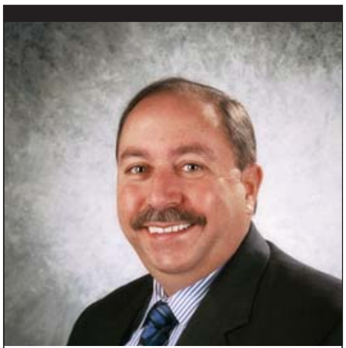
Succession planning: What every CEO should know



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Practical guidance from the expert in the field. Consider the truly compelling outcomes you should expect from your process. Learn about the top 12 reasons to conduct succession planning. Gain an understanding of the 10 most common mistakes and how to avoid them. The article concludes with two case studies of excellence.

Compelling outcomes

There is a huge gap between what CEOs need for succession planning process and what human resources as a profession has historically been able to deliver. This is evidenced by the very common and monumental disparity in the amount of time the typical senior executive team spends each year talking about financial matters versus people matters.

CEOs intuitively realize that even though they spend days on end talking about financials, it is the people in leadership roles that create the financial results and CEOs recognize they do not sit down to regularly discuss people. Why not? It is because they have no agenda to do so. No way of collecting, summarizing, and analyzing the important information on people that truly matters in this context. Simple, powerful, and proven process models have been developed to fill this void.

Collecting the right data elements is by far not enough. There are several important process dynamics that require attention to enable a sustainable strategic agenda for discussing people in key leadership roles.

What are the key compelling outcomes that should minimally result? First, take the top 50, 100, 200, or 300 leaders in your organization. Would it be of benefit to predict which leaders will leave the organization in the next 12 months with minimal effort? Second, knowing the predicted gap in your short to mid-term leadership ranks, would it be of value to proactively apply prioritized executive

Top 12 reasons to implement succession planning

12. Meet the requirement of the Board of Directors and other stakeholders that a leadership succession planning process is in place.
11. Understand the hidden talents of your leadership team to optimize their utility in day-to-day projects and initiatives. This raises productivity for the entire organization.
10. Optimal deployment of leadership talent creates a competitive advantage.
9. Use this knowledge base to flex the existing organization structure to the changing demands of the marketplace.
8. Extend the process quickly to collect data for organization design initiatives to assimilate new leaders post acquisitions and mergers.
7. Robust "people data" is very useful for downsizing situations - so the right people remain in order to successfully rebuild.
6. Have strategic staffing needs drive the expenditures for executive education, thereby ensuring a suitable return on investment.
5. Having the strategic staffing needs of the organization drive people development efforts ensures these efforts are truly meaningful in the eyes of leaders involved in the learning, thereby making executive education and development actually contribute to retention.
4. Provide a framework to improve organizational culture by regularly and candidly discussing the strength of the current leadership team and the leadership bench.
3. Determine which specific key leaders are at high risk of leaving and create strategies to retain undesired losses.
2. Predict which key leadership jobs will become open in the next 12 months. Prepare replacements with a sense of urgency or network for external replacements, thereby saving search fees. In either event, reduce problems associated with abrupt changes in key leaders.
1. Exert appropriate management control and proactively manage the process of having the right leaders in the right place at the right time.

development with both a known return on investment and a sense of urgency to avoid or lessen the negative impact of the predicted gap when it arrives in reality? Having asked many CEOs and senior vice-presidents of HR this questions over the past 8 years of my consultancy practice, predictable first questions are "Is this really possible and how do you do that?" The answers to these two questions are "yes" and "please read on".

From experience it is regularly noted that CEOs task HR with the responsibility to design and implement succession planning, also commonly referred to as "strategic staffing", without explicitly stating their objectives. This lays HR open to develop fuzzy objectives that are not measurable or plain get it wrong. While support from the CEO is the first prerequisite for success, knowing their reasons why is a close second.

A call to action with return on investment

Organizations of every form and size can and should benefit from predicting gaps in the leadership ranks and acting to prepare others to assume these roles with a smooth transition. Corporations both for profit and non-profit, family run businesses, government agencies, and educational institutions all must proactively work to have the right leaders in the right place at the right time.

Once the gap between what the organization needs for leaders and what it predicts it will have is established, it is important to address the gap with targeted developmental experiences of various kinds for specific leaders to prepare them to move into jobs that are bigger, more complex, or different than their previous role. Doing succession planning without executive/ management development is a waste of time.

Executive education funds are never unlimited. Typically, if an organization has an annual amount budgeted for management and executive education at all it is because the HR department has made a case for these funds based upon some historically allocated amount of money for this purpose. HR pleads for these funds without much business case support from a return on investment standpoint. With succession planning in place, it is clear to the senior executive team which executives need to be developed over the next 6 to 18 months and a fair idea of the type of development that is needed. Preparing these individuals to step up to jobs predicted to become open in the near to mid-term allows the senior executive team to prioritize the allocation of funds.

Developing key leaders to avoid the negative consequences of reacting to abrupt departures creates an opportunity for determining the Return on Investment (RoI). The RoI is still only an estimate because by its nature, executive education is an investment in people for a predicted but not certain future reason. Some of the ways the monetary value of these negative consequences can be estimated are by looking at the changes in: Stock price; fewer executive search fees; negative impact to customers regarding delivery of products or services; productivity lag time with new hires; and all the costs and benefits (both tangible and intangible) associated with higher versus lower retention rates.

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To summarize what has been said so far begins to introduce elements of common practice versus best practice. The process of succession planning needs to be owned by the CEO and their senior executive team to include the HR executive. HR is responsible for designing and facilitating the process but cannot own it. It is common for organizations to start the process with the support of the CEO and to later have that support vacated due to lack of compelling outcomes. It simply becomes a boring exercise without meaningful calls to action. When the process has compelling outcomes, the CEO and their top team will on their own volition engage the process more often. Thus, the inequity between time spent on financial matters versus people matters balances out. The strategic people agenda is established and flows downward in the organization, changing the very culture of the organization through its impact on leadership practice.

Common mistakes versus best practices

Planning

There are about 50 questions regarding strategy, process and logistics that should be answered before launching a succession planning process—too many to present in this article. In general, it is recommended that organizations first determine their specific desired outcomes and reverse-engineer the process all the way back to the initial communications from the CEO authorizing the start of the design phase. Inadequate planning is the leading cause of failure in establishing an effective and sustainable program. The top issues that spell success or failure are covered below.

Executive time investment

Two mistakes are common here. First, the designers make the process overly complicated and spend too much time with executives collecting data. In best practice, conversations with executives should require no more than 10 to 15 minutes per subordinate to collect the initial data. Less time is needed to refresh the data every 4 to 6 months. The second problem is allotting too little time for the executive group to meet as a team to discuss the resulting analyses. It is common for organizations doing succession planning (as they define it) to spend one day or less per year. This is a clear indication that it is merely an exercise of going through prescribed motions, not a dynamic process of predicting and strategically managing change in the organization.

Confusing potential and performance

Rating performance of subordinates involves looking backward in time and evaluating how well expectations were met according to established criteria in the past. Rating potential is an even more subjective judgment. Rating potential means judging the individual's capacity to perform a larger, more complex or different job in the future, given opportunities for development to prepare for the new role. While performance and potential are highly correlated, equating the two is a freshman error.

Definition of Potential

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A very common mistake is to use the old standby definition of potential—to rate individuals as ready now, ready in one year, or ready in two years. This scale is so weak it is almost useless. Why? It does not address how much potential or potential for what, and takes the timing element which really is better handled separately, and combines them all into one. A proper rating scale has levels of potential defined in a way that it can be used cross-functionally, is culturally neutral to allow for application across international borders, and has clear definition specific to the organization, and yet remains very easy to use with minimal explanation during training.

Scope

The common mistake here is trying to do too much and executing too little. As a strategic process the people/jobs included initially should be limited to those with high impact on organization success. This varies from company to company. For a corporate plan it normally extends from the CEO down to the major department heads within each function—vice-president/key directors. If there are 5,000 total employees, there might be 50 in the plan. If there are 100,000 employees, there might be 300 in the plan—not counting the designated successors for the high impact jobs of interest. Once the process is up and running successfully, more people/jobs can be added as the process is "pushed down". This is an organization-specific decision dependant upon the size of the appetite of the senior team for this information. To say all employees will be the subject of succession planning is a freshman error. What we are talking about then would be a general career development program which has its place but is not succession planning.

Implementation method

Succession Planning should be introduced to the senior executive team through a one hour training program, not through a brochure of directions and forms that will go unread. Further, it is highly recommended that data collection be achieved by the designated process champion conducting one-on-one interviews with senior executives. This paperless format is extremely popular and the interaction allows the reviewing executive to ask questions and calibrate their responses.

Data analysis

Some junior practitioners wrongly conclude that a book of resumes or curriculum vitae is a succession plan. Similarly, an organization chart showing successor candidates in each box (replacement chart) is not a succession plan. While both these items are important supporting information to a complete plan document, neither alone will provide sustainable interest through lack of value. It is the strategic staffing reports that summarize leadership strength by division or function that highlight gaps and drive prioritized executive development planning that provide the key analyses.

Metrics

How success in strategic staffing success will be measured is an important initial consideration before launching succession planning in your organization. Best in class models have already accounted and built this in. Like any management process you use, it should be expected that it will not be perfect the first year (if ever) but it is sufficient to observe steady improvement over time in terms of the accuracy of your predictions and value received.

Data storage and access

Common mistakes range from over reliance on software to no budget at all. Buying software for succession planning and sending an IT person to a succession planning conference to learn about it is a sure prescription for failure and yet it happens all the time. The process must be clear first and then selection of software follows. Any reputable software vendor would agree with this. Many of the large enterprise wide Human Resource Information Systems (HRIS) currently in use, such as PeopleSoft, Oracle, SAP, ADP, Ceridian, Tesseract, JD Edwards and others will say they have or are in the process of developing succession planning modules. But most *Fortune 500* companies that use these high transaction based systems will also purchase a HR Planning software system from a specialty boutique firm and "snap on" to their HRIS system. The leading systems are fully Web enabled and provide different levels of access to different users with highest levels of security surrounding the most sensitive data.

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Process champion

The importance of selecting a process champion with the right qualifications to lead the effort cannot be overstated. It continually mystifies me the number of very junior HR people who openly say they have no access to their CEO who attend my public seminars because they have been charged with designing and implementing their process.

Key qualifications for the ideal champion include: A high degree of general business acumen —the ability to speak the language of senior executives because ratings of potential do not occur in a vacuum; effective multi-level influence strategies—knowing when to bend and when to yield in advising others and consistently communicating with tact and discretion, but still able to be candid when something needs to be said. The ideal candidate must display courage, confidence and be tenacious in the pursuit of process objectives in order to overcome inertia and cynicism characteristic of some leaders they will likely encounter. In short, the person is an effective change agent. They must be viewed by the CEO and senior executive team as a capable, credible, and trusted advisor. The champion has an encyclopedic knowledge of what is in the database and is regularly called into very serious meetings about possible changes in the careers of key leaders.

Software enablement

Why is acquiring specialty talent management software important? Publishing, republishing and distributing a hardcopy succession plan in book format is both an inefficient and impractical method of distributing important dynamic and sensitive information better served by the on-demand and ease of data access features intrinsic to a secure computer program. A second reason is the many benefits accrued by automating the entire goal setting and performance management process in the same software system. Many senior executives are becoming very excited with the prospect of what I call "Goal Control". Most appraisal systems focus on the aspect of rating past performance. While this is a very important and necessary activity, it regards history and history cannot be changed. For CEOs, bringing established financial and other goals to the computer desktop is strategic. Each leader's goals can be examined for their appropriateness and alignment with the goals set and underway by other key executives. Goal control provides a highly efficient strategic capability to influence the forward performance of all key leaders in a dynamic and ever changing environment.

Regularly asked to recommend the best software vendor, I consistently point to HRSoft, LLC. Both the case studies below selected HRSoft after conducting proposal evaluations.

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Ryan Tweedie, CEO of HRSoft, LLC, www.hrsoft.com sells the best talent management software called: HRM Connect Executive™. Combined with fully integrated HRCharter™ Enterprise software for organizational charting and hierarchy management, these products provide the most comprehensive total HR Planning solution available in the market today. Both products have web-native architecture and a list of superior technical features too numerous to mention here. HRSoft, LLC currently has over 250 of the global 1000 companies as clients. From personal experience as a practitioner and as a former customer of HRSoft before founding Success Associates, it needs to be said that HRSoft has a team of people providing professional services for software customization, implementation and training that is the finest you will find anywhere.

Case studies

Skanska AB

Richard (Dick) Caldera, Senior Vice-President of Human Resources, Skanska AB launched two major and highly successful initiatives last year to develop a comprehensive web-based system branded internally as "Talent Navigator", supported with custom executive education curricula for the top 250 leaders. Skanska AB, a commercial building and civil engineering firm based in Stockholm, Sweden has 79,000 employees located across Europe, Asia and the Americas with revenues of approximately US$17 bn. In addition to introducing succession planning at the corporate level for the first time in the company's 125-year history, Talent Navigator automated the recently developed leadership competency profile for the senior group of 250 leaders. This enabled Skanska to integrate and align performance management, development planning and succession planning for this group. A unique challenge at Skanska involved funneling basic employee data into the HRSoft software from 27 different HRIS systems located around the globe. Information travels across the company's secure intranet in compliance with the United States Safe Harbor legislation and the European Union's recent directive on trans-border transmission of personnel data.

DRS Technologies, Inc.

Mark J Williams, Senior Vice-President of Human Resources, DRS Technologies, Inc., wisely took economic advantage of portions of the custom work developed for Skanska were possible in tailoring a fully web-enabled system to best suit the needs of DRS. The focus of succession planning at DRS is the top 130 of approximately 5,700 employees. DRS Technologies, Inc., headquartered in Parsippany, New Jersey, provides leading edge products and services to defense, government intelligence and commercial customers. DRS is fast approaching US$1.2 bn in annual revenues and its employee headcount growth has been 30 to 50% per year in recent years, largely through acquisitions. In the performance management module of their on line system, DRS has introduced 3 different competency models covering the performance appraisal form needs for all employees. One of the key objectives other than those specified for succession planning was to "launch a world class web-based product to drive unified change at DRS and build a superior performance culture".

Case studies commonalities

System features that both Skanska and DRS Technologies have in common are: Both have (unique) privacy agreements that employees agree the first time they use the system; Employees enter and update their own on-line resume data; Employees and managers collaborate and agree financial and other goals at the start of each performance cycle; Employees conduct a self appraisal of their performance as input to their manager and control when the draft is released for viewing by their manager; Managers evaluate employees and control when their reviews are released to each Employee; Employees control the step acknowledging that a discussion has taken place which guarantees that this critical step in the process occurs; Managers control locking their final review into history.

Entering, viewing and reporting on succession planning data are restricted to senior HR staff and senior executives at corporate headquarters

Learning plans are also collaboratively developed and are accessed throughout the year for changes. Marking training and development activities as completed automatically moves them to a history file. The various steps in the performance review process are neatly organized in a software "wizard" for ease of navigation for all concerned. Finally, various statistical reports summarize both the manager's progress through the process as well as displaying the resulting data in a variety of graphical displays for ease of analysis.

Entering, viewing and reporting on succession planning data are restricted to senior HR staff and senior executives at corporate headquarters. All data in the system is accessible by senior corporate officers from their computer desktop, which has the added advantage of making the accountability for Managers' adherence (or lack of adherence) to processes of goal setting, performance management, and succession planning highly transparent.

Concluding note

Boards of Directors are increasingly holding CEOs responsible for succession planning as part of their core fiduciary responsibilities. Succession Planning is the strategic process for the Human Resources function. It involves setting up a process that predicts key leadership positions that will come open in the next 12 to 18 months using simple, proven and powerful models that consume very little executive time. The gap between what the organization has for leadership talent and what it will need must be addressed with executive development experiences. Individually targeted and highly purposeful executive education with a known return on investment that is carried out with a sense of urgency under the direction of the CEO and their senior executive team would be a most welcome and novel experience for most organizations.

All this sounds easier said than done and in fact it is not easy to do well. Fundamentally, succession planning is a strategic change management process. And ironically, it takes a change process to install a change process. And we all know how difficult it is to change. However, very rewarding success is still possible when attention is paid to all the important elements. This article has highlighted a number of the most common mistakes and suggests how to avoid them. The most important of these are:

- Selecting the right internal HR process champion to lead the effort
- Planning and designing the approach thoroughly—or what might be called "planning for the plan", using external consulting support if necessary, and
- Providing funding for software tools and the ongoing necessary and sufficient level of administrative support.

In conclusion, CEOs who embark on this journey are initially required to make a leap of faith that compelling outcomes are attainable. Along the way, issues and problems will arise that will require decisions and unwavering support from the Chief Executive. Expect that to happen and expect the process will not be elegant during the first or even the second year. The end-result is a CEO leadership legacy of having driven an enviable strategic change management process that significantly improved the bedrock of organization culture. And by the way, it makes your job easier and more fun.

Author's profile

Mark Caruso, *President and CEO, Success Associates Inc.*

Founded in 1996, Success Associates, Inc., is a broad-spectrum Human Resources consulting practice focused on helping companies improve strategic processes for creating, deploying, leveraging, and retaining their key intellectual assets. Success Associates engages consulting assignments related to all aspects of global talent management and specializes in the design and implementation of succession planning and performance management processes and related software. Success Associates conducts retained executive search assignments and provides planning and project management services for large-scale recruiting projects. He can be contacted at success1@bellatlantic.net.

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INTERVIEW

"The scope of succession plans usually come in one of three varieties—corporate, operations, or functional in their focus. The most common is a corporate plan focusing on the top 1 to 3 levels of the organization below CEO, horizontally across functions."

Mark Caruso, a leading international expert on the design and introduction of global talent management solutions, highlights the key ingredients of succession planning.

☞ **What according to you is "succession planning"?**

Succession planning includes several steps. First, understand your current talent inventory of human resources. How many leaders with what kinds of skills are deployed to fulfill the current strategic intent of the company? Second, and this is in best practice only, evaluate what your leadership talent inventory will look like in the future—including predicting the current jobs that will become open. Third, present a clear picture of the gap between what you have and what you will need. This gap analysis provides the opportunity to take action now to avoid the many negative and costly consequences of being unprepared for the exit of key people in the future. The CEO and their key team should meet regularly to take action and monitor progress metrics. Succession planning is the key strategic process for the Human Resources function.

☞ **What is the Board of Directors role in succession planning?**

Board governance in this context is clearly focused on the CEO successor. However, as news headlines often remind us, the abrupt departure of other key players can also have dramatic effect on stock price. CFOs, founders not in the chief executive role, CIOs in technology-based firms, top performers in Business Development, Chief Scientists and key innovators in general are also the subject of Board attention. Board expectations that their CEO will have a formal system for managing change in key leadership roles across the enterprise has become commonplace. The view by the majority is that, it is an indispensable part of their fiduciary responsibility. Some Boards require detailed succession plan presentations while others are satisfied to receive executive summaries.

☞ **What jobs in an organization should be included in the succession plan?**

The scope of succession plans usually come in one of three varieties—corporate, operations, or functional in their focus. The most common is a corporate plan focusing on the top 1 to 3 levels of the organization below CEO, horizontally across functions. It would include the high impact leadership positions in Finance, Sales, Marketing, Operations, Legal, HR, IT and so on. In contrast, an operations-focused plan drills vertically downward in the organization chart, in some cases down to first line supervisors. Functional reviews are a bit of a hybrid of the two, usually found in large organizations that review fairly deep in the organization the functional technical talent silos like Finance, Information Technology, and Sales for example.

☞ **Should executives be told how they are rated in potential?**

There is significant disagreement in HR on this question. I have conducted research using my recent seminar audiences and have data from over 400 senior HR executives and company presidents. I first engaged them in a secret ballot before a debate and 50% vote "no" (don't tell them how they are rated on potential) and 50% voted "yes" (do tell them their rating of potential). The audience debates from 26 seminars reliably generated the same 6 to 8 reasons in favor of each position. Following the debates, a second secret ballot was conducted and the combined audiences voted 75% "no" (do not tell them) and 25% voted "yes" (do tell them). The "no" position becomes a clear majority when audiences realized that the"no" position is more conservative in terms of risk. That is, you can decide to "not tell" and then change your mind. But once you tell, there is no going back. Further research uncovers that the 25% who remain loyal to the "yes" position have a focus on one reason only—a strong underlying conviction that it is "the right thing to do" regardless of the consequences. There is clear agreement that the CEO should make a command decision on this subject—all rated employees are to be told or all rated employees are not to be told how they are rated in potential in order to have the formal policy treat all concerned in a consistent manner.

☞ **In your many conference key note speeches, seminars and workshops you have conducted, your presentations on succession planning consistently receive the highest marks from audiences. To what do you attribute this success?**

Well, thank you. I think that the strength of my ideas comes from their practical nature. The models and process developed and my advice in general has been proven to work in the real world. My audiences and corporate clients want to know how to actually do it successfully, not academic theorizing. They get that from me. I am enthusiastic and very passionate that organizations can adapt to and adopt these models and capture real value. I think, that is a positive that comes through as well.

The interview was conducted by Rajesh Kumar Singh, Consulting Editor, Global CEO, *ICFAI Press.*