Succession: Mastering the Make-or-Break Process of Leadership Transition

Noel M. Tichy
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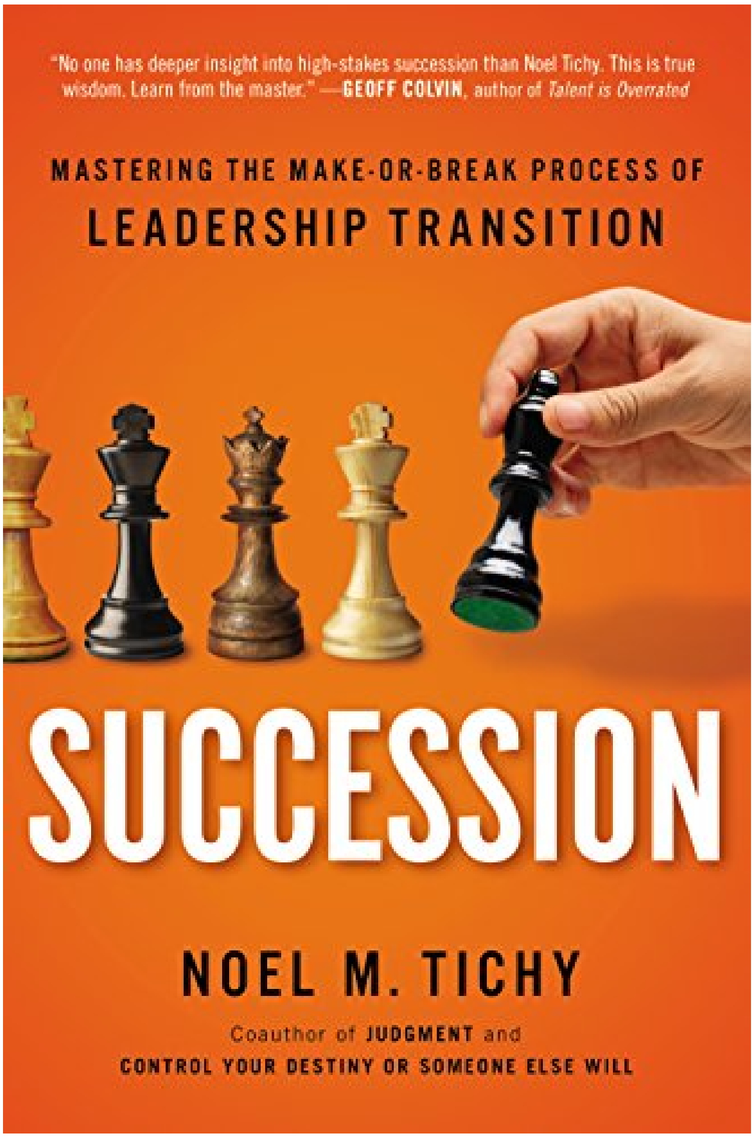

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Noel M. Tichy : Succession: Mastering the Make-or-Break Process of Leadership Transition before purchasing it in order to gage whether or not it would be worth my time, and all praised Succession: Mastering the Make-or-Break Process of Leadership Transition:

2 of 2 people found the following review helpful. Compelling reading for board membersBy John GibbsAt the most basic level, leadership succession and transition is a continuous process of organizational transformation: a people decision, an organizational decision, and a strategy decision all rolled into one, with not infrequently a crisis call

thrown in for good measure, according to Noel Tichy in this book. Leadership succession and transition is simply the most politically and culturally charged, technically challenging, and critical leadership assignment of all the many judgments that business leaders are obliged to make in the course of doing their day jobs.This is the book which the authorrsquo;s lifersquo;s work has prepared him to write. Noel Tichy has been involved as a participant or consultant in more key leadership succession decisions than just about anyone else. The book is filled with descriptions and analysis of succession decisions that went wrong and ones that went right. Nearly always, a good CEO succession starts with building a pipeline of capable leaders within the organisation, giving those leaders crucible experiences, and selecting one from amongst a number of worthy internal candidates when the succession time arises.The book does describe a few cases in which the hiring of outside candidates has led to success, but those cases are by far the exception rather than the rule. In most cases, in the authorrsquo;s opinion, the hiring of a CEO candidate from outside leads to disaster, and occurs only because the organisationrsquo;s board has failed in its duty to have a viable succession plan in place. There does, however, seem to be a difference between highly structured organisations such as the US Special Operations Forces, in which it is essential to build up the leader from within, and highly unstructured organisations such as universities, in which the leader can be recruited from outside with equal prospects of success.Most large organisations probably spend at least a nominal amount of effort considering succession, but this book makes a convincing argument for the benefits of spending very considerable effort over an extended period of time on getting the leadership pipeline flowing. As such the book makes compelling reading for board members.0 of 0 people found the following review helpful. and it provides good examples and illustrations on how to do thisBy Richard DuganI anticipated this would be a book with a limited application to leadership transition. However, Tichy's thesis is much more profound. Companies that develop leaders are more successful than those that don't, companies that develop leaders are more adaptable to change, and evidence that a company is developing leaders is when it is able to replace leaders internally. Therefore, every company and organization should have a goal of replacing leaders internally and should have deliberate and strategic plans for developing the next generation of leaders. This is essential in a global context of rapid and unpredictable change. After making the case for multiple leadership pipelines within the organization, Tichy describes the process of organizational transformation (leading through changing markets, technologies, economies, etc.) and developing the next generation of leaders.Tichy addresses leadership development from a technological (hierarchies, organizational development, training programs), political (who gets to make the decisions, who gets the resources) and cultural (values) of the organization. Leadership development is perhaps 10% formal training, 20% coaching/mentoring, and 70% on the job training.This is a very helpful book in recognizing that leadership development should be the priority of every organization and CEO, and it provides good examples and illustrations on how to do this. In cases where a company is faltering and it becomes necessary to look for outside leadership to change the direction, Tichy offers advice on how to do this as well."Succession: Mastering the Make-or-Break Process of Leadership Transition" is actually a book on leadership development.0 of 0 people found the following review helpful. Good ReadBy DeniseExcellent read especially if you work in a large corporation are in charge of Succession planning. Noel justifies his expertise with copious details of his career name dropping. His point is made clear to throw the net wide and to begin the process far in advance.

Noel Tichy has been the trusted adviser on management succession to companies including Royal Dutch Shell, Nokia, Intel, Ford, and Mercedes Benz. Succession distills his decades of experience and provides a practical framework for building effective transition pipelines - for multi-billion dollar conglomerates, family businesses or anything in between. Through revealing case studies - like Hewlett Packard, IBM, Yahoo and PG - Tichy examines why some companies fail and others succeed in training and sustaining the next generation of senior leaders. He highlights the all too common mistakes that can generate embarrassing headlines and threaten survival. And he puts leadership development and succession where they belong: at the top of every leader's agenda.

About the AuthorNoel M. Tichy is the author of Judgement, Judgement on the Front Line, Control Your Destiny or Someone Else Will and many other business bestsellers. He is a professor at the University of Michigan's Ross School of Business and advises CEOs around the world.Excerpt. INTRODUCTIONEvery question about leadership ultimately gets down to development. Itrsquo;s about creating crucible experiences that make others better as a way of making yourself better. Itrsquo;s about focusing on a task you donrsquo;t think can be done. Where you are rallying people across cultures and functions, where yoursquo;re challenged ethically, and where your integrity is going to be tested.In my experience, you donrsquo;t go searching for those experiences. They tend to find you. The older you get the more you learn that people decisions are the most difficult. They are emotionally difficult, and they are also the best measure of how well you are doing as a leader.mdash;James McNerney, chairman, president, and CEO, Boeing; lecture at the University of Michiganrsquo;s Ross School of BusinessPlacing a Big Bet on the Long GameI have known and worked closely with Jim McNerney, the current CEO of Boeing, since early 1985 when as a senior executive at GE Information Services, popularly known as GEIS, he participated in a series of workshops I was facilitating for his unitrsquo;s top team, of which he was a key member. Later that year, after agreeing to head up GErsquo;s famed Leadership Development Center at Crotonville in upstate New York, I got to know Jim even better. Over the more than quarter century since, I have closely tracked his career and had an opportunity to both work with and write about him as he moved through multiple business leadership positions inside GEmdash;including head of Asia Pacific, a senior position in GE Capital, and CEO of both Lighting and Aircraft Enginesmdash;before being recruited to serve first as CEO of 3M and then chairman and CEO of Boeing.McNerney and I are both proud products of and participants in the Jack Welch era at GE, so it is only natural that we share a mutual admiration for Welch as an exemplary leader/teacher who developed more leaders than any CEO in modern business history. This was no happy accident, but rather the result of an elaborate process, framework, and infrastructure of talent development, unique to GE, which has more deeply embedded a culture of leadership in the DNA of that organizationmdash;both before and after the Welch eramdash;than any other outfit I know of, whether public or private, for profit or nonprofit. This started with founder Thomas A. Edison, who in 1879 envisioned a company that would light up a nation, through Charles A. Coffin, who started GE on a seemingly permanent path to innovations in technology, management, and leadership and skillfully organized the worldrsquo;s first true industrial conglomerate over his nearly thirty-year reign from 1892 to 1922. While Coffin created a vertical, hierarchical, centralized structure to control the various ldquo;GE Worksrdquo; scattered across the country, he conceived of organizing national sales forces along product lines, and established the nationrsquo;s first industrial research laboratory under Charles Proteus Steinmetz, widely known as ldquo;The Wizard of Schenectady.rdquo;But apart from all the patents, inventions, and innovations that GE pioneeredmdash;more than any company in the world over timemdash;its most singular contribution to the evolution of modern business has been the intensity of its focus on leadership. By the 1920s under the duo of Coffinrsquo;s successors Gerard Swope and Owen Young, GE began conducting specialized management retreats in the Thousand Islands area of upstate New York stressing the inculcation of leadership values, the first true corporate leadership curriculum in the world, which served as the precursor to the establishment of the leadership development center at Crotonville in 1956 under then-CEO Ralph Cordiner. The center spearheaded a thirteen-week executive leadership program that would be emulated by Harvard and other leading schools of business as they developed their own leadership programs.This by-then well-grounded tradition of innovating new business models as well as machines led during the Depression to the foundation of GE Credit (later called GE Capital) to provide struggling householders with the means to buy GErsquo;s washing machines, toasters, fans, and other electrical appliances. During that period of the New Deal, as labor relations became a new battlefield, management focused on the adoption of generous pension plans and profit-based bonuses to keep its employees from joining unions. During the postndash;World War II period of rapid economic expansion, the company continued to develop its core management and leadership curriculum, commissioning such leading lights as the great Austrian-American consultant and theorist Peter F. Drucker to contribute to its famous Bible-like ldquo;Blue Books,rdquo; a series consisting of five volumes of meticulously detailed guidance for GE managers that shaped management theory and practice around the country and the world for decades to come. In the 1960s, GE led the way to strategic planning, while in the 1980s and 1990s under Jack Welch, its warm embrace of such then-cutting-edge leadership development concepts as Work Out, Boundarylessness, and Six Sigma made them an integral part of global management culture.What I will refer to from here on as the ldquo;GE Pipelinerdquo; or, in some cases, the ldquo;Jack Welch Pipeline,rdquo; was a marvelous thing not just to behold but to be part of. Its unique design, equipped with multiple redundant systems and an intricate array of checks and balances, was entirely in keeping with the deeply held convictionmdash;adhered to by Welch but also by all GE leaders both before and after his timemdash;that the most important products GE produces arenrsquo;t aircraft engines or locomotives but great leaders. According to a report in USA Today,1author Del Jones noted that the top three companies for producing CEOs of other companies at that time were GE with twenty-six, IBM with eighteen, and McKinsey with sixteen.The piece openly celebrated the fact that at certain companies, a comparatively small group that includes GE, Procter Gamble, PepsiCo, and Yum! Brands (all organizations frequently referred to as ldquo;academy companies,rdquo;2 which will serve as role models of robust pipeline production in this book), seeing senior executives leave even after decades of investment in their development for presumably greener pastures outside the company is not looked down on or frowned upon, but rather regarded as a high honor, not just for those executives selected for higher office but for the organization that trained, developed, and produced them. When a GE highflier leaves ldquo;for a huge external opportunity,rdquo; executive vice president of executive development Susan Petersmdash;now head of HR at GEmdash;was quoted as saying, ldquo;it enhances our employment brand.rdquo; When USA Today e-mailed Procter Gamble (PG) a list of 12 alumni, now CEOs of companies with a market cap of $2 billion, PG faxed back a list of 128 chairmen, CEOs, and CFOs at other companies that it had produced, running in alphabetical order from Fernando Aguirre of Chiquita Brands (CQB) to Sergio Zyman of Zyman Group, a former senior marketing executive at both Coca-Cola and PepsiCo.The pipeline Jack builtmdash;with the help and input of many others, including my own team at Crotonville and its successorsmdash;included a number of future stars, many of whom would go on to lead winning teams at other organizations. Just a smattering of the name-brand CEOs turned out by the Jack Welch GE pipeline includes, most notably, former GE vice chairman Lawrence Bossidy, later CEO of AlliedSignal and Honeywell (CEO of the Year, Chief Exective Magazine, 1998, and CEO of the Year, Financial World Magazine, 1994), whose successor, David Cote, is another GE alum, as is of course former 3M CEO and now Boeing CEO McNerney; Tom Tiller, former CEO of Polaris; Steve Bennett, former CEO of Intuit and later Symantec; Home Depot CEO Frank Blake; former Home Depot and Chrysler CEO Bob Nardelli (along with McNerney a runner-up to Jeff Immelt for Jack Welchrsquo;s job); and former Siemens CEO Peter Loescher, who was a former senior executive at GE Healthcare before moving to Merck, and then Siemens.The three finalistsmdash;Bob Nardelli, head of Power Systems, Jim McNerney, who led Aircraft Engines, and Jeff Immelt, who led Medical Systemsmdash;were all tried and tested in the field under Jackrsquo;s leadership, and judged by him and the board not just on their innate and conditioned leadership capacity but on their tangible business results. Of those final three, while McNerney went on to become a transformational leader at not one but two iconic companies, 3M and Boeing, Nardellimdash;sometimes referred to as ldquo;Little Jack,rdquo; in reference to his famous faithfulness to his mentormdash;didnrsquo;t handle the political and cultural elements at his new home while attempting a Welch-like transformation at Home Depot nearly as deftly as his mentor Welch might have. He was ultimately forced out at Home Depot, before going on to serve as CEO of Chrysler, which he successfully sold to Fiat. As for Jeff Immelt, winner of the grand prize, who took over the company within days of 9/11, having faced and lived through a nearly decade-long perfect storm of terrorist attacksmdash;which wreaked havoc on the companyrsquo;s aviation and insurance businessesmdash;a technology bust, and a Great Recession and global financial near-collapse deeper and longer than any economic downturn since the Great Depression, it is safe to say that he and the company have withstood and sustained macroeconomic turbulence unprecedented since the outbreak of the Second World War.During the darkest days of the financial crisis, GE stock dropped to under $7 a share. Immelt felt obliged to cut the companyrsquo;s cherished stock dividend, and faced the loss of its equally cherished triple-A credit bond rating. The simple and undeniable fact is that over the first thirteen years of the Immelt regime, the stock price is down 37 percent (as of mid-2014) below its value when he took over. Yet it is far too early, particularly in the long-term context of GE, to judge his time at the helm, particularly since GE shares soared more than 30 percent in 2013 as he successfully revised the portfolio and continued to promote and drive some impressive initiatives, from Ecomagination to the Industrial Internet to a Guest House at the RD center that directly connects business leaders to the companyrsquo;s latest technology. Shifting the portfolio is part of the job of every CEO at GEmdash;Welch divested billions in assets and hundreds of businesses, while acquiring others. In short, as of our last status check, even after thirteen years it was still too soon to call.But one thing we can be sure of is that like all of his predecessors before him, Immelt is thinking long and hard about the selection of his successor. In fact, as The Wall Street Journal reported just as this book went to press, Immelt and his fellow directors were conducting high-level ldquo;board discussions about shortening the expected tenure for GErsquo;s next chief executive to between 10 and 15 yearsrdquo; from what has been widely regarded as a traditional two-decade-long term, despite the fact that Welchrsquo;s two predecessors, Reginald Jones and Fred Borch, both served at the top for ldquo;onlyrdquo; nine years, so the two-decade time frame is scarcely set in stone.Succeeding at Succession at CrotonvilleJust reading that article about CEO succession at GE in the Journal took me back more than twenty-five years to the meeting where I was given my first inkling that Jack Welch was seriously committed to blowing up the process that created the pipeline at GE. I had first met Welch in 1978, when as a professor at the Columbia Graduate School of Business I had a team of MBAs do a project with GE on succession planning. At the time, Welch was a sector executive running as hard as he couldmdash;and that was hardmdash;in a multihorse race for the top job. After he beat all competitors and was named CEO in 1981 I worked closely with Ted LeVino, GErsquo;s longtime head of human resources, running leadership development workshops for senior HR leaders across the company, while also consulting with various units of GE on leadership development, including GE Information Services, Lighting, and Medical Systems (GEMS).My next interaction with Welch took place in late 1984 as I was completing my book The Transformational Leader.3 Irsquo;d interviewed Chryslerrsquo;s Lee Iacocca, Burroughsrsquo;s Mike Blumenthal, and other corporate luminaries of the era, and was well aware that leaving out Welch would have been a glaring omission, but he had responded to my first request with the uncharacteristically humble explanation that since his transformational revolution remained in its early stages, any insights or reflections he might have on the subject seemed to him premature. Disappointed as I was by that rejection, I respected him for it. But then, a few months later, on a cold winterrsquo;s day in January 1985, I was winding down a teaching session at Crotonville on my favorite subjectmdash;transformational leadershipmdash;when I was handed a message that Welch would be happy to sit down with me to talk about my book, assuming I was available.Later that afternoon, I found myself sitting with the-then notorious ldquo;Neutron Jackrdquo;4 in a small office joyfully brainstorming about the complex set of imperatives, challenges, methods, and mechanics of leadership and transformation at a wide range of organizations and institutions, getting Welchrsquo;s comments tape recorded for the book. Throughout our lengthy and wide-ranging discussion, I was, I must admit, blissfully unaware that Welch was operating with a covert agenda. I thought I was there because I was interviewing him for a book, but he was actually interviewing me for a job. All was revealed the following day, when after Irsquo;d completed my last session with the executive program and was preparing to head home, I received an urgent summons from Jim Baughman, an exndash;Harvard Business School professor who five years before had accepted a strikingly similar offer from Welch to run Crotonville.Growing more curious by the minute, I was taken aback when, within seconds of my taking a seat in his office, Baughman cut straight to the chase. ldquo;Irsquo;m being promoted to head of organizational planning and management development,rdquo; he said. ldquo;Jack and I were wondering if yoursquo;d like to run Crotonville.rdquo;Run Crotonville?Flattered as I was by the offer, I felt I had no choice but to decline as graciously as I could. As I explained to Baughman, Irsquo;d accepted two overseas teaching assignments, half the year at INSEAD in France and the other in Tokyo as a U.S./Japan fellow, that would keep me busy for the next year, on top of a number of other pressing programmatic commitments. Back home in Michigan, I had an International Leadership Development Program and an Advanced Human Research Management Program to run, as well as serving as editor of the journal Human Resource Management, none of which could function without me. That said, I told Baughman that I was more than flattered by the offer. I was intriguedmdash;intrigued enough, in fact, to hedge my bets by responding that Irsquo;d think about it on an upcoming vacation with my family.On the con side, if I said yes, my name and reputation would be permanently linked to a man many people, particularly in the press and academia, regarded at the time as a dangerous lunatic, not to mention the quintessence of everything that had gone wrong with American business during the 1980s.5 On the pro side, if I said no, that meant forgoing not just a rare but a unique opportunity to do something more meaningful (to me, at least) than simply witness, analyze, or observe and consult to Welchrsquo;s revolution from the comfortable and distant vantage point of an academic, and a long-term consultant.Saying yes meant, for better or for worse, committing to playing an active, full-time, leadership role in one of the most dynamic organizational transformations of the late twentieth century. Ultimately, the prospect of running, and more important, leading, Crotonville won out, especially after I was able to convince both Jack and Jim that I could take on the job while keeping my most pressing commitments back at the University of Michigan.Just a few weeks later, after I accepted his offer, Welch and I met at his office in an old Art Deco tower at Fifty-first Street and Lexington Avenue in midtown Manhattanmdash;this was before GE bought NBC and the companyrsquo;s New York headquarters shifted to 30 Rockefeller Plazamdash;where he enthusiastically laid out the critical role Crotonville was going to play in driving the revolution hersquo;d been fomenting at GE.ldquo;I want a fucking revolutionmdash;and I want it to happen at Crotonville!rdquo;Thatrsquo;s just how he put it, in inimitable General of General Electric style, always colorful, always straight to the point, always shooting (as his memoir later put it) straight from the gut. He continued our conversation by explaining in some detail his ldquo;80-20 rule,rdquo; which simply stated that at most 20 percent of leadership development could be conducted in an institutional setting like Crotonville, while a minimum of 80 percent would inevitably take place on the job. As a practical solution to what he evidently regarded as an immutable fact, his direct, unvarnished mandate was for my team to create at Crotonville what Jim McNerney would call ldquo;crucible experiencesrdquo; and what I refer to as ldquo;action learning.rdquo;Under my leadership and with Welchrsquo;s strong support, everything at Crotonville was going to change. Our revamped curriculum would require cross-functional teams of executives from across the enterprise to tackle real projects, put their members at real career risk, and end the long-standing practice of sitting around Crotonvillersquo;s newly revamped campus leisurely reading Harvard Business School case studies and engaging in elaborate intellectual debates about events that had already occurred, more often than not long ago in the past, not even at GE but at other companies. Participants at Crotonville would start spending all of their time there solving real GE challenges while learning business acumen, team building, and organizational transformation. These action learning projects, conducted out in the field for several weeks, would take place in real time, all over the world, and would be designed to frame and tackle a wide range of major strategic challenges facing the company for an equally wide range of businesses, from locomotives to power generation, plastics to credit to health sciences. Others would require us to send teams from Crotonville to Korea, China, or India to explore potential acquisitions or joint venture opportunities. In all cases, these teamsmdash;temporary task forces, reallymdash;would return to Crotonville prepared to present their recommendations to Welch and a cadre of senior leaders.As a result of this process, many real decisions would be made at the highest levels, based on team input and clearly stated recommendations, which ultimately determined the strategic direction of both the individual businesses and the organization as a whole. Yet there was a parallel agenda running at ldquo;The New Crotonville,rdquo; which more directly pertained to the construction, destruction, and reconstruction of the time-honored leadership pipeline. Each participant was scrupulously evaluated on his or her performance at these add-on tasks in addition to how well he or she embodied the GE values while taking part in the action learning programs, as well as the more routine evaluations conducted on a regular basis of their performance at their day jobs.At Welchrsquo;s behest, my team and I spent nearly two years producing (and publishing in the fall of 1987) a white paper that put all this thinking down. Entitled ldquo;Organizational Effectiveness Notes: A Leadership Development Framework,rdquo; our work laid out in painstaking detail a revised theory of how to construct a leadership development pipeline based not on classroom casework or the results of psychological surveys but on leadersrsquo; consciously cultivated capacity to exercise best judgment and tackle real business problems. It also concretized the important premise that the best way to pick your next CEO is by building a pipeline that creates real leaders at every level of the company and at every stage in their personal and professional development, from off-campus hires to the vice chairman vying for the CEO job.bull; bull; bull;Personal Detour: Before continuing with the GE story and my work at GE with Jack Welch, let me provide a little context and background laying out my own professional and leadership journey. Taken in aggregate, these experiences constitute a professional lifetime of preparation for writing this book, as they have spanned a wide range of industrial and economic sectors, from business to health care, and from higher and secondary education to the military, with my military work focusing primarily on advising the leadership of the U.S. Special Operations Forces on how to transform themselves into a fighting machine for a new kind of war.My journey began when as a PhD student I worked with the new superintendent of schools in East Orange, New Jersey, in 1970 both on his own personal leadership development and on the impact of his appointment as the first black superintendent on the school system as a whole. After becoming an assistant professor at the Columbia Graduate School of Business in 1972, I continued to conduct similar projects with school superintendents in predominantly affluent Westchester, New York. My own work, however, was largely confined to a range of more diverse communities that contained significant working-class and minority populations, including White Plains, New Rochelle, and Mount Vernon. My first book on leadership was rooted in my research into the delivery of health care in an inner-city setting, at a clinic I consulted with called the Martin Luther King Health Center in the South Bronx of New York. At the MLKHC, I collaborated with the top team both on leadership succession and on other, related organizational issues affecting the long-term sustainability of the venture, which continues to flourish today.Later on in that decade, after becoming a professor at the Graduate School of Business at Columbia, I ran executive programs in leadership and consulted widely on leadership development in the United States and Europe, working with Pehr Gyllenhammar, CEO of Volvo, and Sir John Harvey-Jones, CEO of ICI (Imperial Chemical Industries) in London. The table on the next page represents my clinical database as a practitioner.As a researcher I have also interviewed and studied hundreds of leaders, ranging from CEOs to heads of school systems, hospitals, not-for-profit agencies, and the military, while as a clinician I have actively worked and collaborated with hundreds of leaders on their own journeys, with the prime goal of producing pipelines designed to sustain the organization from generation to generation, ideally (although not always realistically) in perpetuity. The table highlights the clinical and research background for this book. Like one of my favorite books by Jerome Groopman, How Doctors Think, this book is based on both research and clinical practice.CEO Succession at GEThe second substantive conversation I had with Welch following that first meeting revolved around the topicmdash;as all-consuming for him as it had been for his predecessors and would be for his successor and his successorrsquo;s successorsmdash;of leadership development and succession planning as a core strategic opportunity and challenge for the company. ldquo;How I got here,rdquo; Jack told me, in his characteristically brusque tone, ldquo;is totally irrelevant. What I want you to do is work withrdquo;mdash;and here he reeled off a long list of names, including thenndash;vice chairman Larry Bossidy, later CEO of AlliedSignal and Honeywellmdash;ldquo;on building a real leadership pipeline that will take us into the next century.rdquo; As I was shortly to learn, Welch didnrsquo;t think much of the horse race he had won five years before, which had been set up by his predecessor Reginald Jones. The aspect of it that he most strongly detested was that it had compelled him and the two other finalists, all of whom had been promoted to vice chairman, to dedicate several tension-filled years locking horns at corporate headquarters, as opposed to running real businesses in the field. He was determined to avoid that mistake going forward, even as he sought to develop a process firmly grounded in a realistic assessment of the talent and development needs of the organization in the futuremdash;even the distant futuremdash;as opposed to looking in the rearview mirror at the past.In the quarter century since we produced that white paper at GE, my leadership team and I at Action Learning Associates have flexibly followed (with any number of significant updates and revisions, of course) many of its fundamental lessons and precepts in the conception and execution of hundreds of leadership development programs and succession plans at companies including the U.S.-based icons IBM, Intuit, Intel, and PepsiCo, as well as global leaders including Royal Dutch Shell and Nokia, to emerging market corporate leaders such as Mexican retail, financial, and communications conglomerate Grupo Salinas and CP Group, one of the largest and most diversified companies in Asia, and now the world.It is also clearly the case that since imitation and emulation are the finest forms of flattery, literally hundreds of companies both in the United States and around the world have over the past two decades used and adapted what they have been able to derive at a distance from the GE Model as the basis for establishing their own leadership development and training programs, and even in some cases Crotonville-like leadership institutes and academies. But it is important to note for the record that all the bricks-and-mortar and elaborate institutions wonrsquo;t be worth the glass, steel, and bricks theyrsquo;re built with if they lack the right programs and processes to build, assess, evaluate, and create crucible experiences that teach them. And institutions donrsquo;t matter if the current generation of top leaders, most important the CEO, isnrsquo;t deeply involved in every stage of the process.That issue underscores a great fallacy, which over the years has grown into something of a monstrous Mothra, that leads even the most well-meaning of leaders and organizations to slavishly copy and overemphasize the technical aspects of the process and virtually ignore, evade, or fatally misunderstand the far subtler, much more difficult, and ultimately far more important determinate of success: the politicaland cultural dimensions of succession planning, leadership assessment and evaluation, CEO selection, and executive transition.As a result, you wonrsquo;t find much in here about trends or citations from statistics, because despite the current preoccupation with big data, I donrsquo;t believe trends or statistics are meaningful in this context. The analogy that I like to use in all of my work is that I want to observe, work closely with, and ultimately determine what distinguishes the Olympic athletes, and especially the gold medal winners, from the rest of the pack, and in particular from those who never make it to the trials.I will also be taking an uncomfortably close look at some spectacular failures, the mirror opposites of the Olympic heroes and demigods who adhere to best practices. Irsquo;ve learned the hard way that often the best way to define a best practice is to take a worst practice and turn it upside down. As every true teacher will tell you, teaching is as much about learning as it is about imparting or conveying knowledge you already know. So I conclude by imparting a piece of unsolicited advice based on more than three decades of developing, coaching, teaching, training, and selecting leaders for some of the highest-performing organizations in the world: This is the most important people judgment call any organization will ever make, and by far the best way to get it dead wrong is by proceeding under the fatal delusion that yoursquo;ve got it all figured out and buttoned up, and just need the right format, framework, and formula to put your plan into action.If that commonly held delusion were true, you wouldnrsquo;t need to read past this point. But since it isnrsquo;t, I have includedmdash;along with the success stories and cautionary tales in this bookmdash;ample analytical and clinical procedures to help you guide and frame and navigate through the inherent complexities of the process. In many ways the donrsquo;ts are as informative as the dos when it comes to implementing best practices and procedures in this complex and challenging discipline. That said, no process, no matter how well thought out and executed, can ever be perfect or complete. At the most basic level, leadership succession and transition is a continuous process of organizational transformation: a people decision, an organizational decision, and a strategy decision all rolled into one, with not infrequently a crisis call thrown in for good measure. As you will read more than once in this book, leadership succession and transition is simply the most politically and culturally charged, technically challenging, and critical leadership assignment of all the many judgments that business leaders are obliged to make in the course of doing their day jobs. And, for that very reason, it is at least as easy to get it wrong as it is tough to get it right.CHAPTER 1GETTING IT WRONG: THE BROKEN CEO SUCCESSION PIPELINEIf itrsquo;s hard for the IBMs and the GEs, the companies that really pride themselves on building pipelines, itrsquo;s darn near impossible for all of the rest of us who havenrsquo;t put that process in place.mdash;Leonard A. Schlesinger, Baker Foundation Professor, Harvard Business School; former president, Babson College; former vice chairman and COO, Limited Brands; former executive vice president and COO, Au Bon PainKEY ISSUES OF THE BROKEN CEO PIPELINETECHNICALOverreliance on the mechanics of succession planningLack of human resource competence and capabilityPOLITICALLack of CEO/board/HR alignment and balance of powerInability to handle internal infighting of candidatesCULTURALSuccession planning as a mechanical exerciseDishonest succession planning processHP, the Poster Child of Failed CEO Successions: Four in a RowOn the morning of September 22, 2011, the board of directors of the computer hardware and software manufacturer Hewlett-Packard1announced the resignation, effective immediately, of CEO Leacute;o Apotheker after just eleven months on the job.2 Simultaneously, it announced that it was passing over a deep bench of long-term insiders to appoint an outsider CEO for the third time in a little more than a decade.3 The board justified its appointment of failed California gubernatorial candidate, former eBay CEO, and current board member Margaret ldquo;Megrdquo; Whitmanmdash;who had joined the HP board in January 2011 as part of a board shake-up engineered by Apothekermdash;without mounting a formal search by noting that since it had conducted a full-scale search less than a year before, it had the results of that search in its hip pocket, if needed. What went without saying was that such an eventuality would only occur if the boardrsquo;s latest pick unexpectedly blew up in their faces, as the selection of Apotheker so damagingly had.Even by the bland standards of official corporate pronouncements, this one stood out for saying less by saying more. Among the many unanswered questions posed by disturbed HP investors and their surrogates during a conference call with the directors immediately following the announcement was to what degree HPrsquo;s board, whose fiduciary duty obliged it to represent the interests of shareholders, should have considered it appropriate to express ldquo;appreciationrdquo; for services rendered to the company by a failed CEO on whose less-than-year watch it had lost an astounding $30 billion in market cap. Certainly, HPrsquo;s long-suffering shareholders could be forgiven for harboring a sneaking sensation that they had seen this horror show beforemdash;in fact three times before, at a staggering cost to their own financial interests, not to mention the hundreds of thousands of employees and their families impacted by the precipitous decline of a once-fabled firm.The costs directly associated with HPrsquo;s excessive churn at the top could be tangibly measured by the sharp drop in the companyrsquo;s market capitalization between January 2000, the first year of its first outsider CEO Carly Fiorinarsquo;s controversial tenure, and December 2011, three months after its third outsider CEO in a row tendered his resignation to a board thickly populated with his own former supporters, who after a year and a half of tragicomic slapstick leadership marked by one mishap after another, reluctantly joined forces in turning against him and ousting him before he could do even more damage.By contrast, at least from the reeling companyrsquo;s point of view, while HPrsquo;s market cap had plunged by roughly two thirds over the dozen years between Fiorinarsquo;s appointment and Apothekerrsquo;s ouster, from well over $100 billion to well under $30 billion, rival computer firm Apple had entered the decade worth less than $5 billionmdash;5 percent of HPrsquo;s then market valuemdash;and kicked off January 2012 worth well in excess of $400 billion, twenty times that of onetime industry leader HP and more than the net worth of the entire economy of Greece.So what is the main lesson we should derive from this remarkable turn of events, which prompted former HP director and Silicon Valley venture capital legend Tom Perkins to publicly castigate the group of business brains he had recently served with before resigning in disgust as ldquo;the worst board in the world?rdquo;4 As The New York Times bluntly put it, ldquo;The mystery isnrsquo;t why Hewlett-Packard is likely to part ways with its chief executive, Leacute;o Apotheker, after just a year in the job. Itrsquo;s why he was hired in the first place.rdquo;5 While it should be noted in all fairness that panning the performance of HPrsquo;s board requires painting this picture with an unfairly broad brush, since over the years its cast of characters continually shifted, neither can it be denied that regardless of which luminaries served on the board at pivotal points when it arrived at a series of disastrous people, strategy, and crisis decisions, its only true constant was the repetitive nature with which it passed over the companyrsquo;s internal bench and returned to a pool of celebrated outsider CEO candidates to replace outsider CEOs, who miserably and repeatedly failed to deliver the goods, despite ostensibly sterling records and backgrounds.Am I arguing an open-and-shut case that outsider CEOs are inevitably doomed to failure and should always be ruled out in competition with insider candidates? No. But what I am arguing, unequivocally, is that every time an organizationrsquo;s board needs to reach outside its own ranks for a successor to an incumbent CEO, such a desperate move, even if at the time it may be hailed as a breakthrough, is in fact an unmistakable sign of a broken leadership pipeline, and in my experience, broken leadership pipelines are the primary root cause of broken companies. What the HP story, which unfolded over many quarters of year-after-year earnings declines, confirms is this: of the many factors to which movement of share prices and long-term performance are widely ascribed, the success or failure of senior leadership to drive internal and confront external change is the single most important determinant of long-term success.Not just at HP but also at virtually every company or organization on the planet, whether run for profit, not-for-profit, public or private, family or shareholder owned, there are two immutable facts about leadership:Leadership matters.Continuity of leadership matters.The corollary of this thesis is that the defining legacy of any individualrsquo;s leadership is the quality and outcome of his or her commitment to putting a process in place expressly designed to ensure an orderly transition from present leader to future leadermdash;at any time, for any reasonmdash;with minimal disruption and drama. Just Google the old Latin word interregnummdash;literally, ldquo;the time between kingsrdquo;mdash;and you will be treated to a long list, spanning many centuries, of the chaos and conflict that inevitably erupts when a gapmdash;often aptly referred to as a ldquo;power vacuumrdquo;mdash;opens between the rules of successive monarchs. This has long been a time of danger and risk, typically prompted by succession struggles and ambiguity regarding the legitimacy of various claimants to the throne. The reason the famous phrase ldquo;The King [or Queen] is dead; long live the King [or Queen]rdquo; is still uttered on the occasion of the death of one king and the seamless ascension of his successor in the United Kingdom is to scrupulously avoid even the slightest implication of the creation of an interregnum between the death or abdication of the present monarch and the announcement of his or her rightful and legitimate heir and successor. Similarly, no leader of any nation or organization ever wants to be a ldquo;lame duckrdquo;mdash;a term coined in the late nineteenth century to describe a stockbroker on the London exchange who defaulted on his debts, leaving him prey to financial predators, much as a lame duck in real life falls behind the pack, leaving itself unprotected. The ldquo;lame duckrdquo; phenomenon occurs in business, politics, and organizational dynamics during periods of paralysis and inaction after one person in authority announces his or her departure and the accession of the successor, creating once again a dangerous and in most cases entirely preventable period of indecision detrimental to the organization.As we shall see time and again in this book, shareholders and investors typically suffer most from fumbled corporate CEO successions, because the ambiguity that inevitably arises during such periods of chaos and uncertainty is deeply detested by serious investors, who tend to punish disruption and discontinuity by dumping the stock and moving on to more stable ground. But employees and other stakeholders, including the communities where companies operate, are just as often severely impacted as well. Whatever the case, the undeniable truth underlying a sad situation is that surprisingly few organizations of any form, structure, region, industrial sector, or nationality get this complex, politicized, emotion-laden job right, either for the first time or the tenth.Butmdash;and this is a big butmdash;how many times have you heard of a winning baseball, football, or any high-performing sports team lose a coach or a star quarterback or pitcher without immediately naming a replacement? If the conductor or first violinist of a world-famous symphony orchestra catches the flu or gets hit by a cab, wouldnrsquo;t you expect the organization to have a replacement on deck? The same goes with generals. If a commander-in-chief decides to pull a losing general off the battlefield, is he or she likely to wait months or even years to install a successor? Yet at most of our largest and most admired companies, and at many if not most of our largest and most admired academic and other nonprofit institutions, it is more the rule than the exception that if and when an incumbent leader departs the scene, for any number of predictable or unpredictable reasons, the organization all too frequently finds itself in the awkward predicament of lacking an insider candidate or candidates waiting on deck who are ready, willing, eager, and most important, well prepared and able to step up into the top job at a momentrsquo;s notice and succeed.I readily concede the fact that manymdash;I would estimate as high a percentage as 80 percent of Fortune 500 companies and an equivalent percentage of academic and other nonprofit institutionsmdash;do have formal succession plans in place, but that is not really my point. Because in my experience all too often these formal plans are no more than thatmdash;empty formalities, technicalities, and charadelike check-the-box exercises. When push comes to shove, as it nearly always does, such plans and processes ostensibly designed to ensure an orderly, seamless, nondisruptive CEO succession, absent political infighting, cultural confusion, ambiguity, and ambivalence, often break down in practice.The New Ball Game: CEOs Under the Gun Due to the Rise of the Activist InvestorCEO tenures have been getting shorter by the day,6 in large part because activist investors have successfully precipitated and accelerated so many objectively failed CEO departures, when in previous periods more tolerant and cozily incestuous boards might have twiddled their thumbs or fiddled while Rome burned. Today, more responsible and responsive boards, legitimately fearful of incurring reputational and in some extreme cases legal liability, are increasingly willing to quickly pull the plug on any executive the financial analyst community and the market no longer have confidence in, and are just as quick to replace him or her with someone who might be better at itmdash;sooner rather than latermdash;for fear that they will go next out the door. Remember, activist investors donrsquo;t just demand CEOsrsquo; heads on a platter, they demand seats on the boardmdash;and these days, are increasingly getting them.The growing confidence and success of activist investors is from my point of view providing the investment and business communities with yet more confirmation that the fundamental laws of organizational dynamics and the unity of command still apply. Yes, activist investors are making the jobs of some CEOs tougher than ever, but alsomdash;when they do winmdash;often more rewarding for shareholders and even managers of a company required under pressure to operate at a higher level, closer to fulfilling its true potential. Activist investors like William Ackman are playing a major, and some would argue outsized, role in the ousters of CEOs and the appointment of handpicked successors. On the one hand Ackman was instrumental in appointing Ron Johnson as CEO of JCPenney and, when it was not working out, quickly firing him. In my view it was a bad judgment call to hire the wrong CEO, followed by a good judgment call of firing him for failing to perform. On the other hand, Ackman made what I consider a bad judgment call at PG when he orchestrated the ouster of CEO Bob McDonald when still in midstream of strategically repositioning the company for the future. Ackmanrsquo;s bad judgment call in helping to dislodge a good CEO, McDonald, was later rectified by a good judgment call made as this book went to press by President Barack Obama, who had just appointed McDonald to serve as his next secretary of veterans affairs. Good judgments or bad, the reality of todayrsquo;s world is that activist investors have become a significant factor in the CEO succession sweepstakes, and for better or worse are likely to occupy such a role for the foreseeable future.CEO Succession: The #1 Determinant of Organizational PerformanceActivist investors aside, in our 2007 book, Judgment: How Winning Leaders Make Great Calls, my longtime friend, colleague, and coauthor Warren Bennis and I contended that ldquo;CEO succession in any type of organizationmdash;from political, to not for profit, to business or the militarymdash;is the key determinant of organizational performance.rdquo;7 We further argued that of all the many judgment calls leaders may be obliged to make over the course of their careersmdash;decisions we divided into three buckets: people judgments, strategy judgments, and crisis judgmentsmdash;people judgments are foundational because without having the right people on your team or the right man or woman driving the bus, it is next to impossible to make sound strategy and/or crisis decisions, which makes a fair part of the leaderrsquo;s job irrelevant.The Technical, Political, and Cultural (TPC) Context of CEO SuccessionSelecting a candidate to be your next leader is the ultimate people judgment call. Ironically, as we shall see shortly, it is a call that essentially amounts to a decision based on an assessment of the candidatesrsquo; own judgment calls. And as we shall also see, the impartiality and objectivity of those assessments, performed over time, are utterly critical to the integrity of the process. CEO successions that do go awry are nearly always thrown off course or derailed by a series of factors that define the operation of all organizations, which I have also divided into three buckets: the technical, the political, and the cultural.Thirty years ago I wrote a book entitled Managing Strategic Change8 in which I employed the metaphor of a rope woven from three separate strands to illustrate the division into three dimensions that, in my view, drive all organizational change. The technical strand of the rope includes the rational scientific management precepts of strategic planning, organization design, and human resources that we spend most of our MBA curriculum teaching to our students.This is only part of the picture, because an organization is a political system, the second strand of the rope. Organizations also have political processes and coalitions that influence what strategies are pursued, and political power is dispersed in organization design, with variations in how centralized power is and how balanced across groups it is. Finally, organizational politics determine how much different groups are paidmdash;this is a political issue, and succession is the most political of all processes, with one political winner getting the CEO slot.The cultural strand of the rope refers to the values of the organization needed to support the strategy, as well as the organizational challenge of integrating multiple subcultures in an organization to have an overarching corporate or organizational culture, and finally the teaching, reinforcing both rewards and punishments for violating the culturersquo;s rules, largely through the human resource systems. When an organization goes through strategic change, a new direction, all three strands need to be rewoven or the result is like rope unraveling and falling apart. Succession throughout this book will be viewed in terms of these technical, political, and cultural strands.ldquo;TPC Theoryrdquo; applies to the topic of executive transition and CEO succession because one of the primary reasons that organizations failmdash;which is of course really a euphemism for the people inside those organizations who failmdash;at this delicate and difficult task is that too many CEOs, boards, and CHROs (chief human resources officers) overly rely on the technical aspects of the process. Succeeding at successionmdash;which at its best revolves less around selecting one candidate from a pool of finalists in a horse race and more around creating a robust pipeline of future leaders to succeed the present generation of leadersmdash;above and beyond everything else fundamentally requires a deep appreciation of the fact that the technical aspects of the succession dilemma are by far the easiest to solve for, and are therefore most appropriately relegated to secondary and even tertiary status in comparison with the political and cultural dimensions. The technical issues, I believe, should at most encompass and demand 20 percent of management emphasis and attention, while something closer to 40 percent of overall investment in refining and perfecting the process should each be apportioned to the far more complex political and cultural dimensions of developing leaders to succeed other leaders.ldquo;Management scientists and production engineers,rdquo; I wrote thirty years ago, ldquo;frequently view work and organizational design as essentially an engineering or technical problem.rdquo; Such an overreliance on technique frequently leads to dysfunction as the political and cultural issues remain unacknowledged, misunderstood, and neglected on the surface, only to go underground and undermine the organization. At the same time, ldquo;a purely political orientation to organizational life and change is also likely to be dysfunctional, because it can lead to low levels of trust, cynicism, and a prevailing view that all interactions are win/lose bargaining situations.rdquo; Same for the cultural strand of the rope; it is only meaningful if it supports the technical and political strands.When I write about the technical dimension of the succession dilemma, I am mainly referring to what I call the ldquo;hardrdquo; decisions popularly viewed as essential to the CEO role: big-picture goal setting, strategy formation, organizational design, and structural revisions within systems. For the political dimension, I am referring primarily to issues posed by the allocation of power and resources, including the vast majority of personnel issues, including critical promotions, the securing of key ldquo;stretchrdquo; assignments, budget decisions, and the internal power structure of the organization. Cultural factors primarily consist of the values, beliefs, and interpretations of those beliefs ideally shared by every member of the organization. I truly believe that the toughest leadership challenge of all is framing the content of the culture, determining precisely which values need to be shared, achieving alignment as to which objectives are worth collectively striving for, and identifying what beliefs all employees should be committed to.Having witnessed, lived through, and helped to plan many successions and transitions, based on a virtually lifelong analysis of the intertwined technical, political, and cultural aspects of the puzzle, I have arrived at three inescapable conclusions regarding CEO succession:Successful CEO succession cannot and should not be conducted in a vacuum. It must be about the journey, not the destination; about the process, not the plan. Above all, it must be the culmination of the long-term development of a robust leadership pipeline, based not just on a technical but a cultural and political system designed to assess and promote talent in a disciplined, impartial, objective fashion. This system must be equipped with a series of checks and balances that effectively stack the deck toward picking the best and brightest to reach the pinnacle at the top and to discount, to whatever degree possible, the almost inevitable impact of personal, political, and organizational distortions and biases. For this process to be effective, it needs to be an integral part of a broader, deeper leadership development and human capital strategy, which advances high-potential executives throughout their careers and is conducted at all levels of the organization, from campus hires to vice chairmen. (Except, of course, in crisis situations, where a fresh clean-slate perspective may be desperately needed to save the company and the recruitment of an outsider becomes not just desirable but necessary. See, for example: Louis Gerstnerrsquo;s succession at IBM, Alan Mulally at Ford, James McNerney at Boeing.)There is no perfect, failproof process, but a plan is better than no plan. In cases where no formal succession framework has been formulated, a coherent and rational process must be urgently conceived and authentically implemented that replaces gut instinct and personal favoritism with a strategy focused on the dispassionate evaluation of viable candidates and a clear connection to significant strategic issues facing the company.In too many cases where a plan has been formulated, it ends up turning into an empty annual ritual, like the turning of fall leaves. This is more often than not the result of an excessive and even obsessive focus by the key players (board, CEO, CHRO) on the technical aspects of the process, to the detriment of the political and cultural dimensions.Defining SuccessI define the essential challenge and therefore measure of success all leaders face in todayrsquo;s world as capable of being distilled down to two intertwined tasks:Increasing the value of the assets they were given control over between the day of their arrival and the day of their departure. (In the age of the activist investor, the bar to attain this rare hallmark of success has been heightened. To keep a safe distance from the sharp edge of the activist guillotine, a CEO must increase the value of the assets he or she has been given above a range of benchmark competitors or risk being consigned to the dustbin of corporate history.)Developing and selecting a successor who does the same thing. This is, I admit, a tough benchmark to measure up to. Yet even if only a handful of leaders attain it, I believe it is critical that all leaders aspire to it, to the exclusion of all other benchmarks. The most commonly derived variable expressing this proposition is TRS (total return to shareholders), which in the context of publicly listed corporations is relatively easily determined by doing the math on any one of any number of financial Web sites. With privately held corporations, though the data used for analysis may be more elusive, the overarching concept of TRS nonetheless applies, as all privately held corporations still have investors.

Even with nonprofit organizations, though the analysis may be even more difficult, itrsquo;s not hard to come up with surrogates and proxies for TRS, including the size of the organizationrsquo;s endowment, the quality of its work, and above all its success in meeting precisely defined targets and goals defined by its board.