

## A CONVERSATION WITH CONATY: OBSERVATIONS ON SUCCESSION PLANNING AND DEVELOPING WORLD-CLASS LEADERS

CLAUDIA KELLY, *Stamford*

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A 40-year veteran of General Electric, William J. Conaty served the last 14 years of his career as senior vice president of corporate human resources. Renowned for its talent development, GE not only produces the leaders it needs for its own executive ranks, it regularly exports senior executives to leading companies around the world. Its success in producing exceptional executives reflects a decades-long commitment to leadership development throughout the organization. During Conaty's tenure, he led GE's talent revolution, championing the company's talent development processes, and served as the right-hand "talent" man to two CEOs (Jack Welch and Jeff Immelt). Conaty retired from that role in 2007 and has since been actively consulting with the CEOs of several global Fortune 100 companies.

Conaty recently attended Spencer Stuart's annual CEO succession planning meeting. Claudia Kelly, global leader of the firm's Human Resources Practice, interviewed him on the topic of developing world-class leaders. In that conversation, Conaty put forward seven key tenets of an effective succession planning process.

## 1. INSTITUTIONALIZE LEADERSHIP DEVELOPMENT

The building blocks of an effective talent development program are well-recognized — attract great people, continuously assess and develop them, and retain the best players. “What differentiates an exceptional organization from a good one is that its leadership spends as much time on developing, managing and retaining talent as they do on attracting the right people. Everybody wants to attract great talent. Many do that part well. It’s the ability to excel at assessment, development and retention that differentiates the best organizations,” said Conaty.

At these companies, leadership development and succession planning is a continuous process, Conaty said. These organizations identify promising executives with the potential to develop into broader and more complex roles. They are put through a rigorous assessment, which includes a thorough evaluation of work history and personal backgrounds and 360-degree interviews with each executive’s peers, subordinates, customers and clients. When conducted by highly trained assessors, these evaluations can provide specific feedback about each executive. It is critical that the executives themselves also receive an assessment report that includes developmental suggestions to help them advance in their careers.

## 2. DRIVE TOWARD DIFFERENTIATION

“Differentiation breeds meritocracy; sameness breeds mediocrity,” said Conaty. Leadership development that focuses on differentiation — that is, recognizing and rewarding the best performers and letting others know where they stand — breeds stronger, more effective executives.

“Talent is assessed daily in best-in-class companies; everyone understands that they are always being assessed and receives feedback continually,” Conaty said. “That way, employees know where they stand, whether it’s up or down, so they can get on with life in a proactive way.” GE’s process, for example, looks at an individual’s performance, values and any unique skills he or she has in a

particular area. Each person is assigned an overall rating that falls into three categories — top talent, highly valued or less effective — on which the company’s recognition and reward system is based. Executives get clear communication about their current standing and potential career trajectory. It is much more honest to let under-achievers know where they stand so they can move on with their lives and find a culture more closely aligned with their skills.

## 3. HOLD LEADERS ACCOUNTABLE FOR SUCCESSION PLANNING

In Conaty’s view, succession planning should be seen as the responsibility of the business, not an administrative function. It also is an activity on which the CEO should spend significant personal time — and ensure the board focuses on it, as well. Without this level of commitment at the highest levels, the organization receives contradictory messages about the importance of succession planning. “If the CEO demands it and models it, the rest of the organization will follow,” Conaty said.

To be effective at leadership development, companies must hold executives accountable for developing successors. Even at those companies that excel at leadership development and succession planning, there is the occasional leader who is reluctant to groom a successor.

“Great leaders develop succession plans,” said Conaty. “If you’ve got an insecure leader who really doesn’t want someone to replace him, the candidates are never going to be the right ones. I really put a premium on having in-depth succession plans. If you find one of those leaders who continually ‘kills off’ his or her successors, then you have to start looking at the person who is doing the killing.”

Companies also should consider outlawing horse races between candidates or efforts to “run for office.” Ideally, succession planning is an all-winners process, Conaty said. Taking this approach, GE has been successful at keeping the experienced leaders it does not want to lose. For example, Conaty estimates that GE has been able to

retain 97 percent of the top 600 executives it wanted to keep during the past 15 years.

#### 4. OVERCOME OBSTACLES TO IMPROVING TALENT DEVELOPMENT

One of the main reasons many companies do not handle succession planning well is a lack of commitment and communication. This is not a process for middle managers. Rather, the senior-most leaders must focus on developing the leadership bench. In the best-run companies today, the board, the HR/talent leadership team and the CEO work together to make succession planning and leadership development an absolute priority. The board has the opportunity to set the tone by expecting CEO succession to be done in a first-class manner. The CEO has the mandate from a world-class board to ensure that strong HR leadership and processes are in place. And, the HR team must partner and support the business so that they truly own the process.

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#### 5. AS BUSINESS NEEDS CHANGE, SO SHOULD THE COMPANY’S LEADERSHIP DEVELOPMENT PRIORITIES

As business priorities and marketplace conditions change, the leadership requirements for senior executives necessarily must evolve. Consider how the role of the CEO has evolved. While many of the leadership requirements have remained consistent over time — such as strategic orientation and the ability to drive results — developments such as globalization, heightened regulatory pressures and the rising influence of institutional shareholder groups suggest a need for a new set of skills. Increasingly, CEOs must have international experience, global perspective, effective team-building and communi-

cations skills, a real understanding of risk management and a tolerance for intense pressure and scrutiny from a variety of stakeholders.

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“The best leadership development programs evolve to reflect new priorities and business realities, while retaining the company’s core business values,” Conaty said. For example, today’s leaders are more likely than in the past to be assessed on growth traits, such as external focus, clear thinking, imagination, inclusiveness, domain expertise and globalization, as companies increase their focus on commercial excellence and growth. At the same time, companies rapidly expanding in new regions or through acquisitions will want to use the evaluation process to reinforce the company’s core values with new executives. Companies do this by incorporating the newly desired traits into their evaluation processes. “That way, individuals either buy in or check out,” Conaty said.

#### 6. CONTINUE TO RAISE THE BAR ON PERFORMANCE

“The best companies always are raising the bar on performance,” Conaty said. In well-functioning talent development programs, individuals receive feedback — at least annually — on how they fit into the organization, what their strengths and development needs are, and whether their career aspirations match the company’s. If they do not, the feedback should include recommendations for making them more compatible.

“The process should be very disciplined and rigorous. It should be owned by the business units and facilitated by HR,” Conaty said. The process should help the company’s leaders and the board understand, business by business and organization structure by structure, how the leader-

ship teams are evolving and who the backups are for each leadership role. It also provides a mechanism for pushing out key initiatives throughout the organization. “Where this sort of process is deeply ingrained in the culture, the business leaders see the value to them and the company as a whole,” Conaty said.

## 7. EMBRACE CONTINUOUS LEARNING

“Continuous learning is the name of the game,” according to Conaty. “Individuals have to continuously raise the bar on their own personal performance because the bar is always rising.”

GE has cultivated a learning culture, Conaty said. One of the company’s primary leadership development tools is its John F. Welch Leadership Center at Crotonville. Opened in 1956 as part of an effort to better train managers, Crotonville today serves as GE’s “business school,” helping executives tackle new business problems and share knowledge with customers, suppliers and business colleagues from around the world. It also plays a crucial role as an agent of cultural change at GE. The company invests about \$1 billion annually in training and sends some 10,000 people a year to programs at Crotonville. Likewise, high-performing employees are nominated to attend courses there when they achieve certain career milestones.

### ABOUT THE AUTHOR

Claudia Kelly is the global leader of the firm’s Human Resources Practice.