

Case Study: Locked-in or locked-out talent? Skilled managers on a succession plan to become futures business leaders in a British SME manufacturer (UK, 2018)

Abstract

The purpose of this case study is to explore leadership talent management at ProcessCo*, which operates as a bespoke manufacturer of components for the construction industry, operating as a business to business (B2B) trade entity within Yorkshire. The HR Director is facing a predicament on leadership succession planning at a senior level, reviewing the resources and support required to ensure an effective talent management programme. Following guidance provided by the Chartered Institute of Personnel and Development, the case recommends that individuals who are responsible for succession planning need to be highly knowledgeable about how the business is likely to evolve, and how such change might affect the numbers involved in succession planning and the skills they must possess. This requires a close relationship at a senior level between top managers responsible for shaping the future of the business (including the chief executive) and HR. It is important for employers to avoid talent tunnel vision where the focus is purely on current skills needs, and to ensure they develop a good understanding of future business needs for leaders, managers and business critical positions.

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Introduction

On the one hand, ProcessCo has highly experienced managers that are invested and committed to business, having developed and gained exposure in the business over several years. However, these individuals do not currently possess the required leadership skills to excel within a senior business leadership role (this case at director level) and, therefore, presents a significant challenge to overcome this hurdle of leadership capability. More importantly, the culture of the business is very much embraced in 'developing their own'; creating an entrepreneurial culture where everyone is able to create meaningful impact in the role, and this is very much deep rooted in the psyche of the business. Therefore, this requires someone with an appreciation of these intangible subtleties that makes this business a great place to work – an appreciation an internal manager would demonstrate.

This talent management conundrum requires considerable consideration and review as the business will see three prominent and influential directors retire over the coming years, including its current Chief Executive Officer. Notably, this will dramatically alter the leadership dynamic and the way in which the future business strategy is led, driven, embedded and delivered. The senior management team, including the HR Director, are very much aware of the sensitive nature of this and recognise the role each of them will play in ensuring the successive incumbents are competent and able to perform their respective roles.

Whilst there may be internal complexities to work out and digest, there are further external and local influences that need to be considered for this case, particularly as talent management creeps up the HR agenda. One challenge that appears to be piercing the veil of businesses throughout the UK is the ever-growing issue of a tighter labour market (Wapshott & Mallett, 2016), distinguished by the increasing “war for talent” due to the prevalent pressure of skill shortages and lack of candidates within the labour market (CIPD, 2018; Michaels, Handfield-Jones, Axelrod, 1997). Ultimately, this results in an intensification of recruitment pressures, meaning further resource and time required to source suitable candidates and waiting for the necessary human capital to be present in the labour market. The impact of this is that it makes difficult to recruit business leaders with the right skill set, vision and aligned business values to lead organisations. It will therefore be even more challenging for SMEs in this area given the constraints on resources and balancing this need with operational demands and challenges. There are also internal constraints that may add further to this, such as the ability to offer competitive rewards and benefits, ‘perks’ that are often seen as expected at a leadership level, which are finite in organisations of this size. More crucially, there will be a key expectation that the business “gets it right” given the associated risks it may present should it not.

The following questions need to be addressed: how does the business transition these internal talented managers to become senior business leaders, and what necessary learning and development is required to support them on their personal journey? The “do nothing” option is likely to result in effective leadership where operational management and ‘fire-fighting’ becomes the norm; limiting opportunity for dynamic and innovative leadership that embraces the business’ entrepreneurial spirit and that which allows the business to remain competitive in an evolving and challenging marketplace.

A radical, and perhaps more costly exercise for ProcessCo, would be to source high-profile leaders external to the business with relevant industry experience, in doing so, this would bring a fresh dynamic and through their own varied and challenges experiences may provide renewed insight and leadership to the business. This approach could, however, fail to cognise the indiscrete cultural dynamics and workings that so clearly define the leadership and *raison d’être* of ProcessCo. Should such a result become a reality, this could prove very costly should such a result become reality, with the result being having a substantial impact and potentially hampering the business, given the responsibility that these individuals would assume as director headcount. A more acceptable option for this change would be to provide managers on the leadership succession plan with individualised development plans that builds upon the leadership capability. This will provide the required level of critical self-analysis as a leader, with a view to working in partnership and being mentored by the incumbent they will be succeeding.

Company background and manufacturing operations

ProcessCo was formed in 2004 and the business has gone from strength to strength since and has become a market leader in its field over the last 14 years. As market appetite in this product has increased, the business has evolved its operating model and saw new additions to its leadership team in 2015; these included a Chief Executive Officer, HR Director, Sales & Marketing Director and a Finance Director. From initial beginnings as a distributor of high-quality components, the business has transformed from a sole warehousing operation to a fully functioning manufacturing production unit and has seen its employee base grow from 70 to approximately 130 staff in a three-and-a-half-year period.

Employees are recruited mainly from the local area due its rich manufacturing background and they are recruited on a “attitude over skill” selection basis. ProcessCo’s operational premises have been adapted in recent years to accommodate its transition from being solely a distribution centre to a fully functional manufacturing and distribution facility. The unit accommodates its commercial and support functions too, providing needed office space for teams such as in Customer Service, Sales and Marketing, IT and HR.

One of the key features of the management of the workforce - one that is synonymous with other modern manufacturers - is its product cell structure, offering operatives the ability to work on an allocated product lines and operate machinery to achieve the required output. Each of these bespoke product cells have key manufacturing processes to enable the product to have a distinctive USP and success in the UK market. These individual and specialised process enhancements and additions are key to the business’ future strategy and will enable its further growth as a high-quality unique manufacturer.

External environment

The manufacturing industry of the UK has seen significant growth over the last few years given its survival and growth during the economic, particularly given the UK’s reliance on the service sector as a key economic contributor. The government continues to provide further investment and resources to support this growth and sees the manufacturing industry being key to what is being termed the “4th Industrial Revolution” and the UK’s role in delivering this as a global trading partner; a stance that will be key to ensuring the manufacturing landscape remains competitive with the paradoxical change to UK trade in the reflection of a post-Brexit world.

Further political influence is driving the skills and productivity agenda and the establishment of the Apprenticeship Levy and the introduction of T-Levels to promote employability, particularly in areas relating to Science, Technology, Engineering and Mathematics (STEM) disciplines.

Underlying this political and social agenda is the need to develop the next generation of skilled professionals that will provide a labour market of individuals skilled in working with new technologies, automation, robotics and digital technologies. This will help industries become

more competitive as organisations continue to adapt and evolve in an increasingly globalised and competitive trading environment.

Business vision and future strategy

ProcessCo has in recent years needed to invest in new technology and new products, which equally have enabled it to remain competitive and meet the significant challenges of its unique marketplace and customer requirements. Ultimately this has allowed the business to reflect on where key value and profit maximisation is being achieved, identifying that added value activities in its bespoke product offerings has provided a significant income stream in the business. In assessing this growth area, the business is now keen to exploit these opportunities further and key objectives required to maintain competitive will be to invest in its product mix, invest in enhanced technology and expanding the 'shop-floor' i.e. production facilities and some of these changes have been established in the business already. Importantly, there was a growing consensus that operational flexibility would require aligned skills for these new bespoke areas. As a result, the business has taken key measures to instil a culture of right people are in the right place, at the right time, and have the right training to perform and succeed in new product areas.

The three key strategic directions that underline the future strategy of the business includes:

- Growth and business development
- A changing business model that needs to be agile and sustainable
- Entrepreneurial culture and leadership

The role of Human Resources (HR)

The role of the HR function has evolved in the recent years and even more so when the HR Director came on board in 2015. This set the stage for HR moving from a consultancy-focused service into both a strategic and operational service for the business. A key view from the HR Director is that "managers are there to manage people and that is their responsibility. HR's role at ProcessCo is supporting those managers as a people manager". Technology has played a crucial role in developing the function, ensuring self-service functionality was a key element of this, and had operational impetus given the fact that HR is resourced only by the HR Director and a HR Officer/PA. A key achievement of the function has been the move to a paper-less office; a result of effectively embedding a HR system that met the needs of the business.

In its strategic capacity, HR has a seat at the Board table – a role that is forever prized within the profession – therefore providing much needed commercial awareness and promotability for the role of HR. Here, the HR Director's role is to provide a "different pair of eyes" and to provide strategic advice on people matters. In terms of its operational remit, HR is delivered through its ability to support on a number of generalist activities; from recruitment and absence management, developing employee health and wellbeing initiatives, and on to assisting with performance management and people development.

The developing nature of the function has meant that it has moved from a 'grass roots' service to a 'strategic partner' within the business. A key area of this has been ProcessCo's commitment to provide development opportunities to its people and this is echoed in comments made on this aspect. Key evidence of this is highlighted in ProcessCo's recruitment and selection practice, where the present focus is to recruit on attitude and behaviour rather than experience, and a long-term outlook to provide opportunities to gain that experience. Lately, this development focus has been renewed at a more senior level where succession planning is identified as a key necessity, given that its Chief Executive Officer, Commercial Director and Technical Director will all retire in the not too distant future.

Talent management and retention strategies

ProcessCo has shown a relentless and committed approach to developing its people. Even more so in their move to source candidates with the right attributes to succeed and then giving them the knowledge, experience and tools to succeed. This in itself will require an approach where training and development is fundamental. Whilst there may be a key requirement to do so at the shop-floor level, where there are key health and safety implications to consider providing for necessary knowledge and skills for work, this does extend to providing specific continuing professional development opportunities (CPD) to commercial/support functions. Sponsoring relevant qualifications for individual development has taken place in a number of areas; the current HR Officer for example is studying towards the Postgraduate Diploma in Human Resource Management at Huddersfield Business School. Similar types of qualifications have been sponsored in Finance and Purchasing too.

This approach becomes even broader when one looks at the investment on the shop-floor in work-based learning, where many of the operatives have completed NVQ Level 2 and Level 3 in Business Improvement Techniques, a qualification that has been designed to enable a focused culture of continuous improvement; enabling efficiency in key processes and improving quality across the various production cells. A key outcome of the qualification itself is that it provides operatives to use this as an opportunity to shine and demonstrate their capability to make a difference. Additionally, the Cell Leaders taking responsibility for operatives working in their product cell have gone on to complete the Institute of Leadership and Management at Level 3. More senior figures at the production management level have completed the Level 5 qualification. Supplementary learning has also taken place in the completion of workbooks, coaching, action learning and group learning activities, all of which have been supported by the HR function and embedded by the management team.

Given the variety of training and development interventions and practices at play, it is evident that investment in training and development is a key foundation and cornerstone of success at ProcessCo, supporting its ability to retain key people and experience in the business. While research highlights providing significant development increases the employability of individuals and therefore increase risk of them looking for better paid opportunities (Wapshott & Mallet, 2016), there is a sense that the entrepreneurial culture of the organisation provides a key flare to retaining people; where individuals have the opportunity

to initiate a career that is built upon a culture of continual learning and variety of opportunities.

The essence of such a culture is already formulated and exuded within the confines of the organisation, one only needs to enter the office of the HR Director to see this enthusiasm for training and development further: a collection of branded self-awareness assessment tools, texts referencing people and organisational development, learning aids that support training sessions, a wide collection of training materials and paraphernalia related to management development.

Leadership challenges anew

Where many organisations are facing growing uncertainty and reducing investment as a precaution to the “cliff-edge” that daunts the future of the UK’s trading relationship with the European Union; further uncertainty is ahead for ProcessCo as it looks further ahead to the retirement of three individuals at Director level. Not only will this mean new faces at a senior level with varying, distinguished and intangible leadership differences, there will also be the challenge that these new incumbents face in driving the further business strategy. In particular, they face potentially higher risks and depressed conditions of maintaining growth and business development in an increasingly unknown and uncertain marketplace.

Where the fear of uncertainty may dispel anxieties in some individuals, these new business leaders will be required to show tenacity, courage and resourcefulness to cope with these impending future challenges. It is therefore key that the business is able to effectively succession plan for the roles of Chief Executive Officer, Technical Director and Commercial Director. The big challenge here for any HR professional would be how to successfully recruit and select individuals for the roles and provide the stability and dynamism to lead the business through new waters and potentially dark storms - an even more difficult job to do when these roles equate to half of the senior management team of a growing SME.

Given this considerable challenge, the senior management team have taken the decision to develop a group of individuals at its middle management level that have been identified as “talent”. Where some organisations may take an approach to select individuals for specific roles, the view of the management team is that there is not a fixed given of who will be selected for which role, though there are certain inclinations of where people will ultimately end up. Interestingly, the succession plan is built upon a group of four managers who have been identified as the talent pool for the 3 successive posts. This approach could therefore result in a surplus of ‘unlocked’ leadership capability of one individual, that is once the managers have competed and ‘won’ the Director level positions. Therefore, a negative and consequential result of this is that one of the individuals will not progress to a significant leadership post and ultimately renders them in a similar position as to when they were included in the succession plan. A key consideration therefore needs to be how individual motivations will be developed and managed appropriately; developing each individual with the future capability to lead the business forward is necessary, however the need to manage

ambitions as well as the complex sensitivities of individuals and the further impact of this will be crucial.

There will be very much a careful balancing act of need, capability, ability and performance at one end, alongside the success of each individual through their own development plan and what strengths, weaknesses and competences they will bring to the management team. In addition to this balancing act, there will be a need for further consideration of what specific challenges these managers will face in successive posts in the development of these individuals. Ultimately this raises the question of whether the direction of this succession plan will become focused on specific roles for individuals and therefore provide greater structure but a more rigid approach, or one that looks for similarities in these roles and offers greater flexibility that may reflect any changes in the required leadership needed.

This latter point is crucial, there may be a time in the future where the external environment becomes turbulent enough that it requires a different leader to the one it has in mind in present, and whether that changes their view on the individual required to steer the helm as Chief Executive, which will naturally change the way in which the succession plan succeeds and what the path that will unfold for each individual in the talent pool.

Perspectives from the CIPD

The Chartered Institute of Personnel and Development (CIPD) links succession planning as a key talent management activity that encompasses a view of both internal and external talent; it suggests that that it is as much about lateral moves as vertical progression. The key to ensuring success in succession planning is concluded as follows:

Those responsible for succession planning need to be highly knowledgeable about how the business is likely to evolve, and how such change might affect the numbers involved in succession planning and the skills they must possess. This requires a close relationship at a senior level between top managers responsible for shaping the future of the business (including the chief executive) and HR.

It's important for employers to avoid talent tunnel vision where the focus is purely on current skills needs, and to ensure they develop a good understanding of future business needs for leaders, managers and business critical positions.

Questions for you to consider

As a member of an external management consultancy, you are planning to meet with the HR Director of ProcessCo,

(1) What further information will you need in establishing a clear succession plan to support the individual development of the successor?

(2) Discuss the appropriateness and risk of adopting an exclusive internal development strategy to succession planning. What are the advantages and disadvantages of taking such an approach?

(3) What recommendations would you provide to the HR Director to help deal with the key challenges presented here?

(4) What development might be offered to the individuals in the succession talent pool?

(5) How would you ensure each individual in the talent pool is developed and supported equally? What might the success of this rely upon?

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