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# BPIR Management Brief : Issue 4 – Succession Planning

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Welcome to the fourth issue of the BPIR.com Management Brief that provides short, easily digestible research summaries based on specific topics or tools. Summaries include comments from experts, case examples, and survey analyses. Topics for the briefs are based on those submitted as requests through our members' Research Request Service. Read and absorb, then pass on to your staff/colleagues to do the same.

## Succession planning - definition

A succession plan is a plan that is made to anticipate and prepare for, changes that will or can occur both expectedly and unexpectedly, among the organisation`s key employees.

## The stage

Best-practice organisations use succession planning to prepare for potential staffing problems and disasters, but they also rely on such plans to develop and maintain staffing requirements and leadership skills that are required under normal conditions. Succession planning is no simple task. Mapping out the future skills and knowledge required for the future of an organisation involves more than an organisational chart displaying the corporate hierarchy and potential vacancies. It is essential to know what talents will be required in the future, how best to train employees for future needs, which employees have the particular skills and competencies required to assume positions higher within the organisation or future vacancies that may become available, or whether to hire from outside the organisation.

Succession planning tools and approaches can include the development of a strategic plan which focuses on the future and what resources (including people and people development) may be required, a skills and knowledge analysis, 360-degree feedback data, and spreadsheets (or simple databases) to sophisticated software for tracking skills and competencies.

## Expert Opinion

A traditional key purpose of succession planning has been to ensure business continuity after a leaders retirement, death or other unplanned event. However, it is increasingly being seen as an effective, systematic, formalised, and long-term approach to meeting the present and future staffing needs that an organisation currently has, or will require in the future, if it is to continue towards its vision and business objectives. Such a strategy can help an organisation to meet its continuing need for people at all levels and in all occupational groups, demonstrate its commitment to developing its people, and systematically identify, assess and develop its talent to fill company vacancies. At its simplest level, succession planning is ensuring that individuals have identified and developed a designated back up for their role and functions, or that of a potential successor.

William Byham (2001), author of 'Grow your own leaders' suggests that organisations currently use one of two strategies to fill leadership vacancies:

- Natural selection – that is, filling positions from those internal employees that are 'fittest' or 'best' (as it is assumed that the 'fittest' successfully move upward), or hiring from outside the organisation if not enough people 'bubble up' from within. The perceived disadvantages of this option include the unfairness of such an approach because chance plays a significant role, as talented employees are often unknown by others in the organisation and are trapped in organisational silos because managers do not want to lose them, or these employees have jobs with a narrow scope that prevent them developing other skills and knowledge.
- An 'Acceleration Pool' or other succession planning method – organisations that use such a strategy invest in, and nurture the skills and other attributes of, targeted staff of high potential through such activities as coaching, training, varied leadership positions, and organisation-important work assignments.

Writing about succession planning from an overall organisational staffing perspective, William Rothwell (2002), Professor of Human Resource Development at Pennsylvania State University in the US, and author of two books on succession planning and human resource planning, notes that worker statistics are altering - "between 1998 and 2008, workers aged 45 or older will grow from 33% to 40% of the US workforce, while those between the ages of 25 and 44 will plummet from 51% in 1998 to 44% in 2008". This reduces the talent pool from which new leaders and successors can be developed.

In many organisations the need for action to be taken on succession planning has resulted from the identification that:

- Key staff will need to be replaced in the future;
- Work outputs and corporate objectives must continue to be met despite resignations, illness, vacations, and restructuring;
- Many staff are wanting jobs that offer challenges, empowerment, the opportunity to move to higher levels within the organisation, and/or the ability to gain new skills and expertise;
- Workers are becoming more educated, mobile, and willing to change jobs if their needs are not being met;
- There are skill and knowledge shortages in many industries that are becoming increasingly
- difficult to replace;
- The costs of replacing staff are significant (and increasing) - e.g. the costs of recruitment, training, lower performance while a new recruit is being brought up to speed, temporary cover etc.;
- The gap between the number of workers needed and the number available is widening;
- Employee demographics are changing, the labour force is aging, and a continuation of present trends will result in a serious shortage of higher level educated talent;
- Traditional methods of solving staffing shortages may not work in the future;
- More aggressive steps are being taken to attract and retain staff and 'bidding wars' are likely to develop.

Rothwell suggests that monitoring your organisation for the appearance of some common key symptoms will help indicate if your organisation would benefit from a succession plan. These symptoms include:

- Managers complaining they have no-one ready when vacancies arise;
- Increasing expenses for external searches for new employees;
- Those regarded as 'unofficial' possible successors are leaving by surprise citing they see no advancement opportunities for them within the organisation;
- High potential employees are leaving in greater percentages;
- There is a lack of numbers of women, minorities, or other groupings of staff that reflect the demographics of the organisation and its customers;

- Staff complain that promotion decisions seem to be based on favouritism, nepotism, capriciousness, or expediency.

Unfortunately, it does appear that many small to medium-sized businesses do not have succession plans or strategies in place (not even for their Chief Executive Officer's (CEO's), relying more on a crisis or short-term fix solution basis.

The identifiable benefits of having a succession plan include:

- Having back-up staff with the knowledge and skills that will enable people in key positions to take leave, attend training etc without the organisation or role failing to meet its objectives or having key decisions go un-made or made from a position of relative unpreparedness;
- Enabling a seamless transition when people resign, are ill or on vacation, or during restructuring;
- Having the skills and knowledge available for emergency situations;
- Strengthening the organisation's capabilities by developing the skills and knowledge the organisation needs (now and in the future);
- Enhancing the motivation of staff which can lead to higher retention and productivity rates;
- Reduced costs involved with hiring external applicants and bringing them up to speed with processes, systems and the organisational culture;
- Reduced training time and costs for replacement staff or those taking over new/existing positions.

In comparison, the disadvantages of succession planning can include the:

- Difficulties in selecting the right people to develop and making an accurate assessment of their development needs;
- Costs of training, mentoring etc. that are inherent in succession planning programmes;
- Lack of follow through and follow up of development initiatives;
- Potential for grooming people for positions that may not exist in the future;
- Possibility of staff being headhunted by other organisations for their new skills and knowledge;
- Potential for people to lose motivation or resign if they do not get the job they wanted or feel 'passed over' by the organisation;
- Difficulty in keeping staff members motivated and employed by the organisation when they have reached the potential for a role but one does not yet exist or has not become vacant;
- Reduction in fresh perspectives, ideas, knowledge and skills that externally recruited staff can bring.

Despite the disadvantages cited above, the benefits to an organisation of succession planning are significant.

## How to make your Succession Planning work

Effective succession planning requires that an organisation invests time, resources, and energy into effectively planning its future and the staffing needs that result from this visioning. Dick Jackson Chief Financial Officer (CFO) of Road and Rail Services Inc in the US (cited Heffes 2002), believes that succession planning is linked to strategic planning, with the strategic planning process itself focusing on the future and what resources (including people and people development) are needed to get there.

Although, succession issues have traditionally been about replacing retiring CEO's it is now being seen as an integral strategy for all organisations at all levels of staff. According to Jackson succession planning for all positions involves knowing who would come behind you, and behind each of the people who work for you – "when I was vice president, I looked at my controller, my tax guy, my cash manager, my risk manager, my MIS person etc.".

Rothwell indicates that 11 best practices typify productive succession planning and management efforts:

1. **Clarify the purpose and the desired results of the effort** – clarify why the programme exists and what results you seek from it, align your goals for the programme with business needs, and take a hands-on approach to formulating, implementing, and evaluating the programme.
2. **Determine what performance is required now** – use competency modelling to discover the differences between the best performers and average performers.
3. **Measure performance** – use your competency model and measure work results to help pinpoint and eliminate organisational barriers that impede productivity, and to identify areas for feedback.
4. **Determine what performance is needed in the future** – establish a future competencies model that describes the characteristics of individuals who will be aligned with organisational strategies and objectives for the long term.
5. **Assess potential** – compare individuals to the future competency models e.g. use 360$^{o}$ feedback and assessment centres.
6. **Establish a means to narrow gaps** – establish the gaps between an individual's current competencies and performance and between his/her potential, use individual development plans, in-house leadership development programmes, on and off-the-job work

assignments and education events, action learning, projects, task force participation, and mentoring to build individual competencies to meet present challenges and to prepare for future ones.
7. **Follow up** – establish a regular follow up system e.g. quarterly 'talent review' meetings to hold both individuals and immediate supervisors responsible for implementing individual development plans.
8. **Document competence** – keep a record of the work-related and company-specific competencies of key staff in the organisation. This inventory can be used in times of crisis or short notice to field the right team of people for the event.
9. **Create and sustain rewards for developing people** – reward both those individuals who are making progress in their development and those who are 'growing talent' in line with organisational needs.
10. **Evaluate results** – although few organisations determine their return on investment of such programmes in a quantitative way, the availability of staff with key skills for vacancies may be a measure of a programme's success.
11. **Lead from the front** – the CEO and other senior leaders should take a hands-on approach and become personally involved in the programme and not delegate it completely to the Human Resource Department.

In discussing succession planning at the Chief Executive Officer (CEO) level within the banking community, Susan Lahey (1999) offers a compilation of the 10 best practices suggested by leading consultants and headhunters:

1. **Take stock** – how is the (bank) going? What are its strengths and weaknesses? Is it going in the right direction and at the right pace?
2. **Draft a list of possible successors to the CEO, both internal and external** – the list should include, but not be limited to, the recommendations of the current CEO, and should include the strengths and weaknesses of the candidates, and the rationale for choosing one person over another.
3. **Include in the list possible candidates from different time frames** – determine who would be the best people who could take over now, in one year, or potentially in five years.
4. **Appoint a committee, either human resources, compensation, or some other one, to oversee the succession strategy** – this committee should regularly review all potential candidates.
5. **Motivate the CEO** – the current CEO should have a succession strategy and their compensation should be aligned to this.
6. **Increase the company's bench strength** – the ideal is to have a number of internal candidates who could step in quickly. The creation of such a 'succession friendly' culture gives the opportunity for more people to gain experience in areas required for leadership.
7. **Expose emerging leaders to the Board regularly** – this enables the Directors and Board to have first hand understanding of potential CEO candidates.
8. **Plan for retention of executives** – to prevent the loss of valuable executives through headhunting use strategies such as stock options to tie them to the organisation long term.
9. **Implement term limits for the CEO** – limit the time frame of the CEO position to a 7-10 year period (the CEO should have accomplished what needed to be done in that time, with periods of 12-14 years encouraging the potential for 'the spoils of power')
10. **Limit the succession timeframe** – take no longer than 6 months to complete the transfer of power from one CEO to another as waiting too long leaves a (bank) vulnerable to takeover attempts.

In discussing finding a replacement, Max Messmer (2002), Chairman and CEO of Robert Half International Inc. notes "While the obvious frontrunner as your successor may be the highest-ranking person reporting to you, don't exclude other employees from consideration. Carefully analyse whether someone is qualified and, if not, how he or she might develop the necessary skills". Messmer comments that "Grooming your successor requires advanced planning and commitment. Invest time in selecting the right candidate, and develop a clear strategy for training…". He suggests that it is a good idea to begin training of your successor early using such strategies as:

- Mentoring and regular feedback;
- The establishment of measurable objectives and performance requirements;
- Exposing prospects to situations where they can acquire strategy skills as well as a broad vision of the company and its goals;
- Encouraging prospects to sit in on important discussions and to make recommendations;
- Using opportunities to build their leadership abilities (e.g. negotiation, communication, and diplomacy skills) through such activities as leading high-profile teams, drafting memos on key departmental issues, and resolving disagreements with other company groups.

Conducting a 'gap analysis' may also help in identifying and evaluating staffing or skills and knowledge deficiencies or gaps. This analysis can be used to compare the current performance and needs of your organisation in contrast to the performance levels you desire, and the future knowledge and skills that you expect will be required. This information can then be used in your strategic and succession planning. As issues are discovered these may be documented in an action plan. A gap analysis may also be employed periodically to track changes through monitoring key business indicators over time against a baseline, for example, the number of staff undertaking succession and/or coaching programmes.

### Research Data

In relation to CEO succession planning, a national study of over 1000 family-owned businesses was carried out in the USA in 2002. The study revealed that whilst the small business sector was experiencing robust growth and more than 50% of responding organisations reported plans to increase staff by up to 5% in the next twelve months, 55% of organisations with CEOs aged 61+ who were expected to retire within five years had not chosen a successor. 39% of the businesses reported they would change leadership within the next five years. Almost 80% reported the current CEO was related to the controlling family by blood or adoption, and another 14% connected by marriage, and some 90% reported that the family would continue to control the firm in five years. Of those who had identified a successor to the CEO, 85% said the successor would be a family member. Less than 10% reported that a women was CEO, 34% said a woman could be the next CEO. Those with strategic plans in place (37%) are most likely to have selected a successor. Succession difficulties were also likely to result from a lack of knowledge of the senior generation's share transfer intentions as only 62% of significant shareholders reported being aware of what was to happen to shareholdings.

A further survey on leadership succession, commissioned by RHI Management Resources, North America's largest consulting services firm, received responses from 150 executives with the USA's 1000 largest companies. Asked `How valuable is it for a manager to identify and groom a successor to his or her position?` the responses were (1) Very valuable 80%; (2) Somewhat valuable 20%; (3) Not at all valuable 0%. In a follow up question `Are you currently grooming your successor at work?` the responses were (1) Yes 72%; (2) No 27%; (3) No answer 1%.

Research by Byham of 150 Fortune 500 companies indicated that "The average company expects a 33% turnover at the executive ranks in the next five years, and fully one-third said that they were not confident that they will be able to find suitable replacements". In another survey conducted by American-based RHR International Co. results showed that half of respondents felt their companies were not undertaking effective succession planning and were unprepared to replace key executives.

## Example cases:

Learn valuable lessons from these organisations:

### *American Red Cross -*

Succession planning in a large service organisation

The American Red Cross recognised that their succession plan needed to allow candidates to take personal responsibility for their own development and began a comprehensive succession planning process.

The organisation:

1. Audited about 300 staff serving at the level just below the president's direct reports;
2. Overlaid the findings with a thorough assessment of current and future business needs;
3. Gained an understanding of organisational talent, identified gaps determined whether to fill vacancies through internal development or external hiring;
4. Defined the competencies for each individual on the succession plan; and offered a plan for continual employee development;
5. Linked the performance-development process to the organisational plan;
6. Enabled employees to communicate their career goals quite specifically which were documented and became part of the individual's personnel record;
7. Involved the company's chief diversity officer who was able to draw attention to existing company resources which helped develop exceptional women and people of colour - employees who might have otherwise escaped attention;

The career plans developed were recognised as very focused and rigorous ones, which had the benefit of directly engaging the employee.

### *Alcan Smelters & Chemicals Ltd –*

Succession Planning used to retain top talent and to provide better HR services

The merger of the Alcan & Alusuisse Groups (combined workforce 48,000 worldwide) accelerated the need for succession planning to facilitate the retention of top talent, and the identification and promotion of high performers. The purchase of a Web-based succession-planning tool facilitated logging on by employees world-wide for Alcan Smelters & Chemicals Ltd. The system was linked to existing performance management software, and details for 4000 employees were loaded. The resulting database is a powerful HR tool, with employee career interests, potential, development plans, and mobility information being readily available for prompt reporting under multiple categories. Acceptance of the new systems was promoted through implementation from the top-down. Benefits included:

- Costs saved by filling jobs internally;
- Staff compatibility risks were reduced;
- Jobs filled quicker than by external advertising process;
- HR able to give focus to value-added services.

## *Dole Food Co Inc* -

Succession Planning used to identify suitable internal candidates for key positions.

Succession planning, or progression planning, was used by Dole Food Co Inc to match internal candidates to key positions, or alternatively to identify the need for external candidates. It was desired to retain top people within the company because of (a) the scarcity of talent available, and (b) the time and costs involved in bringing new personnel up to speed. To achieve this Dole decided to launch a succession planning process supported by web-based software where candidates filled out a resume, including career interests, and noted any mobility restrictions, and finally assessed themselves on the following four competencies:
Accountability;
Business acumen;
Multi-functionality (cross training); and
Vision/originality.

The system was automated to prompt the appropriate managers and directors. It was also intended to use the information to create career development and training plans for each individual.

## *Prudential Financial* –

Succession planning in the financial services industry

In 1998 Prudential Financial, a USA based financial services company, initiated a complete overhaul of its succession planning system. For six months a corporate succession planning team collected ratings and promotion factors for all executives down through several levels. Following top-level discussions a number of succession planning initiatives were taken, including:

1. A leadership series to improve strategic leadership skills, partnering, and conceptual thinking;
2. A Fast Track Management Programme using rotational assignments and training opportunities to build skills in leadership competencies. Participants are recruited from the leading colleges and universities as well as from inside the company;
3. Annual meetings between the Chairman and the Executive Vice President HR with divisional executives to review succession plans and to identify potential successors for critical positions, key high-performers and high-potential individuals;
4. Action plan development to address any identified gaps.

Results identified in 2002 included:

- The best talent was identified, the development of those with the highest potentials was speeded up, and a larger pool of potential successors for critical jobs were earmarked;
- The creation of a strong focus on developing more successors for critical positions and improving ethnic and gender diversity;
- Encouragement of cross-division and cross-functional development; and
- A company commitment to `keeping it simple` and to developing plans that work - even under conditions of surprise and change.

## *Wellpoint Health Networks -*

Succession planning scores big in US Health Care organisation

Well Point Networks, a USA provider of health care, decided in 1997 to begin to address the issue of planning to replace key executives. The company determined its plan needed to cover some 600 managers and executives over five management levels. The company first identified its strength or weakness at each position and then combined succession planning and performance appraisals into one annual process:

1. In January each year the 600 participants each wrote a self-evaluation;
2. A performance appraisal, a core-competency rating, and an assessment of the employee's potential for promotion was added by the employee's supervisor - the assessment included an opinion about which positions an employee might be suited for and when the employee might be ready to make a move, and the supervisor's views on who might be capable of replacing the employee, if promoted. Objectively, the assessment also contained data on the employee's education, language skills, experience, and current job responsibilities;
3. Bias was offset by `challenge sessions` for supervisors conducted by executives in each business group; and
4. The data was used to create a profile for each employee and these were assembled into organisational and succession charts and `what-if` scenarios are able to be played out.

The benefits of this programme included:

- Well Point achieved a high 86% internal-promotion rate in 2000;
- In 2001 all 11 senior positions that became available were filled from within;
- The company has reduced its turnover rate by 6% since 1997;
- The company has saved $21 million on recruitment and training expenses; and
- Positions that used to take 60 days to fill are now filled internally in 35 days.

### Summary

More organisations are recognising the need to develop succession plans in order to ensure key positions are filled cost effectively, work responsibilities and outputs continue despite emergencies, vacations, and illnesses of key workers, and employees remain motivated. Where once such plans were considered to be focused upon leadership succession, particularly at CEO level, they are increasingly being used for all levels and all occupational groupings. Succession planning includes such activities as identifying future business needs and goals (and the resulting staffing implications of these), assessing staff competencies, identifying staff wanting to move within the organisation, creating training and development opportunities, and providing coaching and feedback. Implementing a successful succession plan requires commitment at an organisation's highest level and the investment of time and resources, Companies that have successfully implemented such plans include Alcan Smelters and Chemicals Ltd, Dole Food Co. Inc. Prudential Financial, Wellpoint Health Networks and the American Red Cross.

**References**: The full txt of these articles and reports can be found at www.BPIR.com.


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