

The purpose of any company is to grow value and wealth. This is how you identify the right people to do just that!

Succession Planning and Business Acumen

Activating Wealth With the
Right People!

Perth Leadership Institute 2019



SUCCESSION PLANNING AND BUSINESS ACUMEN

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EXECUTIVE SUMMARY



Part 1: An Achilles Heel - Succession planning programs focus on *social, professional and personal competencies* and **neglect business acumen**. Yet **financial results will make or break their companies.**

Part 2: New research addresses business acumen - measures unconscious cognitive financial biases. Allows **prediction of their impact on financial outcomes and valuation.**



Part 3: Executives need to be aware to get concrete results If they can address these it opens up the **potential for behavioral change that will lead to real wealth creation.** By activating **desired financial outcomes** at the level of the **specific** individual, team or company.

This includes both **top and middle-level leaders**, including **high-potentials!**

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SUCCESSION PLANNING AND BUSINESS ACUMEN

Part 1 Succession Planning Programs Have an Achilles Heel

Succession planning programs (SPPs) have now been adopted by numerous companies. They are widely seen as being a key factor in competitive success.¹

Traditionally SPPs were focused exclusively on the CEO and C-level executives. Their extension to the levels immediately beneath this top level reflects the growing realization that SPPs have significant benefits for the organization if they are applied more broadly.

In this White Paper, we use the term SPP in its wider sense, as also applied to levels of the organization that includes those below the C-level.

Indeed, we see these as being the future of succession planning, since they apply human capital management to the levels that determine future, as well as current, organizational valuation, a far broader and more comprehensive view of SPPs.

For all of the growing popularity of SPPs, most embody a key problem. They generally lack a formal focus on the business acumen of the participants. As a result, they do not specifically consider a crucial dimension of precisely that component that is most important to shareholders and to company valuation outcomes.

Thus, these programs may well identify and develop executives who possess good leadership skills, defined in conventional terms. However, they will not formally identify executives who also possess business acumen that will result in better financial outcomes for the organization.

Nor will they be able to identify executives who possess less business acumen and need training and development to bring them up to the level required to have the targeted impact on financial performance and valuation of the enterprise.

...That Prevents Them from Judging True Performance

In this context, “performance” for us means performance that results in an improved financial and valuation outcome for the organization. By “true performance” we mean performance that is due specifically to the

individual efforts of the executive and irrespective of the efforts of other people in the organization or to other environmental and market factors.

This is a huge and little-discussed issue. In hiring or recruiting an executive who claims to have had stellar performance, any hiring organization has to judge this claim against the likelihood that this performance was due as much or even more so to factors other than the executive's own strengths.

Most executives who claim high performance have never in fact been in a position where that performance can be judged in isolation from the other factors in their environment that are usually more decisive than their own contributions. These include, although they are not limited to:

- The team of which they form a part.
- Company momentum.
- Managerial support from above (which is often invisible to them and to outsiders).
- The strength of market demand.
- The stage of the market cycle they were in.
- The attractiveness of their product.

Many comparatively weak executives get hired and promoted on the strength of these factors. That is, they come from well-endowed environments that confer on them the perception that they have executive strengths that in fact they mainly lack.

Yet without such a favorable environment they may well have failed. Conversely there are many executives who are comparatively strong but who come from poorly- endowed environments, who are perceived as being weak when they are not.

So, executives are often hired or promoted based on what we term their "presumed performance", rather than their true performance. Such executives are frequently confident, well-presented and highly articulate. In such cases there is a strong tendency, all the way to the board level, to equate presumed with true performance.

We believe that most executives, particularly at senior levels, are hired based on presumed rather than true performance. Of course, once in a key P&L role, they often fail, and the difference becomes apparent. This is no doubt one of the key reasons that so many senior executives fail once they get into a top position.

Exacerbating this problem is the fact that relatively weak executives from well-endowed environments gain confidence from their apparent success which helps convince potential employers and managers that they are indeed strong themselves.

Such executives are usually totally unaware of this issue since they usually attribute their career success to their own efforts and strengths rather than to that of their environment. Indeed, they have absolutely no incentive to do otherwise.

“...Succession planning programs usually work on the basis of the executive’s presumed rather than their true performance.”

The problem with SPPs is that they rarely take these factors formally into account, if at all. Indeed, there has never existed a formal business model that would allow this to be achieved. So SPPs usually work based on the executive’s presumed rather than their true performance. This particularly refers to business acumen - from the organization’s perspective probably the most crucial issue of all, when looked at from the shareholder perspective.

Traditional SPPs Try to Address This

Traditional SPPs are based on a mix of objective and subjective tools. The objective tools include formal assessments. The subjective ones include anecdotal and other methods to judge the performance of executives as judged by the organization’s managers, attempting to pool all of their information and judgements into one overarching assessment.

Subjective tools include a review of the financial performance of executives. However, these assessments are usually based on deeply flawed analyses because of a failure to be able to judge true as distinct from presumed performance. This has led SPPs, particularly at levels under the C-level, to move towards using formal assessments as a way of becoming more objective.

Traditional SPPs and leadership development are often at least partly based on the use of competency assessments. These assessments identify numerous innate competencies that impact leadership ability. These competencies cover basic personal, professional and social abilities.

However, to date, none of these have included innate financial abilities or what we might also term financial competencies. By these, we do not mean training in techniques such as might be gained in business or financial training, but innate abilities in the financial sphere that provide individuals with either less or more native acumen in dealing with financial issues.

But Don't Succeed as the Problem is not Widely Recognized

In no small part this gap is reflected in the very texts and methods that prescribe the development and implementation of SPPs. One of the leading texts in the area, Charan et al's The Leadership Pipeline, focuses almost entirely on general leadership competencies without mentioning financial competencies at all.² The same goes for Tichy's The Leadership Engine.³

The wildly popular book from Marcus Buckingham, Now Discover your Strengths does not mention financial strengths once despite enumerating at length all of the non-financial strengths of leaders.⁴ In this it mirrors the widespread competency models from companies such as Lominger, Hogan and others.⁵

Even Collins' super-popular work, Good to Great, which might have been expected to buck the trend since it focuses on what makes for winning companies, refers only to financial metrics but nowhere identifies innate financial competencies of leaders as a key factor in his chosen companies' successes.⁶

Authors of the texts that underlie SPPs have focused almost entirely either on the transition and personal issues in becoming a manager⁷ or on the processes of leadership⁸ without, in either case, ever recognizing or even mentioning individual financial competency.

However, in the past few years there has been an emerging recognition that the literature on leadership and SPPs has been missing a vital ingredient. Dave Ulrich's book, The HR Value Proposition, explicitly refers to the aim of shareholder value as the key driver for HR.⁹

Ram Charan, a leading academic in this field, has observed that executive recruitment is focusing on "...generic qualities like character and vision, as well as team-building, change management and relationship skills. Psychology and chemistry..." to the detriment of a "...focus on financial performance..."¹⁰ But even then, neither of these authors has a formal focus on the financial competency of leaders that could underlie successful financial performance.

This is not to say that business acumen and financial competency has been ignored in SPPs. Companies such as General Electric and many others have developed programs which specifically focus on the financial performance of participants.

Many companies with SPPs plan job rotations for executives in these programs where their financial performance is carefully observed and measured. Compensation programs for many of them, just as for other managers, are geared to encourage better financial performance.

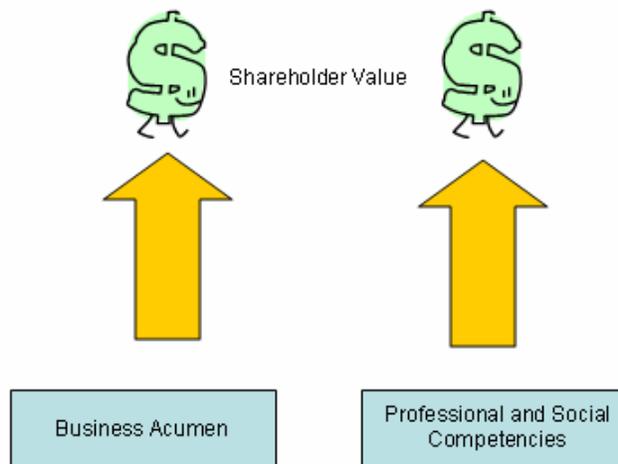
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So, what is the problem? It is that, in the literature itself, in the actual practice of SPPs and amongst their practitioners, there has been no formal concept of an executive's business acumen or of her innate financial competency, as a distinct and identifiable entity. These programs identify, measure and act upon a plethora of non-financial competencies ranging from personal, professional, technical competencies and so on. But none of them have identified a financial competency or business acumen per se.

And so, these programs, measuring as they do numerous human competencies in great detail, miss the one competency which is of the most interest and importance to the shareholders themselves, that is, the individual propensity of managers to achieve the shareholder objective of maximum returns. Since they do not formally identify this competency, they cannot formally develop it.

The implication for SPPs is not that they are not working. They are currently utilizing a wide variety of approaches and techniques that are clearly having a positive impact in improving the marketplace success of their companies. But they can be improved significantly in their impact once they recognize the distinct issue of the business acumen of the participants and integrate this into their approaches, as we show at the following figure

Figure 1 Leadership Competencies



SPPs Reflect Two Competing Worldviews

C. P. Snow coined the term in the 60s "the two cultures." This referred to the hugely different worldviews of those in the liberal arts and the physical sciences. Today we have a similar gap in the area of leadership and SPPs.

On the one hand we have leadership and management researchers who have mainly come from the areas of psychology, sociology, anthropology and organization design. On the other hand, are the financial managers and researchers whose focus is valuation, cost of capital, and resource allocation.

One has a behavioral bent, the other economic. For convenience we will call the former, the behaviorists and the latter the financiers.

There is a common thread to research and work underlying SPPs. Much of it has been conducted by academics and professional psychologists – the behaviorists. This is not to deprecate their work or its importance to improving management and leadership. It is merely to observe that their professional backgrounds and training have rarely been in the actual running of an organization where they are responsible for financial performance.

Their frames of reference have far more to do with personality approaches, interpersonal dynamics, and operational and technical competencies. On the other hand, the financiers have rarely been involved in the science of leadership per se. This has created a chasm which has yet to be bridged.

Current human resource programs are only just starting to catch up with a shareholder-driven world in which financial performance and company valuation are the critical issues. The current models underlying succession planning – personality and competency approaches – are up to 50 years old. They were designed and implemented before the modern revolutions in economics – supply side economics and behavioral economics – occurred.

These models are based on paradigms of leadership that have more to do with social theory than with portfolio analysis and maximizing enterprise valuation. That paradigm is rooted in concepts of social harmony, anthropological factors and in individual competencies to achieve these ends. This view is changing as we have seen with Ulrich's book. But as yet there has been no formal model to do this. This is the issue that our research has set out to address.

The need to integrate business acumen with succession planning programs has never been greater. As the pressure for increased shareholder returns

grows, and fund performance declines under the pressure of ever-growing pools of global capital, so does the need for leaders who have the business acumen to increase these returns.

Yet the number of leaders who possess this level of business acumen is low and the need for them is increasing rapidly. SPPs need to close the gap between the two leadership cultures and formally integrate the issue of individual financial competency into their selection and development models.

An approach that bridges the behaviorist and financier cultures is needed to fill this void. The requirement is for a model of behavior that links individual executive behavior directly and measurably with financial performance and enterprise valuation.

“SPPs need to close the gap between the two leadership cultures and formally integrate the issue of individual financial competency into their selection and development models.”

This has been the aim of our work and the basis for this White Paper. We believe that this is the new paradigm which succession planning must move to in order to stay current and relevant to a rapidly changing business environment.

But in Practice Neglect Business Acumen

Surprisingly, for all the work carried out in management and leadership and in finance and economics, the idea of a specific innate competency in the area of finance has never been formally raised in the literature. As we have noted, behaviorists lack the interest in strictly financial matters and the financiers have lacked an interest in behavior, usually regarding it as too “soft”.

This has not always been the case. The famous psychologist David McClelland conducted research in the 1950s which was based on the idea that psychological factors are important in economic development. His seminal work, The Achieving Society, analyzed the psychological basis of economic development throughout history.¹¹

What he termed the “achievement motive” is very similar to our concept of a financial competency. But his work came before the general acceptance of supply-side economics and the emergence of the idea of a discipline of behavioral economics. In this he was before his time. McClelland started to bridge the two leadership cultures. The need is to continue this line of thinking in SPPs.

Part 2 New Research Addresses Business Acumen

We have commenced to do this in our own particular way through our research into the financial traits of executives, some of which is published in the book by Dr. E. Ted Prince, The Three Financial Styles of Very Successful Leaders.¹²

This examines the issue of business acumen in executives and identifies what we term their “financial signature®” The financial signature is part of a formal model which links the personal financial traits of individuals with financial outcomes, including valuation outcomes.

Our research identifies behavioral drivers which constitute an internal calculus. This calculus assesses situations involving risk and reward and cost and benefit. All of us have such an internal calculus. The Perth Leadership Outcome Model™ formally models this calculus and shows us how it relates to modern economic and financial theory.

Our research reveals that all individuals have distinct, identifiable and measurable financial traits or competencies, which differ significantly between them.¹³ These financial competencies are characteristic and have highly predictable impacts on their financial decisions and actions and ultimately on their own financial performance and the performance of the organizations they serve. We can use this knowledge in a developmental manner to improve the financial performance of individuals and organizations, as we will discuss below.

In our model, there are three distinct styles. One is the value-centric style, which, over the longer-term will result in capital generation. Another is the resource-centric style, which, again over the longer-term, will lead to the consumption of capital. The third is the balanced style, which over the longer-term will lead to neither capital generation nor consumption,

Each of these styles has its place depending on a number of factors. These factors include the degree of market maturity, the stage of evolution of the company, and the extent of capital intensity of the product or service. The key is to align the financial signature of the individual with the valuation objectives of the company.

Over the longer-term, companies will usually want to have a majority of executives with value-centric styles but there will also be a significant need for executives with resource-centric styles. The key is to know when, where and how to use such styles to the best valuation advantage of the company.

Our research has discovered that the majority of executives have resource-centric and balanced styles. Thus, it predicts that most executives, as long as they are not aware of their financial traits, will impact the financial performance of their company by either generating no capital or

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consuming it. Furthermore, our research shows that most executives do not have an innate comfort with financial issues, even when they have undergone extensive business training such as through an MBA program.

Furthermore, this lack of comfort extends to most leadership coaches. (A CEO colleague who is undergoing coaching recently indicated to us that his coach not only did not touch on financial matters with him but deliberately avoided them.)

The aim of business acumen training is to identify the financial signature of an executive and to show how their financial mission can be improved so as to better align with that of the organization...”

“

In our model, one cannot change one’s financial signature, since it is innate. However, one can change one’s financial mission, the expression of one’s financial signature in one’s own behavior.

Thus, financial signature is not necessarily destiny. However, generally individuals will not change their financial mission significantly although a few people can change it a lot.

The aim of business acumen training is to identify the financial signature of an executive and to show how their financial mission can be improved so as to better align with that of the organization and to make it more appropriate to the business and market circumstances in which the executive and the company are situated.

The possession of business training is no guarantee in itself of a value-centric financial competency. Indeed, having a business qualification and significant experience can often lead an executive to erroneously believe that she has a value-centric financial competency, leading her to adopt failing financial strategies.

This fact may explain why otherwise experienced and seasoned executives such as Carly Fiorina could fail. Even in the cases of such fallen icons as Bernie Ebbers, Jeff Skilling and Dennis Kozlowski, it is likely that the problem was not that they set out to defraud or otherwise but that their overconfidence in their view of their innate financial competency led them to make what now, in retrospect, look to be disastrous financial decisions.

Without any doubt these were strong and talented leaders who, by many conventional leadership criteria had it made. They almost certainly possessed resource-centric styles, of which they were, of course, unaware. This led them to financial and valuation failure, as a result of their lack of awareness of this issue.

In this they were aided and abetted by their boards, which were similarly unaware. We need to reflect carefully on the extent to which this may be less an aberration, but rather a widespread phenomenon with far-reaching business ramifications.

In our model, leaders such as Ebbers, Skilling et al fail not just or only because they have personality defects – the often-unspoken assumption behind media and academic judgments on them – but because they had resource-centric styles of which they and their boards were unaware.

This led them to fail and to take actions to cover up their failures for as long as they could. In our model, if they could have discovered their financial signature, they would have had another alternative, albeit not particularly attractive to them but nonetheless legal.

The issue, then, for companies, is to identify the type and degree of business acumen possessed by an executive and to help the executive develop the appropriate types and degree of financial mission required by the organization to meet its financial performance and valuation objectives. This process should be integrated into an SPP.

Achieving Better Financial Performance with SPPs

The aim of incorporating business acumen into SPPs is to directly impact the financial performance of individuals, teams and their organizations overall. Ultimately the objective is to increase the valuation of the organization relative to its competitors by allowing it to harness executive financial competencies directly to the aim of achieving the valuation objectives of the company.

Financial signature has extensive application in SPPs. These will apply in particular in the following components of SPPs:

- Selection and development of high-potential executives
- Design and structuring of accelerated learning programs.
- The types of training programs offered to high-potentials.
- Formal assessments of the financial signatures of high-potential executives.
- Inclusion of business acumen assessments in assessment centers.

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- Integration of financial competencies into conventional competency models and approaches.
- Integration of business acumen into active learning approaches.
- Use of financial signature in the choice of the most appropriate job rotations and assignments for high-potentials.

Certain issues stand out with business acumen assessments. These are:

1. The issue of team (as distinct from individual) business acumen and impact.
2. The issue of alignment between an executive's financial signature and that of the company.
3. The appropriate balance between senior and mid-level executives in development of business acumen.
4. P&L managers versus cost center managers as participants.
5. The level of experience necessary to take advantage of business acumen assessments and programs.

1. Team Financial Signature and Impact

It is not sufficient to look simply at the financial signature of an individual. We must also assess the financial signature and the mission of a team.

Just as conventional leadership approaches assess the relationship between the leadership types in teams, so must we undertake a similar analysis of financial signature at the team level.

However, with conventional team design, the approach is to structure them with complementary leadership competencies. But with financial missions the reverse is the case.

In financially powerful teams, the financial mission of the team must be aligned with similar, not different financial signatures.

Otherwise there will be basic disagreement within the team on how best to pursue market value in everyday decisions regarding cost and value. This is a counter-intuitive issue from the viewpoint of conventional leadership analysis, but it is crucial in designing financially high-performing teams.

2. Alignment of the Financial Mission of an Executive and the Organization

Alignment between the financial mission of an executive and his organization involves more than the usual issues. On the surface they should be aligned in order to achieve a productive working relationship.

However, if the financial mission of the company is not appropriate to its market or stage of company evolution, then this alignment will ultimately be unproductive and will lead to poor financial performance.

Thus, alignment is a necessary but not sufficient condition for optimum organizational financial performance. The sufficient condition is that the organizational financial mission also be appropriate and correct to the circumstances. This introduces levels of complexity with which many leadership and HR professionals, not to mention finance professionals, will lack familiarity and expertise, but is nonetheless crucial to successful implementation.

3. Balance between Senior and Mid-level Executives

Traditional SPPs have been focused on the CEO and the top management cadres. Recent developments are moving this focus to mid-level executives in recognition of the fact that they form the basis for a leadership-oriented culture.

Managers of SPPs need to decide where the optimum balance should lie. The choices are a more short-term oriented approach by working with the top executives who can have an immediate impact on financial performance.

Or it can be a longer-term orientation which focuses on developing the mid-level profit-leaders of the future, who, currently, it should be noted, are the implementers of profit-making strategies today. This decision requires a high-level leadership focus which is fully integrated into strategic financial and valuation goals.

An even deeper issue involves mid-level managers in SPPs. The Achilles heel of SPPs which focus on mid-level managers is that they have no way of judging their business acumen and hence their potential financial performance since many has never been in a P&L position previously. Many may not even have occupied a cost center management role.

Business acumen assessments offer a solution to this problem. This area is probably the one that offers the greatest long-term payback for SPPs since it offers the possibility of identifying, at a far earlier stage, executives who are naturally high performers financially and those who may need developmental opportunities to improve their financial performance.

4. P&L versus Cost-Center Managers

The tendency in SPPs has been to focus on P&L managers. Business acumen training for these executives will have a major impact.

However, many of the most important players in large corporations are cost-center managers. Many of these have little understanding of their power over valuation improvement since they work to a budget rather than to a P&L.

Business acumen training for these executives shows them their impact on the virtual P&L of which they are a part and sensitizes them to their role in valuation improvement for their organization. We believe that one of the most important elements in an SPP is a focus on the cost-center managers to provide them with real-world understanding of their impact on the overall P&L.

5. Experience Levels of Participants

Many of the concepts and issues in business acumen assessments and programs are more meaningful to participants who have at least a certain level of business experience or understanding. Very high-potentials may be appropriate participants even at entry-level. Others may require more experience to take full advantage of the program.

The design and management of an SPP involving business acumen needs to take this into account. Experience is probably an even more important element than in conventional SPPs which do not incorporate a business acumen component.

This also raises the issue of whether or not an executive needs to have current discretionary power over spending and margin decisions in order to be able to benefit from the program. We are still evaluating results of existing programs and the jury is still out here.

But our gut feeling is that, just as in quality programs, over the longer-term, it is better to go deeper into the organization rather than not in order that even the lowest levels of management understand what is required of them financially and in order to improve financial mission alignment at all levels of the organization.

Part 3 By Making Executives Aware

The Participant Response

Once a participant completes a Financial Outcome Assessment™, one of our instruments, they become aware of their financial signature. This triggers a series of reactions and responses in the participant. These can be complex and need to be understood in order for the best results to be achieved in an SPP.

In the vast majority of cases, knowledge of one's financial signature will truly be a revelation. This is mainly because for most people, this will be the first time they have heard of the concept of financial traits. Whether or not they have heard of the concept they will almost certainly never have contemplated the issue of their own financial signature.

Furthermore, in the majority of cases, the participants will not possess a value-centric financial style. For executives who pride themselves on their financial knowledge and skills, this may be a surprise, or even a shock.

We have found that the knowledge of their financial traits sets off a strong process of introspection and self-learning on the part of most participants. For most, there will be productive response, which may or may not be sustained, depending on the level of organizational reinforcement.

For a few, there will be varying degrees of defensiveness and rejection and the learning opportunity, if it ever existed for them in the first place, will be reduced or even lost. However even some who react defensively will change their behavior as insurance, just in case the assessment is correct, which they may often suspect it is.

In these cases, there will be a positive impact on their financial performance, despite their concerns.

We have found that the assessments work rather better with managers who are past entry-level and with some good business experience but who are not yet so senior that they have become set in their ways.

Participants with all three types of styles tend to react productively to feedback providing it is provided in a developmental context. It should be noted that the mere possession of a value-centric style is not, in itself, a reason to feel satisfied since the type of value-centric style they possess may still not be appropriate or aligned for their organization.

Many senior-level executives may feel threatened by business acumen assessments and may feel they have more to lose by undergoing them

than by not doing them at all, even if by completing them, they may improve their own and the organization's financial performance.

This raises issues as to how to business acumen assessments offer the promise of fast returns for those of them who have the necessary degree of self-awareness to make fast and productive changes. introduce these types of assessments into some senior-level components of SPPs.

Yet business acumen assessments offer much to these executives that is not included in current SPPs, including the promise of fast returns for those of them who have the necessary degree of self-awareness to make fast and productive changes.

This Can Result in Rapid Financial Impact

One senior and experienced executive reported to us that he had already paid for the cost of our program with his first expenses decision following completion of his assessments. The supervisor of another indicated that he had seen an immediate improvement in the financial performance of the participant. Yet another (a CEO) indicated that the program had resulted in a significant impact on several of his senior managers, particularly those who had resource-centric styles of which they had now become aware and were compensating for.

Participants and their supervisors generally report an immediate financial impact. This impact is generally more pronounced in the area of expenses. For margins the impact will take longer. How long will be a function of the product cycle of the organization since the value-adding impact can only be felt ultimately through improvement of product or service margins and this usually may derive from product and service changes, which take time.

The aggregate impact of a business acumen program which focuses on cost center managers will be reductions in avoidable expenses and more sensitivity to their valuation impact.

Our programs have not been in place long enough to measure the overall corporate impact of these programs. However, it has demonstrated that, at individual and team levels, the expense and margin impacts are significant. As these programs are adopted company-wide, we expect them to have material impacts on overall financial and valuation metrics of the company.

Also Leading to Systemic Change

Like any behavioral program, a business acumen program needs to be integrated with organizational processes that will both reinforce and sustain positive changes that they create.

Our programs are not based on the expectation that participants will change their financial signature but rather that they will find more or less creative ways to work around any vulnerabilities so as to improve the alignment of their own financial mission with that of their organization.

“Our programs are not based on the expectation that participants will change their financial signature but rather that they will find more or less creative ways to work around any vulnerabilities so as to improve the alignment of their own financial mission with that of their organization.”

Managers of SPPs need to design and monitor these programs so that these processes are embedded into them. The aim of such processes must be to achieve what we term Continuous Valuation Management (CVM). This builds into the organization the objectives and processes for continuously improving the financial missions of all executives so that they are better aligned with that of the organization.

Like continuous quality improvement, this requires a sustained and formal focus. Like quality, CVM is a process, not an event. If an organization wishes to build into its very structure the ability to be able to consciously and formally control its valuation outcome, it must mesh human resource and valuation processes together and formally manage and measure them.

In our view, this will lead to valuation becoming a controllable process rather than the somewhat hit-and-miss program it currently is. We believe that harnessing these approaches is the key to improving company returns over the longer-term.

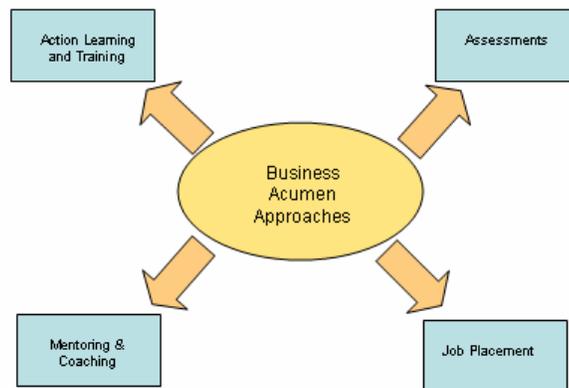
Again, like quality initiatives, this process will require formal recognition of the link between behavior and valuation. This means a formal commitment from the top and carefully planned programs that have measurable financial performance and valuation objectives.

The top leadership, human resources and financial managers will have to collaborate in a way they generally never have. But this will unleash the financial performance and valuation potential of executives in a way that heretofore has never been achieved.

Organizations Need to Meld the Two Cultures

We have argued that SPPs need to incorporate the concept of financial competency to improve their ability to achieve shareholder objectives. This does not mean that they should defocus on traditional competencies, but rather add what is a crucial new set. This will impact all areas of SPPs as we show below

Figure 2 Business Acumen in SPPs



Improving business acumen in SPPs requires that we bridge the two leadership cultures and that the behaviorists and the financiers work together. This is a new paradigm in succession planning. Implementing it does not mean that the previous paradigm should be discarded.

This is a complex issue for many reasons. First, many executives running succession planning programs will have to be trained in the new approach, and not all will take to it since they may lack some of the critical business experience and training that is necessary to make them work. Many of the financiers will similarly not be comfortable or even receptive to behavioral approaches.

Second, the philosophy underlying the old and new paradigms differs significantly. In the old paradigm, there are no wrong answers; in the new paradigm there is a real business difference between possessing high and low levels of business acumen.

Third, there will need to be a formal effort to meld the approaches and processes required by the old paradigm with those required by the new approach. This will require some re-architecting of human resources and

succession planning programs. This will take time and it will have implications for all business areas of a corporation, not just the human resources area. These ramifications extend to competitive strategy, market positioning, marketing strategy and even capital structure.

Conclusions

Notwithstanding these ramifications, we believe that the integrated approach to succession planning will become a critical new driver in improving enterprise financial performance and investor returns. It will supplement and vastly extend traditional approaches. In the process it will help achieve the full potential of succession planning by ensuring that it truly focuses on what fundamentally matters to shareholders – financial returns.

¹ See for example, Effron, M., Shalob, M., Greenslade, S., How the Top Companies Grow Great Leaders: 2005, Hewitt Associates, PDF, Hewitt Associates 2005.

² See Charan, R., Drotter, S., Noel, J., The Leadership Pipeline: How to Build the Leadership-Powered Company, Jossey-Bass, San Francisco, 2001 especially pp. 173-174 where there is mention of operating, technical and professional; skills but in 2 pages of standards for judging leadership potential, does not mention financial competency once.

³ See Tichy, N., The Leadership Engine: How Winning Companies Build Leaders at Every Level, HarperBusiness, 2002 and especially pp. 25-26 which applauds that leaders have ideas, values, energy and edge but does not refer once to financial competency in the table of contents, or elsewhere in the book.

⁴ Buckingham, M., Clifton, D., Now Discover your Strengths, The Free Press, 2001. See pp. 83 ff which expands on the 34 themes of strengths and p. 213 on building a strength-based organization.

⁵ See for example Fulmer, R., Conger, J., Growing Your Company's Leaders: How Great Organizations Use Succession Management to Sustain Competitive Advantage, New York, AMACOM, 2004, which focuses on identification of talent using competency models.

⁶ Collins, J., Good to Great: Why Some Companies Make the Leap... And Others Don't, HarperBusiness, 2001. See for example p. 203 which shows a diagram of an economic engine but does not elaborate on what behavior may underlie it and pp. 104-108 – talks concerning economic metrics.

⁷ See for example Hill, L., Becoming a Manager: How New Managers Master the Challenges of Leadership, Harvard Business School Publishing Corporation, 2003.

⁸ For example Yukl, G., Lepsinger, R., Flexible Leadership: Creating Value by Balancing Multiple Challenges and Choices, Jossey-Bass, 2004. See also Rummier, G., Brache, A., Improving Performance: How to Manage the White Space on the Organization Chart, Jossey-Bass, Second Edition, 1995.

⁹ Ulrich, D., Brockbank, W., The HR Value Proposition, Harvard Business School Press, 2005.

¹⁰ Charan, R., "Ending the CEO Succession Crisis", Harvard Business Review, February 2005, p. 77.

¹¹ See McClelland, D., The Achieving Society, The Free Press, New York, 1961.

¹² Prince, E. Ted, The Three Financial Styles of Very Successful Leaders: Strategic Approaches to Identifying the Growth Drivers of Every Company, McGraw Hill, New York, 2005.

¹³ See Prince, E. Ted, "The Fiscal Behavior of CEOs" **MIT Sloan Management Review**, Spring 2005 vol. 46, no. 3, pp. 23-26.