Using succession management to create talent flow:

10 principles learned from SuccessFactors customers

Steven T. Hunt, PhD, SVP Customer Value Realization
SuccessFactors/SAP Human Capital Management

successfactors™
An SAP Company

SAP®

Using succession management to create talent flow:

10 principles learned from SuccessFactors customers

There is no single best way to conduct strategic human resource activities. I have learned that fact through working with hundreds of companies, helping them use technology to increase employee engagement and workforce productivity. Techniques that work in some companies can fail miserably in others. Even methods that work for a company at one point in time can become detrimental later (forced ranking at GE and Microsoft, for example).

Succession management is a great example of this uniqueness. Companies can conduct succession management in countless ways, and methods that succeed in one company may not be effective in another. For example, I've seen companies evaluate employee performance and potential using 9 boxes, 4 boxes, 16 boxes, and 25 boxes. [1] I've observed that the number of boxes does not matter nearly as much as how well the process is designed, supported, and implemented. Often, what you do matters less than how you do it. Focusing on how to do it right is particularly important for companies seeking to move succession management beyond traditional replacement planning and to enable positive talent flow within the organization. To help you make such a shift, here are 10 principles I have learned from SuccessFactors customers.

Principle 1. Understand the difference between replacement planning and talent flow

This principle is about understanding the end goal for succession management in your company. There are two basic ways to think about succession management: replacement planning and talent flow. Both provide value, but their goals and the methods used to support them are very different.

Replacement planning is the more traditional approach to succession management. It focuses on identifying specific people who are considered to have the qualifications and potential to perform specific jobs and then periodically assessing and moving them into different roles in the company. During a replacement planning session, you tend to hear questions like "How many years until Sue will be ready for the VP slot in marketing?" or "Who will replace Jim when he retires? Should it be Tom, Marla, or Dylan?"

[1] A 9 box is a method to categorize employees and guide succession management actions. Succession candidates are placed onto a 9-box grid based on three-point ratings of performance and potential. The 4 boxes, 16 boxes, and 25 boxes are variations of this approach using two-, four-, or five-point rating scales instead of the three-point scale used in a 9 box.

Replacement planning minimizes the risks associated with turnover of key employees, but it assumes organizations and employees are more stable than they tend to be. Replacement planning sessions often feel a bit like moving employees around the organization as though they were pawns on a chessboard. There is a lot of talk to answer questions like these: “Is Bill better than Brenda for that role?” or “Should we move Martha this year or next year?” But employees aren’t pawns waiting to be moved. High-potential employees by definition don’t sit around waiting for things to happen—they make things happen. And they tend to make things happen based on their time schedule, which may be much different from the schedule the company might like them to follow. Similarly, companies often change much faster than the two- to three-year time frames often used in replacement planning sessions. Some companies change organizational structures so frequently that any discussion of specific positions will be outdated if the time horizon extends further than two years out.

Talent flow is an alternative approach to succession management that has grown in popularity the past few years. Talent flow views employees and organizations as highly dynamic and constantly changing. Rather than comparing specific people to specific roles, talent flow focuses on identifying leadership and technical capabilities the organization will need and building pools of talent within the organization that possess these capabilities. Talent flow discussions emphasize issues like “How many global leaders will we need during the next three to five years to support our strategy?” or “How many current employees show the potential to move into director-level finance positions this year?” or “What is the ratio of internal promotions versus transfers of our high-performing early career leaders?” The talk is not about specific people and jobs, but about general trends regarding talent needs, capabilities, and development. The actual process of filling vacancies is conducted in real time as roles become available and can be thought of as a secondary and natural output of building adequate talent flow within the organization.

Managing the talent flow approach is largely possible because of advances in HR technology during the past five years. This technology allows companies to assess, search, and develop large numbers of employees in a relatively short amount of time. Companies can accomplish tasks that simply weren’t possible in the past, such as searching across a global workforce of 50,000 employees to find the three people in the company who have technical expertise with a specific product, speak Spanish, and are willing to relocate to South America.

Replacement planning and managing talent flow are not mutually exclusive. Companies should ideally do both. But creating talent flows takes more work, because it involves coordinating workforce planning, succession planning, career development, learning management, and internal staffing. Fortunately, as more SuccessFactors customers leverage our technology to move beyond replacement planning to build talent flows, we are gaining considerable insight into what this transition requires. The experiences of SuccessFactors customers reveal the following additional principles that can help you make this leap forward in succession management.

Principle 2. Believe in the potential of your workforce and be willing to invest in it

The concept of talent flow is rooted in a belief that people in the company have the ability to become more than what they are now and a commitment to help them realize this potential. As one of our customers said, "The company made a commitment to develop a culture of continuous learning." This commitment is not trivial. Virtually all executives will say they believe in employee development, but their actions often fail to align with this belief.

"The concept of talent flow is rooted in a belief that people in the company have the ability to become more than what they are now and a commitment to help them realize this potential."

You can tell a lot about how much a company values development by looking at the criteria used to guide compensation and promotion decisions. Are managers rewarded for investing time in building long-term talent? Or is it all about last quarter's business results? Keep in mind that from a short-term operational standpoint, investing in employee development is a lousy managerial strategy. Why should a manager risk short-term operational targets by giving stretch job assignments to employees who have not performed them before? Why take time away from day-to-day tasks to invest in employee learning? And moreover, why encourage employees to pursue career opportunities or promotions elsewhere in the company? How does moving the high-performing, high-potential employees into a different team help the manager of that team?

You also can assess a company's support of development by evaluating whether managers who develop people are rewarded or punished. When managers promote people past them, are those managers celebrated as talent creators or looked down upon as people who have hit a career plateau and are now being passed by? Similarly, are managers rewarded for hiring and developing less-experienced and less-costly candidates? Is there any incentive for managers to save on salary costs by developing talent instead of buying it? Do the scorecards used to evaluate managers include metrics related to talent development and retention? I once asked a business leader how his company rewarded managers who developed and promoted people out of their teams. He answered, "We don't. We punish them by not backfilling their positions." Given this common scenario, it is little wonder that many managers express skepticism toward the relative value of development programs.

Before you start creating talent flow, have a candid discussion with your senior business leaders. When the rubber hits the road, will they be willing to sacrifice some short-term business gains to build a strong talent bench over the long term? Will they truly support managers who excel at hiring high-potential employees and promoting them out of their teams? And will they discipline managers who achieve short-term business results by "burning through talent" with little concern about employee development or turnover? If you don't get strong, early-on commitment toward building a development culture, there is little reason to pursue the effort to build talent flow in the company.

Principle 3. Develop people for their next best job

Talent flow is about creating positive movement within the organization. With this goal in mind, make sure development activities emphasize both what people could be doing in the future as well as current job responsibilities. Guard against the risk of creating a basic job training program rather than a program to build talent for future business needs. As one of our customers put it, the purpose of their program was "to focus employees on leadership skills to prepare them not for their current roles, but for the next level."

> "Turnover itself is not a problem. The problem is unmanaged turnover, whether it comes in the form of unplanned internal transfers or undesirable external turnover."

Creating talent flow includes making sure managers at all levels view employees as dynamic and changing. Managers should neither expect nor want employees to remain in the same jobs year after year. Encourage managers to accept and plan for turnover as a natural and healthy part of running a team. And remind them that turnover itself is not a problem. The problem is unmanaged turnover, whether it comes in the form of unplanned internal transfers or undesirable external turnover. Managers should also understand that one of the best ways to keep high-performing employees is to provide them with career development opportunities. It is also important that managers receive tools and training to guide and support employee career development. And managers who promote talent out of their teams to other parts of the organization should be celebrated and rewarded.

At this point, you might reasonably state that some employees neither want nor probably can make it to the next level of job. True, but even employees who are likely to remain in the same basic job for years need to be developed for roles they have not yet taken on. If the past 30 years of organizational change and downsizing have taught us anything, it is that today's stable job is tomorrow's obsolete position. Managers should be actively thinking about how employees' jobs are likely to evolve over time and helping employees to develop so they can adapt to these changes. One of our customers said that every manager is expected to know what each of their employees' next best job would be, even if some of those employees currently have neither the desire nor the ability to change roles.

Principle 4. Make development a privilege and an honor

Companies are contractually obligated to pay their employees, but usually are not contractually obligated to develop them. True, companies should invest in employee development to attract and retain high-performing talent. But employees should be aware that investments the company makes in their development are a form of job rewards and are not job entitlements.

To get employees to appreciate the value of development opportunities, start with getting operations leaders to treat development as a valued and important part of running the business. Participating in development activities must be considered part of the job and not an administrative task employees do when they aren't doing their real work. Also address the common tendency of leaders to view development as a solution to improve poor performance. If training is mainly used to correct performance problems, then a training assignment will be viewed as a sign of incompetence. I saw an example of this perception in one organization where a manager told me, "Being sent to training was a sign that you are at risk of getting fired."

Make sure business leaders emphasize the use of development activities as a way to make good performers better. Let leaders know that investing in development to build the strengths of high performers generates far more benefits than using development just to fix performance issues. And let employees know that being given access to limited learning resources is a reward for past performance and a significant financial investment in their future potential. Employees should see development programs as a benefit of working for your company. As one of our customers said, “The idea was that you should feel honored and flattered that all of your hard work got you to this place where the leaders around you see you as a future leader of this organization.”

Principle 5. Create a common method for assessing performance and potential

“You can’t create talent flow if you don’t know who your talent is.”

Talent flow is ideally about creating positive movement of talent across all areas of the organization. But it is reasonable and appropriate to disproportionately invest development resources in those employees who are likely to provide greater returns to the company. This strategy requires that companies establish consistent methods to assess and identify high-potential, high-performing employees.

An early step in building talent flow is developing common methods to define, measure, and track employee performance and potential. As one of our customers said, “You can’t create talent flow if you don’t know who your talent is.” Ideally, companies will use performance management processes to support this effort, and those methods should be rigorously designed and applied to ensure they provide accurate data about employee capabilities. In some cases, however, it is more expedient to develop targeted high-potential assessment processes rather than trying to reengineer the company’s overall performance management program.

It is worth noting that the action of creating a common method for assessing performance and potential can by itself promote positive talent flow. One of our customers commented that prior to implementing better assessment processes, “We didn’t have accuracy about who our top talent was or the depth of our bench for different functions. We just didn’t know who our high performers were. Our processes were inconsistent, and data was sort of locked up in different functions across the company.” This customer shared that getting consistent performance data into a common system had three major positive impacts on the company culture: (1) it established consistent definitions of performance and potential across the company, which supported a more integrated culture, (2) access to consistent data on high performers across the company facilitated greater flow of talent between departments, and (3) increasing the visibility and use of performance data led to improvements in the accuracy of this data (see the next principle for more discussion of this point).

Principle 6. Use data to shine a light on the problems

Customers who have implemented talent flow processes have a common observation: As soon as you start collecting and sharing data on talent, your leaders will start questioning and challenging its accuracy and meaning. Welcome and encourage this discussion. If leaders complain that the data is not accurate, then ask them what can be done to improve its accuracy. Remind them that the data came from line leaders—not HR—and improving it is entirely in their power. If leaders balk at the effort that making improvements might require, ask them, “Do we want to know who our high performers are?” If the answer is yes, then ask how you can help them collect more accurate data.

Several customers have told me that the first time they shared talent data with senior leaders was a bit like pushing over the first domino in a chain of dominos. The data triggers conversations and actions that subsequently result in a range of actions to improve the overall succession management and talent flow process. One customer shared:

> When you implement the system, it shines a bright light on the practices you have. When our leaders started to see the quality of our talent data, it caused them to make changes in how they reviewed and managed talent.
>
> We created a set of enterprise-wide bench strength reports that cut across different categories. These reports showed the degree to which we were not taking actions to build talent based on what we had committed to doing. For example, are our high-potential employees being recognized and nominated on a plan for future jobs? Another issue we quickly uncovered was that managers didn't know how to talk to people about talent reviews and succession planning. We learned about this deficiency the hard way. Earlier, the process managers didn't know how to talk about development, but we just didn't know about it. It was hurting us, but we had not recognized it. Or as one person put it, we were "bleeding but unaware." Now we have a recognized need to train managers and are taking action.
>
> Leaders are now held accountable for development through meeting with their leaders and using these reports. It starts with the COO, who has a set of meetings with his direct reports, and the chairman, who has a meeting with his direct reports. These meetings create a sense of accountability and responsibility for having good data about the talent in their teams. Just getting through these meetings forces people to have good data and creates good conversations about talent.

Principle 7. Welcome difficult questions and conversations about talent

As you start implementing more structured and transparent promotion and development practices, expect questions and conversations around sensitive topics, such as promotion decisions, talent poaching, diversity, employee mobility, and the value of individual contributor versus managerial career paths. These topics get at the heart of a well-defined talent development culture. Encourage and embrace these difficult questions as a sign that the organization is truly confronting the challenges of acquiring, developing, and retaining high-performing employees. One of our customers noted, "Be willing to force some uncomfortable conversations. For example, we used the data to drive some hard conversations about employees who were perceived to have stayed in certain roles too long and could be seen as blockers, preventing the development of others. The data also drove frank discussion about different leaders' beliefs toward moving talent across the company, and that forced us to take a serious look at issues related to diversity and the age of employees in certain positions."

One of the basic reasons many companies struggle with development is that leaders do not give it adequate attention. Interpret challenging questions about talent management as a sign that leadership is becoming more engaged in the overall succession management process. Remember, companies that have well-established processes to drive talent flow don't talk about talent and development less than companies that lack these processes—they talk about it more.

Principle 8. Don't clog the talent pipeline

This principle becomes important as companies gain maturity in their efforts to create internal talent flow. You must balance investment in building the capabilities of employees against the number of internal career opportunities in the company. If you over-invest in developing employees, you may inadvertently drive up external turnover. This turnover results when employees find themselves overqualified for their current roles but cannot find more advanced roles within the company. One of our customers said, "We very purposely did not run our emerging talent program one year, because we had 63 alumni that had not yet been placed in new roles. We wanted to make sure opportunities opened up before running the program again."

"We very purposely did not run our emerging talent program one year, because we had 63 alumni that had not yet been placed in new roles. We wanted to make sure opportunities opened up before running the program again."

The most effective way to keep the talent pipeline unclogged is to use workforce planning and forecasting to balance talent flow with future job opportunities. This approach involves comparing the time required to build future talent, the number of high-potential employees in or eligible for development programs, and the expected number of future open positions due to company growth or turnover of current employees. One last point about maintaining talent flow: Although clogging the pipeline can be costly, it is usually better to overdevelop the workforce than to underdevelop it. Years ago, a customer told me, "It may be true that if we train people, they might be more likely to leave. But is it really better to not train them and have them stay?"

Principle 9. Track the financial results associated with employee development investments

Many HR organizations struggle to get funding for development programs primarily because most employee development programs have no intrinsic business value. Employee development becomes valuable only when it addresses talent requirements that impact business operations. For example, when company leaders are told that "50 employees have completed a development program," all they know for sure is that the company has spent a lot of time and money on employee development.[2] They will not see a return on this investment until you tell company leaders what the development program enabled these 50 employees to do. For example, "90 percent of the employees who completed the development program outperformed their peers in achieving their business targets in the first six months on the job."

If business leaders do not see a clear link between development methods and talent requirements and their impact on business operations, eventually they will resist supporting or funding these methods. Early on, work to establish tangible metrics that can illustrate the business value of development activities. The easiest metrics to track and quantify usually are related to increasing employee retention and internal staffing rates. For example, one of our customers tracked data that allowed them to claim that "48 percent of alumni from the first emerging talent program were promoted to director-level roles within one year." This data alone could be enough to convince non-HR leaders of the value of this sort of program. But if anyone needed further convincing, it would be fairly easy to show the monetary values that come from filling positions with internal employees rather than external hires.

[2] I'd like to thank my colleague Jenny Dearborn for this example. For an excellent discussion of metrics-driven development programs, see her book, *Data Driven: How Performance Analytics Delivers Extraordinary Sales Results* (Wiley Press, 2015).

Another way to show the value of development programs is to incorporate development metrics into ongoing business operations. For example, some of our customers regularly review the number of critical roles that lack ready backfills due to inadequate internal bench strength. These gaps are seen as critical risks to business operations and continuity, and business leaders understand that the only way to close these gaps in a consistent and cost-efficient manner is through ongoing employee development.

Principle 10. Give the process time to mature before making radical changes

An analogy might be made between building succession management processes to support talent flow and growing and pruning trees in a garden. You must put in considerable work when initially starting them, but once they are in place, the focus switches to ongoing nurturing with relatively infrequent changes. If you constantly prune a plant, you will hinder its ability to grow. The same is true of succession management programs—they need time to develop so they can become strong.

In my experience with customers, three years is often the magic number for building out succession management processes. There are a few reasons for this three-year time frame. First, the purpose of succession processes is to change how managers think about employee development. This change requires overcoming past habits and instilling new patterns of behavior. Such changes will not occur all at once. They must be ingrained through educating, demonstrating, and reinforcing actions over time. Second, many aspects of the succession management process occur on an annual basis. The first year a new process rolls out, people must go up a learning curve simply to use it. The second year they will start to get comfortable with it. Not until the third year will they truly begin to master it. A person might argue that it takes three years for managers to become familiar enough with a succession process to provide an educated evaluation of its effectiveness. In other words, you need to have some mastery of a process before you can truly say whether it works well.

Because many succession management processes have a three-year maturity timeline, you should be direct with business leaders about the level of sustained commitment needed for these processes to fully deliver value. Ask leaders to support the process for three years before making significant changes to it. Making major changes more often than every three years can create confusion and uncertainty in the company. The succession process doesn't need to stay exactly the same through all three years. But refrain from making radical changes in years one and two unless the process is clearly broken. In sum, give the process time to work before deciding whether it is working.

Conclusion

The purpose of this paper is not to tell you how to create a succession management process that will work in your organization. That is something that requires much more involved examination of the unique business needs, culture, and resources in your organization.[3] This paper has shared several fundamental principles to recognize and adopt as you undertake the journey to build a stronger succession management process—a process that goes beyond simple replacement planning to create robust talent flow within your company. Nothing I can say will make such an undertaking easy. Few things that create transformational improvements in a company's workforce management practices are easy. But the tips in this paper will help you avoid some common mistakes, plan for the road ahead, and speed you along your way.

[3] For a comprehensive discussion of issues related to designing effective succession management and employee development, please see my book *Commonsense Talent Management: Using Strategic Human Resource Processes to Improve Company Performance* (Wiley Press, 2014).

successfactors™
An SAP Company

SuccessFactors
Global Headquarters
One Tower Plaza
South San Francisco, 94080

TOLL FREE > 800 845 0395
PHONE > 650 645 2000
FAX > 650 645 2099
EMEA > +45 33 349 349
APAC > +612 9238 6680

www.successfactors.com

v. 03 2015