

Leadership Succession

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Leadership Succession: An Historical Perspective: The topic of leadership succession in the business world can be traced back to the rise of the great US corporations. In the early days of those operations, the executive team was very small, in part because so many of the business operations were outsourced and also because the business models tended to be quite simple: A single product, like Henry Ford's Model T, that remained in place for some time. The founder explicitly ran everything, sometimes along with a few family members, and stayed in that role until he died (and it was always a "he"). In these early days, succession events were extraordinarily traumatic because the leader was the founder who had run everything out of their vest pocket, and they left unpredictably: feet first. The fact that business presidents turned over only when they died led to an unusual and temporary pattern of succession where general counsels ended up in charge. The reason was that the general counsel effectively acted as the private lawyer for the founder and was often the only one other than the founder involved in or even aware of important business decisions. They ended up in the top job because they were the only ones who knew what was going on (Janney 1952).

Executive jobs other than the President, Treasurer, and General Counsel developed with the du Pont corporation and its creation of the multi-divisional firm, where each operating division required its own leader. Virtually all of these positions were filled by outside hires.¹ With few exceptions, such as the Carnegie Steel Works where internal promotion was the norm, it is difficult to see many examples where corporations reached into their own ranks and elevated people into these new executive positions. It is of course difficult to know with any certainty why something did *not* occur, but we can at least speculate as to some of the reasons why companies did not routinely promote managers from their own ranks into these executive positions. Two explanations stand out. Most important is that the leap in requirements between the middle management jobs that already existed and the new executive jobs was huge. There was no way to assess the capabilities of the managers and predict who could handle an executive role, a problem with a remarkable contemporary feel. Business historian Thomas Cochran noted that in this period, "Methods of (executive) selection remained largely rule of thumb" (1960 p.71).

One consequence of the lack of any systematic plan for replacing leaders is that, on average, existing leaders stayed in office a long time, which made for old leaders. And the big downside of having an old executive cadre was that they tended to die in office. One-third of managers age 45 in the period after WWII through the early 1950s were expected to die before age 65. Separations due to death and disability accounted for as much turnover as did retirement.² Not only did companies lose a great deal of management talent this way, they lost it unpredictably. Without systems in place to identify successors and plan for succession, death and disability meant that companies

¹ Alfred D. Chandler, Jr. and Stephen Salsbury. *Pierre S DuPont and the Making of the Modern Corporation*. New York: Harper and Row, 1971.

² G.L. Bach. *Where Do Executives Come From?* Personnel Vol. 29 July 1952, 50-56

faced endless talent crises. Ben Moreell, Chairman of Jones and Laughlin Steel Corporation, described how haphazard the succession process was: “When a great president retires, a vacuum is created. And into that vacuum is swept the nearest guy who has not had a coronary.”³ A second consequence, as an observer noted at the time, was that without a new generation of talent, they could not continue to operate independently: “A fairly high percentage of mergers are primarily due to the fact that the smaller companies, which are taken over by the larger companies, have never bothered to develop executive manpower to replace aging and ailing top management men.”⁴

Interest in leadership succession peaked in this period after WWII because the problem of succession was now of crisis proportions. Organizations simply could not fill many of their leadership positions with candidates who were close to being qualified, and so the pressure was on to find a solution. Succession was at the top of the list of corporate concerns in this period. In response to this pressure, virtually every large company developed a model for internal succession, where candidates were groomed within the organization to take over leadership positions when vacancies occurred. The business community borrowed its basic model for handling leadership succession from the military, especially from the Navy.

When WWII began to unfold, the Navy took the lead in mounting plans for developing and managing talent within the military by looking to see what they could learn from industry. The most significant outcome of this process was a document called, “Personnel Administration at the Executive Level,” produced by the U.S. Naval Institute and based on innovations from 50 leading firms just before the War. The document begins with how to survey existing talent (a “personnel inventory”) and continues with how to develop promotion plans for each individual candidate, a process it called “inventory control.” These plans would later become known as “replacement charts” that formed the basis of succession planning in companies (Business Week, 1949).

Perhaps the component of planning for succession events that became the most sophisticated was forecasting the demand for leaders, which took place under the heading of “manpower planning.” Its roots were in the World War II War Manpower Commission, which required businesses to report on their current staffing levels and requirements for the future as shortfalls in skilled workers could derail production and the war effort. The first of these models were based on “replacement planning tables” again borrowed from the military, that simply reported the number of incumbents in each position and organized according to the internal promotion structure, so that one can see which workers were “in line” to move to the next position in the table should a vacancy occur.

The next step in solving succession problems through planning came with efforts not just to find potential replacements but to actually grow them precisely to fit the requirements

³ J. Elliott Janney. Company Presidents Look at Their Successors. Harvard Business Review, 45-53 May-June 1952

⁴ Whitmore, Eugene. The Executive Manpower Shortage – and What Can be Done About It. American Business, Vol. 22 # 8-9, March 1952, p.9.

of the potential vacancies. The advice the authors of a Harvard Business Review study offered companies in 1952 for developing executives seems remarkably similar to what is offered now more than 50 years later: rotational assignments, a mix of staff and line experiences, an opportunity to run an operation, attendance in advanced management programs, and psychological counseling or coaching.⁵

General Electric was arguably the pioneer in the corporate world in developing talent before WWII, and it extended its innovations after the War with long-term planning for leadership succession that is stunning in its sweep. So deep was the management development process at GE that Ralph Cordiner required that succession planning for the company's top jobs should extend down three generations into the company: Each top officer of the company should be responsible for evaluating a "second" team of candidates, two or three people who were ten years younger than the current incumbents and who could be expected in ten years to take over each of those jobs. That second team, in turn, should evaluate a "third" team of candidates, two or three candidates ten years younger than the second team who could be expected to take over each of the positions currently held by the second team. This led to succession plans 30 years deep.⁶

By 1955, a Conference Board study (O'Brien, 1955) showed that 60% of companies with 10,000 or more employees had a program in place to develop executive talent. A study by the American Management Association found that the size of personnel departments in proportion to the rest of the organization had been growing rapidly across U.S. companies in the 1950s – up 30% in 1955 alone over the previous year (American Business, 1955). And they were spending a lot of money on it. One oil company official noted that it cost them the equivalent of an executive's salary for a year just to find out whether an individual had management potential (Whitmore, 1952). Especially of interest for the SHRM Foundation, the majority of executives interviewed in the 1950s said that the most important skill for advancement of executive careers was human relations.⁷

Overall, business leaders were tackling the problem with of leadership succession with the same general approach that they used to solve manufacturing problems: Forecast the need, set up systems to assess the initial quality of candidates, akin to quality control, process them through a sequence of development steps, like an assembly line, and keep them at the ready, in inventory, until a succession event occurred.

By the mid-1950s, bureaucratic systems of internal succession that spotted individual successors decades in advance were in place in virtually every large corporation. And the crushing problem of succession that existed right after the War had been solved. Before, when the head of the company was replaced, company operations were completely up in

⁵ Janney, Ibid.

⁶ Cordiner, Ralph J. Industry's New Challenge: Developing Tomorrow's Leadership. Edison Electric Bulletin Vol. 18 pp.233-236.

⁷ R.M. Wald and R.A. Doty, "The Top Executives – A Firsthand Profile." Harvard Business Review, 32 no. 4 July-August 1954, p.50,

the air because the actions of the company rested heavily on the day-to-day decisions of the leader and were shaped by his own views and priorities. When a new leader came in, typically from the outside, the old management team went out the door as well because the new boss wanted a staff that was loyal to him and would execute his own directions. By the mid-1950s, when the top guy left, it was much more of a non-event. The management of the company was now governed by rules and procedures, not by individuals, and the systems remained in place even when the head of the company did not.⁸ Mabel Newcomer's study of top executives found that in 1950, the outgoing head of the company played a key role in naming his own successor. But by the 1960s, the processes of executive succession had taken away even that influence and transferred it to a system of succession planning.⁹

The extent to which this post-WWII model continues to dominate at least our thinking about leadership succession in organizations is illustrated by the continuing influence of the GE model, which is more or less unchanged since that period.

Assessing Leadership Succession

The topic of leadership succession in business organizations is reasonably broad, so the place to begin assessing what we know about leadership succession is with a taxonomy of the questions that are embedded within that topic. For purposes of consistency, the term "succession" will refer to the process of filling vacancies. But the topic of leadership succession often includes the question as to what causes the leadership turnover events that create the necessity for succession. Planned retirements are uninteresting, and understanding death is a topic beyond this review; voluntary turnover or quits are difficult to study because companies are not forthcoming about the cause of the succession event, which makes it virtually impossible to identify whether incumbents left voluntarily or involuntarily, at least in the numbers necessary to do large-scale research.¹⁰

Most studies of leadership succession therefore take the causes of the vacancies more or less for granted, but there are some studies that examine how the nature of the successor (insider vs. outsider) differs depending on whether the incumbent appears to have been forced out of their job because of poor performance. The studies that look at the antecedents of succession events – what precipitates the move to a new leader and especially predicts whether the leader will be an insider or outsider – come primarily from the world of sports where, there is an extensive literature on the turnover of coaches. Studies in business are much more limited (see, for example, Giambatista, Rowe, & Riaz, 2005; Garman & Glawe, 2004) for a complete list of all the studies that

⁸ For evidence, see Oscar Grusky. Corporate Size, Bureaucratization, and Managerial Succession. *American Journal of Sociology*, Vol. 67 No 3 1961 216-269.

⁹ Mabel Newcomer. *Big Business Executive: The Factors that Made Him, 1900-1950*. New York: Columbia University Press, 1955 p.20

¹⁰ Studies that attempt to distinguish between voluntary and involuntary turnover note the difficulty in doing so in part because organizations go to substantial lengths to cover up executive dismissals. See, e.g., DeFond and Park, 1999.

examine factors driving succession events). But the robust conclusion, to which we return below, is completely unsurprising, that poor performance leads to succession events and to more outsiders being chosen. Some studies consider other factors, especially the composition of the board of directors and how that shapes the choice between internal and external successors (e.g., Ocasio, 1994, who also looks at the attributes of the incumbent leaders; Zhang & Ragagopalan, 2003). Outside appointments are sometimes assumed to indicate that there was no succession plan, but it could also be that there was a plan for an internal successor that was bypassed. As a result, it is difficult to draw conclusions about succession plans from studies like these, although the authors sometimes try. Research on family owned firms (e.g., Lee, Lim, & Lim, 2003) gives some attention to the process through which an inside (i.e., family member) vs. an outside appointment is made based on attributes of the organization.

There are a great many more possible issues driving succession events, of course, and a host of additional concerns about the causes of succession events that are important to academics whose interest is in theory. The SHRM Foundation and its audience is more likely to be concerned with the second set of questions on leadership succession, however, and that is how these events are addressed. The focus of the review here will therefore be on the “succession” event per se, how the vacancy is filled. Here the important questions are first descriptive: How does succession happen? The second is evaluative and positive: What can we say about the effects of different succession arrangements?

The caveat emptor before addressing these questions is that our knowledge about leadership succession, especially in the corporate world, is not at all deep. The study that is generally acknowledged as the beginning of academic interest in succession events (Grusky, 1960) was not published until 1960. Elaborate, formal succession processes had already been in place in virtually all corporations for at least a decade before. The second caveat is that virtually all the empirical studies that look at the consequences of executive succession have been done not from a human resources perspective but from the point of view of finance and business strategy. The reason this matters is that the questions asked in these studies show little interest in the details of the succession process. The concerns instead focus on stock market reactions to governance events, of which succession is but one example. What that means is that we know a fair amount about what happens to share prices when leaders turn over; we know almost nothing about how the details of the process affect the outcome.

As a starting point, it is worth investigating the basic assumption behind the practical interest in leadership succession, that the vacancies that lead to succession events are a huge problem, especially when they are unanticipated. This assumption behind leadership succession efforts is captured by the well-known phrase, “what happens if the boss gets hit by a bus?” The unstated answer is, the organization will really suffer. Certainly after WWII, the evidence is overwhelming that succession events were a huge problem: Companies simply could not fill positions with candidates who were remotely qualified. What about since then?

Several researchers have examined exactly this question in the more contemporary period. They identified the relatively rare events where CEOs die unexpectedly, from accidents or very sudden illnesses like heart attacks. (The reason that unexpected deaths matter is because the stock market has time to react to deaths that are anticipated, so if we want to capture the complete effect of a CEO death, it is important that it be unexpected.) What happens to the share prices of their companies? They actually go up.¹¹ Why that would be is a little hard to answer, but the most promising explanation is that having the current CEO neatly out of the picture gives the Board a clear path to solve any troublesome problems. We should not conclude from this that succession events are costless. Leadership vacancies at a minimum take time and energy to fill, getting the right person into the job is absolutely crucial, and succession has to be done no matter what. But neither should we panic in the belief that a vacancy in leadership will cripple the organization.

The first empirical question associated with succession events, which follows from the studies above, is what happens in the average situation when they occur? A recent review of the research on this topic finds that the share price of a company tends to fall when a succession event occurs (note the contrast with the “hit by a bus” events above) and then tends to move back to its original position.¹² But the studies are not unanimous on this point as earlier studies found share performance rising with the average succession event.¹³ The lack of agreement on this point suggests that the factors causing or associated with the vacancy vary, possibly over time, and quite likely have a bigger effect on performance than the succession event itself.

Indirect evidence about the value of internal succession comes from a back-and-forth literature interpreting the stock market reaction to announcements from corporations that they are splitting the CEO and Board Chair roles. The assumption in these studies is that the role was split because of poor prospects for getting a successor from within the organization (although now this practice may simply reflect contemporary views of a good governance practice). Share price tends to fall with such announcements, and one interpretation is that it might be because it signals that there is no internal successor to the CEO (see Davidson and Nemec 2006 for a review of this literature).

The literature explicitly examining the effects of internal vs. external successors is reasonably extensive, but it is perhaps especially plagued by the stubborn problem of

¹¹ Rachel M. Hayes and Scott Shaeffer. “How Much Are Differences in Managerial Ability Worth?” *Journal of Accounting and Economics*, 1999 (27): 125-148.

¹² [Managerial succession and firm performance](#). Husona, Mark R.; Malatesta, Paul H.; Parrinoc, Robert. *Journal of Financial Economics*, Nov2004, Vol. 74 Issue 2, p237-275, 39p; DOI: 10.1016/j.jfineco.2003.08.002; (*AN 15157235*) survey – falls with succession, then improves.

¹³ [Key Executive Succession and Stockholder Wealth: The Influence of Successor's Origin, Position, and Age](#). Davidson III, Wallace N.; Worrell, Dan L.; Cheng, Louis. *Journal of Management*, Sep90, Vol. 16 Issue 3, p647, 18p.

endogeneity: The performance of the organization is likely to drive whether an internal or external candidate is selected. Disentangling the separate effect on performance of the candidate's origin (internal vs. external) from the continuing effect of the company's performance is extremely difficult. Overall, though, the results suggest that firm performance improves more after external successors than for internal successors.¹⁴ An obvious explanation for this result is the fact that outside successors are more likely to be appointed when performance is down, suggesting that simple regression to the mean responses could make improvements in performance more likely with external candidates.

Other studies have attempted to differentiate the types of internal succession and their effects on performance. Specifically, they examine what are sometimes known as "relay" successions, where an internal heir apparent is appointed and groomed in advance of the succession event, from the more general process where an internal candidate that has not been designated in advance is appointed. One study finds first the obvious point that companies are less likely to groom an heir when there are several viable internal candidates, instead relying on what is sometimes called a "horse race" model where all candidates are in competition for the top job until the last minute (the process that led to Jeffrey Imelt's appointment as Jack Welch's successor at GE followed this model most famously). It also confirms the common-sense finding that companies are more likely to appoint an heir apparent when business is going well, illustrating the endogeneity problem above. Finally, the study concludes that performance after the succession event tends to be better for relay successions. Appointing internal successors that are not heirs led to performance that is no better than for outside hires.¹⁵

But once again, prior research is not completely consistent in its findings as another study comparing these three outcomes finds that outside hires leads to the most positive outcomes, internal candidates that are not heirs creates the most negative effects, and the reaction is essentially neutral to heirs unless they leave before being appointed, when the results turn strongly negative.¹⁶ The most recent study in this area supports the findings that outsiders are more likely to be hired when prior performance is poor with the new result that the insider/outsider successor distinction at the CEO level only seems to matter when performance has been poor. There, outsiders are more likely to turn performance around (Karaevli 2007).

¹⁴ [Internal vs. External Successions and Their Effect on Firm Performance](#). Lauterbach, Beni; Vu, Joseph; Weisberg, Jacob. Human Relations, Dec99, Vol. 52 Issue 12, p1485-1504,

¹⁵ Zhang, Y and N. Rajagopalan. 2004 When the known devil is better than an unknown god: An Empirical Study of the Antecedents and Consequences of Relay CEO Successions. Academy of Management Journal (47), 483-500.

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**WILL *SUCCESSION PLANNING* INCREASE SHAREHOLDER WEALTH?
EVIDENCE FROM INVESTOR REACTIONS TO RELAY CEO *SUCCESSIONS*.**

[Wei Shen, Cannella, Jr., Albert A.](#)

[Strategic Management Journal](#); Feb2003, Vol. 24 Issue 2, p191, 8p, 2 charts

Overall, the evidence suggests that the appointment of external successors leads to better performance than internal successors. There may be reasons to question that conclusion, specifically because of the endogeneity issue noted above. If it is the case that internal candidates tend to be appointed when business is good and external candidates appointed when there are problems, we might expect the reaction to an outside appointment to be more positive simply because it signals a change in direction. It is also fair to worry that different measures of performance might lead to other conclusions. It would be important to know, for example, whether other measures of performance beyond financial performance is better when outsiders are appointed as compared to insiders. These are difficult questions to answer empirically because controlling for all the factors that might influence performance other than the inside/outside nature of the successor is a huge challenge. Because it is often assumed in the human resources field that internal succession is preferred, though, it is important to highlight the fact that there is scant evidence support this view from the existing research.

Succession Planning Per Se:

Succession planning has become a confusing term because it often is used to mean different things: Sometimes it refers to the very general concern with leadership succession, sometimes it refers to the practice of promotion from within or to employee development. In fact, succession planning has quite a specific meaning that is distinct from the above concepts. It refers to an organizational practice or system of practices that anticipates and plans for meeting succession events, typically with internal candidates who have been developed to fill those roles. It is normative by design, assuming that the goal of creating these practices should be to generate the most value for the organization. Succession planning in that sense is close in spirit to the engineering or operations research paradigm, where the idea is that there is a goal that can be optimized. It is a tool or technique created by organizations, not a naturally occurring phenomenon of the kind that researchers are used to studying.

Virtually all succession plans have the following attributes:

- The first step is identification of the vacancies that are likely to occur and that will need a purposeful planning approach to being filled. Few organizations bother to plan for succession events in clerical and lower-level jobs because the cost of the planning process exceeds the likely benefit: Replacements are relatively easy to find on the open market, and the likely variations in performance between “good” candidates and “poor” candidates are small. In other words, the “job-person fit” challenges are relatively modest. Succession planning tends to be targeted at positions that cannot easily be filled on the outside market and require some firm-specific skills, i.e., knowledge, skills, and abilities that are best developed inside the organization where the succession event will occur. In other cases, the skills may be readily available in the market, but internal succession has other advantages that make it worth doing, such as the ability to screen candidates more

carefully than is possible with outside hires and the motivational advantages of offering promotion from within.

- A second step in the succession planning process is the attempt to forecast the turnover rate of the jobs that are within the plan: When and where will the vacancies occur? In other words, what is the demand that the succession plan will have to meet? In the era of lifetime employment, vacancies were easy to predict because employees did not quit and were rarely fired. So vacancies tended to come with retirements at mandatory retirement ages. The challenge increases considerably when turnover is no longer driven by retirements.
- The third step in succession planning has been the focus of attention in organizational development, to a lesser extent in I/O psychology, and that is the identification of the candidates who should be considered to fill these more advanced vacancies. This step in the process is very similar to employee selection in that it is attempting to assess which individuals will perform best in future jobs. An important distinction from employee selection, however, is that the candidate assessment in succession planning is aimed not necessarily at predicting success in a specific job but rather in a category of jobs, such as “senior management.”
- Fourth, after picking candidates, succession planning effectively merges with leadership development. If leadership development is an effort to help candidates learn the competencies required to handle executive and leadership positions, succession planning at this stage takes that general interest and focuses it down to the individual level: How do we develop specific candidates so that they can fill the specific vacancies that we anticipate in the future? The important challenge in this last step is to identify the training, experiences, and other interventions that will develop candidates for jobs in the succession hierarchy. This is the core area for organizational development. To the extent that these competencies are acquired through job experiences, some part of this stage also outlines the likely career path of candidates, deciding which jobs they should progress to in what order. This last task is now arguably one of the most challenging issues in the broad area of management.

Steps three and four above correspond to other reviews being commissioned by the SHRM Foundation. A major challenge in developing and improving succession planning has been that the competencies needed to develop effective succession solutions associated with each of the steps above come from quite different fields. The forecasting steps require modeling skills that are associated with operations research and economics; assessment draws on I/O psychology; leadership development is built largely on organizational development; and knowledge about career paths and advancement draws on vocational psychology, from the individual’s perspective, and organizational sociology, from the employer’s perspective. Yet these different competencies have rarely been brought together in the academic community, let alone in practice.

Research on Succession Planning: Because succession planning is a tool that is designed by the organization, as opposed to a naturally occurring phenomenon, there is little research interest in understanding it.¹⁷ There are a great many conceptual models put forward suggesting how to do succession planning in a better fashion, virtually all of which still conform to the basic format outlined above.¹⁸ But there is little empirical research examining succession planning. There are equally few descriptive studies of the succession process. Arguably the best-known of these (Vancil 1987) describes the leadership succession process at the executive level in large US companies and concludes that the most common approach in that period before the mid-1980s was the “relay” succession, the planned hand-off to a designated heir, what we think of as the outcome of the traditional succession planning approach.

There are two exceptions. A small set of papers attempts to understand why some organizations develop formal succession plans while others do not. The conclusion is that the firms that make greater use of succession planning are also those that have more complex organizational forms, possibly suggesting jobs that are more unique to the firm and that cannot be filled as easily by outside hires (Naveen 2006). A study of family and non-family firms, while not examining succession planning per se, considers how the leaders of these firms thought about the succession process. The results, again not surprising, find that the non-family leaders were more concerned about the explicit credentials and experience of potential successors than were the family leaders (Fiegener, Brown, Prince, and File (1996). For the most part, however, questions aimed at explaining the incidence and attributes of succession planning arrangements remain unexplored.

The other set of studies examines the performance effects associated with different approaches to succession. The early research on this topic showed that those firms that had formal succession arrangements performed better than did those without such arrangements (Friedman 1986; see Kesner and Sebor, 1994 for a review.) Studies of the effects of succession planning per se seem to have stopped after the mid-1990s (see below). Note that these studies are examining something quite different from the internal/external successor studies above. Those studies were asking, what is the reaction, the immediate change in performance, associated with appointing an internal vs. and external successor. The studies here are asking the cross-sectional question, how well are the companies that have succession planning performing as compared to those that do not have succession planning.

Because of the cross-sectional nature of these studies, it is essentially impossible to conclude anything from them about the causal question, how does succession planning affect firm performance because of the twin problems of endogeneity and omitted

¹⁷ To see why understanding specific succession plans is not an interesting question, consider what would be required to understand how a plan in company A works. The answer would be, read the succession planning manual and see. It might be interesting to see how the plan works in practice, how it might deviate from the written plan, of course, but that is a different topic more akin to examining organizational politics.

¹⁸ An Amazon.com search of books in print finds roughly 17 on business leadership succession, every one of which is a “how to” book offering advice as to performing each or all of the four steps above.

variables. To illustrate, firms that are already more successful are much more likely to have resources to put in place sophisticated succession plans, and firms that have such plans are also likely to have other sophisticated management practices that are at least contributing to better performance. Positive relationships between current performance and sophisticated succession plans could therefore be because the firms that have them are already successful (endogeneity) or because these plans are proxies for other practices that drive performance (omitted variables). No studies have been in a position to address either of these concerns. The few studies that do exist tend to find that firms with more sophisticated succession planning approaches have better financial performance, but knowing what to conclude from those results is not clear. It is surprising to see so much practitioner literature published on succession planning and at the same time so little empirical studies on the topic. Studies of succession planning stopped in the mid-1990s, coinciding with the decline in the use a succession planning (see below).

Trends in Succession Planning

The approach to succession planning outlined above, beginning with the forecasting of vacancies, followed by the assessment of candidates and plans to develop their skills, and ending with a plan to match individual candidates to particular jobs years into the future, began to fall apart after the recession of 1981. One reason is because business and talent forecasts in the 1970s (step #2 in the taxonomy above) proved incredibly wrong and undermined the entire process. Gross National Product, which had been forecast to grow at a rate of about 5% in real terms as it had during most of the 1960s, actually declined in 1974, 1975, and again in 1980. The 1970s became known as the decade of “stagflation,” low economic growth despite inflation.¹⁹ Talent pipelines turned out managers based on those inaccurate forecasts, leading to substantial surpluses of talent, which interacted with the worst recession since the Great Depression to produce a decade of layoffs. The priority shifted from producing talent to cutting talent.

Around the same time, uncertainty in the business environment increased dramatically with developments like deregulation and increased international competition, which increased the number and sophistication of competitors around the world. The idea of strategy as a planning function and strategic planning in particular was no longer relevant. Instead of planning, strategy is now much more of a reactive task, reacting to new circumstances and options that come from the environment: Jan Rivkin (2001) at the Harvard Business School notes that those companies still doing strategic planning do it as a calendar-driven exercise (“time to generate a plan”) that is more about negotiating a consensus of business proposals than articulating a true direction for the company. Real strategy, he argues, is an adaptive process that responds to options that present themselves from the evolving business environment.

Stanford Professor Kathleen Eisenhardt (1990) concluded that traditional and apparently sophisticated strategic planning departments were actually an impediment to responding quickly precisely because they relied on forecasts and plans that took a lot of time and

¹⁹ Data on Gross National Product over time is available from the Department of Commerce’s Bureau of Economic Analysis, <http://www.bea.gov/bea/dn/gdpchg.xls>.

energy to create and they were almost always wrong. The most adaptable and fastest-moving firms were those that did not attempt to do long-term forecasts and plans but instead relied on real-time data and then responded to the changes they were seeing. Within human resources, employers who had the most sophisticated and detailed plans for workforce reductions actually had the worst outcomes because the more detailed forecasts and plans turned out to be wrong in more significant ways than less detailed plans, creating greater annoyance among employees and management (Chadwick, Hunter, & Walston, 2004).

As the ability to do long-term business planning eroded, so did the need for, as well as the ability to do, long-term succession planning. The main reason is that it became extremely difficult to know which positions would still be part of the organization years into the future, let alone how those job requirements might change, when businesses were not even sure what their basic strategies would be.

The Fall-Out for Succession Planning: The changes outlined above had a profound impact on talent planning and talent management practices. An interesting study in 1984 surveyed large and mid-sized employers on their talent management practices and compared the results to a similar survey that had covered practices in the late 1970s, roughly six years before. There was a sharp decline in this short period in all sophisticated programs for forecasting talent needs. The percentage of employers who used statistical regression models to forecast talent needs declined from 30% to 9% in this roughly six-year period; sophisticated Markov Chain models fell from 22% to 6%; and operations research tools in general declined from use in 23% of employers to only 4.5%. The authors found a statistically significant decline in the percentage of companies that had succession planning practices in place in the two periods. The biggest problem they saw in doing succession planning effectively was a lack of precision in the company's business plans – inaccurate forecasts. But 66% of employers still had them in 1984 (Greer, Jackson, & Fiorito, 1989). By 2005, a similar survey found that only 26% of employers had succession planning programs. Only 14% of those with plans looked out longer than five years to anticipate future skill needs, and only 52% of those with succession plans had any structured processes in place to develop candidates. In other words, they had planning but without development, so even the programs that remained looked much like WWII replacement plans (Fegley, 2006).

Data on the extent of practices outside of the US is extremely limited, and it is therefore difficult to know whether the same downward trend in succession planning operates elsewhere. In Europe, the extent of succession planning remains greater than in the US: two-thirds of employers have them in Germany and Austria, although countries like Ireland, Denmark, and Portugal have levels similar to the U.S. There is some evidence that the use of succession planning increased in the 1990s in Sweden and Germany but not elsewhere (Mayrhofer, Meyer, Iellatchitch, & Schiffinger, 2004).

The explanation for the decline in succession planning in the U.S. comes with the decline in the ability to plan. Business forecasts are less and less reliable, so business plans get shorter and shorter as well as less reliable for any future period. Not being able to predict

business needs complicates succession planning, but there are even bigger challenges. The first is that, independent of overall forecasts of business plans, organizations restructure themselves frequently and on an unpredictable basis. When the organizational chart changes, executive positions change as well, creating uncertainty in vacancies. When organizations restructure, especially when executives are pushed out, it is a signal that the organization wants to move in a different direction with the next hire: “We don’t want someone like that last guy.” And most succession plans seem designed to produce candidates who look more or less exactly like that last guy. It is almost impossible to predict when the organization will want to look in a different direction for replacements, and the new direction, the new competencies they will want is almost impossible to predict in advance.

The final and most obvious constraint on succession planning is that the candidates for executive positions no longer stay put. They pick up and leave for opportunities elsewhere, and predicting their attrition rates is highly uncertain. Rates of employee turnover have jumped in the past two decades²⁰, and rates of tenure especially for executives have declined,²¹ an issue we consider further below.

In order for a succession plan to work, both the jobs and the candidates have to remain in place. The product of both probabilities determines the odds that the plan will work: If the probability is .5 that the jobs will remain unchanged over the course of the plan and the probability is .5 that the individuals will remain in place, then the probability of the plan working is only .25, or odds of one in four. To my knowledge, there is no study nor any data that attempts to measure the extent to which succession plans are actually followed, but anecdotal evidence of companies that take purport to take their plans seriously suggest that their recommendations are followed in about one in four cases.²²

Proponents of traditional succession plans may argue that while this is so, an incomplete plan is still better than no plan at all. But that is unlikely to be the case. The reason is that all plans come with costs. Those costs include the out-of-pocket costs in time and resources of developing the succession plan in the first place and other, more important costs, which are manifestations of the mismatch costs described above. The fact that business changes are likely to alter the requirements of these senior jobs means that there is a high likelihood that the appointed candidates may not fit the jobs when they do come open, a mismatch risk that increases the further out in time the succession plan extends. A recent McKinsey study of talent management quotes a human resource manager in Europe describing a wide-spread problem: “We do succession planning to an unbelievable degree. But once we do it, we don’t use it. Never have we reviewed a senior vacancy and looked at the succession plan. It’s almost done as just another tick in

²⁰ For a review of the literature on declining tenure, see Peter Cappelli, *Talent on Demand: Managing Talent in an Age of Uncertainty*. Boston: Harvard Business, 2008, Chapter 3.

²¹ See *The Path to the Top: Changes in the Attributes and Careers of Corporate Executives, 1980 to 2001*. Harvard Business Review, 83(1): 25-32, January 2005. For a review of other studies making similar points, see the NBER Working Paper Version, October 2004.

²² This represents my conclusion from informal conversations with large companies.

the HR box” (Guthridge, Komm, & Lawson, 2006).

The demand and supply that succession planning is supposed to reconcile years into the future is now highly uncertain. The basic challenge of succession remains as great as it ever has been. A 2003 Conference Board survey (Rudis, 2003) found that executive talent issues ranked among three of the top five concerns for CEOs. The McKinsey survey found a similar concern around the world.²³ But the ability to address those problems through long-term planning no longer seems to work.

Lessons from the Practitioner Literature: There are a great many publications aimed at practitioners that offer advice on how to do succession planning. It is impossible to review them all, of course, but a quick survey of the 17 books currently in print on the topic suggests that, at least in broad terms, they all cover the same ground: First, they outline the basic idea of internal succession that was first developed after WWII, i.e., the idea that it is important and possible to fill succession events with internal candidates; second, they focus disproportionately on Step #3 above, internal development and how to do it. In fact, most of the books could easily be described as being about how to develop talent inside organizations. They also tend to focus heavily on the older “Academy” companies like General Electric, who still maintain many of the succession planning practices that were developed in the 1950s. Consider, for example, a recent discussion of the succession practices for the top human resource executive.²⁴ The practices described are really just about internal development of talent. Giber, Sobol, and Harkins (2008) provides a wide range of contemporary examples of practices, albeit mainly around the traditional approach to succession planning of the kind outlined above. The report that makes the greatest use of research is Berke (2008). While all these reports are helpful in guiding practitioners to put in place traditional succession programs, especially if they have nothing currently in place, it is also fair to say that there is very little that one could describe as new in them.

Innovations in Succession Planning²⁵

It would be good to report on all the innovations that have occurred in succession planning since WWII. But in fact, the most important development, as the surveys above note, has been to abandon it altogether and rely instead on outside hiring. The Chartered Institute of Personnel and Development in London described this change in practice in the UK: “... with growing uncertainty, increasing speed of change in the business

²³ In the 2006 McKinsey Quarterly report (Guthridge, Komm, & Lawson, 2006), the responses were in the form of rankings of issues, so they do not imply that those who did not report concerns about talent management thought that it was fine.

²⁴ Scott Flander, Succession Success. Human Resource Executive Online. <http://www.hreonline.com/HRE/story.jsp?storyId=106206656>

²⁵ Unless otherwise referenced, the examples in the text come from interviews that are discussed in more detail in *Talent on Demand: Managing Talent in an Age of Uncertainty*, Peter Cappelli, 2008. Boston: Harvard Business Publishing.

environment, and flatter structures, succession planning of this [traditional] sort declined in the 1990s. How could one plan ahead, it was argued, for jobs that might not exist next year? One apparent result was that more and more people came to be appointed to top jobs from outside organisations” (Cannell, 2006).

Some companies have attempted to address uncertainty that has undermined the ability to do succession planning by shortening the planning cycle. Many employers now produce annual succession plans, for example. A plan that changes every year is not much of a plan, of course, as there is no time to respond to any new direction. As such, these plans are actually “replacement plans” from the 1950s, which simply assess the internal candidates and identify which one is most capable of filling a vacancy. If that is the goal, an option would be to do such replacement planning “just in time,” wait until there is an actual vacancy. Then we can be absolutely sure that the exercise will be used, and we can also be completely certain about what the job requirements will be. These plans take up resources, both time and energy, and when they do not play out, those resources are wasted. Just in time practices at least avoid those costs.

If employers are no longer planning for succession events or preparing internal candidates to fill them, what are they doing instead? It may be that some employers are making ad hoc, internal promotions and placements. But most appear to be reaching outside to fill the vacancies. The growth in the executive search business has been explosive, tripling in revenues world-wide just during the mid-1990s. A recent study found that a retained executive search firm was engaged to fill 54 percent of the vice-president and above vacancies in large corporations in the US. Nor is the outside hiring practice limited to the very top jobs. A recent study by Taleo of the companies who use its applicant software reports that more than two-thirds of all vacancies are now filled by outside hires, across all levels of jobs. In the 1950s and ‘60s, that figure was about 10 percent.²⁶

Some executive search consultants have developed tools for helping clients do what they previously did for themselves: Identify the needs of the position to be filled, access the quality of candidates – both internal and external – and make recommendations about the succession event. But the basic processes they use do not seem to differ from the earlier, corporate models.

Innovations in Predicting the Demand for Leaders: To find real innovations in practices, we need to step away from the overall “succession planning” label and look to see what companies are doing in each of the steps outlined above in the succession planning process, whether or not they incorporate those steps into a formal succession planning process.

If uncertainty in the underlying business environment and in the retention of talent has undermined traditional succession planning, then we might expect that any serious

²⁶ For a discussion of executive search and references on the extent of outside hiring, see Cappelli and Hamori, 2007.

improvements in the process would begin with basic forecasts of the demand for succession, Step # 2 in the taxonomy above. Arguably the most sophisticated forecasting now is being done by Capital One, the innovator in the credit card business. The innovation is that their approach is closer to simulation than to actual forecasting. The model at Capital One uses data mining techniques, systems dynamics models from manufacturing, and information from their PeopleSoft system to generate talent planning models for each business unit in the company. These models go beyond the usual focus on predicting the number of people required in each role. They also modeled outcomes like attrition rates, employee morale, and rates of promotion and outside hires.

The HR planning team then works with the business unit leaders to develop models around their particular business plans and goals to see the options involved in achieving any business plan: If you are planning to grow at 10% next year, here are the talent requirements needed to achieve that growth. If you do it by accentuating outside hiring, here's the likely effect on reducing prospects for internal promotion and the associated effects on morale and then on attrition. If you change the span of control, here is the effect on talent needs at the management level but also the effect on promotion rates. Most important for the Chief Financial Officer, the models also allow managers to see the total compensation implications of all their choices. The line managers see the talent management issues as a system and also see how their choices concerning any single outcome in that system affects the other aspects. This approach has raised the status of the human resources function by involving them much more directly in the business planning process.

Efforts to anticipate how the requirements of specific jobs might change in the future, as opposed to simply forecasting the mix of jobs, have been even more limited, although there have been some studies outside of individual firms that attempt to make those assessments (e.g., Gentry, Harris, Baker, & Leslie, 2008).

The approaches above address the demand for talent. Getting a more accurate grip on the supply of talent inside the organization is an equally difficult task. We might think of this task as helping to fill out the replacement plans in the organization, the most basic step in succession planning. This is a task where technology has also helped. Consider EDS, the information technology consulting and outsourcing firm. Like other professional services businesses, people are the product at EDS. Before 2004, EDS had no central planning for talent. The belief among executives before then (and in many other companies) was that the technology in information systems changed too quickly to bother attempting to forecast talent needs. The real challenge for EDS and companies like it is in understanding their own supply: What competencies do we have, and in what ways can they be deployed to meet which customer demands?

The real asset for EDS is its skills inventory, which keeps track of the competencies that each employee has as measured by their capabilities with different software and programming languages, previous tasks they have performed, roles they have held in the company, etc. To keep this up to date in a timely manner, the company requires that the individual employees update it after each assignment. The line managers use the skills

inventory to make assignments. The skills inventory also includes salary information, which affects billing rates and charges to the clients. Line managers can use that information to help make the most cost effective assignments. When there are gaps projected between the current supply of talent and projected demand, managers have the option of hiring to fill them, the usual approach, or rearranging some of their current employees in different ways, based on the skills inventory, or using contractors.

Innovations in Selecting Candidates: A separate paper has been commissioned on assessing leadership talent (Step #3 above), and there has been an explosion of growth in the vendor community that provides psychometric assessments of candidate potential. To what extent that growth represents simple outsourcing of tasks that had been performed internally versus a real expansion of interest and use of assessment is hard to say. But there seems to be little new conceptually in these techniques. Most still rely on assessment center tools and tests of ability and personality.

What does seem quite new is a movement toward a very different approach to identifying candidates for succession, one that avoids the assessment process altogether. That approach is self-nomination, both for development experiences and for advancement. Commonwealth Edison, the Chicago public utility, requires self-nomination as the first step in the process of becoming something like a high-potential candidate, necessary for promotion in the management ranks. Their process looks like a tenure review for professors in the academic world: A potential candidate submits a list of five peers and three superior managers to their supervisor who then selects one peer and one superior who, along with the supervisor, will complete a competency assessment for that candidate. If the assessment exceeds the target score, then their name is added to a succession pool. If not, they remain in their current circumstance. In either case, they receive feedback on their assessment, learning about their strengths and weaknesses (Metz, 1998). It empowers the employees, which reduces anxiety, and also cuts the likelihood that ambitious workers will get antsy waiting around for opportunities and leave for positions elsewhere. It can also be cheaper for the organization than a system where management has to track performance across the workforce and pick candidates.

Satish Pradhan, Executive Vice-President of the Tata group of companies in India, describes how they use a somewhat similar process. Candidates for development experience bid for openings in the Tata Administrative Services division that is known for establishing one's credentials for leadership. Part of their application requires that they demonstrate how the job they are bidding on will help them build their own competencies. Candidates who secure these positions are then slotted into leadership positions in the other Tata companies once they finish these developmental assignments.

Another innovation in assessing candidate potential comes from a similar development in assessing performance, and that is to use feedback from stakeholders outside the organization. That includes customers most prominently but also other stakeholders (Stumpf, 2007). Whether these measures tell us anything about potential beyond giving us a more rounded sense of job performance is an open question.

Innovations in Development Candidates: Employee development per se is beyond the scope of this review. Internal development of candidates, Step #3 above, is essential to any traditional model of succession planning, however, and there are some innovations in the process of assigning individuals to development experiences worth discussing. And these are unlikely to be identified in a traditional review of employee development.

The most interesting innovations are in the structures that facilitate work-based learning. The B.F. Goodrich company has developed an interesting innovation for matching candidates with developmental assignments. Its Manufacturing Leadership Program, the first step in the management career advancement process, covers half the salary costs for these candidates while the business units employing them pay the other half. To get candidates, the business units essentially bid for them by submitting an application describing the job, the tasks that will be performed, and the learning that candidates will secure from their experience. Because of the labor cost subsidies, these candidates are desirable for the operating units to have: There are roughly twice as many positions as there are candidates to fill them, so the program's managing committee can be choosy. The business units know that in order to get a candidate, their proposal has to truly deliver learning for the participant. And if it turns out to be a bad experience, their ability to get a candidate next time is damaged.

The biggest innovation in development paths play out the individual empowerment model through bidding and posting systems. At McKinsey & Co., all of the projects that make use of associates in the company are listed on a common, world-wide system along with descriptive information about each project – the industry, client, and type of work being done, the partner who will lead the project, etc. Associates rank their preferences among the projects, which are entered into the system along with information about each associate, including assessments of their prior performance. The partners running each project then get to see who wants to work with them, and they can rank those associates in terms of which ones they most want to take on for the project.

There are systems that simply match preferences of candidates and supervisors. What is different about the McKinsey model is that it finds a way to consider the preferences of employees and still focus on longer-term development while avoiding complicated market-like algorithms. They make use of a small group of professional development staff, often senior partners in the firm, who make matches by focusing on the goal of trying to match assignments to the development needs of the associates. While they factor in the preferences of the players, they are thinking mainly about the prior experiences of the associates and what they could learn from individual assignments when they assign matches. The system is complemented by elaborate arrangements for feedback (in written form after each assignment), more formal assessments twice a year that are based against a set of 13 skills, advice as to which skills they should develop, and what type of assignments would help them get them. Various e-learning modules provide just-in-time help developing those skills.

Microsoft has a different innovation, based around technology, that identifies a menu of options available to employees to close skill gaps between their current positions and

ones to which they aspire. It is up to the employee and their supervisor to agree on the choices from that menu to pursue.

The biggest challenge in employee development is to make it pay off, to be able to recoup investments in employees who now have much greater opportunities to shop those investments around for a higher paying job. Arguably the most important innovation in this regard, which began in earnest in the mid-1990s, is to use legal contracts to exchange education and other expensive development programs for continued service by employees. These arrangements are ubiquitous for programs like executive MBAs where employers both provide tuition assistance and also time off from work to attend at least some of the coursework. In return, the employees agree to stay with the employer for some period of time after they complete the program. Because indentured servitude is not legal, it is not strictly possible to require that the employees remain in service, so the “teeth” in the agreement is in the second part, which requires that employees pay back the employer’s investment in their education should they leave before the contract is up. The courts do enforce these agreements. At a minimum, they ensure that the employer does not lose money on the deal (see for example Kraus, 1993). About 20% of U.S. employers have such requirements, and the average required length of stay after completing training and education in order to avoid penalties is remarkably small - six months (International Foundation of Employee Benefit Plans, 1993).

Innovations in Succession Plan Design: The most important innovations in the process of planning for succession events has been the move from individual-level planning to “talent pools,” an approach that takes advantage of the risk reduction associated with portfolio techniques. Rather than trying to identify which individuals should fill which specific jobs, talent pooling looks at sets of jobs with reasonably common characteristics and sets of individuals who might fill those jobs. The portfolio idea comes from the fact that even if some individuals come and go and some jobs change, there should be enough candidates and jobs to make reasonable matches. The downside is that the matches tend to be less than perfect, requiring some “just in time” coaching and intensive development to help the more broadly trained candidates fit the specific jobs.

Another development has been to move somewhat away from the decentralization of talent management and succession planning in particular that happened after the 1980s. Separate operating divisions of large companies were empowered to establish their own succession and development programs, losing opportunities for scale, especially in that the choices of developmental assignments were constrained by the smaller size of the divisions. Johnson&Johnson, a famously decentralized company, has moved to a corporate-wide system for developing general management talent based on corporate-wide competencies and tied to work experiences. To the extent that the operating companies have development programs of their own, they have to copy the corporate program. Further, the company has developed a single, common database based on competencies to keep track of individual managerial talent. All of this makes it easier to move individuals around the corporation.

What We Know and Still Need to Know About Leadership Succession

The review above highlights the fact that we know very little about even the simplest question concerning leadership succession: what is it that employers are actually doing? At least one reason is that answering that question requires collecting data across many different employers. Virtually no efforts have been made to collect such data. Even consulting firms have avoided gathering information about succession practices. What we do know about current practices comes from simple yes-or-no questions (do you do succession planning?) or from trying to read into succession outcomes (e.g., was an internal candidate appointed?).

What is important to know? It would be very useful to learn what companies are actually doing in the area of succession. With such data, it could then be possible to examine the variations in practices in order to understand why companies are making different choices.

Given our lack of knowledge about developments in the area of succession, it could be even more useful to develop a series of case studies that would investigate in some detail the choices that individual companies have made in addressing leadership succession and why they have made them.

The one point about leadership succession about which we can be certain is that companies appear to have made a huge shift from formal succession planning and even the more basic unplanned (non-relay) internal appointments since the 1980s toward the hiring of outsiders. The answer to how are companies addressing leadership succession is simple. They are hiring outsiders on a just-in-time basis and using executive search consultants to do most of the work for them that was previously done internally. That includes establishing the requirements of the positions, identifying and assessing candidates, and negotiating the terms and conditions of the deal.

Exactly why that happened is an important question. Because it has never been asked systematically of the participants nor have there been attempts to answer it empirically by identifying the factors associated with the move, we can address it only obliquely. Surely part of the answer has to do with the failure of traditional succession planning. That failure may have many parts: The difficulty in forecasting the requirements especially of executive positions into the future is certainly at the top of the list of constraints. The decline of investments in developing internal candidates is another important factor,²⁷ and the two are clearly related: How can we develop candidates internally if we are not sure what they should look like? The most common explanation for the failure of succession plans is that important changes have taken place between the time the plan was created and when the vacancy occurred that render the plan obsolete. The most frequent development is a change in leaders, and with them, a change in the vision as to the competencies required in positions. In some cases, the new leaders think it is important to bring in an outsider not because of new competencies are required but simply as a signal of a change in direction or an effort to change organizational culture.

²⁷ For an extensive review of what we do know about internal development, see Cappelli, *op cit*, Chapter 3.

Whatever the cause, the failure to execute a succession plan is about as basic and unequivocally negative an outcome as one could imagine. The time and energy that went into the plan ends up being wasted, and potential candidates are severely disappointed in the process.

Surely the other part of the explanation lies in the much greater ability to find good candidates outside the firm, as compared to earlier generations. Search firms have developed considerable competencies at tracking promising candidates, and the stigma that had once been common about talking to search firms is completely gone. Indeed, virtually every set of advice on building one's career emphasizes the need to get to know and cultivate search consultants.

Another important area of inquiry, related to those above, concerns the use of executive search. It would be very important to know more about the experience of firms that use outside search extensively. Perhaps another series of case studies might be useful to inform our understanding of the choices firms make: Why do some use it extensively while others fill positions from within?

The second area where we need to know more concerns the outcomes of the different choices that employers make with respect to succession. To answer these questions, we need data across many organizations in order to assess the variation in practices against important measures of outcomes. A basic question that needs answering, for example, is what happens to companies when a greater percentage of their executive positions are filled by outside hires versus internal successors? What changes in each case?

The Real Challenge Going Forward: It might be easy to conclude a review by saying, there is no real problem in leadership succession. Companies have found a way to get just-in-time candidates that can meet their changing needs, especially at the executive level, and that is through outside hires. And the research seems to suggest that outside candidates actually perform better than internal candidates.

That conclusion is probably not fair, however, as it is conditional on the current state of internal candidates. The reason companies rely on outside search is at least in part because of the lack of internal candidates. The reason outside successors do better may not necessarily be because they are especially good, it could be because companies are just really bad at developing talent or choosing internal successors. Better internal processes might well lead to candidates that dominate outside search.

We know, for example, that the executive search process is far from perfect. Certainly it is expensive. Retained search fees total a third or more of annual compensation, not to mention the fact that the compensation for the job often has to rise to bring in an outsider, and then we include the time delays in filling the position and the organizational time and effort that goes into the selection process, the time and resources associated with bringing in an outsider, and the potential risks of making a mistake. A recent survey, for example, cites 93 percent of CEOs saying that they believe succession planning, presumably the internal process, is important to the future of their company (HR Magazine 2004). The

shift toward external candidates may be driven as much by the failure of traditional approaches to internal succession as by the attraction of outside hires.

The failure of traditional approaches to succession planning may explain the huge disconnect that currently exists between the HR community and the task of leadership succession. An astonishing 59 percent of 1200 executives surveyed report that human resources plays essentially no role in their company's leadership succession processes.²⁸ Arguably no task is more important to an organization than leadership succession, the surveys cited earlier report that top executives clearly see it that way and want help doing it better. Leadership succession was squarely the domain of the HR function before the 1980s, and now it is not. No doubt part of the explanation is the shift to outside search: The company leadership does not need HR competence in leadership succession if it is essentially outsourcing the process to search consultants.

At this point, what employers need to know shifts away from what we normally think of as research. At least in the traditions associated with science, the idea of research means describing and explaining the reality that we see around us. What employers need is less about understanding what is happening and more along the lines of new solutions to their challenge of addressing succession events. This is much closer to the engineering model than the science model: How can we design new solutions to the challenge of meeting succession events, subject to the new constraints that operate in contemporary business?

Here are some fundamental questions that require new conceptual thinking and possibly engineering-like solutions:

How do we think about when it makes sense for us to rely on external searches and when it makes sense to rely on internal succession? (Here the question is not about the individual vacancy but about the broader strategy.)

Does internal succession require employee development? How would the process of advancing internal candidates change if we can no longer make the substantial investments in employees that in the past were associated with succession planning, with grooming individual candidates for specific positions?

What are the long-term issues associated with the shift to external hires? Presumably part of the success of outside search has been based on the fact that companies were able to raid each other's candidates, who have been developed within the firm for advancement. What happens if companies give up on that process of internal development? Does the outside search model fade as well?

More fundamentally, the idea of internal succession is predicated on a series of assumptions that no longer seem to hold – that we can predict far in advance the requirements of positions, that we have an internal pipeline of talent that remains

²⁸ *Succession Planning Lags*, HR Magazine, Sep2004, Vol. 49, Issue 9.

reasonably intact over time (limited attrition), that we can make investments in developing individuals pay off. When these assumptions no longer hold, how do we think about designing an alternative to outside hiring?

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