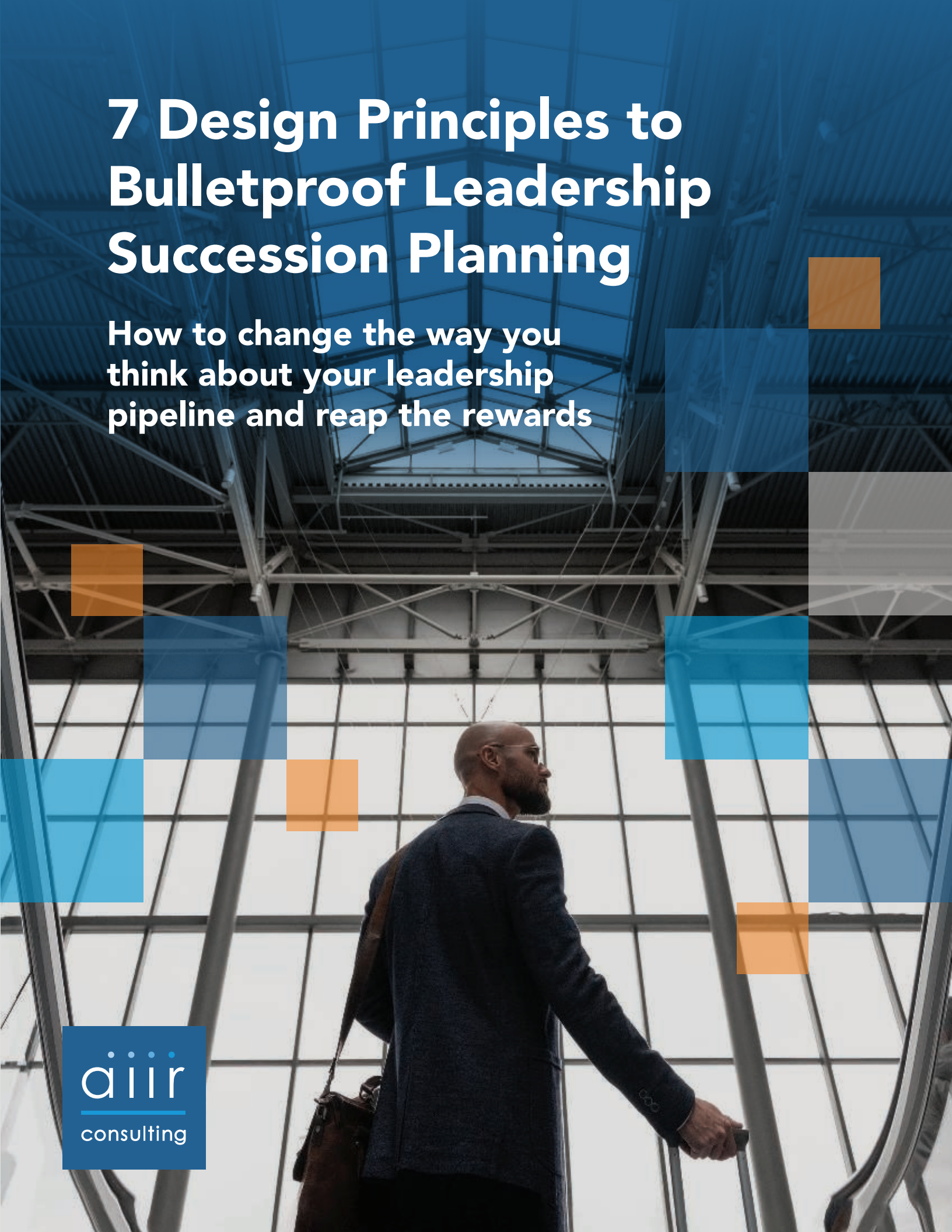
7 Design Principles to Bulletproof Leadership Succession Planning

How to change the way you think about your leadership pipeline and reap the rewards



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How to change the way you think about executive selection and reap the rewards

For modern businesses, success depends more on who is managing the business than what they are managing. And while the who is important at all levels, the quality of an organization's executive leadership has an outsized effect on its fate.

Executive leadership determines a myriad of outcomes, from employee engagement and turnover to productivity, customer satisfaction, sales, and revenue. Organizations with strong executives are 13x more likely to outperform their competition,[1] and CEOs can account for 30% variance in their organizations' profitability.

The cost of a bungled executive transition can be devastating

Consider former General Electric CEO Jack Welch: During his 20-year tenure as CEO, GE's revenue grew from $25 billion to $130 billion, and its profits grew tenfold, even as General Motors, U.S. Steel, Eastman Kodak, and other legacy manufacturers lost market share to foreign competitors.

Welch unified the company around the vision that GE should be the most valuable company in the world, and made bold decisions that fundamentally changed the business. But he also focused tremendous effort on developing talent, creating a high-performance culture that produced outstanding leaders such as James McNerney, Lawrence Bossidy, and David Cote, who would later become the CEOs of Boeing, AlliedSignal, and Honeywell International, respectively.[2]

In Welch's own words, business is "75% about people and 25% about the other stuff."[3]

The Overwhelming Cost of Underperformance

Yet, even with his focus on talent, Welch failed to choose a successor who could manage the massive corporation. The six-year horse race left Jeffrey Immelt at the helm, drove the other candidates to competitors[4], and ultimately destabilized the company. GE has struggled mightily since, shedding half a trillion dollars in shareholder value and eventually being dropped from the Dow Jones Industrial Average in 2018.[5]

The cost of a bungled executive transition can be devastating.

The direct cost of replacing a failed executive, including severance and the cost of recruiting a new candidate, is estimated to be 10x their salary, even excluding those executives awarded "golden parachute" severance packages.[6] And a study by PwC found large companies that underwent forced CEO successions "would have generated $112 billion more in market value in the year before and the year after their turnover."[7]

Those costs pale in comparison to the cost of leaders who, rather than failing spectacularly, quietly struggle for years before they are replaced. Productivity and morale take a hit. Direct reports perform 15% worse under a struggling leader, and are significantly more likely to become disengaged.[8] Gallup estimates disengaged employees cost companies 34% of their annual salary in lost productivity each year,[9] and disengaged employees are more likely to leave the organization.

Given these numbers, who should lead is no doubt one of the most consequential questions in organizational life. Yet, while 86% of leaders believe leadership succession planning is of utmost importance, only 14% think their organization does it well.[10]

We sifted through academic literature and AIIR's industry-leading research to identify seven design principles, and a few watch-outs, for executive succession planning. With these principles as a guide, your company can get the right players on the bus[11] and build a bench of ready-now leaders capable of taking the reins.

While 86% of leaders believe leadership succession planning is important, only 14% think their organization does it well.

1. Make Succession Planning an Organizational Priority

We work with thousands of executives a year, and nearly every one of them tells us that talent is a strategic priority – and differentiator – for their corporation. But, when we look at the survey data, we can see that claim is simply not true.

Most companies woefully neglect their talent pipeline. A survey by the National Association of Corporate Directors (NACD) found only 49% of public companies built an internal cadre of talented leaders.[12] This number was even lower for private companies.

The picture is even more dire at the top of the ladder: At the end of 2017, the median tenure for CEOs at large-cap companies was only five years.[13] Yet, only 30% percent of companies in the NACD survey said they actively invest resources in building talent for the C-suite, and 40% of companies in a separate study reported having no internal candidates to replace the CEO should they exit the position.[14]

Fortunately, research shows that simply having a succession plan, regardless of how good it is, increases your odds of success. Therefore, if done right, placing executive assessment and development at the forefront of organizational priorities is bound to produce results.

40%
of companies lack an internal candidate to replace the CEO

2. Align and Involve Stakeholders

Successful succession planning starts with inviting the right people to the party. When it comes to executive succession, it is imperative to enlist boards of directors.

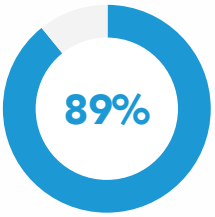
Boards are elected to oversee strategic choices and manage risk. They are in a unique position to understand the big picture and foresee threats to the business, and their experience and expertise can be an invaluable resource in succession planning.

Yet, Stanford researchers found that most directors, particularly those from outside the company, do not "have particularly strong insight into the professional capabilities and shortcomings" of executives even one level down from the C-suite.[15]

Do boards know their people?

of board members report understanding the strengths and weaknesses of senior executives very well or extremely well.

of board members participate in the evaluation of executives other than the CEO.



of board members report having exposure to senior executives only in formal board meetings.

of organizations assign a board member to mentor senior executives.

As key stakeholders, and critically underutilized resources, board members should be aligned and involved in succession planning. Board members should work with the CEO, CFO, CHRO and HR team to gain a deeper understanding of the organization's talent bench — the strengths, development needs, and leadership potential of the mid-level executives most likely to ascend to the C-suite — and take a more active role in shaping how the company recruits to align with its vision and meet future needs.[16]

3. Redefine Leadership

Sixty percent of executives fail within the first 18 months of being promoted or hired.[17] Although there are many reasons for this abysmal success rate, chief among them is that most organizations never formally define what good leadership looks like.

Absent a formal definition of good leadership, executive successions happen ad-hoc: through informal discussion and relationship-based decision making, rather than planning, developing, and making data-informed decisions. Unfortunately, this tends to reward people with self-promoting personalities.

We saw this dynamic play out at Microsoft in 2014. When Microsoft's board of directors evaluated Satya Nadella, they found his humility unnerving to the point that it nearly cost him the job. Why was he questioning his capabilities? Why was he evaluating if he was the right fit for the job instead of jumping in with confidence?

In the end, Microsoft's board set aside their biases and made the correct judgment, but many organizations would have fumbled. Political savvy is often mistaken for leadership potential,[18] and organizations without a clear criteria for good leadership tend to select leaders "on confidence rather than competence, charisma rather than humility, and narcissism rather than integrity," wrote Dr. Tomas Chamorro-Premuzic, Chief Talent Scientist at ManpowerGroup and a member of the AIIR Consulting Advisory Board.[19]

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Dr. Tomas Chamorro-Premuzic

A study of 457 managers found that managers who got promoted spent the majority of their time politicking, while effective managers spent their time working with their teams, and tended to go unnoticed by high-potential programs.[20]

The main job of a leader is to build a team capable of outperforming the competition. Instead of measuring good leadership by how quickly an executive is promoted, high-quality leadership should be judged by how well executives cast a meaningful vision and inspire people to set aside their selfish pursuits for the benefit of the team.

4. Define Leadership in the Context of the Organization

There are, to be sure, universals characteristics of good leadership — competence, integrity, humility, and judgment, to name a few. But the characteristics that make a leader successful at one organization may not work in the context of another. That's why all succession planning should involve a future-oriented analysis of the business. A deep understanding of the organization's vision, strategy, and culture is necessary to create a detailed profile of competencies, personality characteristics, background and experience requirements, and leadership style criteria for potential successors.

1. Vision

Vision fuses the mission, strategy, and objectives into a rallying cry. How clear is a potential successor's vision for the company's future? How well does it align with the board's vision? And, how effectively can executive leadership share the vision with the rest of the organization?

Studies show that when top leadership teams are working toward a common vision, organizations are nearly 2x more likely to have above-median financial performance.[21]

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2. Strategy

What are the most pressing challenges the company will face in the coming years, and what is the organization's strategy to overcome them? Understanding where the company is and what challenges it will need to overcome is critical for selecting a leader with the vision, skills, and experience to take the company where it needs to go. This context is critical — the same leader capable of leading a company through crisis may become restless or even destructive at a more stable organization.

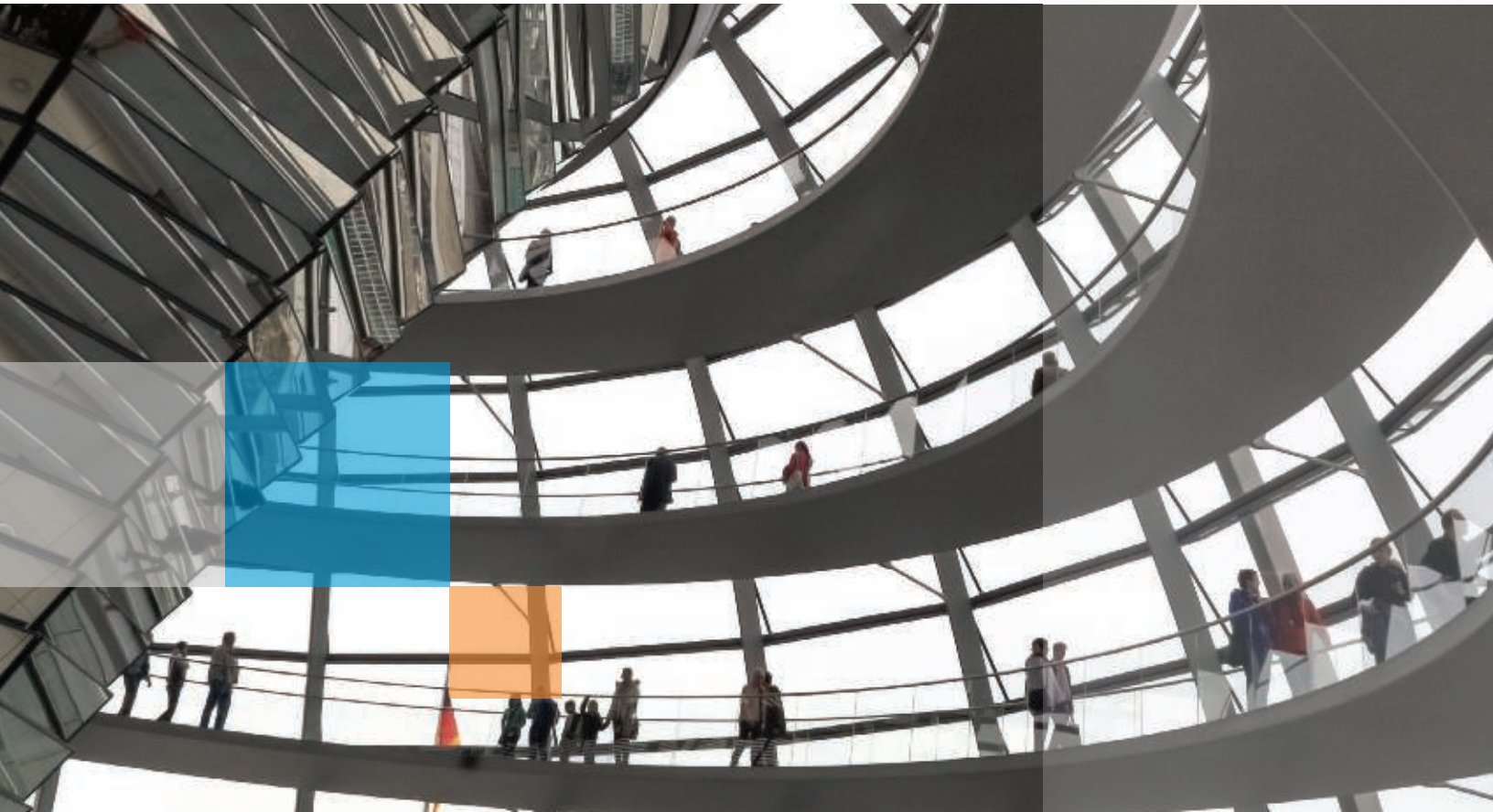
3. Culture

The third theme is culture. On the one hand, culture fit is critical for a successful leadership transition. Misalignment between transitioning leaders' values and those of the organization decreases the likelihood of success by 15%.[22]

On the other hand, there is a significant amount of evidence that shows executive personality drives corporate culture. Stanford research found that openness of the CEO — creativity, curiosity, and willingness to take risks — was one of the primary drivers of an adaptable culture. An adaptable culture, in turn, correlated with a higher market valuation, a better reputation, and more favorable employee attitudes.

The marriage of culture, strategy and vision creates a powerful force for results. When Hewlett-Packard spun off HP Enterprise in 2015, Dion Weisler was appointed to lead the remaining consumer-facing HP Inc. into the fast-changing future.

During his four-year tenure as CEO, Weisler built a growth mindset that allowed the company to flourish even as it learned to operate in an ever-changing consumer landscape, delivering $7 billion annual added revenue, $13 billion in free cash flow, and 15 consecutive quarters of exceeding non-GAAP EPS guidance.[23]



5. Rely on Measurement and Data Over Instinct

At the bottom of most organizations, there is a well-documented process around hiring. If a large oil company needs to hire someone to work on its offshore drilling platform, a hiring manager identifies applicants with a specific range of professional experiences, puts them through a structured interview, checks their references and performs a drug screen and background check. Done. As we move up the ladder at the same company, the hiring process gets murkier, increasingly relying on intuition.

Unfortunately, when it comes to identifying talent, our intuition is, at best, unreliable. Rather, once they have built a strong success profile, succession planning should rely on data to select candidates who will fill the leadership pipeline. There are three types of data we look at when identifying top talent:

1. Intellectual capital

Intellectual capital refers to the knowledge and experiences a candidate brings to the table. This information is gleaned from resumes and structured interviews.

Like any other dataset, interview data is only as good as the source. Unstructured interviews tend to be colored by bias and, according to a Yale researcher, "interviewers typically form strong but unwarranted impressions about interviewees, often revealing more about themselves than the candidates."[24] Further, these impressions often undercut data from other, more valid, sources.[25] Structured interviews that follow best practices, on the other hand, are fair and predictive.

2. Psychological capital

The second input we examine is psychological capital. Best practices tend to combine personality assessments with a structured developmental interview to gain a deep understanding of a leader's strengths, areas for development, judgment, emotional intelligence, and leadership style. This paints a detailed picture of how a candidate is likely to show up under normal circumstances and, importantly, how they are likely to behave under stress.

3. Team Performance and 360° Assessments

The third input is team performance metrics. At 73% of global businesses, the talent pipeline is populated based on supervisor ratings of performance.[26] Given that our definition of leadership emphasizes team performance, we find it more informative to analyze 360° assessment data and team performance metrics including engagement, morale, cohesion, retention, and so on.

Taken together, these inputs paint a detailed picture of each candidate that can be evaluated against best in class executives as well as the requirements of the position and the future needs of the organization to identify the best talent within and outside of your organization.

6. Build in Support and Development

Up to this point, our design principles have centered around identifying the right candidates to occupy your talent pipeline. However, the odds of identifying a candidate that can hit the ground running without development are nil.

Even the best and most qualified candidates require significant support to succeed, something most organizations aren't great at providing.

Up to 74% of executives were not prepared for the challenges they faced in senior leadership roles.[27] A McKinsey & Company survey showed only 32% of global leaders felt that their organizations adequately supported new leaders, and only 27% of respondents believe their organizations provide the necessary resources to support their move into a C-level role.[28]

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It is hardly surprising, then, that 46% of leaders underperform during their transition to a new role.[29]

How can organizations support leaders as they move through the talent pipeline and transition into executive-level roles? Among a group of senior leaders, 42% said a better, more structured development plan would have made their most recent transition more successful, and, crucially, 31% said more formal development to strengthen their leadership skills.[30]

In addition, there is compelling evidence that growth at the executive level requires one-to-one collaboration with an executive coach. Research shows when coaching is provided to leaders transitioning into a new role, it greatly decreases their time to impact.[31] And, the most widely cited meta-analysis

demonstrated that, between a group of executives who received coaching and a group of their counterparts who didn't, 70% of the group that receives coaching could be expected to outperform their peers.[32]

But beware, all coaching programs are not created equal. In fact, a recent Conference Board study found only 16% of organizations were able to demonstrate the effectiveness of their coaching programs.

7. Measure Success

Peter Drucker once said, "If you can't measure it, you can't improve it."

Organizations are spending a staggering amount of time and treasure, more than ever before, developing their next generation of leaders;[33] yet, five out of six HR managers are dissatisfied with the results of their programs.[34] And, confidence in organizational leadership has taken a nosedive.[35]

Measuring the success of selection decisions and the effectiveness of leadership development programs is key to continually improving processes and outcomes. The question is: After potential successors are assessed and identified, is the organization effectively developing executives that are capable of taking on bigger roles in the future?

Three design principles are fundamental to great program evaluation:

1. Collect data throughout the executive development journey, rather than just at the end.
2. Use leader data to personalize a strategic development plan, evaluate coach-coachee chemistry, identify KPIs, and gauge progress.
3. Harness cutting-edge technologies that allow for real-time data collection and insightful analytics.

The Challenge Ahead

Leadership determines the fate of organizations. As we reach peak Baby Boomer retirement and businesses face the increasing exodus of senior leaders, succession planning will become even more crucial for companies to identify, develop, and support talented new executives. Our research and experience indicates that to have the best chance of success, succession planning must:

1. Be an organizational priority
2. Involve and align stakeholders
3. Redefine leadership
4. Pay attention to the context of the role and organization
5. Eschew intuition in favor of data
6. Provide support and continuing development for new leaders
7. Measure results and refine processes

Although not exhaustive, these seven design principles are a valuable guide for building a talent pipeline of leaders capable of leading your organization into the future.

Introducing AIIR Executive Assessment

AIIR Executive Assessment combines decades of consulting experience and expertise with a proprietary assessment methodology to identify leaders with the qualities and qualifications to succeed at your organization.

The AIIR Executive Assessment methodology synthesizes data from:

> Psychometric assessments
> Competency-based interview
> 360° feedback
> Business metrics

Combined, these inputs build a multi-dimensional profile that allows AIIR to inject insight and experience into your leadership pipeline, replacing ad-hoc practices with data-rich recommendations.

Learn more about AIIR Executive Assessment services at www.aiirconsulting.com/executive-assessment

To view citations for this whitepaper, please visit: https://www.aiirconsulting.com/aiir-wp-citations-19.pdf

About AIIR Consulting

AIIR Consulting is a global business psychology consulting firm dedicated to building amazing leaders through executive coaching, leadership development, and team effectiveness.

Founder and CEO Dr. Jonathan Kirschner pioneered The AIIR® Method, a four-phase process for creating sustained behavioral change through **A**ssessment, **I**nsight, **I**mplementation, and **R**einforcement.

AIIR Consulting combines evidence-based techniques, proprietary tools, and innovative coaching technology, empowering leaders to drive incredible business results.

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