The horse race: high-stakes succession planning

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The classic succession "horse race" pits two or three senior executives against each other in a battle over performance — the winner becoming the next chief executive officer.

Some executives and governance observers are uncomfortable with the horse race approach — which we define as an overt competition for the CEO role among several recognized candidates within an established time frame — out of concern about the potential impact that such a high stakes contest may have on an organization. Nevertheless, the horse race undeniably has been successful in helping many admired companies choose their next leader. Horse races at giants such as General Electric, Procter & Gamble, GlaxoSmithKline and Abbott Laboratories have produced a series of exceptional leaders.

Those who favor the horse race say that it is more than an effective method for choosing the most qualified leader from among several skilled executives. It can bring a variety of other benefits to the organization as well. First and foremost, companies employing the horse race signal an expectation that executives and employees will be held accountable for the company's performance. When it is done right, such a system establishes a culture of leadership development in which future stars are spotted early and groomed in a succession of critical roles through which they attain the competencies and seasoning needed to lead a company.

In this environment, proponents say, an overt competition for the top job also can serve as motivation to individuals throughout the organization, who can see a path to more senior roles in the company. Implicit in the horse race is the board's faith in its management, its leadership development processes and the organization's people. Having several strong internal candidates able to vie for a role indicates that the board and top management have been committed to developing high performers through a variety of functional assignments and stretch opportunities and testing them in ever more demanding roles. In fact, some organizations are so effective in developing a pool of strong leaders that even runners-up in a horse race quickly ascend to the top job at other companies. Famous alumni of GE's vaunted management development system, for example, today run organizations such as Boeing and The Nielsen Company.

While detractors of the horse race do not deny that it can be effective in helping determine the best leader for an organization, they say that it also can be disruptive and divisive if not managed well. A contest for CEO that drags on too long can produce feelings of uncertainty throughout the organization about the outcome. This, in turn, can lead people at all levels to retrench and take fewer risks in executing their assignments until the winner is known. It also is certain that time wasted on hallway gossip and handicapping distracts people throughout the business, further hurting job performance. As the competition intensifies, it is not uncommon for managers to take sides for or against particular candidates. This can create silos that discourage critical team work and knowledge sharing.

Depending on how the competition and the final decision are handled, the horse race can have a lingering effect on the organization's ability to fill key management roles. Once a winner is anointed, the company may lose not only the other senior-level executives who were vying for the CEO position, but also strong leaders deeper in the organization who might have aligned themselves with an unsuccessful candidate.

Systematic leadership development approaches, when well executed, produce great leaders without harming business momentum. In these cases, high-performing managers are given the positive message that they will be groomed for the top role, but they also understand that there is room ultimately for one leader of the business at a time. The old AT&T used to boast that its management development program allowed it to have at least five leaders — groomed during years of careful development — ready to step into the CEO's role at a moment's notice. The management development program was put to the test in the early 1980s, when what was then the world's largest corporation was forced into a breakup. The company had enough CEOs to run the new AT&T that was left after the breakup as well as the seven new "Baby Bells."

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A board considering whether to use a horse race to choose the company's next leader should, first, consider whether the organization is suited to this type of contest and, second, adopt strategies that can help minimize the potential disruptions.

First, the board and current CEO should consider whether the culture and organizational structure are compatible with a horse race. If, for example, the success of your company's strategy depends on internal collaboration and resource sharing, an overt leadership contest among several high-level executives may not be a risk worth taking. Similarly, the board should have a general understanding of the capabilities of the company's senior leadership and decide whether the executive that emerges at the end of the contest will be appropriate for the needs of the organization at that time.

If a horse race is appropriate for the organization, the board and current CEO should decide how public it should be, which depends in part on how comfortable the organization is with competition. When competition is ingrained in the organization, for example, the candidates will know what to expect, and an acknowledged horse race may create less uncertainty and fear of the unknown throughout the company. The board also needs to come to an understanding with the candidates about their responsibility to the company during the evaluation period.

The board and CEO also must carefully monitor the process and be willing to step in and address any people issues that may emerge. Monitoring succession planning is one of the board of director's primary responsibilities. An important part of this effort is making sure the CEO and senior management are keeping the company's "stars" aligned with the business and its objectives during and following a decision on a new CEO. Careful interviewing of valued executives — perhaps through an assessment project ordered by the board — can help to identify the sorts of developmental opportunities that would most benefit them and demonstrate that they are important members of the management team. The board should ensure that these leaders understand that there are plenty of opportunities for them within the business.

Many directors — sensitive about the increasing scrutiny of company and board performance — are intensely fearful that a protracted succession horse race will lead to a loss of business momentum. They strive mightily to limit the length of the contest. Companies that are most successful with the horse race approach cultivate a culture in which people embrace competition for the top job and the notion that the best leader will emerge from the process.

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Finally, once chosen, it is important that the new leader quickly reach out to executives who lost the race as well as key individuals on their teams. This may mean offering new roles to some executives, providing additional financial incentives for staying or simply letting them know they are important to achieving the new CEO's vision for the company. For example, the newly named CEO of one international pharmaceutical company quickly called his two rivals for the position to reinforce their importance to the company's future and encourage them to stay. In another example, the new leader of a global food and beverage company expanded management roles for his rivals and consulted with them on major strategic issues.

Taking the long view

Regardless of your organization's comfort with this approach, it is important to recognize that the horse race itself is not the start of a robust succession process, but the culmination of one. The companies that excel at producing the best leaders — whether or not they ultimately rely on a horse race contest to choose their leaders — create a succession culture that has the processes in place to promote the ongoing development of promising executives. These organizations adopt many of the following practices.

- > **Systematically prepare high achievers for more demanding roles.**
- > **Align the skill-sets of the next CEO with the vision for the company's future.**
- > **Benchmark frontrunners against external talent to ensure candidates meet best-in-class standards.**
- > **Get to know the candidates.**
- > **Plan for an emergency.**

Conclusion

A succession horse race can be an effective tool for assessing top talent for the CEO's role, but it also can be highly disruptive when executed poorly. More important than whether an organization relies on a horse race to identify its next chief executive is whether the organization is effectively developing the senior-level leaders it needs for the future. The board of directors can help the company prepare for near-term and future leadership needs by requiring the CEO and senior leadership team to establish succession processes that prepare high achievers for ever more challenging roles. Experts say today's boards should monitor senior managements' handiwork to ensure proper execution of what is the single most critical of business processes — the care and development of talent and retention of these future leaders.

About the authors

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