
10 Leadership Succession Planning In International Mergers And Acquisitions In Central And Eastern Europe

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In today's business environment characterized by near-constant change, where international acquisitions and investments picking up the pace modify the configuration of existing organizations, the management of the risk associated with planned and unplanned departures in key positions, the prevention of loss of knowledge and relationships that reside with key employees or simply managing the impact of demographics shifts in the workplace are business imperatives that executives can no longer afford to ignore. Leadership development and succession planning in a dynamic environment is an ongoing process and requires more a special attention to support the organization's mission and goals. The paper discusses the implications of M&A's led changes and how HR leaders can create the right approach to help their organizations sustain the leadership bench necessary to help addressing these imperatives these business risks and support business growth.

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Introduction

Merger and acquisition activity is picking up the pace nowadays, especially in emerging markets such as Romania but also in the Central and Eastern Europe region, growth and innovation are back on the corporate agenda. Companies are searching for opportunities to take out cost, and investments in new markets are soaring. These are only a few of the drivers behind the latest wave of corporate reorganizations. Executives are spending millions of dollars to downsize right size, integrate, acquire or otherwise realign their businesses, hoping to improve long-term performance or simply to stay in business. No matter how we look at it, organizational change in international mergers and acquisitions has become the norm in the new millennium. But are companies as committed to developing the leadership bench strength required to drive this change and deliver the right results?

The answer is no, according to a survey conducted in 2010 by the Corporate University Xchange on a sample of 100 top executives in companies experiencing M&A's in Central and Eastern Europe (Romania, Czech Republic, Poland, Hungary, Ukraine, and Russia). Less than one-third of the executives who participated felt that leaders in their organizations demonstrated a strong commitment to leadership development and were willing to finance it accordingly. Ninety-one percent found it difficult to identify high-potential talent within their organizations early in their careers. Only 3 percent expressed confidence in their organization's ability to develop the leaders required to ensure its long-term success.

In today's environment, the lack of succession planning has created an increasing imbalance between business expectations and leadership development that further led to a performance gap within many organizations. We can define succession planning as a deliberate and systemic effort through which a company ensures its continued performance by anticipating its capability requirements, developing, deploying and retaining key talent in critical roles. The overall objective is to ensure business continuity now and in the future through adequate supply of leadership, managerial, technical and professional specialist talent in key positions. The strategic intent of a Succession Planning Program is to identify and pro-actively address 'at risk' positions, accelerate the process for

filling key positions, develop a pool of potential candidates for critical positions and develop high potential employees (Gallos, 2008).

An ideal Succession Planning Program should:

- Identify strategically important positions that require incremental focus and attention.
- Ensure that the right individuals are being identified to fill the positions required to execute the strategic and business plans.
- Link closely with existing human resources programs such as performance management and competency development.
- Incorporate a practical and tangible approach to identify the potential talent gaps and secure the necessary talent.
- Include a focus not only on identifying potential candidates but also on developing these individuals for leadership positions.
- Where possible, include a list of potential external candidates.
- Have a process and underlying philosophy that is understood by all employees, with the details of the plan remaining confidential.

If an organization has pursued a strategy of “doing more with less” without considering long-term succession, middle managers who would have been more likely candidates for senior management positions may have been given incentives to leave, thereby creating a leadership vacuum. If the company wants to acquire new companies and expand into new markets, but hasn’t built the internal talent pools necessary to support these activities, it is probably dealing with a leadership deficit that is constraining plans for growth. Merger and acquisition activities may have helped a company to identify new sources of innovation. However, if the primary focus has been on filling the executive slots required to close the deal, the organization may find itself without the up-and-coming leadership talent it needs later on to lead the innovation initiatives that will help deliver the anticipated return on investment.

1. How do high-performing HR organizations view their current leadership development practices?

In a survey commissioned by Deloitte Consulting in 2010, chief HR officers in 150 companies in Central and Eastern Europe experiencing mergers or acquisitions were asked to evaluate the effectiveness of leadership

development within their respective organizations and share their development and succession planning priorities. Their responses suggested that high-performing HR organizations are better prepared to build the leadership bench strength that is so critical in an environment where constant change has become the norm. They are more likely than their lesser performing counterparts to proactively develop the leadership talent required to address anticipated future needs. Consequently, they are better positioned to reduce the performance gap that occurs when business expectations and leadership capabilities are not in synchronization.

In this research, HR organizations were divided into two main categories, according to their responses:

- High performers - organizations described by their chief HR officer as high performing and highly regarded by the business
- Low performers - organizations that were less well performing and less well regarded

Organizations with “mixed” responses—those that described themselves as either high performing, yet less well regarded by the business, or low performing, yet highly regarded by the business—were excluded from this analysis. Based on these definitions, the total number of respondents categorized as either a high performer or a low performer was 130.

Past researches suggest that HR leaders—and CEOs—in these organizations view the ability to grow top talent as more than a life insurance policy (Barner, 2006). Recognizing that the days are gone when top managers were in place for the duration, they know that developing leadership talent must be an ongoing process. They consciously strive to identify the competencies that are crucial for their company’s future business success and then work to make sure that their developmental activities support these competencies. They subscribe to the notion that successful leadership profiles continuously evolve based on ever-changing business needs. They are also actively on the lookout for “new blood”—employees who already display the competencies envisioned to support future success. Consequently, they help accelerate the growth of the next generation of up-and-coming leaders who will help the organization drive and manage the change required for business strategy attainment.

The old adage, “If you don’t know what you’re looking for, you’ll never know when you find it”, holds true when it comes to leadership

development. Organizations need to define the profile of future senior leaders clearly, then evaluate and train internal talent accordingly.

General Electric’s chief executive officer, Jeff Immelt, described the way his company approached this challenging task. “We identified about 15 companies that had grown at three times the rate of GDP and asked them what they had in common. It was five things: external focus, decisiveness, inclusiveness, risk-taking and domain expertise. So we reoriented the way we evaluate and train along those lines.”

Like Immelt, HR leaders in the high-performing organizations surveyed in Central and Eastern Europe believe that identifying the key competencies for leadership positions is a top priority (see Table 1 below). They are also deeply concerned about improving their ability to identify high-potential talent and improving the caliber of leadership training available to these employees. Overall, their responses suggest that they are keenly focused on building leadership bench strength— they rate all priorities as above average or higher.

Although executives in lower-performing HR organizations rank a number of these activities similarly, only two out of nine activities clearly received an above-average rating. The majority of activities were viewed as much less important priorities. In some instances, the differences are significant, with a gap of 0.75 or higher between the ratings of high- and lower-performing HR organizations.

Table 1: Leadership development improvement priorities

Source: *Custom research commissioned by Deloitte Consulting, 2010*

| Leadership development activities (1-5 scale, 1 = low priority, 5 = high priority) | High Performers | Low Performers |
|---|------------------------|-----------------------|
| Better identification of high-potential future leaders | 3.97 | 3.29 |
| More effective leadership training | 3.94 | 2.96 |
| Increasing depth of bench strength | 3.90 | 3.20 |

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|--|------|------|
| Agreeing on key leadership competencies / use of a competency model | 3.80 | 3.04 |
| Incorporating compensation changes that help retain talented leaders | 3.65 | 2.80 |
| Better application of assignments that test / prepare future leaders | 3.55 | 3.02 |
| More effective executive recruiting to fill the key gaps | 3.44 | 2.80 |
| Developing mentorship programs | 3.27 | 2.58 |
| Instituting 360° feed-back | 3.23 | 2.48 |

High-performing HR organizations recognize that the days are gone when top managers were in place for the duration. They know that developing leadership talent must be an ongoing process.

HR leaders in high-performing organizations are deeply concerned about improving their ability to identify high potential talent and improving the caliber of leadership training available to these employees.

2. How do high-performing HR organizations perceive their organization’s succession planning capabilities?

HR leaders in both high- and low-performing HR organizations indicate that they have succession plans in place for mid- and senior-level management positions. Low performers appear to have extended planning activities to a slightly higher number of positions, although the differences are very slight.

However, the gap between these organizations becomes much more pronounced when reviewing the emphasis placed on improving their respective succession planning capabilities (see Table 2 below). In all cases, high performers indicate that focusing on these activities is an above-average or high priority. Differences between the two sets of ratings begin at 0.8 and move even higher.

Why do HR high performers feel so strongly about building a core capability in this area? It could be because business and HR leaders at these

firms view the development and deployment of talent as a fundamental requirement for sustainable business success.

For example, when Ken Lewis became chairman and CEO of Bank of America, one of his first actions was to create a mind-set among top leaders that “talent really matters.” He institutionalized regular talent reviews within each of the bank’s business units and commissioned the development of a new leadership competency model. As CEO, he clearly “owns” the company’s succession planning process. His active engagement has sent a clear signal to his organization that in an industry characterized by ongoing organizational change, developing future leaders helps build competitive advantage.

Table 2: Succession planning improvement priorities

Source: *Custom research commissioned by Deloitte Consulting, 2010*

| Succession planning activities (1-5 scale, 1 = low priority, 5 = high priority) | High Performers | Low Performers |
|---|-----------------|----------------|
| Improving quality of talent assessment | 3.76 | 2.86 |
| Defining competency requirements for key positions | 3.75 | 2.78 |
| Implementing / expanding succession planning | 3.74 | 2.82 |
| Managing transitions more effectively | 3.59 | 2.58 |
| Preparing and testing talented employees through planned assignments | 3.44 | 2.60 |

3. More than a “one-size-fits-all” approach

Today, Executives are committed to growing leaders whether it’s business as usual or not. HR is a key partner in this process, responsible for making the right tools available to the CEO and his or her executive team, and putting the supporting systems in place.

However, leadership development and succession planning in a constantly changing environment requires more than a “one-size-fits-all” approach. HR leaders need to take this into account and customize their company’s approach accordingly. Important issues to consider include:

- **Executive engagement.** Companies that have experienced significant organizational restructuring frequently see changes in the constitution of their senior management team. The lack of continuity means that not all executives are on the same page concerning the profile and competencies required for future leaders. Taking time upfront to align and engage these leaders around the role that leadership development and succession planning play in enterprise success is necessary if the process is to be effective. Depending on the frequency of change in an organization’s business environment, HR leaders may want to formalize these alignment activities and integrate them into the overall process.
- **Defining the right leadership profile.** When an organization is in a state of transition or in the midst of reinventing itself, leaders, by definition, face new challenges. As GE’s CEO, Jeff Immelt points out, old leadership profiles no longer apply; they must be updated or replaced. One starting point is to use the organization’s new vision, business strategy and desired culture as reference points to negotiate future executive profiles. Targeted job levels and job families (e.g., functional leader, line-of-business executive, plant manager) must also be taken into consideration. Profiles change at the top as well as further down in the organization.
- **Proactive communication.** In a changing environment, anticipating and addressing the communication needs of high-potential talent is critical to meet current—and future—business requirements. Proactive communication helps reduce uncertainty, buffer the confusion that comes with change and retain top performers who, in the long term, will bring value to the organization. However, leaders should keep in mind that a successful communications strategy must take into account the needs of other employee segments as well. Keeping “stars” while losing “soldiers” will put the organization at risk, so mastering this balancing act is critical.

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- **Experiential learning.** In the midst of change, a highly structured and formal leadership development curriculum is likely to have a short shelf life. Mentoring and developing high-potential talent through special assignments as well as team-based learning and action planning is a more realistic and sustainable approach to developing skills, transferring knowledge and reinforcing organizational values.
 - **Flexible career paths.** Once companies have defined the leadership characteristics required to support business strategy attainment, these descriptors can be used to inform career path development. For organizations dealing with restructuring, the definition of “ideal” as well as “optional” career paths for tomorrow’s leaders makes good sense. Taking a two-pronged approach will help manage individual career expectations while offering greater flexibility to the organization.
 - **Return on investment.** Measuring the investment and return on leadership development and succession planning activities is particularly important during times of organizational change. The temptation to reduce funds for developmental activities can be high when there is pressure to take out cost or reallocate funding. Frequently, employee and leadership development budgets are first to go. Both quantitative and qualitative measurements should be included and must be relevant to desired business outcomes.
 - **Impartial review.** Maintaining an objective perspective concerning leadership profiles, development programs and practices can be challenging. Often, there is a tendency to gravitate toward maintaining the status quo. To verify that impartiality is maintained and leadership development approaches remain relevant, seeking external advice can help HR leaders make a determination regarding whether or not these methods continue to meet organizational requirements.
 - In a changing environment, proactive communication helps reduce uncertainty, buffer the confusion that comes with change and retain top performers who, over the long term, will bring value to the organization.

4. First steps to develop leadership bench

If an organization is in the midst of a turnaround, or an acquisition is on the horizon, here are steps one company can take today to make sure that it has the leadership bench strength it needs tomorrow (Grosu, 2010):

- **Identify high-potential talent—earlier.** Mid-level management positions are frequently among the first to be eliminated when a company is acquired or it is in the process of downsizing. Consequently, many of the logical candidates for senior management positions are no longer available. Rather than wait to deal with a potentially unrecoverable situation, plan to identify high-potential talent earlier in their careers and consider expanding talent pool participation to help bridge this gap.
- **Don't underestimate the importance of communication.** To tell or not to tell? In the midst of change, should succession-planning activities, including career moves for top performers, be shrouded in secrecy or transparent to all? In my experience, organizations in transition can't afford to stand by and let top performers wonder whether or not there is a place for them in the new organization. There is a strong, and sometimes urgent, need to communicate with top talent. Linking them to the very infrastructure of the company's future and creating critical roles for them to play will help them understand—and demonstrate—more clearly the value that they bring.
- **Anticipate and plan for shortages and excess capacity.** The size of your talent pipeline will vary with each acquisition, corporate downsizing or restructuring initiative. Build anticipated losses and overages into the gap identification process to support orderly succession.
- **Be prepared to update career paths.** When organizations are flattened, many of the positions on the way to the top no longer exist. Career ladders take on different forms when this occurs, and horizontal career paths become increasingly important. Steps are fewer and far between and the requirements for promotion typically more extensive. Be prepared to update the career paths in your organization to make sure that they remain relevant to your needs.

- **Refresh your leadership competency model.** With the organizational complexity, that often accompanies mergers, acquisitions and even downsizing, the number of competencies required for success in senior management positions is growing. Traditional leadership competencies are no longer enough; companies are looking for individuals who can drive change and sell the organization's new vision. Make sure that your leadership competency model keeps pace with business strategy changes and new requirements.

Conclusions

In this complex, ever-changing environment business is undergoing today, ensuring leadership continuity is no longer a project that a company can take the time to set up, and then deploy as and when it sees fit, but is necessary, a continuous activity and goal. Ensuring success tomorrow and optimal business continuity implies taking action today, setting up and implementing a plan that will deliver expected results.

Analyzing people satisfaction within an organization, their motivation for building a life-long experience within the organization or simply predicting the time that a leader usually takes working for or with an organization is also a matter to address that will improve organization's readiness to take upon new challenges and ultimately deliver results. But in today's business environment this is a lever outside of a company's reach most of the cases. The tenure for an executive drastically dropped over the years as more and more business grew profitable and more opportunities have arisen. The human resources turnover rate is expected to grow in the coming years, even though is slightly stabilizing today due to the economic crisis that limits the possibilities for accepting new challenges with new organizations. So the tools or the levers that a company can reliably use for ensuring success tomorrow is by preparing the leadership bench today and developing succession plans for all the executive in the company with a potential tremendous effect on results. Ensuring that an organization will stand ready from the leadership perspective, regardless of the challenges the organization is facing in terms of people shortage is synonymous to ensuring achieving organization's performance results and deliver results as promise.

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