Succession management: Trends and current practice
Mark Busine and Bruce Watt
Asia Pacific Journal of Human Resources 2005 43: 225
DOI: 10.1177/103841105055060

The online version of this article can be found at:
http://apj.sagepub.com/content/43/2/225
Succession management: Trends and current practice

Mark Busine
Development Dimensions International, Melbourne, Australia

Bruce Watt
Development Dimensions International, Sydney, Australia

In today's increasingly complex business environment, the issue of identifying and preparing the next generation of leadership talent is consistently cited by executives and boards as one of their most critical business priorities. Despite this, most organisations consistently rate their succession management practices as less than effective. The issue of succession management is influenced by a range of external and internal factors. This paper draws on current research and experience to explore existing practices and trends and provide a platform for the implementation of more effective initiatives moving forward.

Keywords: executive development, leadership, succession management, talent

Recent trends in the practice of succession management have been strongly influenced by the growing labour shortage (Australian Bureau of Statistics 1997, 1999) and dynamic and complex leadership capability requirements (Bernthal and Wellins 2003). Increasingly tight labour markets make succession management a business imperative and encourage organisations to identify and accelerate the development of future leaders from within. In addition, development and career progression can ensure the job satisfaction in future leaders and high-potential employees that is prerequisite for retention (Bernthal and Wellins 2001; Hay Group 2001; Society for Human Resource Management 2001). Contemporary approaches to succession management involve the accelerated development of a select group of high-potential individuals for both current and future roles that may not be identifiable at present. The philosophy and approach of succession management is distinct from replacement planning, which is intended to identify specific people to fill
specific jobs in a relatively stable business environment (Rothwell 2001; Byham, Smith and Paese 2002).

What’s driving the current business environment?

Today’s business environment is influenced by a number of complex, interrelated factors. As Leibman, Bruer and Maki (1996, 20) point out, ‘today’s dynamic environment filled with global competition and business discontinuities defines the arena in which succession planning must flourish’.

It is useful to explore the business environmental forces that are influencing the dynamics of change and complexity for leaders globally. Barrett and Beeson (2002) identify a number of factors that have and will continue to shape the business environment and the role of the company executive in the future including globalisation, hyper-competition, technology, the expectations of boards and financial markets, an emphasis on customer relationships, changing employee expectation and workforce demographics.

Globalisation  The traditional barriers of time and distance are dissolving, presenting leaders with a new set of unfamiliar challenges. Senior managers and executives must navigate a myriad of issues such as international trade regulations, political and cultural sensitivities, and unfamiliar legal and regulatory frameworks.

Hyper-competition  It was Jack Welch, the former chairman of General Electric, who called the frenzied competition of the 1980s ‘a white knuckle decade’. Through the 1990s, and now into the new millennium, competition remains fierce. Competition today is intense, often not very well-ordered and competitive advantages fleeting. Executives must therefore constantly review and renew their strategies and models.

Technology  Technology is an enabler that is increasingly fundamental to business success. Technology equates to speed and information. Executives must lead organisations with not just the ability to use technology in its simplest form but with an orientation that challenges their organisation and people to embrace, leverage and indeed, create new technologies.

The expectations of boards and financial markets  Fuelled by hyper-competition, globalisation and technology the expectations and scrutiny of various stakeholders is increasing. Boards and the financial markets are just a couple of these. Boards and financial markets expect leaders to respond to challenges, and to drive organisational success in what is clearly a more ambiguous and highly competitive environment. The pressure on executives to manage the risk–reward equation has become more intense as boards, shareholders and financial markets demand shorter and more aggressive return on investment.
An emphasis on customer relationships  Aided by technology and competitive environments, customers have more choice, greater accessibility and more control over product and price than ever before. As such senior executives are being asked to take a greater role in securing and managing customer relationships, particularly large, key customers. Leaders of the future will not only lead the development and execution of customer relationship programs, they must themselves become customer relationship managers.

Changing employee expectations  As we move deeper into the knowledge society and demand for talent increases, the ability to secure and retain top quality talent is paramount to business success. At the same time, employee expectations are changing, forcing leaders to constantly review their talent management strategies and practices. Employees today are:

- constantly looking for challenging and meaningful work
- increasingly mobile – indeed conditioned to change
- concerned more about loyalty to their profession than loyalty to the organisation
- less accommodating of traditional structures and authority
- more concerned about work–life balance
- prepared to take ownership of their careers and development
- often impatient.

Workforce demographics  The ‘war for talent’ (Michaels, Handfield-Jones, and Axelrod 2001) has been well documented and the demographic changes facing most western countries are real. Leaders are therefore not only faced with the constant challenge of acquiring and retaining new customers, but they must also acquire and retain new organisational talent from a declining pool of people (Barrett and Beeson 2002).

The tenure statistics for Australian CEOs provide compelling evidence of the pressure and challenges faced by senior executives within the Australian business environment. Average tenure for Australian CEOs is 5.6 years, significantly lower than the global average of 7.6 years. Overall CEO turnover for 2003 globally was 9.5% compared to 14.2% in Australian for same period. Globally two out of every five CEOs fail in the first 18 months (Booz Allen Hamilton/ Business Council of Australia 2003). Collectively, these statistics are indicative of the difficulty many CEOs have in achieving their business mandate within a tough Australian market.

Succession management practices

Faced with the challenges of a dynamic environment, the pressure for companies to systematically identify and develop future leaders has never been
greater (Rothwell 2001). Despite this, most organisations acknowledge that existing efforts are less than ideal. A study by Heidrick & Struggles, Lore International Institute and Neisendorf & Associates, 2004 found that only 53% of CEOs surveyed believed that their succession management practices were yielding a strong talent bench.

Results of surveys

Some additional insights into current trends, approaches and challenges in succession management were provided by a recent international survey of 1572 leaders, 1461 employees and 117 human resources staff from 117 organisations in 14 countries (Bernthal and Wellins 2003). This research also indicated trends through comparisons with previous surveys (Bernthal and Wellins 1999, 2001). Key findings included:

- Succession management has grown as an issue of importance to business leaders. Asked to identify their most important business priorities, leaders nominated, in order: 1) controlling costs, 2) identifying ways to improve quality, 3) improving customer relationships/ service, 4) improving or leveraging company talent, 5) improving production/ operational efficiency. Improving and leveraging company talent was not on the top five list in the 2001 study, whereas the other issues were. This increased level of recognition by business leaders that succession management and/or talent management is a critical business issue is an important trend in transitioning succession practices from a human resource driven process driven by human resource professionals to a business critical process driven by boards, CEOs and senior executives generally.

- The following succession management process characteristics were most highly positively correlated to perceptions of succession management effectiveness:
  - contains a timeframe for achieving planned actions
  - changes in response to changing strategic business plans (i.e. adjustable)
  - openly shares information (e.g. nomination, performance, standings) with candidates involved in succession management
  - is visibly supported by senior management
  - involves line management to identify and/or develop candidates.

- Confidence towards leaders’ abilities remains an issue for most organisations and levels of confidence were lowest for frontline and mid-level leadership. Less than half (38–46%) of all respondents indicated high levels of confidence in leaders abilities. However, confidence levels had increased from 33% to 34% in 2001. The 2003 survey also categorised respondent confidence ratings by levels of leadership (i.e. first or frontline, middle and senior) with results indicating higher levels of confidence in senior leadership and lowest levels of confidence in first level leadership.
• The demands of the work environment appear to be negatively influencing leaders’ perceptions of their own competency levels. Leaders were asked to rate their perceptions of their own level of ability from a set of 29 leadership competencies in five domains (i.e. personal qualities, interacting with others, technical and professional knowledge, helping others achieve goals and focusing on results). The percentage of leadership competencies rated as strengths by leaders decreased from 45% in the 1999 survey to 32% in 2003.

• The scarcity of leadership talent is an issue for most organisations (i.e. 78% of respondents indicated that finding qualified candidates to fill leadership positions was somewhat or very difficult). Further, compared to 2001, respondents indicated an increase in the use of internal sourcing of candidates to fill leadership vacancies.

These results are supported by other studies examining succession management practices (Rothwell 2001). In a more recent survey of Australian human resource professionals (n = 134) and leaders (n = 606), the leadership development and succession management practices of Australian organisations were compared with overseas organisations (USA, UK, Germany, France, Singapore, Malaysia, Hong Kong) (Watt and Busine 2005). In broad terms, while the results suggest Australian organisations still have considerable room for improvement, they are in line with overseas organisations. Key findings included:

• Despite the growing importance of succession management, 41% of Australian respondents indicated their organisation did not have a succession management system in place. This compares with 36.4% of organisations from other countries surveyed.

• On a scale of 1 (not at all effective) to 10 (extremely effective) respondents were asked to rate the overall effectiveness of their succession management system. On average Australian respondents rated their systems 4.5 compared to 4.35 for all other respondents.

Contemporary approaches

In practical terms, approaches to succession management can range from processes aimed solely at CEO replacement to broader all encompassing leadership development programs (Taylor, Watt and Bennett 2004). While development is a consistent component of most systems many organisations define succession as the grooming of a small number of replacements for top executives, typically with one replacement per position. This approach, commonly referred to as replacement planning, still exists in many organisations (Rothwell 2001). Byham, Smith and Paese (2002) estimate that most organisations with designated internal replacements fill only about one-third of their
management positions with individuals targeted by this approach. Constant, rapid change in jobs, organisational structure and business strategy render the traditional replacement planning approach ineffective.

Rothwell (2001, 6) defines succession planning and management as: ‘A deliberate and systematic effort by an organisation to ensure leadership continuity in key positions, retain and develop intellectual and knowledge capital for the future and encourage individual advancement’.

At the core of contemporary approaches to succession management is the use of talent pools or acceleration pools (Byham, Smith and Paese 2002). As the name implies, the development of pool members is intentionally accelerated. The scope and size of an acceleration pool will vary depending on the size, structure and business strategies of an organisation. Pool members, who may enter the pool at any level or at any age:

- get assignments that offer the best learning and highest visibility opportunities
- spend less time in assignments
- receive stretch assignments
- get more training
- attend development activities designed especially for them
- have an assigned mentor
- are not guaranteed promotion.

The establishment of acceleration pools is intended to provide a structure that enables the systematic development of future leaders through the following key steps:

- a definition of success at key leadership levels;
- an objective process to identify a pool of people that have high potential as future leaders. Rogers and Smith (2003) recommend criteria including leadership promise, personal development orientation, mastery of complexity and balance of value and results focus as the basis of this decision;
- a comprehensive diagnosis of individual development needs aligned to the experiences, knowledge, capabilities and personal style factors required for success in a specific leadership role;
- specific development actions that involve on-the-job assignments, coaching, and where appropriate, training.

**Defining success**

A prerequisite for any business wanting to implement an effective succession management process is a functional understanding of what makes a leader successful within its specific strategic business context. Byham, Smith and Paese (2002) suggest four types of descriptors that organisations can use to define the successful executive:
specific job challenges – the kinds of situations that an individual entering a specific level of leadership or role should have experienced and accomplished – e.g. manage an organisation restructure, implement an organisation wide change initiative, manage a geographically dispersed team, bottom-line responsibility for an operation;

organisational knowledge – the functions, processes, systems, products, services, or technologies of an organisation and industry that a leader must understand; knowledge ‘holes’ need to be identified and filled;

capabilities – clusters of behaviours, technical skills and motivations that are critical to success in leadership for a specific business – e.g. change leadership, building business partnerships, establishing strategic direction;

personal styles/attributes – the behavioural predispositions that might cause an otherwise effective leader to fail on the job – e.g. being aloof, arrogant, distrustful, dependent.

The process of identifying these descriptors begins with the analysis of the organisation’s strategic plan and allied documents to determine behaviours, qualities and experiences necessary in achievement of the organisation’s goals. These elements are not meant to be static and should be routinely reviewed, particularly if there is a change in business strategy or organisational structure.

Identifying and selecting pool members

There are several compelling reasons why organisations are not able to develop everyone for senior leadership positions:

• Every organisation has a limited number of good developmental positions, where an individual can be given an unusual amount of freedom and authority and the ability to make decisions.

• Organisations have only enough time and resources to genuinely focus on the accelerated development a subset of their managers.

• Development is expensive in terms of special educational opportunities, hands-on training, sending people to conferences, etc.

• Developing people burns a great deal of management energy. One of the biggest hurdles is getting managers to focus on their direct reports’ development.

• Not everyone wants to be developed for senior management. There are negatives in terms of travel, necessary changes of residence, and extra work.

To effectively identify and select pool members, it is necessary to take a holistic view of the individual. Clearly, excellent current performance is one major criterion for nomination, but other factors such as interpersonal skill, leadership promise, support of company values, ability to learn, executive disposition and development orientation should also be considered (Rogers and Smith 2003). The identification process needs to be relatively simple but must use consistent criteria across the organisation.
It is important to note that evaluation of leadership potential does not equal diagnosis of a person’s development needs. An in-depth diagnosis of strengths and development needs around competencies, enablers, derailers, organisational knowledge, and job experience occurs after the nominee has accepted an invitation to join the pool. Diagnosis at this point is critical because in order to get the maximum return on an investment in a person’s potential, development must focus on the competencies, derailers, and other executive descriptors that can be improved. Unlike many competencies, leadership potential factors are extremely difficult to develop.

**Diagnosing strengths and development opportunities**

Once high-potential individuals have been identified, their development needs must be diagnosed so that they can get the training and unique experiences needed to prepare them for success at the next level. A combination of simulations, inventories, multirater (360 degree) instruments, and behaviour-based interviews offer an in-depth assessment of pool members’ development needs in competencies and derailers (Byham, Smith and Paese 2002). Assessment centre-based diagnosis of development involves different assessors observing individuals’ behavior as they go through a set of integrated simulations. The simulations are designed to mirror various challenges or issues the individual will face at the target job level and are predictive of current and future job performance (Development Dimensions International 2001).

**Prescribing development**

Effective succession management systems operate as both talent-development and talent-retention mechanisms. The investment in employee development should be strategically guided by the need to ensure leadership benchstrength (Byham, Smith and Paese 2002). The most effective development strategies include a combination of:

- job assignments (e.g. in a position or on a task force), to gain new experiences and possibly to work alongside someone; these are usually lengthy assignments (6 months – 2 years);
- short-term experiences, such as working with someone from a different culture, participating in a project team, or observing a unique role model;
- targeted training and/or executive education to acquire and improve specific skills;
- professional executive coaching by a skilled, experienced advisor, who focuses on one or two areas (Byham, Smith and Paese 2002).

In each case, there are specific outcomes identified and agreed to in advance between the mentor, manager and the pool member.

The objective of an acceleration pool is not necessarily promotion. The
actual objective is accelerated development, which can be accomplished in a variety of ways, including promotion. Other options may be lateral or project assignments, and specific training or development activities, with a general strategy of movement and development. Occasionally, due to factors such as company growth rate and geography, the only option available is to develop people within their current assignment. However, pool members who have not had assignment changes or expansions within two to three years should be reviewed to determine the reasons for the ‘non-movement’, and to identify possible alternatives (Byham, Smith and Paese 2002).

Practical components of success

While the components of an organisation’s succession management program can vary, there are a number of critical elements and practical considerations typically associated with effective programs (refer table 1) (Eastman 1995; Rothwell 2001; Bernthal and Wellins 2003). When asked to rate these qualities in their own organisation, respondents to the 2005 survey (Watt and Busine 2005) indicated room for improvement in 12 of the 18 qualities.

The succession management practice guidelines discussed below are derived from the extensive consulting experience of the authors in their roles as consultants and based on the recommendations of Byham, Smith and Paese (2002). They address many of the system attributes outlined in table 1.

Communication regarding succession management

Organisations should communicate the fact that a succession management process and an acceleration/talent pool exists and also that its function is to accelerate people’s development as a part of the overall organisational development process. In addition, the succession management process should be clearly differentiated from traditional replacement planning processes.

Membership in the pool(s) should be communicated to people in the pool(s) itself. Participants need to be clear on their responsibilities and accountabilities in relation to pool membership. Therefore, in designing the communication strategy, the organisation must navigate its way through any strong cultural values or standards (written or implied) that may typically prevent them from openly communicating these expectations with participants.

It is also important to communicate what the acceleration pool is not. For instance, it is not the only group from which promotions will be made. In addition, it should be communicated that employees may enter and exit at various times throughout their career, based on the organisation’s projected needs, and their own development progress.

It would be a mistake to push acceleration pool participation on anyone who is not motivated to take on greater leadership responsibility. However,
leaders go through phases in their careers, and there may simply be phases during which acceleration pool membership does not fit with one’s motivations.

The communication strategy needs to clearly articulate that the pool is fluid and people can enter and exit at varying points in their career. In addition, people not initially in the pool will still be developed and can still be promoted, and may be considered for pool membership in the future.

Table 1  Succession management practices

<table>
<thead>
<tr>
<th>Practice</th>
<th>Needs improvement</th>
<th>Acceptable</th>
<th>Strength</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Includes developmental assignments as part of succession planning</td>
<td>47%</td>
<td>30%</td>
<td>13%</td>
<td>11%</td>
</tr>
<tr>
<td>Measures or considers employee career wishes and aspirations</td>
<td>33%</td>
<td>43%</td>
<td>17%</td>
<td>7%</td>
</tr>
<tr>
<td>Collects objective assessment data regarding employees’ current performance and readiness/potential</td>
<td>40%</td>
<td>33%</td>
<td>19%</td>
<td>7%</td>
</tr>
<tr>
<td>Openly shares information (e.g. nomination, performance, standings) with candidates involved in succession planning</td>
<td>49%</td>
<td>23%</td>
<td>11%</td>
<td>17%</td>
</tr>
<tr>
<td>Lists well-defined requirements and competencies for positions under consideration</td>
<td>38%</td>
<td>35%</td>
<td>18%</td>
<td>9%</td>
</tr>
<tr>
<td>Links to business strategy planning</td>
<td>33%</td>
<td>39%</td>
<td>16%</td>
<td>12%</td>
</tr>
<tr>
<td>Changes in response to changing strategic business plans</td>
<td>43%</td>
<td>37%</td>
<td>12%</td>
<td>9%</td>
</tr>
<tr>
<td>Is visibly supported by senior management</td>
<td>38%</td>
<td>32%</td>
<td>24%</td>
<td>7%</td>
</tr>
<tr>
<td>Involves the CEO (or most senior leader)</td>
<td>21%</td>
<td>30%</td>
<td>43%</td>
<td>7%</td>
</tr>
<tr>
<td>Involves line management to identify and/or develop candidates</td>
<td>35%</td>
<td>36%</td>
<td>22%</td>
<td>7%</td>
</tr>
<tr>
<td>Relies on HR staff to provide functional support and counsel</td>
<td>26%</td>
<td>38%</td>
<td>24%</td>
<td>12%</td>
</tr>
<tr>
<td>Shares ownership/responsibility across all levels of the organisation</td>
<td>51%</td>
<td>29%</td>
<td>11%</td>
<td>8%</td>
</tr>
<tr>
<td>Uses formal training programs as part of development</td>
<td>29%</td>
<td>38%</td>
<td>22%</td>
<td>11%</td>
</tr>
<tr>
<td>Uses university programs as part of development</td>
<td>38%</td>
<td>23%</td>
<td>19%</td>
<td>20%</td>
</tr>
<tr>
<td>Evaluates/Compensates managers and executives based on their efforts to develop direct reports</td>
<td>63%</td>
<td>15%</td>
<td>7%</td>
<td>15%</td>
</tr>
<tr>
<td>Contains a time frame for achieving planned actions</td>
<td>41%</td>
<td>37%</td>
<td>9%</td>
<td>13%</td>
</tr>
<tr>
<td>Relies on a computerised system to plan/track progress</td>
<td>54%</td>
<td>13%</td>
<td>2%</td>
<td>31%</td>
</tr>
<tr>
<td>Involves a mentoring or coaching program</td>
<td>52%</td>
<td>26%</td>
<td>10%</td>
<td>12%</td>
</tr>
</tbody>
</table>
Succession management and employee retention

Acceleration should improve the organisation’s chances of retaining key people. One of the most important reasons people leave an organisation is that they are not being developed and/or they do not have meaningful work (Bernthal and Wellins 2001). A properly managed succession management process addresses these very issues. Two-thirds of people surveyed by Bernthal and Wellins (2001) indicated that they would rather grow inside their present organisation than leave.

Another advantage of an acceleration pool over traditional replacement planning is that there is no pre-set ‘endpoint’ which is often the trigger for leaving the company, since people who reach that point perceive that there is no further room for advancement within that organisation.

Senior management involvement

Despite concerns that a comprehensive succession management system will increase the time commitment of senior management, a good succession management system can save senior managers time in at least three ways:

- By increasing the pool of internal candidates for new job openings, the time required for selection from the outside is greatly reduced, as is the ‘ramp-up’ time, since the internal candidate will have more intrinsic knowledge of the organisation and its processes and procedures.
- The frequency of filling open positions should also be reduced, since the probability of success with someone in the acceleration pool is far greater than with someone hired from outside.
- A well-designed succession management process reduces the time spent on traditional replacement planning, which tends to be form-heavy.

Once the decision has been made to develop a succession management process, executive management needs to play an active role in both designing and implementing the process. Senior executive sponsorship and ownership of the process is extremely important to ensure success of the effort. While human resources practitioners can provide the technical and professional expertise, they need to ensure that executive level managers are active partners with them in designing the process, and in understanding the critical role they play in executing it.

As described by Byham, Smith and Paese (2002), an executive review board can be chartered to oversee and maintain active involvement in the process, along with ensuring that accountabilities are established at the executive level for successful implementation of the process.
Measuring the impact of succession management activities

There are a number of measures that should be considered. These include:

- the number of jobs ready people to fill senior jobs when they open;
- the percentage of jobs filled by internal candidates measured against company objectives;
- cost of acceleration pools against the cost of finding outside hires;
- cost of turnover and demotivation inside the organisation when an outside hire is made;
- time it takes for an outside hire to get up to speed and the lack of productivity during that time;
- the attrition rate of outside hires coming into organisation;
- measuring the reduced turnover of identified pool members.

Mark Busine (MCom; MEd) is general manager for Development Dimensions International (DDI) based in Melbourne, Australia. With significant corporate HR and organisation development experience across a range of industries, he has presented at numerous conferences and seminars on areas such as succession management, leadership development and talent management. Prior to joining DDI he lectured part-time in the Master of Education program at the University of Technology, Sydney.

Bruce Watt (MEd; PhD) is managing director for Development Dimensions International (DDI) in Australia. As a consultant, business development manager and general manager for DDI Australia, Bruce has extensive experience in the design and implementation of succession management systems. Before joining DDI, Dr Watt’s experience included: lecturer, Macquarie Graduate School of Management; senior consultant, Morgan & Banks Limited; and lecturer, Faculty of Business, University of Technology, Sydney.

References


