CORNER OFFICE

CEOs focus on keeping the talent at home

Chiefs zero in on strategies to retain and develop the best of tomorrow's leaders, writes
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DEBORAH BAIC/THE GLOBE AND MAIL

From left, Scotiabank co-heads Stephen McDonald and John Schumacher and Scotia Capital chief risk officer Brian Porter. Their recent promotions are seen as a way to retain talent.

When Bank of Nova Scotia chief executive officer Rick Waugh promoted a trio of investment veterans into senior executive positions 12 days ago, the move quickly prompted speculation that it was part of a succession plan for his job.

There was logic in the theory. After all, Mr. Waugh himself had been cherry-picked back in 2003 for the CEO's job from a short list of three vice-chairmen.

More significantly, succession planning itself has become a much-publicized priority for boomer-era corporate leaders who find themselves staring back disconcertingly at a shrinking pool of younger up-and-comers.

But Mr. Waugh made a point of dismissing the succession hypothesis. The move, he said, was driven instead by a desire to reward and retain three top-performing managers. "I didn't want to give them the opportunity to leave," he said.

While the issue of CEO succession garners the big headlines, more and more top executives are adopting the broader mantra of talent retention at the highest levels as a key pillar of their employment strategies.

"I've never seen more of a focus on it than I am now," said Jeff Rosin, managing director of Canada for executive recruiter Korn/Ferry International. "You want to take care of your high-potential and high-performer people, so you have to figure out what will keep them engaged in the business, not for today, but long term."

In Mr. Waugh's case, that meant taking the unusual step of breaking with Scotiabank's long-standing tradition of appointing career bankers to its top management ranks, and instead handing the duties to three officials from its Scotia Capital Inc. securities business.

Brian Porter, 47, a career broker who was formerly deputy chairman of Scotia Capital, was named the bank's chief risk officer to oversee exposure to lending, market and operational risks.

Also promoted to top executive posts were John Schumacher, 50, a veteran fixed-income trader, and Stephen McDonald, 48, an investment banker, who were named co-heads of Scotia Capital. The pair replace David Wilson, who is leaving the bank Oct. 31 to become chairman of the Ontario Securities Commission.

"When you've got good people, you should find a way to retain them," Mr. Waugh said in an interview last week.

By promoting senior executives from within, experts say, the organization also sends an encouraging message to employees further down the ladder that talent will be recognized.

The move is being lauded by management experts, who consider it a cutting-edge approach to signalling that talented individuals can find room to flourish at the highest echelons — even if it means breaking with traditional promotion pathways.

"You can look at this as promoting ahead of the curve," said Jay Rosenzweig, managing partner of Toronto-based executive recruiter Rosenzweig & Co.

Especially noteworthy was the fact that Mr. Waugh chose the unusual step of reconfiguring the top post at Scotia Capital to accommodate two executives where previously there had been one. By wedding the skills of Mr. Schumacher and Mr. McDonald, he was able to fill the formidable shoes of the departing Mr. Wilson.

The message: Talent will be recognized and accommodated, even if job assignments have to be tailored to fit the people.

"It appears as though Rick Waugh was looking at the world of talent and the world of retention in a very progressive way," Mr. Rosenzweig said.

The emphasis on senior-level retention has been drawn into sharp focus recently by high-profile departures of executives who left for greener pastures after power struggles at the top, in some cases taking other key talent with them.

The most notable case occurred at General Electric Co. five years ago after its esteemed and long-serving CEO Jack Welch openly chose three finalist to vie for his title upon his retirement.

Mr. Welch eventually announced in November, 2000, that 44-year-old Jeffrey Immelt, head of GE's medical systems business, would be the next CEO. Within a week, James McNerney, director of GE's aircraft engines division, accepted the job of CEO at 3M Co. and more recently moved to the top job at Boeing Inc., while Robert Nardelli, who had been in charge of the power systems business, took the helm at Home Depot Inc. several months later.

Closer to home, David Kassie, former vice-chairman of Canadian Imperial Bank of Commerce and boss of investment dealer arm CIBC World Markets, was ousted from the bank after it took a drubbing over its exposure to the Enron Corp. accounting scandal. While Mr. Kassie did not leave of his own accord, he inspired an exodus of senior financiers, who jumped to Mr. Kassie's fledgling brokerage, Genuity Capital Markets.

Some observers say that, despite Mr. Waugh's insistence that the recent promotions at Scotiabank were not motivated by succession concerns, the reality remains that whenever a CEO appoints new lieutenants, succession considerations cannot be discounted.

After all, should the CEO be forced to vacate the role for unexpected reasons, such as illness or an accident, the successor is likely to be drawn from the existing top executive ranks, Mr. Rosin noted.

Still, Mr. Waugh was shrewd to insist that Mr. Porter, Mr. Schumacher and Mr. McDonald are not in a race, said Chris Howe, a senior consultant with Hewitt Associates, a human resource services firm.

"Most organizations, they're not necessarily very candid about who the successor is going to be, so they try to keep as many people engaged as possible by keeping their plan close to the vest," Mr. Howe said. "So while an individual may be recognized and designated as high potential, they won't necessarily be told that they are the candidate for the next senior job, thereby disenfranchising other individuals."

Management experts also give full marks to Mr. Waugh for promoting top managers from within the bank. Jocelyn Bérard, managing director of DDI Canada, a human resource consulting firm, said senior executives promoted from within are two to three times more likely to stick around for the long haul than those hired from outside.

"There is a much higher success rate when you internally promote somebody versus hiring from outside at the executive level."

He cites the example of Carly Fiorina, former CEO of Hewlett-Packard, who was brought in from Lucent Technologies to head the computer giant in 1999 and was pushed out unceremoniously earlier this year, triggering a $21-million (U.S.) severance payout. "They had to pay a lot to attract her. They also had to pay a fortune to get her out."

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Mr. Rosin of Korn/Ferry refers to the new active retention strategies as "re-recruiting" — a term intended to capture the notion that high-performance workers ought to be fawned over and promoted as though they were being headhunted from outside.

"One of the things we frequently hear is, 'We have to go and re-recruit our people,' " he said. "That's because, particularly in a good economic environment, people will be attracted away if there is a more compelling opportunity available to them."

Executive Summary

More CEOs jumping ship

The corner office revolving door continues to spin as chief executive officer turnover resumed its brisk pace in August. Companies announced 116 CEO changes, up 21 per cent from 96 a month earlier, according to a recent report by global outplacement firm Challenger Gray & Christmas Inc.

That marked the sixth time this year that more than 100 chief executives left their posts, and represents a 142-per-cent increase from the 48 changes announced in August, 2004.

CEO departures are currently on track to break the record annual total set in 2000, when 1,106 CEO departures were announced. The turnover is now averaging 112 a month.

If that pace continues, the year-end total will exceed 1,300.

The average tenure for outgoing CEOs fell to 5.9 years, the lowest level seen since May, 2004.

In August, 21 of the 116 CEO departures occurred in the health care industry, while media and financial companies were next, with 13 and 11 departures, respectively.

Challenger began tracking CEO turnovers in August, 1999. Since then, 5,304 CEO changes have been recorded. *Staff*