10 Years On

Succession Management, Organisational Survival and Success

Ten Years On: the impact of succession management

In the late 1990s we began a series of research programmes to explore the dynamics between business performance and succession management. 130 organisations have now participated in these different surveys.

This analysis focuses on a sub set of 60 organisations who undertook an in-depth evaluation of strategic capability and succession outcomes and practices in 1998.

A decade on, we asked: what was the fate of these organisations?

- which organisations fell by the wayside and are no longer part of the business landscape?
- who struggled and who succeeded within their market-place to thrive?
- what role did succession management activity play in shaping business success and decline?
- which specific succession management practices and processes emerged as important factors? Which didn't?

Key Findings

It was a tough decade. Only 60% of the original group survived and only a quarter managed to improve their competitive position over this period. What made the difference?

Business performance back in 1998 helped, but it didn't guarantee success ten years later. Some firms with a strong set of business cards lost. And others with a poor strategic hand managed to improve their competitive position by 2008. And luck of course played its part.

Organisations who had invested in proactive talent and succession management reaped the benefits. Specifically organisations who made more senior executive appointments from within, established flexibility within the executive population to take on new challenges, and managed retention to minimise executive turnover, were more likely to survive and succeed.

Proactive succession management back in 1998 didn't guarantee organisational success ten years later. But it improved the odds. Organisations lacking effective succession management were five times more likely to disappear than those that had established robust practices. And high-impact succession organisations were three times more likely to succeed than those organisations reporting limited practice in 1998.

Key Findings

Much of the effort in developing the “text book succession infrastructure” - the identification of potential, general management training and development, succession reviews, use of information technology - didn’t make much of an impact.

The existence of a “good process” wasn’t necessarily an indicator of future outcomes.

And ambitious attempts to build general management capability across the executive population didn’t make a difference.

What did work:

- personal time and commitment from the top team in succession activity
- a targeted management development strategy to focus effort selectively on key individuals
- building high levels of specialist know-how
- the use of job moves and coaching to accelerate development (rather than training or business education)

The data set

The data set of organisations within this analysis represented a broad spectrum of firms, from different sectors at different points in the business trajectory. It included:

- long-established companies like Scottish & Newcastle and Baring Asset Management who could trace their origins back to the 18th century, and also relative newcomers such as Marlborough Stirling and Ventura, founded in the last 20 - 30 years

- large organisations like the Post Office and AstraZeneca employing more than 50,000 employees to smaller firms like Westbury Homes and Royal Liver Assurance

- organisations operating within larger corporate structures such as Mortgage Express inside Bradford & Bingley, and Experian then within GUS and major global enterprises (e.g. Vodafone, Smiths Industries)

- government agencies like the Inland Revenue and DVLA as well as those that were subsequently absorbed within other departments, e.g. the Child Support Agency within the DWP or sold to the private sector, e.g. the Defence Research Evaluation Agency, part of which now operates as Qinetiq

Ten years on: evaluating organisational outcomes

How have these organisations fared since 1998?

Comparisons utilising conventional financial metrics across such a diverse set of organisations are probably meaningless. We therefore focused on two themes:

Survival

"Staying the distance" is no guarantee of shareholder return. But in a ruthless decade which saw private equity firms keen to buy and sell on firms that showed any signs of trouble, the capacity to "keep going" represents one perspective on organisational effectiveness. "Survival" as a metric also has the benefit of clarity.

Organisations were categorised as:

- **disappearing:** firms whose business activity was absorbed within another enterprise (acquisition by a larger rival, private equity break up, or management buy out and restructuring)
- **"in name" surviving:** businesses that have retained their "brand" but are now part of another corporate structure
- **surviving:** organisations who have maintained their original 1998 corporate ownership and structure

Market place Success

"Success is relative". Who emerged in the last decade as "relative winners", gaining market position relative to their competitors? And who after 10 years lost out?

Three independent raters reviewed the organisational listing in 2008, "blind" to the original data, to categorise each business as:

- **struggling:** organisations who ended up in significantly worse shape after the ten year period
- **sustaining**: those organisations who performed effectively but with little shift in their market position
- **succeeding:** organisations who emerged at the end of the ten year period in an enhanced position relative to their competitive peers (or in the case of the public sector firms, with an improved stakeholder reputation)

A decade of ruthless change

Of the organisations we profiled:

- **around 10% had disappeared** over the last decade. For some the organisation was sold off (e.g. Marconi Naval Systems to BAE). For others, (Safeway, Scottish & Newcastle and Marlborough Stirling) acquisition ended their business careers.

- **another 30% survived "in name" only** but with a very different ownership profile. Synstar was acquired by HP, Welcome Break eventually by Appia, and BOC merged with Linde. And some, like Southern Water, experienced more than one change in ownership.

- **60% survived as distinctive corporate entities**, identifiable from their 1998 status.

Under achievement was punished. 40% of organisations failed to make it through the decade in their original ownership pattern. And it was difficult to succeed. Only a quarter of organisations came out of the last decade in significantly better shape.

For all organisations the last ten years was a roller coaster ride. Vodafone in 2002 made the biggest corporate loss in UK business history but in 2008 was the world's largest player in its sector with a market capitalisation of £100 billion. Standard Life, with its cherished Moodys Triple A rating stood strong in 1998, faced difficulties in 2003, but recovered by 2008.

Some found the going difficult over the last decade. In retailing, Littlewoods Home Shopping and Dixons experienced problems. And in the public sector, the Prison Service and Inland Revenue (now HMRC) faced criticism about their operational performance.

Strugglers accounted for 30% of the data set.

Sustainers, those organisations who survived to deliver reasonable performance, represented another 45%.

For the final group - the **successful** - the last ten years saw consistent progress to keep ahead of the competitive game. AstraZeneca maintained its successful momentum. And McCormick, with a business history going back to 1889, through a series of acquisitions, continued to excel. The successful represented 25% of the group.

Strategic capability in 1998 and organisational outcomes in 2008

- to what extent did strategic capability in 1998 predict organisational outcomes in 2008?
  - did those organisations who reported themselves in good business shape ten years ago survive and succeed?
  - and how did those with relatively worse strategic capability fare?
- which strategic capabilities made most and least difference in shaping survival and success?

What was the strategic profile of UK PLC in 1998?

The survey profiled organisations' strategic performance in 1998. Drawing on 64 questions from our Business Challenges framework we analysed organisations against eight themes. This provided a comprehensive evaluation of the range of strategic battlegrounds on which organisations have to compete.

ARCHITECT - redefining the organisation infrastructure to create new operating methods and practices; exploiting technological capability to create new organisational structures, systems and operating styles; conducting a re-appraisal of the organisational infrastructure in the context of improved technological capability

TROUBLE-SHOOTER - identifying and removing unproductive and inefficient business function; tackling those business activities which are no longer contributing to corporate performance; divesting unprofitable activities which are failing to support corporate priorities and objectives

REGULATOR - focusing attention on the efficiency and consistency of all internal processes; monitoring work flow for opportunities to standardise organisational activity; applying financial discipline and administrative control over organisational activity to gain improved levels of efficiency

INTEGRATOR - raising the overall skill level of the work-force through focusing resources on training, development, recognition and reward; raising levels of staff capability and motivation to improve organisational loyalty and pride; breaking down functional differences and resolving complex views to unite the efforts of different groups

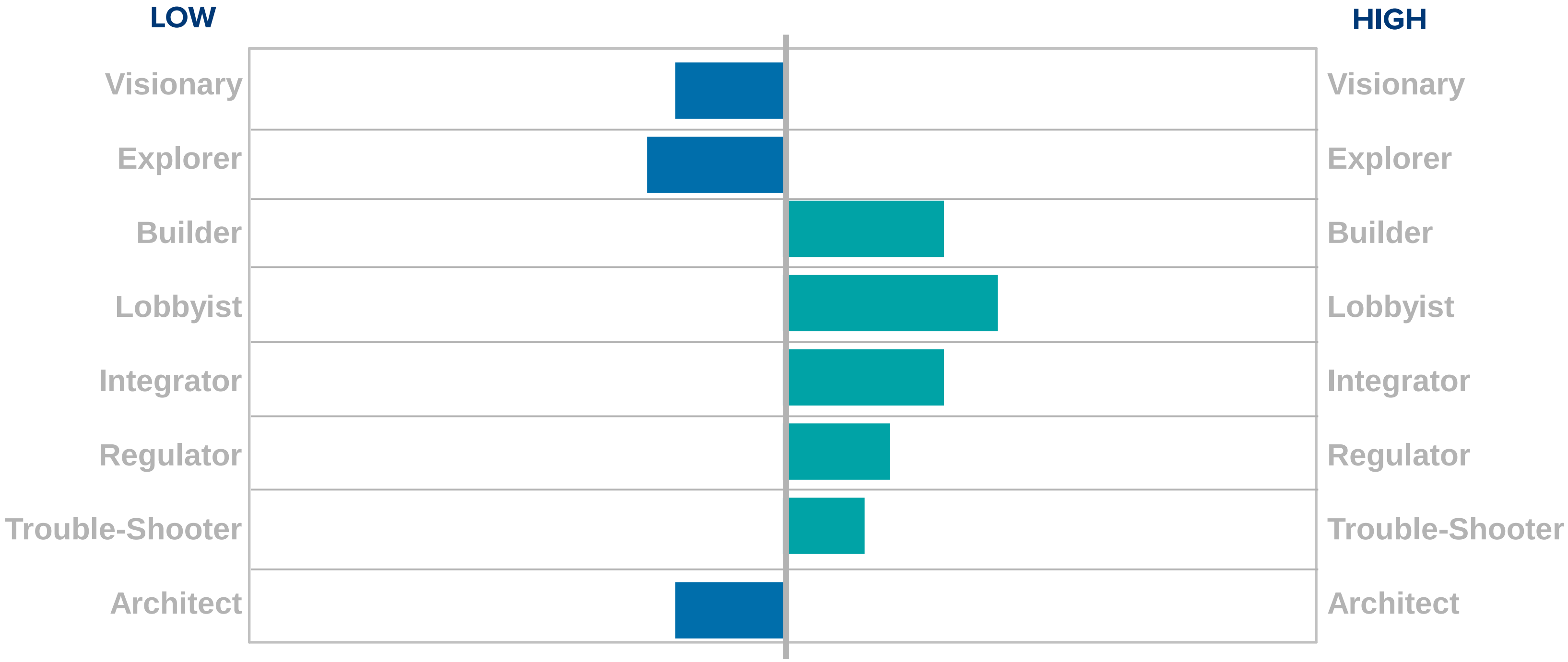
VISIONARY - planning next generation products and services to formulate an innovative business strategy; developing new business concepts which redefine the rules of business success; addressing the impact of emerging trends and developments in the market-place for the organisation's long-term strategic position

EXPLORER - investigating opportunities to break into new markets in pursuit of a diversification strategy; developing relationships with other key players in the industry to explore scope for alliances and joint ventures; identifying opportunities for the future growth and expansion of the business

BUILDER - translating business strategy into sales and marketing priorities; reviewing the customer service delivery process for areas of improvement; exploiting the organisation's customer-base through attention to sales and marketing activity

LOBBYIST - representing the organisation's interests across the wider business community to improve corporate image; planning a programme of corporate communication which gains greater influence and freedom of manoeuvre for the organisation; building relationships with key players throughout the industry to improve the company's standing in the market-place

The strategic profile of UK PLC in 1998



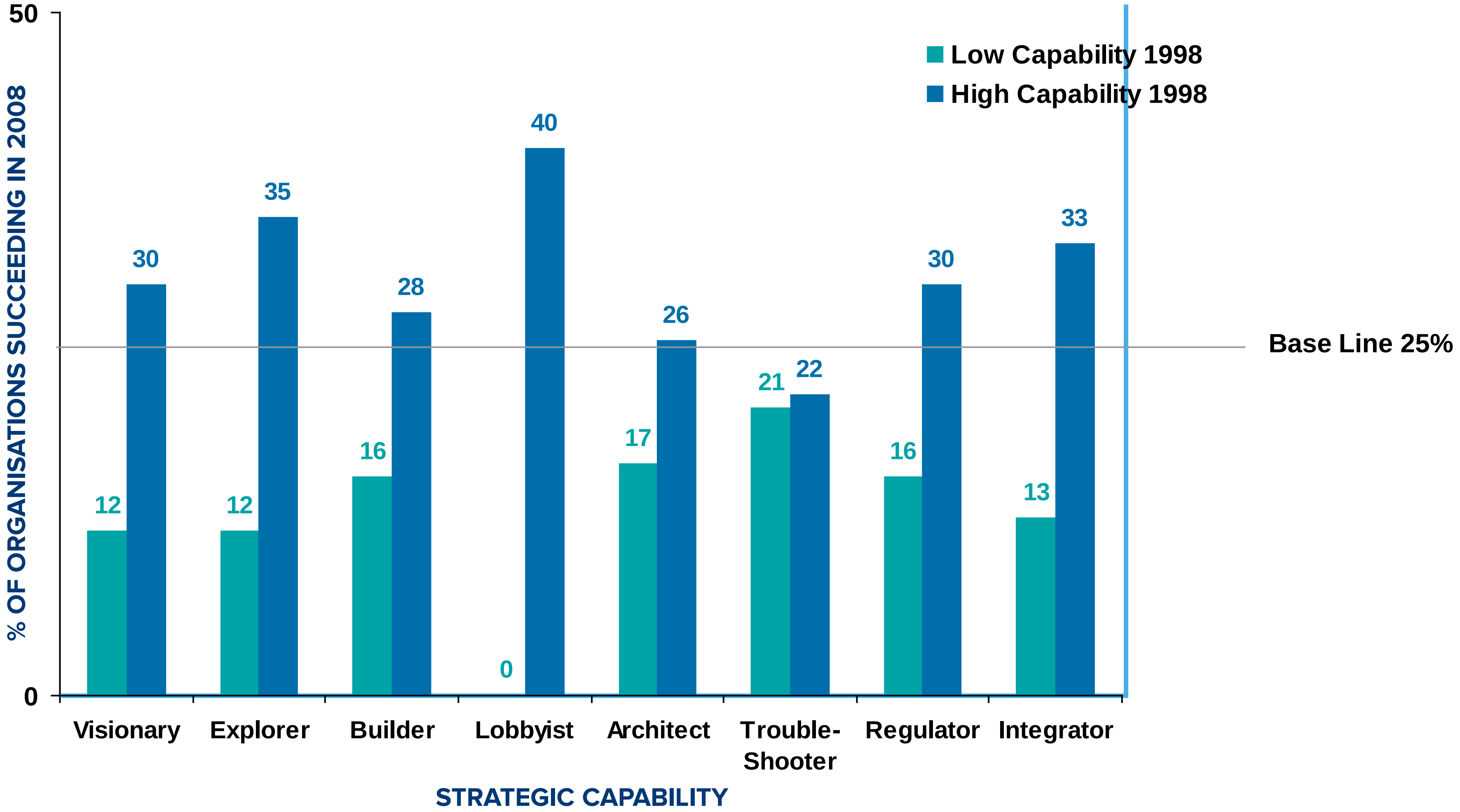
The overall pattern is one in which organisations saw their strengths primarily in market place consolidation: raising levels of customer service and using their influence to protect market share And in maximising the effectiveness of the internal operation to gain incremental improvements in efficiency through financial management, administrative consistency and work-force capability.

Organisations were less positive about their entrepreneurial activity, in transforming imaginative business concepts into a programme for growth and expansion, as well as in conducting major scale organisational change.

A profile of organisations in 1998 better placed to improve current business operations and consolidate existing strategy than originate breakthrough ideas or push dynamically into new markets.

Strategic capability in 1998 and organisational outcomes in 2008

How did strategic capability shape the chances of success in 2008? Against the base rate of 25% success, we contrasted the fortunes of low and high performers in 1998 against each of the eight business challenges.



Strategic capability in 1998 and organisational outcomes in 2008

High **Visionary** organisations in 1998 fared reasonably well over the ten year period. Two thirds went on to survive and a third succeeded. Around two fifths of the low Visionary firms struggled and only a tenth succeeded.

Only 4% of the high **Explorer** firms had disappeared by 1998 in comparison with 17% of the low Explorers. 35% of high Explorers went on to succeed 10 years later in contrast to only 12% of the low Explorer organisations.

The **Builder** capability was not a significant determinant of survival, but it did seem to contribute to success. A third of the low Builder organisations were struggling in 2008 (only 16% succeeded) in comparison with the high Builders, where 28% succeeded.

High **Lobbyist** organisations in 1998 had a good chance of survival and success. 40% of the organisations reporting high Lobbyist capability went on to succeed. For low Lobbyist firms, none were successful by 2008 and 46% were in the struggling category.

High **Integrator** organisations were less likely to disappear than low Integrator organisations and a third of high Integrator firms were succeeding in 2008 compared to only 13% of low Integrator organisations.

The **Regulator** capability did not appreciably impact on survival but it did shape success. 30% of high Regulator organisations went on to succeed in contrast to only 16% of the low Regulator firms.

Trouble Shooting capability in 1998 did not translate into future survival or success outcomes. Perhaps high Trouble-Shooting capability was indicative of fundamental problems rather than organisational resilience.

The **Architect** capability as reported in 1998 did not significantly predict outcomes in survival and success.

Past strategic capability and future organisational outcomes

In summary, survival and success - even over the relatively short term scale of 10 years - is a tough challenge for organisations.

A good set of business cards in 1998 helped but didn't guarantee a winning hand by 2008. Some organisations didn't play their cards well and fell by the wayside by 2008. And some were "unlucky". Others managed to improve their business fortunes. Overall, however, strategic capability improved the chances of survival and success.

The cards that seemed to matter most and least:

It was capability in the themes of **Lobbyist**, **Explorer** and **Visionary** that seemed to optimise the odds. Organisations which had developed a forward looking outlook with an imaginative growth plan and had established networks of influence to create strategic space (with regulators, political decision makers, the media) fared relatively better. Those that hadn't were more likely to have a hand that would go on to lose.

Regulator and **Integrator** - those organisational themes about effectiveness through systems and people - also helped the chances of survival and success.

Only 11% of organisations lower in overall strategic capability in 1998 went on to succeed. A third struggled. For firms higher in strategic capability, 31% went on to succeed.

Succession outcomes: organisational outcomes

- which succession outcomes as identified in 1998 contributed to survival and success?
- what impact did management capability have in shaping organisational futures?

Succession outcomes and processes in 1998

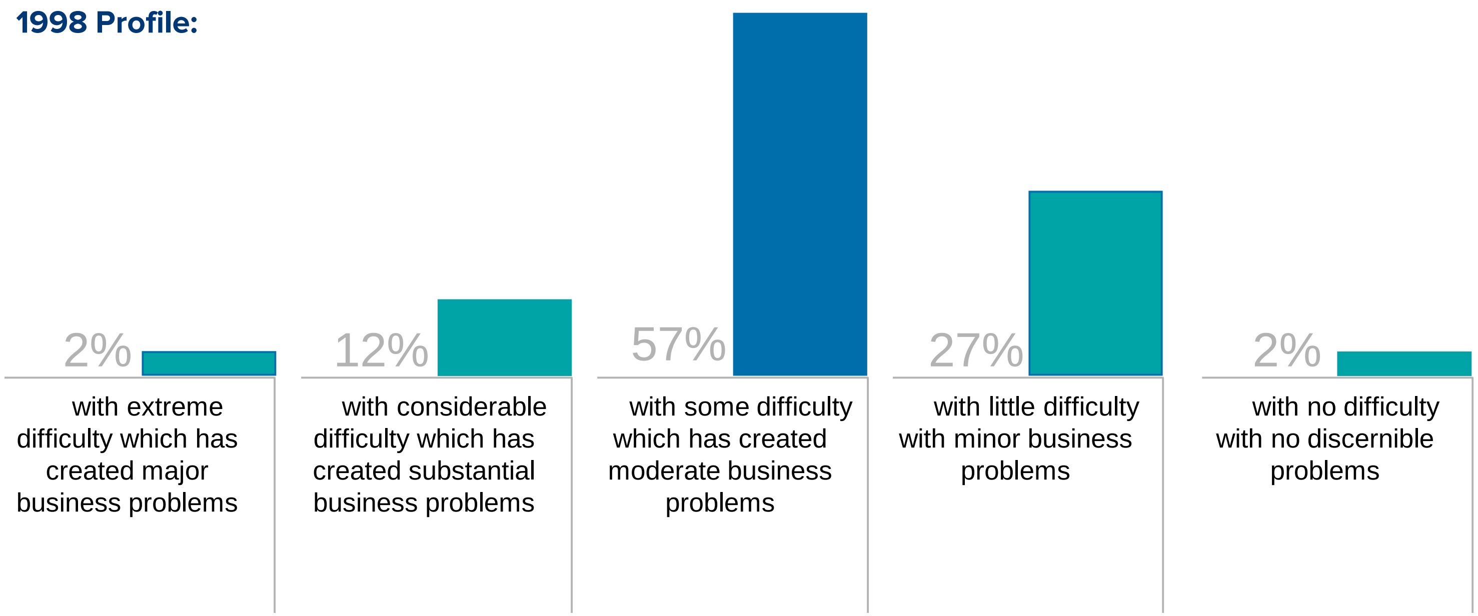
The survey also looked at a spectrum of succession outcomes and processes. **Outcomes** reflect previous effort in building succession resilience and included:

- the origin of the senior executive population (the balance of insider/outsiders)
- ease or difficulty of resourcing executive positions
- coverage for critical roles
- management capability
- retention and turnover

Succession **processes** provided a snap shot of "work in progress", those organisational practices designed to build future succession strength and included:

- integration of succession activity within the business planning process
- early identification of potential through objective assessment
- the role of the top team
- use of succession reviews
- the application of information technology in supporting information flows
- proactive management development, and the use of job moves, projects, training, coaching and business education

Senior executive resourcing: fast forward to 2008

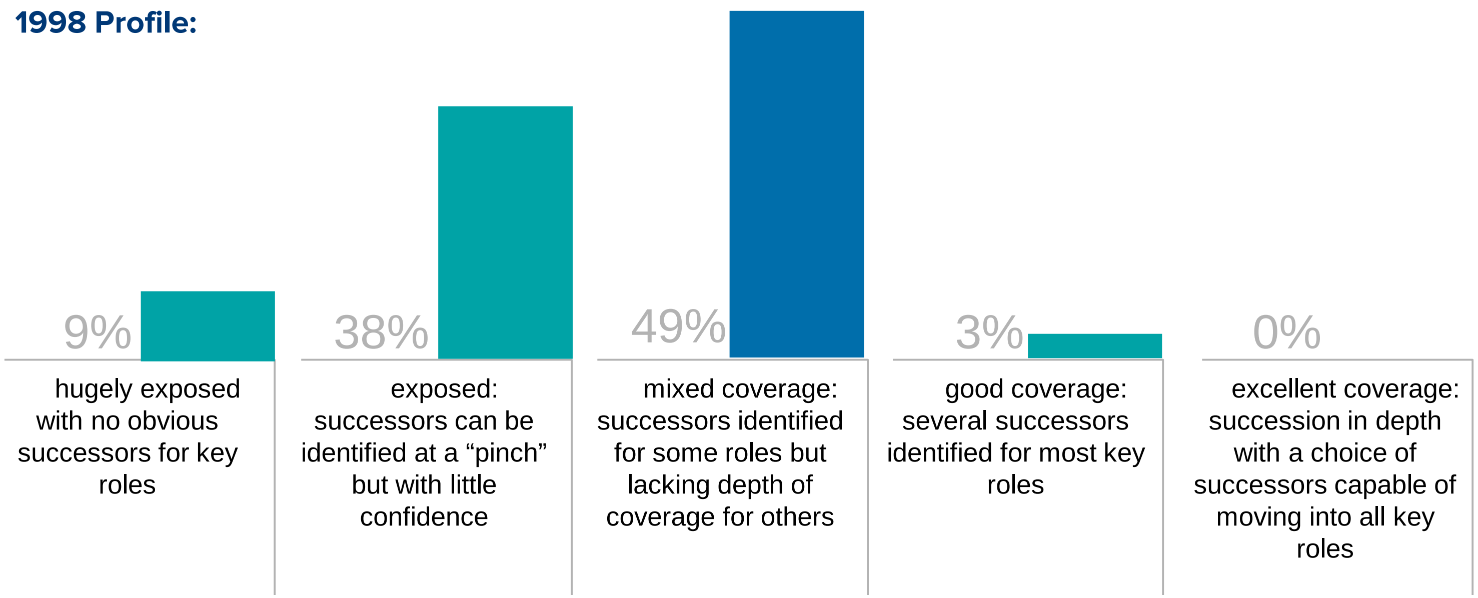


In 1998, most organisations were experiencing some difficulty in making senior executive appointments, but for a third of the dataset, executive resourcing was providing few problems.

Ease or difficulty in making senior level appointments wasn't a factor in determining future survival rates by 2008. But resourcing difficulties reported in 1998 did influence success. 32% of firms with difficulties ten years ago went on to struggle in comparison with only 15% for firms reporting little difficulty. And organisations who appointed primarily from within were more likely to survive than those who appointed mainly from outside.

Organisations no doubt need the kind of fresh thinking and ideas that external resourcing can provide. But on balance the dynamic of organisational survival and success seems to be maintained through an emphasis on leadership progression from within.

Coverage for critical roles: fast forward to 2008



In 1998, few organisations felt positive about succession coverage for key roles, with the majority reporting significant exposure.

And coverage for critical roles had an impact on organisational outcomes. Organisations reporting greater exposure for key roles in 1998 were more likely to disappear than organisations with better coverage.

Succession management is about protecting the present as well as building for the future. Some roles are pivotal in moving the organisation forward and the failure to pinpoint those roles and anticipate risks is damaging for the organisation.

Management capability: fast forward to 2008

How did perceptions of management capability in 1998 impact on organisational outcomes in 2008?

Here we looked at a number of different aspects of management capability within the senior executive population:

- **specialist expertise: level and application of technical knowledge and skill**
- **leadership effectiveness: broad based general management and leadership skills**
- **breadth and depth: the extent of excellence throughout the entire population**
- **strategic flexibility: management capacity to face new and different business situations**
- **business focus: the strengths of the executive population against each of the eight Business Challenges**
- **turnover: the loss of executives**

Management capability: fast forward to 2008

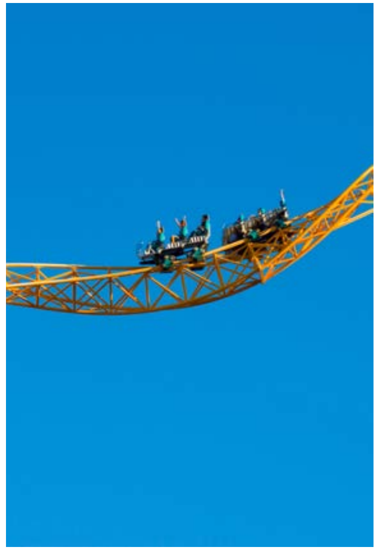
Specialist expertise proved an important driver of organisational outcomes. Organisations with lower specialist expertise were more likely to disappear and less likely to survive than those with higher expertise. 32% of the low specialist expertise firms struggled and only 11% succeeded, whereas, 29% of the high specialist expertise firms went on to succeed.

The evaluation of **general management and leadership effectiveness** in 1998 had relatively little impact on organisational outcomes.

For organisations reporting lower **breadth and depth** of executive talent, 24% had disappeared, in contrast to only 6% for those with higher breadth and depth.

Strategic flexibility was a significant dynamic. Organisations with lower strategic flexibility were more likely to disappear in comparison with those higher in strategic flexibility.

Turnover emerged as a key predictor of organisational decline. For high turnover organisations, one fifth had disappeared in contrast to only 4% of low turnover firms. And 43% of high turnover firms went on to struggle against only 7% of the low turnover organisations.



Knowing the specific technical and professional skill sets critical to the future of the organisation and retaining key people in these critical roles has significantly more impact on organisational survival and success than any attempt to build general management effectiveness.

Management capability and the “strategic mind set

Broad based general management and leadership effectiveness didn’t emerge as an important driver of organisational outcomes. Which specific strategic leadership outlooks and skill sets did?

Here a fascinating pattern emerged:

Organisations reporting lower levels of **Visionary** and **Explorer** management capability in 1998 were more likely to disappear than survive. But higher levels of management capability in these two themes didn’t predict future success.

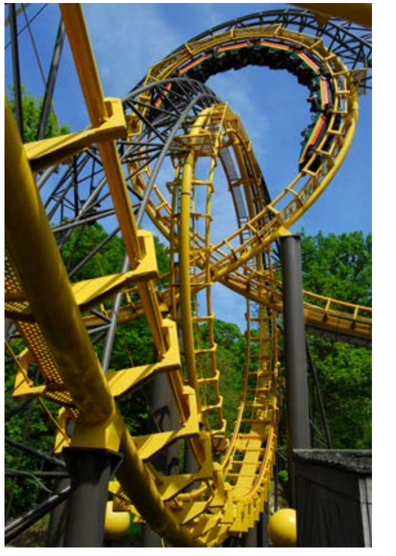
Higher levels of management capability in 1998 in the themes of **Trouble Shooter** and **Integrator** didn’t determine the odds of survival, but they doubled the chances of succeeding.

Business leadership and its impact on organisational outcomes is a complex dynamic. The type of leadership that ensures survival may be different to the leadership that drives success. As the military cliché says, *“what takes the hill won’t keep the hill.”*

For this grouping of organisations, the picture seems to be one in which imaginative and entrepreneurial leadership secured survival to keep “in the game”. But another leadership approach maintained momentum to achieve success, one which developed people capability and ensured that the organisation focused on its fundamentals.

No doubt organisations need to cover their bases across all eight business leadership themes. But succession management processes need to ensure an alignment between the organisation's point in the “life cycle”, its strategic focus and the decisions it makes about current and emerging leadership.

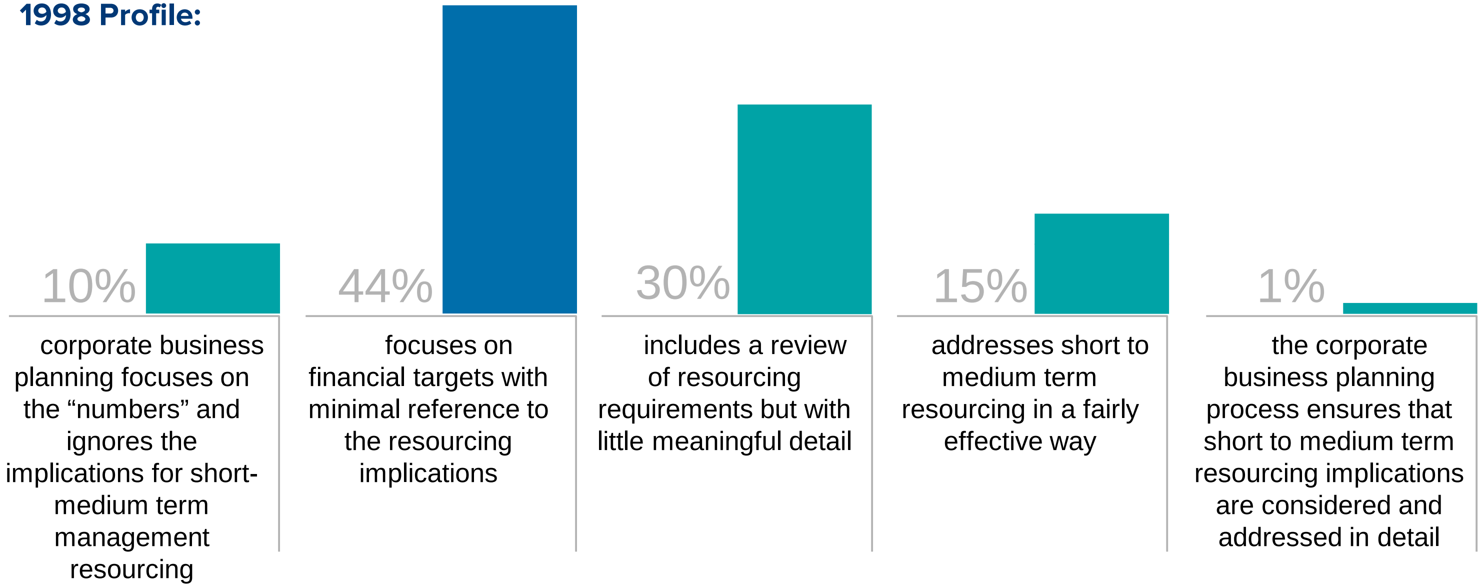
Succession processes: organisational outcomes



- which succession processes as identified in 1998 contributed to survival and success in 2008?

The business planning process

1998 Profile:

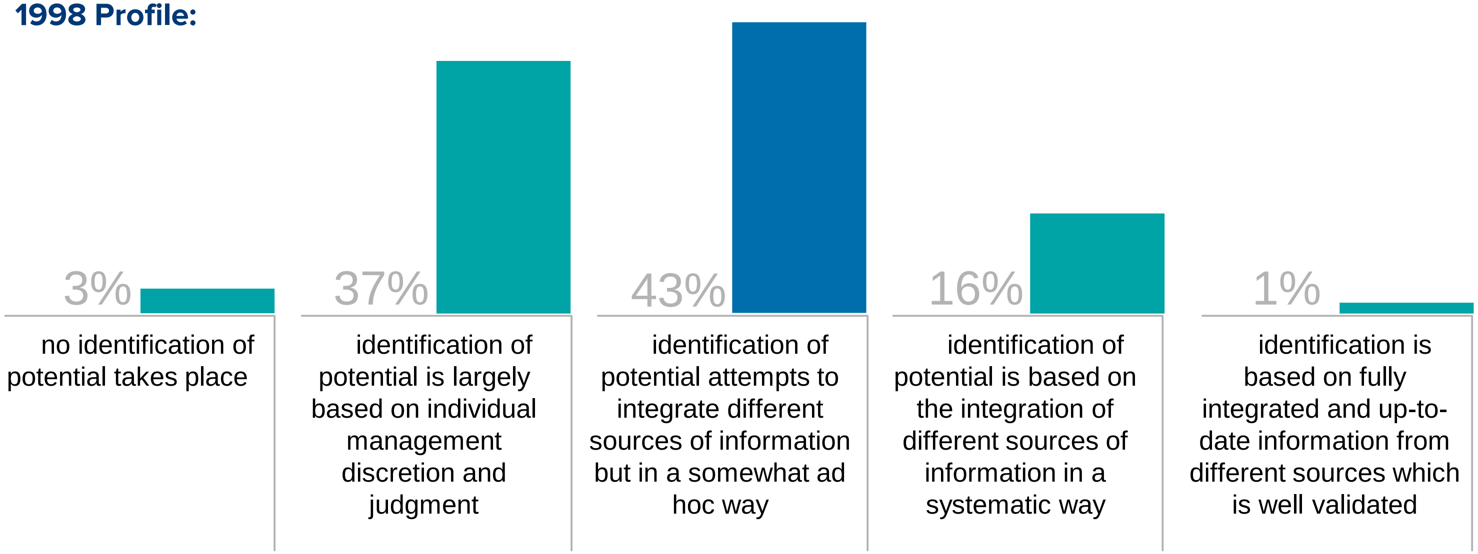


In 1998, succession practice was not well embedded within business planning. And for those organisations reporting minimal integration in 1998, they were less likely to survive and succeed.

Succession and its positioning within overall strategic development activity remains a challenge for organisations. What is clear is that succession as a “tick box” exercise within corporate planning will do little to shape the organisational future.

Identification of potential

1998 Profile:

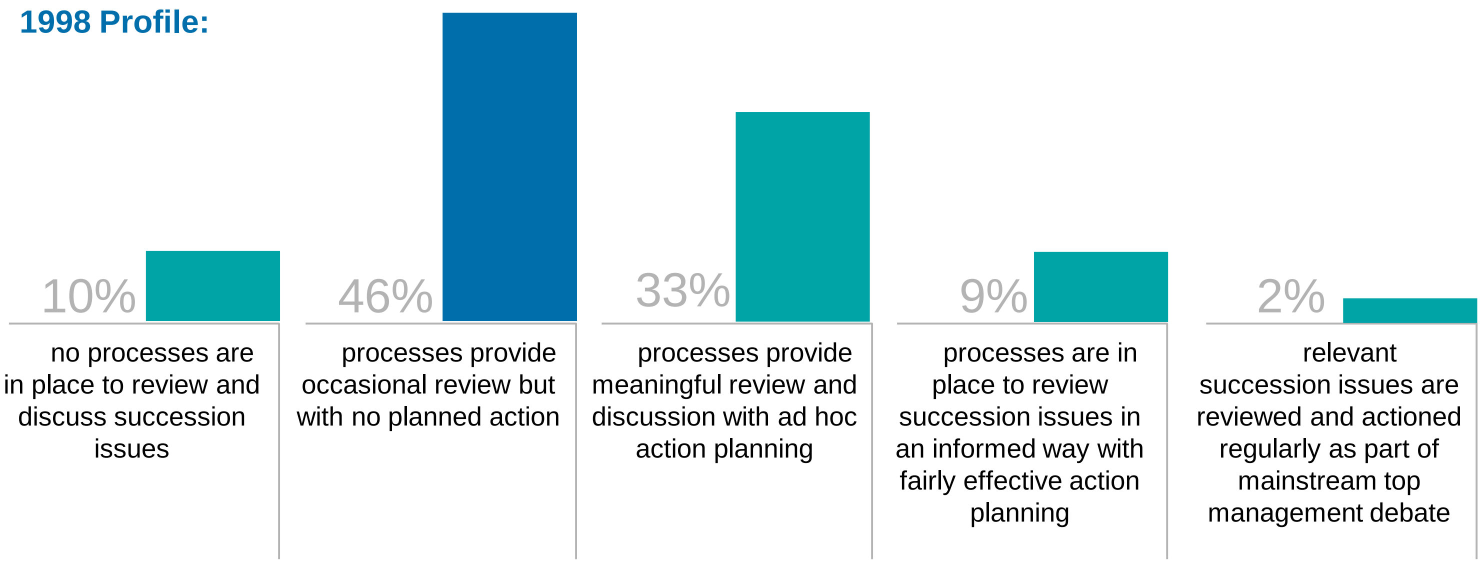


In 1998, most organisations were attempting some kind of evaluation of potential, but there were signs that despite the growing popularity of objective assessment methodology, the outputs aren't being connected to mainstream decision making.

And by 2008 this seems to be an aspect of succession management that made relatively little impact on organisational outcomes.

In our review of organisational practice, it seems that powerful assessment data is often captured, only to reside in folders and filing cabinets and unconnected to mainstream resourcing decisions. The challenge for organisations is finding ways to integrate this information and ensure it is fully deployed in the review of current and emerging leadership.

Succession reviews

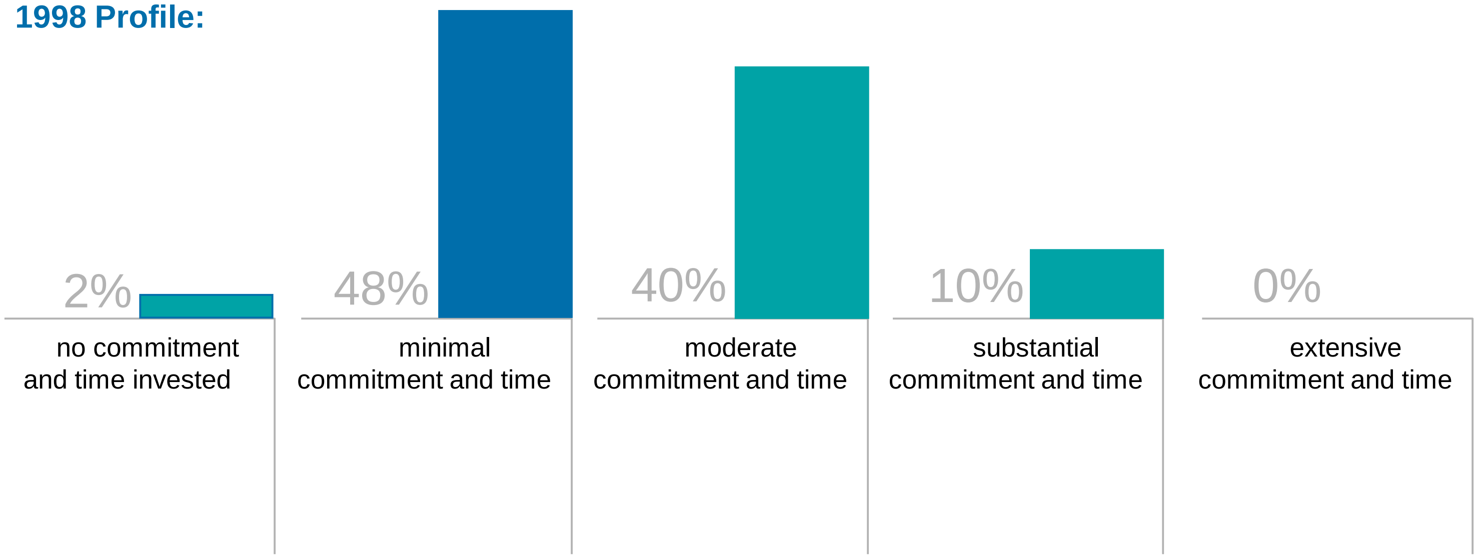


In 1998, succession reviews were not a well established force for action planning. Indeed, for the most part, they seemed to operate as a "talking shop" rather than an important decision making forum.

In 2008, succession reviews seemed to make a modest difference on organisational outcomes. Although lower activity was associated with a lower likelihood of success, higher activity reported in 1998 didn't appreciably improve survival or success rates.

The existence of a forum for the review of succession issues didn't emerge as a driver of organisational survival or success. The challenge for organisations is to ensure that this kind of forum facilitates debate about future leadership requirements, conducts a robust evaluation of current and emerging leaders, and above all, takes the kind of actions that make a practical difference.

1998 Profile:

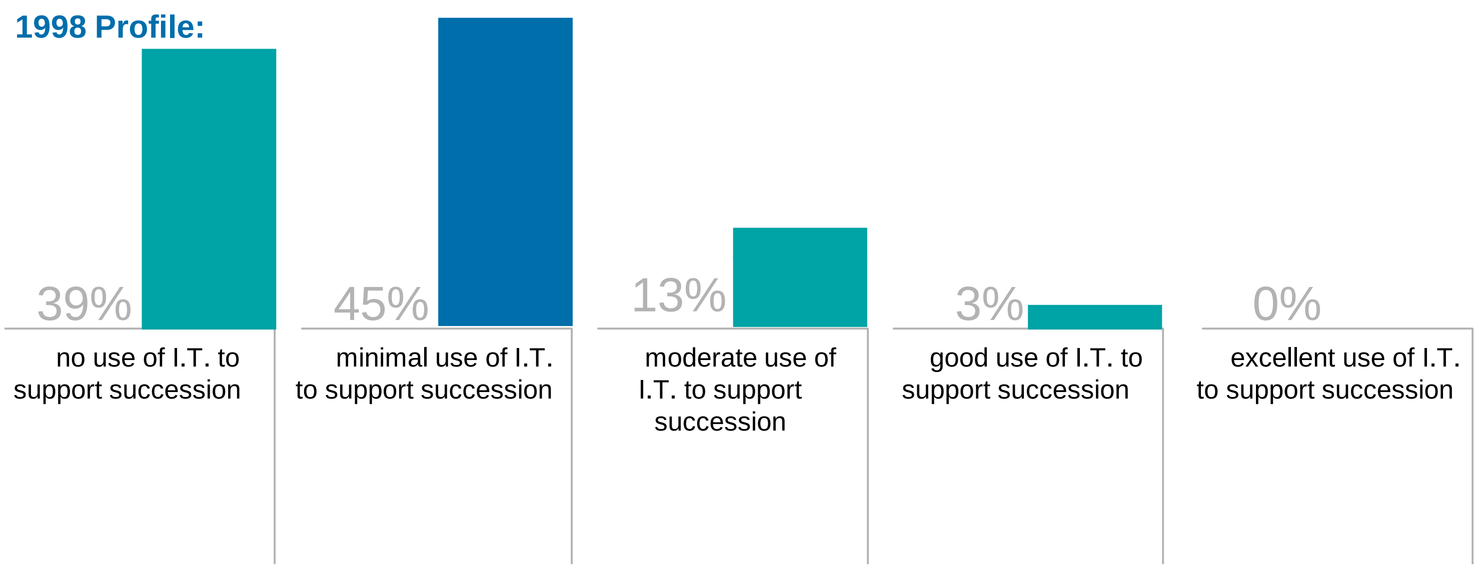


In 1998, half of the organisations indicated that the top team spent either no or minimal time on succession activity.

Although commitment and time from the top team in succession management activity didn't influence survival rates, those organisations reporting low top team commitment were less likely to succeed than those with higher team commitment.

In the busy world of the top team, thinking about the long-term is difficult enough. Committing time to the development of the future generation of leadership is even more difficult.
Those top teams who did find the time and space to take an ongoing involvement in succession activity helped build organisational resilience. And top teams that neglected this activity were more likely to see their organisations decline.

Information flows and database management



In 1998, organisations were struggling to exploit the potential of I.T. to support the kind of database management that provides important intelligence about leadership succession.

Tracking organisations 10 years later, the use of Information Technology in support of succession management activity was not a determinant of organisational outcomes.

The last ten years has seen huge improvements in I.T. functionality. But it isn't clear from this analysis that it is making much of a difference in improving succession decision making.

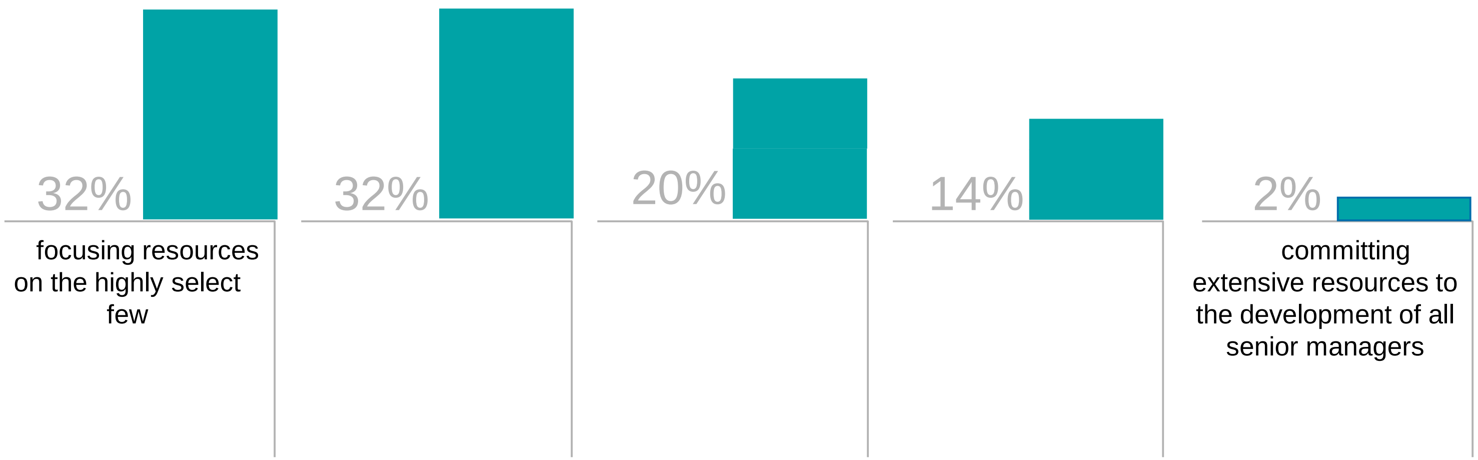
Abandoning the attempt to establish systematic processes for data capture and consolidation isn't a serious option. This isn't to advocate necessarily the buy in of a succession software solution, but to conduct a radical rethink of information requirements and logistics in the support of resourcing practice.

Management Development: organisational outcomes

- which management development strategies and tactics had most impact on organisational survival and success?

Management Development philosophy

1998 Profile:



In 1998, organisations reported a mix of different development strategies, but with a bias towards directing resources on the few rather than the many.

By 2008 this looked like the smarter strategy. Organisations whose management development philosophy was one of "develop everyone" fared worse than those firms with a more selective strategy. "Develop everyone" organisations were more likely to struggle (38%) and less likely to succeed (15%) in comparison with the targeted organisations where only 14% went on to struggle.

Consistency and equity of corporate policy and practice are important in building a culture of trust. But priorities need to be established to decide how to allocate limited resource. Spreading the organisational bets to invest equally in all employees doesn't seem to be the best strategy. The challenge then is designing fair and robust processes to determine which individuals to back and invest in for the future.

Management Development philosophy

The research looked which development activities were most utilised by organisations in the development of its managers. These included:

- **job moves**
- **planned projects and secondments**
- **coaching and mentoring**
- **formal training and development**
- **business education**

Job moves and the use of coaching, although used less frequently than some other development activities, proved the most important predictors of organisational outcomes.

Organisations who utilised job moves to accelerate development were more likely to survive (73%) and succeed (32%) than those that didn't (a survival rate of 45% and success rate of 9%).

"Coaching organisations" improved the odds of survival to 65% and of success to 30%, whereas low coaching firms were less likely to succeed (14%).

The use of projects and secondments, training and business education within management development seemed to have relatively little impact on organisational outcomes.

For organisations committed to building for the future, succession management needs to be proactive in shaping the career development of key individuals to provide them with relevant leadership experience. Structured training and business education no doubt have a role to play, but it is organisations who optimise the developmental power of job moves within a supportive coaching environment who survive and succeed.

Conclusions

Reviewing this data it seems clear that:

In the space of ten years much can change. If survival is tough then success is even tougher. Strong business performance a decade ago provided some momentum but didn't ensure success.

Succession management makes a difference when it is aligned to business imperatives. The introduction of a "text book" succession process and the supporting infrastructure won't drive organisational success. For organisations committed to "future proofing" their organisations, the agenda is:

- the active involvement of the top team in the dialogue about the organisation, its strategic options and its shifting leadership requirements
- clear priorities about the roles and individuals that will make most strategic difference
- a recognition of the importance of specialist know-how and technical expertise in shaping business fortunes
- a targeted investment in key people, using job moves and coaching to accelerate development
- proactive programmes to retain key individuals
- building flexibility within the management ranks to take on new challenges