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Developing Your Leadership Pipeline

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What could be more vital to a company’s long-term health than the choice and cultivation of its future leaders? And yet, while companies maintain meticulous lists of candidates who could at a moment’s notice step into the shoes of a key executive, an alarming number of newly minted leaders fail spectacularly, ill prepared to do the jobs for which they supposedly have been groomed. Look at Coca-Cola’s M. Douglas Ivester, longtime CFO and Robert Goizueta’s second in command, who became CEO after Goizueta’s death. Ivester was forced to resign in two and a half years, thanks to a serious slide in the company’s share price, some bad public-relations moves, and the poor handling of a product contamination scare in Europe. Or consider Mattel’s Jill Barad, whose winning track record in marketing catapulted her into the top job—but didn’t give her insight into the financial and strategic aspects of running a large corporation.

Ivester and Barad failed, in part, because although each was accomplished in at least one area of management, neither had mastered more general competencies such as public relations, designing and managing acquisitions, building consensus, and supporting multiple constituencies. They’re not alone. The problem is not just that the shoes of the departed are too big; it’s that succession planning, as traditionally conceived and executed, is too narrow and hidebound to uncover and correct skill gaps that can derail even the most promising young executives.

However, in our research into the factors that contribute to a leader’s success or failure, we’ve found that certain companies do succeed in developing deep and enduring bench strength by approaching succession planning as more than the mechanical process of updating a list. Indeed, they’ve combined two practices—succession planning and leadership development—to create a long-term process for managing the talent roster across their organizations. In most companies, the two practices reside in separate functional silos, but they are natural allies because they share a vital and fundamental goal: getting the right skills in the
right place.

In this article, we’ll look at a handful of far-sighted companies—including Eli Lilly, Bank of America, and Dow Chemical—that have broken down the functional silos to develop a process that we call succession management. Drawing on their experiences, we’ll outline five rules for setting up a succession management system that will build a steady, reliable pipeline of leadership talent.

Rule One
Focus on Development
The fundamental rule—the one on which the other four rest—is that succession management must be a flexible system oriented toward developmental activities, not a rigid list of high-potential employees and the slots they might fill. By marrying succession planning and leadership development, you get the best of both: attention to the skills required for senior management positions along with an educational system that can help managers develop those skills. It’s a lesson that might have helped Coca-Cola and Mattel. Coke’s Ivester was given the top job largely as a reward for his financial savvy and years of loyalty to Goizueta and the company; but not enough attention was paid to how his particular skills might apply to the broader role. And as for Barad, she had grown Mattel’s Barbie brand nearly tenfold in less than a decade, yet her controlling management style and lack of experience in finance, strategy, and the handling of Wall Street—essential capabilities for any CEO—proved to be her downfall. Early intervention might have exposed her limitations and provided an opportunity to develop these skills—and perhaps would have kept her career on track. And indeed, Robert Eckert, who became CEO at Mattel after Barad, links succession directly to development efforts.

It’s not just about training. Leadership development, as traditionally practiced, focuses on one-off educational events, but research at the Center for Creative Leadership in Greensboro, North Carolina, has shown that participants often return to the office from such events energized and enthusiastic only to be stifled by the reality of corporate life. It’s far more effective to pair classroom training with real-life exposure to a variety of jobs and bosses—using techniques like job rotation, special assignments such as establishing a regional office in a new country, and “action learning,” which pulls together a group of high-potential employees to study and make recommendations on a pressing topic, such as whether to enter a new geographical area or experiment with a new business model.

Eli Lilly, for example, has a biannual action-learning program that brings together potential leaders, selected by line managers and the human resources department, to focus on a strategic business issue chosen by the CEO. Eighteen employees identified as having at least executive-director potential, representing a mix of functions and regions, participate in a six-week session in which they meet with subject matter experts, best-practice organizations, customers, and thought leaders, and then analyze what they’ve learned. In 2000, one such team was charged with developing an e-business strategy as a new avenue of growth—an issue that was a pressing concern at the time. The group interviewed more than 150 people over five weeks and in the final week developed a set of recommendations to present to senior managers—who took their ideas quite seriously. For example, the group recommended naming an e-executive and providing a certain level of funding to the initiative. Without hesitation, the CEO responded, “We will appoint an e-executive within two weeks, and he or she will report to me…appropriate funding will be made available.” And he followed through on those promises.

Action-learning programs such as Lilly’s serve a dual purpose: They provide developmental experiences for employees—who are forced to look beyond functional silos to solve major strategic problems and thus learn something of what it takes to be a general manager—and they result in a useful work product for the company. Such programs have increased in importance because many companies, in downsizing and creating economies of scale, have eliminated a number of the roles that used to be prime training grounds for top management.

Look at Dow Chemical. Under its old organizational structure, some 60 countries had country managers—who were, in essence, country presidents—to whom all the business units and functions reported. These roles served as excellent opportunities for developing general management skills. In 1995, the company consolidated into 30 global business

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units built around business and functional specialties like the manufacture of a specific set of chemicals. Under this structure, all functions report to the global business-unit leaders, and the country manager is essentially an integrator. The new structure allows Dow to enjoy the economies of scale now permitted by the relaxing of trade barriers, but it reduces the number of developmental opportunities by half. In addition, about ten years ago an employee might have been a country manager in his or her late thirties to mid-forties. Today the average age of those heading the global lines of business is mid-forties to early fifties, which means that people wait longer to step into the role.

One way to provide general management experience in this environment is to launch small joint ventures or internal enterprises. Managers can also make lateral moves across functions and business units. For example, one of Dow’s global business-unit heads served for a time as president of operations in the Asia-Pacific region to gain a cross-functional perspective. And a future leader in the research organization was named vice president for purchasing, to broaden her expertise.

Opportunities like these should be incorporated into individuals’ development plans, with mechanisms to trigger associated developmental activities as needed. Lilly’s group development review (GDR) is mandatory for the approximately 500 employees who are identified through the company’s talent assessment process as having executive potential. The GDR is a periodic, in-depth review of a single person, involving input from both past and present supervisors (the employee is not present for the meeting). In a facilitated 90-minute discussion, the group identifies the next steps the employee should take, gathering input from others in the organization if necessary. The immediate supervisor then shares a summary of the results with the employee, who, with the supervisor, is responsible for incorporating the feedback into his or her development plan.

A marketing manager we’ll call Bob was the subject of a recent GDR session. During the review his current and previous supervisors concluded that he was overly dependent on his strategic-thinking skills and needed more operational experience before he could be promoted to the executive level. Bob’s supervisor shared this information with his peers during the marketing function’s next succession management meeting, and the team agreed to help Bob round out his skills by placing him in a key sales role in Europe. When an employee goes through a significant transition such as Bob’s—taking on an important role without the experience usually required—Lilly generally mitigates the risk by placing the person with employees who are already strong contributors. Company leaders also make periodic progress checks and may send the employee to a training program or appoint a mentor (not the employee’s boss) to give hands-on guidance.

**Rule Two**

**Identify Linchpin Positions**

Whereas succession planning generally focuses on a few positions at the very top, leadership development usually begins in middle management. Collapsing the two functions into a single system allows companies to take a long-term view of the process of preparing middle managers, even those below the director level, to become general managers.

Succession management systems should focus intensively on linchpin positions—jobs that are essential to the long-term health of the organization. They’re typically difficult to fill, they are rarely individual-contributor positions, and they usually reside in established areas of the business and those critical for the future. In a professional services firm, for example, the partners managing industry sectors such as chemicals and automotive would be in linchpin positions, as would partners managing emerging sectors such as biotech. By monitoring the pipeline for these jobs, companies can focus development programs on ensuring an adequate supply of appropriate talent.

At Sonoco Products, one of the world’s largest manufacturers of packaging products, the succession process begins with lower-level employees who are seen as having the potential to move up in the organization. But the company considers the plant manager role to be a linchpin position because it is the first opportunity for managers to be responsible for multiple functions as well as labor and community relations. Division vice presidents and their functional-area managers meet off-site for a full day with the division’s HR head to assess plant managers’ performance and potential.
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Identifying Star Potential at Bank of America

The matrix shown here is an example of a tool used by Bank of America to review its talent pool (the names have been changed). This type of matrix is typical of the tools we found in the best-practice organizations we studied. The vertical axis tracks performance results. Bank of America calls this the “what”: the delivery of work product and performance against written goals and financial targets. The horizontal axis measures the “how”: leadership behaviors such as collaboration and coaching as well as, for top management, the behaviors identified in the companywide competency model. The three boxes in the upper right represent “key talent” (employees receiving accelerated and high-priority development attention); employees in this group exceed expectations on at least one of the dimensions of the matrix. Leaders who are not meeting performance expectations, whom Bank of America calls “top-grading opportunities,” are immediately placed on 60- to 90-day action plans. And those who meet or exceed performance expectations but don’t exhibit the leadership behaviors required for success—labeled “leadership issues”—are given immediate coaching and improvement plans. If their leadership behaviors don’t improve, they’re put in the top-grading opportunities group. The bank evaluates managers’ positions on the matrix frequently, so those who have exceeded expectations must work to retain their positions, and those who are struggling have opportunities to improve their rankings.

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Rule Three
Make It Transparent
Succession planning systems have traditionally been shrouded in secrecy in an attempt to avoid sapping the motivation of those who aren’t on the fast track. The idea is that if you don’t know where you stand (and you stand on a low rung), you will continue to strive to climb the ladder. This thinking worked well in an older, paternalistic age, and secrecy does have its advantages, from the CEO’s perspective. It allows for last-minute changes of heart without the need to deal with dashed expectations or angry reactions. But given that the employee contract is now based on performance—rather than loyalty or seniority—people will contribute more if they know what rung they’re on.

A transparent succession management system is not just about being honest. Employees are often the best source of information about themselves and their skills and experiences. And if they know what they need to do to reach a particular rung on the ladder, they can take steps to do just that. In fact, an increasing number of companies are making employees themselves responsible for keeping the data in their personnel files up-to-date. At Lilly, each employee is responsible for updating his or her personal information and development plans, including a résumé outlining career history, educational background, skills and strengths, and possible career scenarios. (To curb the urge to exaggerate experience, supervisors review the plans.) Data accuracy has improved significantly since Lilly gave employees responsibility for their own information, since nobody cares more about an accurate résumé than the employee.

A few companies even allow people to know exactly where they stand in the succession system. In one company we studied, the succession management system as initially designed didn’t show rankings. Employees, who were accustomed to candor and transparency, found the system overly authoritarian, so they refused to participate. In the end, the company gave employees unrestricted access to their own information. This level of transparency isn’t for every company, and in some cases it can put a damper on team spirit: An employee who discovers he or she is relatively low on the roster may stop trying to excel. Most companies elect to limit transparency in some way.

At Lilly, for example, people know if they are regarded as having additional potential, but they don’t know exactly how high that potential is, nor do they know about every role for which they may be considered.

To achieve transparency, companies need systems that are simple and easy to use, with immediate but secure access for participants. Technology—and in particular the Internet—is a powerful enabler. The succession management group at Lilly has a simple expression to describe how the succession tools on users’ computer desktops should operate: “Be like Amazon.” Just as the Internet retailer puts customized information right in front of consumers—its 1-Click model wiping out many of the practical and psychological barriers to online shopping—Lilly’s Web-based succession tool is available through an icon on employees’ computer desktops. A click on the icon takes the employee to a portal on the company’s intranet, with personal information and job opportunities customized for each employee. With the information directly in front of employees, succession management becomes less another planning event and more an ongoing activity. In fact, the information has multiple uses, ranging from the company’s position-posting system to its Web-based internal phone book.

Lilly’s HR managers and the succession management team can use the company’s succession management Web site to assess an employee’s current level, potential level, experience, and development plans. They also use it as a general querying and reporting tool. For example, HR managers can download a report showing what marketing positions are available in Europe, which candidates are being groomed for such positions anywhere in the world, and any skill gaps that might make it difficult to fill the jobs. The names on the report are linked to individuals’ online résumés, development plans, and skill sets they will need before they can advance. The system also lets managers download statistics on the talent pipelines, such as the ratio of potentials to incumbents, specific data related to gender and ethnicity, and the percentage of employees with international and cross-functional experience. With the ability to search for multiple criteria, HR managers can view any segment of the organization with one query—from functional views like marketing to geographical regions like Latin America.
Like Lilly, most of the best-practice companies we studied now rely on Web-based succession management tools to promote greater transparency and ease of use. At Dow Chemical, employees nominate themselves for positions online, and if a hiring manager has a preferred candidate, he or she must state this along with the posting. Dow’s Web tool also includes career opportunity maps that detail the sequence of jobs one can expect in a function or line of business. Some companies even show compensation ranges by level and position.

**Rule Four**

**Measure Progress Regularly**

When you meld leadership development and succession planning—and thus move away from the “replacement” mind-set of the past—measuring success becomes a long-term matter. No longer is it sufficient to know who could replace the CEO; instead, you must know whether the right people are moving at the right pace into the right jobs at the right time. The ultimate goal is to ensure a solid slate of candidates for the top job. You also need to know who is where and which jobs they are being groomed for to avoid stretching the candidate pool too thin—what Sonoco calls the “Roger Jones phenomenon.” According to company folklore, divisional executives who were having trouble developing their own candidates would simply identify one of the company’s superstar performers as a potential successor. But when succession plans were consolidated at the corporate level, a single employee, Roger Jones, was found to be the potential successor for most of the key jobs at the company. (Sonoco now requires each division to generate most of its own successors from within.) At the same time, you must make sure that high-potential employees have enough options that they don’t grow restless—royal heirs can be expected to show patience in waiting for the throne, but corporate heirs have many other opportunities. Frequent checks throughout the year can reveal potential problems before they flare up.

One telling test of a succession management system is the extent to which an organization can fill important positions with internal candidates. At Dow, for example, an internal hire rate of 75% to 80% is considered a sign of success (the assumption is that the company needs some external hires to maintain a fresh perspective and fill unanticipated roles). An outside hire for a role that is critical at either the functional or corporate level is considered a failure in the internal development process. Dow also measures the attrition rate of its “future leaders”—employees who are precious in their development, perform at a competency level well above that of their colleagues, and are believed to have the potential to fill jobs at much higher levels—against the attrition rate of its global employee population. In 2000, the future leaders’ rate of attrition was 1.5%, compared with 5% globally—a signal to Dow’s management that the company’s future leaders are getting the developmental opportunities they want and need. It’s worth noting that Dow’s top 14 executives have all had cross-functional developmental opportunities that prepared them for the demands of top management.

At Lilly, managers track several succession management metrics, including the overall quantity of talent in the managerial pipelines and the number of succession plans where there are two or more “ready now” candidates. For positions at the director level and above, the system shows the employee who currently holds the position as well as three potential successors. HR management can also access real-time data on a number of prescribed measurement areas, such as the ratio of employees with potential to reach a certain level to incumbents at that level. There are goal ratios for each level of management (for example, 3:1 for the director level). Additionally, employees with potential and incumbents are segmented to track diversity on the assumption that diversity in the pipeline is an indicator of the diversity of the company’s overall employee population.

The succession plan metrics also help the company identify gaps more broadly. With the click of a button, managers can learn how many “ready now” candidates the company has for its top 500 positions.

With the click of a button, managers at Eli Lilly can learn how many “ready now” candidates the company has for its top 500 positions.
It’s Not Just HR’s Job

In most companies, human resources is the primary owner of both succession planning and leadership development, but that’s an enormous mistake. Both processes need multiple owners—not just HR but the CEO and employees at all levels—if an organization is to develop a healthy and sustainable pipeline of leaders.

It’s become a cliché to say that the CEO must be involved in any strategic process, but we are not talking here about gratuitous support. Without active commitment at the very top—as well as from the executive team—managers will sense that succession management is a tangential activity and may not commit to the program. In fact, division executives may hide and hoard talented employees by manipulating their assessments.

Bank of America’s Ken Lewis exemplifies CEO commitment. When he took over as chairman and CEO, he immediately set out to make the bank one of the world’s most admired companies, and he knew that to succeed he’d have to signal to his direct reports and key leaders the importance of recruiting, developing, and retaining top talent. He owns the talent management process and holds business unit heads personally responsible for meeting development objectives within their units, with the expectation that the bar will constantly be raised.

But it is not realistic or desirable for CEOs and their executive teams to have sole responsibility for the development of talent and leadership. They don’t have the time or the expertise. Both corporate HR and functional or regional HR heads need to be involved. Corporate HR provides standards, tools, and processes, and functional or regional HR people make sure that local units abide by the rules and customize them as appropriate. For Bank of America’s organizationwide talent management database, the corporate HR team defines the process and provides standardized sets of templates and tools. Certain elements of the system are not negotiable, such as the look and feel of reports and information, the timing of roll-up reports, replacement charts, and the rating system. The corporate HR function is also responsible for Lewis’s leadership competency model organizationwide (the model lists behaviors and skills leaders are expected to have, values they are expected to make specific commitments regarding current or potential leaders—identifying the next assignment, special projects, promotions, and the like. Lewis follows up with the executives in his quarterly business reviews to ensure that they’ve fulfilled their commitments. In a talent review session last year, for example, one executive made a pitch to grow his business unit at a double-digit clip. This required some shifts among top talent and a significant investment in building the sales and distribution workforce. Lewis agreed, and at this year’s talent review meeting, he requested progress reports relating to the change, checking that people had been put into the right roles and that the sales management ranks had been filled out.

Rule Five
Keep It Flexible

Old-fashioned succession planning is fairly rigid—people don’t move on and off the list fluidly. By contrast, the best-practice organi-
zations we studied follow the Japanese notion of kaizen, or continuous improvement in both processes and content. They refine and adjust their systems on the basis of feedback from line executives and participants, monitor developments in technology, and learn from other leading organizations. Indeed, despite their success, none of the best-practice companies in our study expects its succession management system to operate without modification for more than a year. Most had tweaked their systems recently to make them easier to use. Sonoco integrated four software systems to improve the speed and consistency of the data, while Dell actually cut back on the use of technology in its push for speed and simplicity. And at Lilly, it’s not unusual for people to move on and off the list of high-potential employees.

Succession management systems are effective only when they respond to users’ needs and when the tools and processes are easy to use and provide reliable and current information. Particularly in the early years of a new system, both the people managing the process and the people using it are likely to find any number of shortcomings, so HR officers and staff must be open to continual improvements—to make the system simpler and easier to use, and to add functions as needed.

Jim Shanley, who oversees staffing, learning, and leadership development at Bank of America, explains: “You need a strong leadership development and succession process, but it is not the process that really makes the difference. Executives need to have a talent mindset that allows them to feel comfortable talking about their A players as well as their low performers. Our CEO, Ken Lewis, has institutionalized a performance-based meritocracy. We reward top performers with stretch assignments, and we take action on low-performing leaders.” Shanley’s focus on the bottom performers isn’t based just on the traditional measures of performance such as productivity. Subpar leaders may block key developmental positions. What’s more, they may hamper the overall succession management process if their failure to develop subordinates drives away high-potential people. Top performers want good bosses and great challenges.

Perhaps the underlying lesson is that good succession management is possible only in an organizational culture that encourages candor and risk taking at the executive level. It depends on a willingness to differentiate individual performance and a corporate culture in which the truth is valued more than politeness.

At the foundation of a shift toward succession management is a belief that leadership talent directly affects organizational performance. This belief sets up a mandate for the organization: attracting and retaining talented leaders.
Further Reading

This article is also available in an enhanced Harvard Business Review OnPoint edition, (Product no. 5542), which includes a summary of its key points and company examples to help you put the ideas to work. The OnPoint edition also includes the following suggestions for further reading:

**No Ordinary Boot Camp**
Noel M. Tichy  
*Harvard Business Review*  
April 2001  
Product no. R0104C

**Personalize Your Management Development**
Natalie Shope Griffin  
*Harvard Business Review*  
March 2003  
Product no. R0303H