Are you Putting the Future of Your Organization at Risk? A blueprint for Succession Management.

If your CEO has a sudden illness, do you know who will take the chief executive's place? What if your top executives are recruited away to another company? Do you have the next generation of leaders ready to fill those roles?

Ultimately, your leaders will transition out. Are you managing transition and replacement to ensure your strategy and growth are not constrained by a lack of leadership talent?

If not, you may end up with under qualified people moving into leadership roles, or forced to go to the outside to fill all or most leadership roles.   The result of these actions is increased risk that your strategy and growth will be constrained by a lack of talent.

The only way to reduce the effect, and risk, of lost leadership is through strong succession planning that identifies and fosters the next generation of leaders. And, develops them through mentoring, training and stretch assignments.

Research supports sound succession planning. A study consulting firm Booz Allen Hamilton concluded that "over their entire tenures, CEOs appointed from the inside tend to outperform outsiders" on shareholder return. Yet many organizations struggle to take their succession planning program beyond a static list of names slotted for a few top spots.

"Most companies have a succession planning document," says David Larcker, of the graduate school of business at Stanford University. "The question you have to ask is, 'Will it be operational?"

This Roadmap offers business leaders a framework and advice on how to create a robust succession planning program that aligns talent management with the vision of the company, ensures employees have development opportunities to hone their leadership skills, and guarantees that the organization has a leadership plan in place for success in the future.

Succession with Your Fries?

Jim Skinner, former CEO of McDonald's Corp., was known to tell managers: "Give me the names of two people who could succeed you." It was just one way the CEO continued the culture of succession planning at McDonald's.

It was an understandable priority considering Skinner only landed in the role in 2005 after two other CEO's died suddenly over the course of just two years. And when he retired in 2012, Skinner was confident that his successor, Chief Operating Officer Don Thompson, was ready to take over, because he spent much of his seven years mentoring him.

"I basically felt the responsibility to the board of directors to be sure I provided them with someone who could run the company when I'm gone," Skinner told *Fortune* a year before his retirement. "Until I was capable of doing that, I would not have left."

This kind of leadership level commitment to developing and mentoring the next generation is a vital component of succession planning. And while most executives understand the importance of succession planning efforts, few of them believe their organization excels in this category. As companies begin to develop a succession planning process, they should consider these fundamental issues:

High potential vs. everyone: Some companies focus all their succession planning efforts on "high potential individuals," whereas others create a succession plan for everyone from the moment they are onboard. The benefit of focusing on high-potential workers is you can channel more resources and coaching toward those employees with the greatest promise. The risk is that you overlook great people and alienate and frustrate the rest of the employees, which can impact morale and turnover. "Most successful organization focus on everyone," says Dan Schneider, cultural architect at advisory firm The Rawls Group.

Hiring from within vs. bringing in someone new: Developing leaders internally takes time and effort, but these homegrown candidates are more likely to be successful than external candidates. According to a 2012 study by Matthew Bidwell of the University of Pennsylvania's Wharton School, external hires are 61 percent more likely to be laid off or fired, and 21 percent more likely than internal hires to leave a job on their own accord. These outside hires also get paid more, but get lower marks in performance reviews during their first two years on the job.

However, internal hires aren't always an option. Fully 38 percent of firms anticipate they will need to recruit externally for C-level roles in the next 12 months. Internal candidates are also not always the best choice. If a company wants to move in a dramatically different direction, or its current leaders leave before the next generation is ready, companies need to be open to bringing in someone from the outside.

Factoring diversity into decision-making. Managers often seek people who are like them for mentoring and promotion, which often leads to a plethora of men with similar backgrounds leading organizations. If companies want diversity in their leadership, the succession planning initiative should include steps that actively promote women and minorities for leadership opportunities, and train managers on how to encourage diversity on their teams.

Making sure you have support from the top. HR can build a great talent development plan, but without active support from leadership, it won't have the desired impact. HR leaders can't force executives to support succession activities, yet they can align talent management efforts with strategic plans and educate executives and managers about the business value of succession planning efforts.

Fluor's leaders develop their own replacements

At Fluor Corp., the global construction and engineering firm headquartered in Irving, Texas, talent management efforts are directly aligned with long-term strategic goals, and executives are viewed as the company's corporate talent scouts.

"Having a robust succession planning and talent review program and culture is just good business," says Glen Gilkey, Fluor's senior vice president of HR. "It helps mitigate the risk that leadership will be a constraint to growth."

Part of every executive's job is to identify high-performing employees and help them build their skills and experiences, so they can move up the corporate ranks, Gilkey says. "Leaders are held accountable for the development of their people even if it means moving them to another division," he says.

Flour relies on the 70-20-10 model of talent development with 70 percent of the development coming from experience, 20 percent from coaching and 10 percent from classroom or other formal training. Leaders are expected to look for opportunities for employees to gain experience and to provide them with the necessary support and coaching to be successful, Gilkey says.
To ensure this support occurs, executives are celebrated when one of their people succeeds, and part of their compensation and promotion is tied to how effectively they support talent management on their teams.

"Having a culture where people want to help others succeed can't be understated," Gilkey says. "It doesn't cost a lot of money, but it does require a lot of time on the part of the leadership team."

Stuart Dean, the architectural restoration company based in New York, is an 80-year-old family-owned business, and all of its current shareholders are fourth-generation family members. Yet two years ago, when the company needed a new CEO, it went outside the family to find its next leader.

"We needed to go in a different direction," says Adam Arkells, senior vice president and chief human resources officer. The company had gone through a period of stagnant growth, and the near-term plan called for global expansion. "We needed a different type of leader for the company, someone who could bring cohesion and a single vision while also embracing the family's values," says Arkells, who was part of the search committee.

That's not to say the committee didn't look within the family's ranks to find a replacement. But they weren't hamstrung by the need to choose family over everyone else, Arkells says.
Ultimately, they chose Mark Parrish, a career executive with experience in international commercial service industries.

It was a struggle at first. Some people doubted that someone outside of the family could lead the company. But over the first year, he proved himself by demonstrating that he was honest, thoughtful and invested in the success of the business, Arkells says.

And though the transition was a little difficult, the board and the employees are pleased with the results. "Choosing an external candidate to run a family business can be an emotional struggle," Arkells says, "but you can't let that get in the way of good business decisions."

Making succession planning a priority must come from the leadership team, but implementation of that plan is HR's responsibility, The Rawls Group's Schneider says. "HR's role in succession planning is to find people who fit the culture and to help them develop the skills to lead the organization so it stays viable in the future."

Best Practices for Succession Management
Based upon CMP research and experience, we have organized the Succession Roadmap into three phases to help you implement the planning and execution of your succession planning program.

CMP Succession Roadmap - Key Practices

Plan

- Decide how deep you want to go: Just the C-suite? Management? Everyone?
- Determine whether you will focus development on high-potential employees or extend succession planning to a wider pool of employees.
- Define the capabilities needed for key roles: Think about where the company is going, how your markets are changing, and what skills will be needed to win in the future.
- Evaluate whether your HR software offers succession planning tools and what additional data bases you need.

Do

- Assess employees' current performance and identify any skill or experience gaps for their future roles.
- Ask employees about their career goals so you are certain they want the role you are grooming them for.
- Create training, mentoring and leadership opportunities for top talent to close the gaps.
- Work with senior leadership to create a list of two to three candidates for every top position.

Review

- Review assessments of top talent with the board every nine to twelve months, and again whenever there is a major change in leadership.
- Identify development roadblocks—such as lack of mentors or limited on-the-job leadership opportunities—and look for solutions.
- Review succession plans during annual strategic planning, to ensure development goals align with strategic goals.
- Be willing to adapt the succession planning list if your goals change, or if individual employees aren't showing the leadership development you need.

CMP has supported the development and implementation of succession in companies across industries. The best succession starts with assessing and accurately identifying your future leaders and aligning your employee development activities to the requirements of successful leadership in your company, now and in the future.

CMP is a talent and transition firm in the business of developing people and organizations across the full talent lifecycle – from talent acquisition and leadership development to organization development, outplacement support and purpose-driven strategy and brand. To learn more, visit us at www.careermp.com or request more information.