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Time to Pay Attention to Management Succession

There is a strong correlation between well run leadership programmes and financial success

By RICHARD DONKIN

Succession planning for the role of chief executive is never easy. When Jack Welch led General Electric he kept his immediate subordinates guessing right up to the day of his departure, knowing that headhunters were forever circling his top team, looking for an opportunity to move for the unsuccessful candidates.

Anointing a successor too early would have deprived the company prematurely of some of its most formidable executives. At the same time it would have removed the stimulus of competition as a motivating force.

Misys, the banking and healthcare software services group, believes it can go one better than GE and keep each of its two leading contenders for the chief executive position when Kevin Lomax, the existing incumbent, splits his executive chairman role within the next three years.

This is why it created attractive share bonus schemes worth up to Pounds 1.2m each for Tom Skelton, head of healthcare, and Ivan Martin, head of banking. The remuneration committee believed that performance targets were tough enough and attractive enough to retain the services of both men beyond the changeover.

Opposition from shareholders, however, led to the withdrawal of the so-called "retention incentivisation plan". Misys argued that its plan was in the best interests of the company but investors complained that the payments would set a precedent.

The investors were right. Had the Misys plan been approved it could have led to a flurry of succession payments in other companies amounting to little more than the inflationary practice of throwing money at people in order to keep them.

Moreover, in creating something unusual that risked the disapproval of investors, the company drew media attention to its two contenders. If headhunters had not previously noticed the company's dilemma, they will have done now.

While the retention plan may not have been the cleverest scheme to emerge from a remuneration committee, it at least demonstrated that Misys was trying to think ahead. Companies that ensure their chief executives are involved intimately in succession planning are likely to outperform their competitors, according to new research carried out by Hewitt Associates, the human resources consultant.

Its Top 10 Companies For Leaders* list (see table) drawn from a survey of 101 large public and private companies in nine European countries found four consistent indicators of effective leadership development:*Active involvement of chief executives and their boards in leadership development programmes, including selection, recruitment and performance reviews.*Differentiated development of those earmarked as "high potentials".

*Consistent delivery of programmes.*Formal accountability - supported by metrics - of the development teams responsible for leadership programmes.

In short, the study found a strong correlation between long-term financial success and well-executed leadership programmes.

"The best companies take great pains to track their best people. They know who they are and treat them as the lifeblood of the organisation," says Mark Hoyal, head of Hewitt's European leadership consulting practice.

"They tend to have well thought-out plans that are tailored to their own businesses," he adds.

He also says that the leading companies in the survey regularly review their identified talent pools, moving people in and out of them at intervals depending on individual progress.

The Hewitt survey was last carried out in 2003 and not every company that participated then is included in the latest research. Three companies, however, have maintained consistently impressive business performance over time in line with their leadership scores. They are L'Oreal, BMW and Vodafone.

My only concern with such research is the way that it concentrates on good companies and the work they do to make themselves effective. You would think that so much of this material is in circulation by now that the vast majority of businesses would be following suit.

But another piece of research conducted jointly by the London School of Economics' Centre for Economic Performance and McKinsey, looking at 730 manufacturing companies in France, Germany, the UK and the US, shows just how broadly management practices vary.**

The researchers interviewed managers selected for their knowledge of shop floor practices. The managers were not informed of the exact nature of the study. This led to some interesting informal observations such as the manager who said: "If you work here you drew the short straw."

The study looked at various management practices - lean manufacturing, performance monitoring, target setting and the use of incentives - that earlier work by McKinsey had identified as significant differentiators in productivity levels. As might be expected US companies fared best, followed by those in Germany and France with the UK bringing up the rear.

Older companies tended to have some of the lowest scores, particularly in industries where there is little competition. High levels of labour market regulation also appeared to be detrimental to the quality of management although not enough to place Germany and France behind the UK, in spite of its comparatively lighter regulatory regime.

These findings, like those of a recent Work Foundation study which compared corporate performances, are doing much to identify the management features that can be measured in order to rank companies. But participating companies are still afforded anonymity in return for their co-operation.

Secondary schools in the UK do not remain anonymous in performance rankings. And if differences in management practices can, as the CEP study suggested, account for a 10 to 20 per cent variation in productivity, it is time that companies were subjected to the same levels of public scrutiny.