to implement to succeed – maybe, just maybe this management thing might not be a bad idea." |

**Unilever**

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|---|---|
| 1. Description of career planning/management system. | A Human Resource planning program in which individuals are "listed" for next level and all employees go through a process of evaluation and development. 1. A Management Development Schedule provides a snapshot of each employee (history, career development, mobility). 2. Listing Nomination Form – Managers who want to submit a "lister" complete and rate the individual's behavior. 3. Succession Plans – completed for all senior and key positions – focus on Unit Boards and key management below the board level. (Boards at Unilever are the management team of a given unit.). |
| 2. How extensive is the system? | 100% of management force, 4 out of 5 levels in 100% of all units. Top four levels of each division go through this process. All of the management participate. While level 1 are not "listed" they go through the rest of the process of evaluation and development. |
| 3. Are high-risk positions identified and, if so, how? | All management positions at level 3 and above are considered key. Total of about 250. |
| 4. How are the occupants of high-risk positions assessed? | Everyone is assessed annually. Although people are assigned and designated for particular roles, others may be hired into a role from other parts of the Company or the outside the division. Extent to which designated people are hired depends on the amount of influence the HR head has in each department. |
| 5. Are critical competencies defined and assessed? | Skills and competencies have been benchmarked and detailed for every position by function. Manuals describe competencies and skills for each discipline within Unilever. Competencies are reviewed annually. |
| 6. Are high potential candidates designated and, if so, how? | All managers are part of the pool though only certain people are listed (usually the top 5% of a division). "Listed" candidates are identified by the direct management and the HR head in each division. |
| 7. If candidates are selected, how is this differentiation managed? | While system is transparent, only top management and HR know who is "listed." "Since the system is transparent it seems to work as a stimulus for people to think about movement and development in a positive way. The listing process is not revealed so it has a minimal impact on the organization." |
| 8. How are future leaders developed? | Unilever has an extensive system of PDP (Professional Development Programs). Each person is rated according t the competencies and skills for each function. Three to five developmental areas are identified by both the manager and employee and a development program is agreed to. All are reviewed by HR for consistency and to assess training and development program needs (it acts as a training needs assessment). The Unilever program for management development lasts 2 weeks and is conducted by University staff in England with peers from elsewhere in the company. Each division also has their own development program. |
| 9. Is the career planning/management system linked to other HR systems? | It is part of a comprehensive Professional Development Program at Unilever that includes evaluation against skills and competencies, development in key areas, key assignments, management development, listing and succession planning. Career Path: Emphasis is put on breadth of experience so that often managers' career paths takes them to varied assignments, i.e. a marketing person might start as a brand manager and then take a lateral assignment yo an overseas regional marketing function and then come back in 18 months to 2 years as a marketing direct. |
| 10. Other comments/notes . | "Though cumbersome, the process has a generally positive effect in helping management consider key positions, mange risk and consciously develop people. Managers at Unilever are generally more rounded and developed in their field." |

# Succession Planning and Management:
# Literature Review

**Introduction**

A critical factor in organizational performance, leadership is of central concern to assuring the long-term viability of modern companies. With increasingly turbulent operating and market environments, changes in societal and consumer expectations and employment contracts, and reliance on new forms of internal processes and controls, corporations are focusing more intensively than ever on questions of leadership: how to ensure that leaders have capabilities that match the needs of emerging organizations and how to retain high potential members. Since individual development progresses at a much slower rate than either management turnover or organizational change, questions concerning the development of future managers and leaders have come into focus.

As a result, succession planning and management practices have become more prevalent in the modern corporation. Defined as any "systematic effort to ensure the continued effective performance of an organization, division, department, or workgroup by making provisions for the development and replacement of key people over time,"[1] succession planning and management resides at the intersection of three major areas: strategic planning, management development and career planning. By drawing on each of these areas, robust succession planning and management systems work to retain and develop gifted managers into leaders suited to the challenges posed by the strategic direction of the company.

**Basic Models of Succession Planning and Management**

The specific elements of an effective succession planning and management system vary from setting to setting depending, among other things, on the distinguishing features of different organizations, such as whether a company is experiencing low or high growth, the degree of its global presence, its organizational culture, the nature of authority relationships, and the degree of environmental (market, economic, regulatory, etc.) turbulence it faces. Nevertheless, there are three basic models of succession planning and management systems:

1. **Replacement Planning**

   Best suited to settings with structured career ladders, stable work forces and unchanging corporate goals, replacement planning consists of identifying one or two next-echelon backups for each critical position. Replacement planning focuses on selecting the right person for the right job. Typically, tables are created yearly that

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[1]Rothwell, William. *Effective succession planning: Ensuring leadership continuity and building talent from within*. New York: AMACOM, 1994

include brief histories of replacement candidates and recent performance evaluations. This is a slating strategy aimed at ensuring orderly succession, without any focus on professional or career development.

2. **Succession Planning**

Succession planning introduces systematic assessment of aspiring employees and career development incorporating, at the most sophisticated end, job profiles that identify critical skills and competencies for effective performance in specific jobs.

Succession planning systems focus on the career development needs of high potential candidates for managerial roles. In these systems, managers above a certain level evaluate candidates in terms of current performance, future potential, developmental needs, and plans for addressing those needs. A variety of tools have been developed that are used to assess the developmental needs of high replacement candidates, including 360° feedback instruments, psychological assessment, supervisory and peer evaluations, skill and competency based performance reviews, and assessment centers.

By shifting the focus from individual jobs to developing a future cadre of leaders, the goal of these systems is to create "bench strength." Many organizations have moved to this approach recognizing that jobs and structures are no longer static and frequently changing in unpredictable ways in response to environmental shifts. Rather than targeting people for specific jobs, which may neither exist or exist in very different form, succession planning attempts to identify the key skills and competencies required for management/leadership in a given system and then help high potential candidates develop a full complement of the relevant leadership qualities.

3. Succession Management

Succession management takes the basic approaches of succession planning and shifts the focus from individuals to teams. This approach has been developed in recognition of the key role of teams and cross functional collaboration in most contemporary organizations. These systems try to discern which mix of talent and backgrounds is required to support corporate strategies. Decisions about filling specific jobs are considered both in terms of the developmental needs of individuals and the skills/competencies required of the positions and in terms of rounding out the mix of skills and competencies on the "team"[2] that the candidate will join or currently participates.

**Components of a Succession Planning/Management System**

While the specific plan contours differ according to the unique characteristics of each organization, these systems tend to be composed of some common elements, including:

- Comparison of an organizations' future needs against the current talent pool. This includes careful assessment of the existing management/leadership pool and an ongoing consideration of the leadership skills and competencies that will add greatest value given the company's varied future strategic scenarios.

- Identification and assessment/review of high potential candidates.

- Managers are charged with considering the long-term retention and development of high potential employees and are often held accountable for ensuring progress on these employee's development plans.

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[2]The definition of team is found to vary widely from company to company. In some organizations the term "team" is used to identify the key people managing a particular operating unit or function, in others it is used to identify the cross-functional group assembled to solve a particular business issue.

- A portfolio of development and evaluation tools is used to provide opportunities for high potential candidates to excel, including training, feedback and performance review systems, and "stretch assignments" aimed at helping people learn new skills and broaden their areas of expertise.

- Managers are encouraged to identify and explicitly provide solid developmental experiences for high potential and high performing managers.

- A career management system that tracks the progress and development needs of high potential candidates. These systems are often combined with specific "tracks" for either certain disciplines or for individuals to gain a broad experience of a firm's functional areas.

**Key Success Factors**

The predictors of successful outcomes in succession planning/managements systems are:

- The identification of key positions.

- Top leadership involvement and commitment.

- Owned by line management, supported by human resources.

- Integrated with the firm's strategic direction and initiatives.

- Linked explicitly to unit development and change.

- Development of people becomes part of a manager's own review and evaluation.

- The system is compatible with the organization's culture.

- Succession planning/management is treated as an ongoing process rather than an annual activity.

**Drawbacks and Pitfalls**

Corporations have had mixed success in implementing effective succession planning/management systems. Among the drawbacks and pitfalls identified in the literature about such efforts are:

- Reluctance of mangers to release talented employees to other assignments.

- The difficulty of coping with the anxieties and stresses invol.ved in open discussions of performance and potential. Some organizations have evaded this anxiety by creating highly formalized, bureaucratic and rigid human resource processes that get disconnected from reality.

- The dynamics evoked by the labeling process. Targeting high performance individuals can create complications for both those identified and those not identified. Here, companies have tried various solutions on the continuum of how "open" or "closed" to make a system. High potential individuals are more likely to stay if they know they are being recognized while those not targeted can be more likely to leave.

- Without a component of the system oriented toward diversity, succession planning/management tends to lead to greater homogeneity rather than diversity.

- Highly effective career management systems can lead to some "leapfrogging" of high potential individuals, requiring these organizations to find ways to retain and motivate those not considered as high potential with possibly longer tenure in a particular position. It is very important to avoid tacitly devaluing or conveying the wrong message to "solid citizens."

**The Benefits of Career Planning/Management Systems.**

In spite of the potential drawbacks of instituting such a system, the potential benefits can be enormous, including:

- Reduced managerial turnover.

- Retention of talented and experienced individuals with a history in the firm[3].

- Having a pool of prepared leadership available that can be deployed flexibly.

- Heightened motivation and performance.

- Greater clarity about what skills and competencies the company wants from its leaders, skills/competencies which change and evol.ve over time, such as the current emphasis on team membership and global competency.

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[3]There is a high correlation between the amount of experience and years in a firm of senior members, and the firm's effectiveness and strategic success. p. 41 Aug., 20, 1998

**Conclusion**

Succession planning/management systems address issues of such great importance today that nearly every sizable organization is developing one. While achieving success is difficult, the imperatives of leadership and management in contemporary organizations is a critical success factor. Literature and research underscores the necessity to tailor these general features to the specifics of the organization and its varied units.

As evidenced by the rapid growth and consolidation of markets around the world, the rapidly changing landscape of corporate structures and the recent disasters that left organizations without their most senior management and any plan for their succession, thoughtful and culturally adapted succession planning/management systems are key to any organizations success.

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