2010, Volume 13, Issue 1

Six Steps for Confronting the Emerging Leadership Succession Crisis

Talent Management Best Practices from the Healthcare Industry

By Kevin S. Groves, PhD

Organizations face a myriad of challenges addressing what many have dubbed a leadership-succession crisis. Corporate boards, top management teams, and human resource (HR) professionals are under increasing pressure to develop a sustained pipeline of leadership talent in the context of this "5/50" crisis—that is, the fact that over the next five years firms could lose 50 percent of their executive personnel due to the confluence of workforce demographics, retirement trajectories, and marketplace realities.[1]

🔊 **listen to the article**
💾 **download it to your personal media player**

💬 **Comments**

Nearly one-third of all Americans will reach retirement age in the next 10 years[2] and lining up talent to assume top management roles often requires a decade of carefully crafted developmental experiences.[3] Consequently, organizations must proactively develop and launch talent-management systems that ensure that future leaders are systemically identified and developed. While many organizations confront these challenges in a piecemeal fashion or by simply replicating one or more of their competitors' practices, a number of exemplary firms have designed comprehensive talent-management systems to identify and develop high-potential leaders early in their careers.[4]

Image: Md. Kamruzzaman

Best-Practice Evidence from the Healthcare Industry

Saddled with a comparatively low hospital CEO median tenure of four years,[5] a general lack of sustained investment in talent management compared to other industries,[6] and rapidly increasing costs that place downward pressure on all non-essential or non-strategic expenditures, healthcare organizations must be exceedingly accurate and efficient in identifying and developing emerging leaders. However, in spite of these challenges, a number of national healthcare systems have successfully designed and enacted comprehensive talent-management systems.

The findings summarized below were derived from a qualitative study of 13 national healthcare organizations with exemplary talent-management practices and records of effective executive-succession decisions. On average, these organizations employed 53,000 employees, operated 38 hospitals and/ or medical centers, spanned five states, and reported revenues of $9.16 billion for 2008. Fifteen HR, organization development, and chief administrative executives were interviewed for this study, which revealed the six primary talent-management system phases employed by best practice organizations:

1. Build the Business Case for Talent Management

2. Define High-Potential Leaders

3. Identify and Codify High-Potential Leaders

4. Communicate High-Potential Designations

5. Develop High-Potential Leaders

6. Evaluate and Embed Talent-Management System

The results of this study and other research on best practices for leadership development and succession planning strongly suggest that organizations commit to implementing all six phases to achieve a long-term competitive advantage. [7]

1. Build the Business Case for Talent Management

During this phase, a sense of urgency to invest in talent-management practices and to elevate it as a strategic priority among top management and board members must be created. Human resource and organization development (HR/OD) professionals emphasize the following factors in making the business case for talent management:

- Workforce demographic trends, such as the retirement trajectories of key management personnel

- Diversity statistics as they pertain to minority representation in managerial positions

- Strategic role of talent management in securing a competitive advantage

2. Define High-Potential Leaders

What it means to be a high-potential leader must be defined within the context of the organization's business strategy and its specific strategic initiatives.[8] Generally, high-potential leaders are defined based on a three-dimensional model comprised of:

1. Core set of leadership competencies

2. Candidate's motivation to advance and necessary mobility for relocation

3. Assessment of candidate's readiness for advancement

The most commonly cited leadership competencies in the study were team-building skills, a systems view of the organization, a values-centered leadership style, and visionary leadership/ change agent.

Many executives emphasized that developing and maintaining a systems view leads to shedding the "silo" thinking that often leads to executive derailment.[9] The leadership-development interventions at many best-practice organizations, such as action-learning projects and stretch assignments, are engineered to enhance high potentials' ability to practice systems thinking;[10] they push participants to develop broad competencies and non-silo views, which prepare them for more advanced leadership roles.[11]

Action-learning projects involve teams of high-potential leaders who collectively address important organization-wide challenges or opportunities. Conducted over the course of a year, each team applies analytical tools, collects diagnostic data (financial, operational, marketing, etc.), interviews key personnel, and presents final results and recommendations to senior management. A recent example of an action-learning project at a multi-hospital healthcare system was a feasibility study for converting patient membership cards to 'smartcard' technology.

Image: Onur Dongel

Stretch assignments are challenging job roles in which high-potential leaders are moved into completely new job areas or cross-divisional assignments. In healthcare, a common stretch assignment involves transferring a high performer from an administrative business unit (e.g. system headquarters) to a service delivery business unit (e.g. hospital). Such job transfers afford the future leader with a broader range of competencies and knowledge bases, and a greater understanding of how each business unit contributes to the overall organization. Furthermore, stretch assignments provide unique opportunities for high potentials to showcase their talent to a wider range of executives, staff, and other stakeholders.

3. Identify and Codify High-Potential Leaders

High-potential leaders are evaluated through a series of talent-management review sessions. Using tools to categorize these high performers is crucial; the popular nine-box tool, for example, plots key personnel based on job performance outcomes against leadership potential at subsequent levels.[12]

As described in Table 1 below, a robust, objective, data-driven performance-appraisal process transforms review sessions into authentic, collaborative dialogues among managers representing multiple levels, functions, and business units, and results in the creation of a fluid list of candidates who can be slotted into strategic positions across the organization.

4. Communicate High-Potential Designations

This phase emphasizes the continued development of strategic leadership competencies by communicating high-potential status to designates and non-designates while *deemphasizing* the status associated with elite titles. The pre-dominant best practice was an *implicit* designation, whereby managers communicate high potential status to designates vis-à-vis advanced development plans comprised of exclusive and complex development opportunities, as opposed to an *explicit* designation of "high potential." Key outcomes include the careful management of employee perceptions regarding the system's equity and transparency.

5. Develop High-Potential Leaders

Future leaders are selectively assigned experiential learning opportunities, the most critical of which are stretch assignments, cross-divisional or cross-site assignments, and action-learning projects. In-house leadership academies serve as umbrella institutes for all leadership development interventions and focus on increasing the high-potential leader's capacity to adopt a systems view and to understand the organization's strategic challenges.

6. Evaluate and Embed Talent-Management System

A series of evaluation metrics can be used to diagnose the efficacy of the talent-management system and align performance-management processes to strengthen line-management support. Common evaluation metrics include:

- Ratio of internal/external hires for key leadership roles
- Success rates of high potentials placed in new roles
- High-potential turnover rate
- Benchmarking data comparisons
- Percentage of top leadership positions with at least two viable candidates

Through proper alignment of management incentives and compensation for supporting the talent management system, this phase should result in widespread support and implementation across the organization, as well as the development of a culture centered on learning and development.

Potential Risks

The design and execution of a best-practice talent-management system involves several potential risks. First, the career advancement expectations of high potentials will rise rapidly and must be managed appropriately, for example, by maintaining a focus on the development of leadership competencies through complex developmental *experiences*, rather than static positions or titles.

Another risk is the likelihood that several cycles of the talent-management process may be necessary to fully engage stakeholders across all business units. As practitioners report in this and other studies,[13] line managers often require multiple firsthand experiences with the process before they will fully commit their time and resources, such as by "lending" high potentials to other regions or operating units for temporary assignments.

The final risk depends on the degree to which the organizational culture supports employee learning and tolerates failure. High potentials in organizations that demonstrate a low tolerance for failure will likely resist efforts to establish advanced development plans. Managers should develop appropriate contingencies for high-potential leaders who do not achieve their aggressive developmental goals.

Conclusion

The exemplary talent-management practices highlighted in this article present a practical six-phase framework for successfully confronting the leadership-succession crisis. HR/OD practitioners, senior management, and corporate boards may collectively design and launch a talent management system using this framework that can transform the imminent leadership crisis into a competitive advantage.

Table 1: Talent-management system Phases, Success Factors, and Interview Excerpts

Talent Management Phases	Success Factors	Sample Excerpts
1. Build Business Case for Talent Management	• Strategic Priorities • Workforce Demographics • Diversity Initiatives	*Our current VP of HR is extremely good at refocusing HR around the organization's strategic plans by communicating and reminding the board that talent management is part of our strategy. From the CEO's and board's perspectives, when we say, "we're going to buy a hospital," or "we're going to start a medical school," they are looking at us and asking, "what is your talent plan for this? How are you going to staff, support and lead these initiatives?" So it is part of the strategic plan.*
2. Define High-Potential Leaders	• Business Strategy • Leadership Competencies • Readiness and Motivation	*When we changed our vision statement in 2007, we also had a strategic plan to move us toward that new vision. One of our first activities regarding talent and leadership was the launch of a team to review our leadership competencies. We put a group together that spent six months on that project and came up with new competencies, definitions, and behaviors that we wanted to study in terms of conducting 360 assessments.*
3. Identify and Codify High-Potential Leaders	• Talent Management Review Sessions • People, Tools, and Processes	*I will tell you that this is sort of an evolution in that we are much more data-driven now than we were three years ago. When we started this we had different financial and tracking systems. It was very decentralized and [it] was very hard to aggregate that information. We were very much at the mercy of people telling us what was so [regarding high-potential designations] as opposed to being able to trust a*

		verified process. Now, we can actually produce this information.
4. Communicate High-Potential Designations	• Designation by Advanced Development Plans • Training Management with Scripts	*It is a dialogue and we do not give [our high-potentials]the grid. We do not tell them, "you are in box number six or nine." We give our managers scripts to the effect that, 'we see value and potential in what we have witnessed in your contributions and where we see your skill set. We feel that you have a capacity to take on more responsibilities in doing work with more responsibility and a supervisory element." Some individuals do not want that; they want to remain solid contributors in their current capacities. But we are not being specific and saying, 'you're going to be promoted in a year. This is the next position. So, you're ready or you are in one year." Instead, we say, "you have the capacity to take on more responsibility and let us talk about what that could potentially look like. Is this something that you want to pursue?"*
5. Develop High-Potential Leaders	• Experiential Learning • Leadership Academy • Action-Learning and Stretch Assignments	*The Capstone Leadership Academy Project ends with a three-hour presentation to senior leaders across the organization. It is then rolled out across the organization—from our management symposium, which brings together 2,000 managers every year, to our leadership symposium, which includes the top 300 in the organization, and to governance. People are placed on task forces and/or projects after coming out of the leadership academy based on their contribution abilities and skill sets. We are able to take those folks and keep them moving in critical action areas beyond this one experience, and that is a critical component.*
6. Evaluate and Embed Talent-Management System	• Alignment of Incentives • Evaluation Metrics • Board Engagement	*It starts with our most senior executive team, and so our CEO is held accountable to the board. His performance evaluation includes an objective link to what he is doing to grow and develop talent. He is incentivized through our incentive structure on that manner and then that linkage to all of his direct reports*

and across all of our CEOs is cascaded to the top 200-to-250 leaders or vice presidents and above across the organization. So it gets back to that notion of 'you get what you measure.' And when you link it to pay and to incentive structure, it makes a big difference. It is a priority. We have made such a commitment to talent management and to seeing it as a core operational process. We are holding leaders accountable again this year in their incentive structures, which are objectively tied to talent management.

Kevin S. Groves, PhD, *is an assistant professor of organization theory and management at the Graziadio School of Business and Management at Pepperdine University. He received his doctorate in organizational behavior from Claremont Graduate University, where he was awarded the Arthur H. Brayfield Dissertation Award for his research on charismatic leadership and organizational change. Dr. Groves' research on managerial thinking styles, leader emotional intelligence, and charismatic leadership has received numerous awards, including best-paper awards at the Academy of Management, Western Academy of Management, and the Society for Industrial/Organizational Psychology. He has been published in numerous academic and practitioner journals, including the <u>Journal of Management</u>, <u>Journal of Business Ethics</u>, <u>Academy of Management Learning & Education</u>, <u>Leadership & Organization Development Journal</u>, <u>Human Resource Development Quarterly</u>, and <u>Journal of Management Development</u>. See his faculty page <u>here</u>.*

[1] D. Ready and J. Conger, "Make Your Company Talent Factory," *Harvard Business Review*, 85, no. 6 (2007): 69–77. [purchase required]

[2] K. Dychtwald, T. Erickson, and R. Morison, *Workforce Crisis: How to Beat the Coming Shortage of Skills and Talent*, (Massachusetts: Harvard Business School Press, 2006).

[3] J. Bower, "Solve the Succession Crisis by Growing Inside-Outside Leaders," *Harvard Business Review*, 85, no. 11 (2007): 91–96. [purchase required]

[4] L. Berger and D. Berger, *The Talent Management Handbook*, (New York: McGraw-Hill, 2004).

[5] T. Dolan, "Increasing Succession Planning,"*Healthcare Executive*, 20, no. 3 (2005): 6.

[6] M. Abrams and L. Bevilacqua, "Building a Leadership Infrastructure: The Next Step in the Evolution of Hospital Systems," *Healthcare Strategic Management*, 24, no. 4 (2006): 12–16.

[7] K. Groves, "Integrating Leadership Development and Succession Planning Best Practices," *Journal of Management Development*, 26, no. 3 (2007): 93–110.

[8] B. Becker, M. Huselid, and R. Beatty, *The Differentiated Workforce: Transforming Talent into Strategic Impact*, (Massachusetts: Harvard Business Press, 2009).

[9] J. B. Leslie and E. V. Velsor, *A Look at Derailment Today: North America and Europe*, (North Carolina: Center for Creative Leadership Press, 1996).

[10] K. Groves, "View From the Top: CEO Perspectives on Executive Development and Succession Planning Practices in Healthcare Organizations,"*The Journal of Health Administration Education*, 23, no. 1 (2006): 93–110.

[11] J. Conger and G. Toegel, "Action Learning and Multi-Rater Feedback as Leadership Development Interventions: Popular but Poorly Deployed," *Journal of Change Management*, 3, no. 4 (2003): 332–348.

[12] M. Sobol, P. Harkins, and T. Conley. *Best Practices for Succession Planning*, (California: Pfeiffer, 2007).

[13] M. Guthridge and A. Komm, "Why Multinationals Struggle to Manage Talent," *McKinsey Quarterly*, 1, no. 4 (2008): 10–13.

🗩 Comments (0)

Leave a Comment

Name (required)

Email (required)

Comment:

Submit

Graziadio School of Business and Management | 6100 Center Drive, Los Angeles, CA 90045-1590
Copyright © Pepperdine University 2009
Terms of Use | Privacy Policy

The opinions expressed are solely those of the authors and do not necessarily reflect the views of the Graziadio School of Business and Management nor Pepperdine University.