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# Succession Planning Roadmap

**Aligning talent development to current and future leadership needs.**


If your CEO has a sudden heart attack, do you know who will take the chief executive's place? What if your top executives are wooed away to another firm? Do you have the next generation of leaders ready to fill those roles? If not, you may end up with an empty C-suite—or worse, under qualified people moving into leadership roles because there is no one better to take over.

The only way to reduce the effect of lost leadership is through a strong succession planning program that identifies and fosters the next generation of leaders through mentoring, training and stretch assignments, so they are ready to take the helm when the time comes. Research supports sound succession planning. A study some years ago from consulting firm Booz Allen Hamilton concluded that "over their entire tenures, CEOs appointed from the inside tend to outperform outsiders" when it comes to returns to shareholders. Yet many organizations struggle to take their succession planning programs beyond a static list of names slotted for a few top spots.

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

This Roadmap offers human resources 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. 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 of 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, an assistant professor at 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 white men 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 their efforts but 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 a 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 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 it's 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."

To do that, HR has to create a succession plan that links talent development with the strategic goals of the board, the business and the staff.

A succession planning program compiles the skills, abilities and goals of each employee, compares them to the needs of current and future roles, and tracks employee progress toward being ready to fill those roles. Building a strong succession planning road map involves the following steps:

**Pack a BASKET:** Create a specific model for every job that defines the behavior, attitude, skills, knowledge, experience and talent, or BASKET, necessary to succeed in the role. These models will help employees understand what's expected of them in their current role and what it will take to be ready to move forward.

**Know where you are going:** Be sure BASKET assessments consider the skills necessary to fulfill future roles not just present ones. For example, if the company plans to expand globally, the next generation of leaders should be comfortable working abroad; or if growth plans involve rapid acquisitions, someone with finance skills and change management experience may be the best choice for leadership positions.

**Map the gaps:** As part of the talent assessment process, HR should assess everyone in the organization with an eye toward who is ready to take on key leadership roles today, in 36 months and in 72 months. Use the BASKET assessments to do a gap analysis with employees to help them see what they need to do to be ready for the next level and how long that should take. Report those findings to the C-suite and the board as part of your succession planning updates.

**Ask for directions:** As part of the assessment, talk to employees about their career goals and aspirations to be sure you are prepping them for a job they want. "Part of HR's responsibility is to make sure people have enough exposure to know where they want to be in the future," Schneider says. "That's where a lot of succession planning programs go off-track."

**Identify roadblocks:** Once you've completed the assessments, look for any bottlenecks in the development process that could prevent candidates from moving forward. This may include executives who block the way for the next generation, or glaring gaps in readiness for critical roles. Ideally, you will have two to three candidates for every leadership position in varying stages of readiness.

**Make sure the board is onboard:** Once assessments are complete, HR, the CEO and the board of directors should come together to review the assessments and create a list of the top candidates for each role. "The board is your jury and you need their support," Miles says. By working with the CEO and the board, you ensure that everyone is on the same page about succession plans.

**Keep your eyes on the road.** Once you have a succession planning list in place and you know where your next generation of leaders are in their development process, use talent management tools, performance assessments, mentoring and stretch assignments to close the gaps. Make sure employees are onboard with setting their own development goals, and track their progress through regular performance assessments.

**Check the map:** Review the succession plan with the C-suite and the board at least every nine to 15 months and whenever there is a major change in leadership or in corporate strategy. This ensures that you are always up to date on the development of your top talent and that you identify any changes in direction that might require a tweak to the plan.

**Look Out!**

Companies make many mistakes when it comes to succession planning. Here are the most common—and how to avoid them.

1. **Using the past to plan for the future:** You need to choose leaders whose skills align with future goals. To avoid this trap, make sure succession plans align with the long-term strategic vision of the business.
2. **Stopping at the CEO:** The best succession planning programs at least address the entire leadership team as well as senior management. "Succession planning is a multi-person event," Schooley says. "If one person moves up, it creates a new hole and that can ripple through the organization."
3. **Not getting the Board onboard:** CEOs and HR often think they have a succession plan in place only to discover the board disagrees. "It's a big mistake to assume the viability of a candidate in your mind without vetting it with the board," Miles says. The best programs incorporate the board of directors in planning and keep them up-to-date on development efforts to ensure everyone is on the same page.
4. **Allowing human capital roadblocks to take root:** When talented people top out in leadership roles, they can prevent the next generation from moving up. The best companies avoid these roadblocks by creating new positions, collaboration opportunities and stretch assignments so future leaders have room to grow.
5. **Succession isn't part of the culture.** Succession planning fails when there is no incentive for executives to mentor their people, Schneider says. Best-of-breed companies encourage executives to identify and develop talented young leaders and align their compensation with these efforts. "It should be considered a badge of honor to have your people selected for promotion."
6. **The wrong people making decisions.** CEOs aren't in the best position to choose their successor, because they often are more focused on their current legacy than the company's future goals. The best companies involve HR and the board when making succession planning decisions.

We've organized this roadmap into three phases to help you implement the planning and execution of you succession planning program. Below is a summary of the "Plan," "Do" and "Review" of succession planning.

Plan

- Decide how deep you want to go: Just the C-suite? Management? Everyone?
- Determine whether you will focus on high-potential workers or extend succession planning to a wider pool of employees.
- Define the skills and experience needed for key roles: Think about where the company is going and what leadership skills you'll need to get there.
- Evaluate whether your HR software offers succession planning tools and whether you want to use them.

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 the CEO and the board 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 15 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.

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