

Succession planning

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Succession Planning is about business continuation and people. It is proactive in nature. It has changed from planning for key areas like that of CEO to programs that include long-term strategic personnel needs aligned with the organisation's strategic mission and goals. This paper gives an overview of the process of succession planning and the different approaches to do it.

The words “succession planning” are usually associated with finding the right people to fill the highest-level positions. But planning for future-staffing needs should be done at all levels in the organization, from CEO down to shop floor worker. And it needs to be done in small and medium-sized businesses just as much as it needs to be done in big business.

During the early 1960s, corporations developed systems to fill executive positions from within. It consisted of identifying key executive positions and then sought to groom one or two individuals to succeed to these positions when the incumbent left. It is a model that has less relevance today given rapidly changing external environments and the business discontinuities that can arise as organisations seek to respond. Over time, **succession planning** broadened to include other key areas. As the need for greater technical expertise grew, what once began as a top-down approach that solely targeted corporate or executive leadership shifted to include individuals from the department or division level. Instead of merely replacing positions, as they exist, to-

day's effective **succession** programs include long-term strategic personnel needs that align with the organization's strategic mission and goals.

As CEOs leave companies—prompted by retirement, new opportunities or ineffective performance—the Board struggles to identify new leaders. Today's Boards need leaders with traits and skills that will drive a company's or system's cultural integration, enhance financial performance, and articulate vision and strategic objectives for new challenges.¹

Succession planning is essentially about business continuation and people.²

What is Succession Planning?

An effective succession plan anticipates administrative vacancies and develops a pool of qualified candidates in advance of critical need.

Hirsh W. has defined '**Succession Planning**' to be a process by which one or more successors are identified for key posts (or groups of similar key posts), and career moves and/or development activities are planned for these successors.³

Successors may be fairly ready to do the job (short-term successors) or seen as having longer-term potential (long-term successors).⁴ It is a long-

term process and not a one off exercise.

Succession planning involves:

- Understanding the organization's long-term goals and objectives
- Identifying the workforce's developmental needs
- Determining workforce trends and predictions.

Succession planning is more proactive and is concerned with developing a pool of high-potential people to assume the leadership positions that will be needed to support the future growth of the organization. This recognizes the reality that the world is changing so fast that it is impossible to know and to plan for every future need. Succession planning considers it more prudent to develop general competencies and create flexibility in potential leadership candidates.

Succession planning ensures that there are highly qualified people in all positions, not just today, but tomorrow, next year, and five years from now.

Why Have A Succession Plan?

Succession planning helps an organization build the necessary organizational capability to achieve business results.

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It helps to develop its people and prepare them for future achievement
 It ensures continuity of leadership
 It ensures continuity of culture
 It helps the organization assess its talent pool
 It helps retain key talent and make the organization more attractive to job seekers
 It helps translate business strategies into specific organizational capabilities to support future success.

Strategic goals can only be achieved if an effective program for leadership succession is in place. Succession planning is necessary to ensure that leadership growth keeps pace with organizational growth.

A healthy succession planning process is central to a company's ability to sustain itself and survive. The process promotes the articulation of an organization's essential leadership qualities, stimulates discussion about the organization's leaders and provides disciplined actions that nurture successors.⁵

By ignoring succession planning, an organization places itself at substantial risk like the risk of relying on untested leaders to guide an organization through uncertain times, the risk of placing the company's future in the hands of an individual who knows little of the company's values and ideals. Perhaps the greatest risk is surrendering control of the company's future leadership to the unknown.

The world's most admired organizations recognize that there's a strategic advantage to investing in robust succession-planning programs. By helping employees chart career paths and develop the skills needed to grow into new roles, such company wide programs ensure that when people move up in the ranks, the next set of managers will be there to replace them.⁶

Leading companies such as Johnson & Johnson don't just promote succession planning at the organiza-

tional level—they also adopt a “bubble-up” strategy, holding individual executives accountable for developing their replacements. This helps ensure orderly transitions and provides some assistance in the ongoing war for talent⁷.

Businesses, whether small or large, require material and human resources to accomplish goals. While material supply systems consistently draw much attention, organizations only periodically focus on developing and maintaining adequate human resources. To ensure its much-needed key personnel, a *succession-planning* program is needed.

There is empirical evidence that succession planning and management development can and do contribute to extraordinary business success. Jim Collins and Jerry I. Porras authors of the book ‘BUILT TO LAST: Successful Habits of Visionary Companies’ carried out research into 18 truly exceptional and successful companies that have lasted for on an average more than 100 years. They found out that such visionary companies have long-range succession planning to carry out smooth transition from one generation to another.

Succession planning establishes a process that recruits employees, develops their skills and abilities, and prepares them for advancement, all while retaining them to ensure a return on the organization's training investment.

How to do Succession Planning?

The most common model for centralised, corporate succession planning is that it covers only the most senior jobs in the organisation (the top two or three tiers) plus short-term and longer-term successors for these posts. The latter group are often manifest as a corporate fast stream or high potential population who are being actively developed in mid-career through job moves across business streams, functions or geographical boundaries.⁸

Many large organisations also

adopt a ‘devolved’ model where the same processes and philosophy are applied to a much larger population (usually managerial and professional) but this process is managed by devolved business divisions, functions, sites or countries. It has to be said that few organisations successfully sustain the devolved model, usually because it is not really seen as a high priority and not adequately facilitated by HR.⁹

Sometimes firms promote the occupant of the No.2 position. But recent high-profile examples of the premature departure of a second-in-command shows that of the executives promoted from within to the #2 spot and expecting to succeed the CEO, half never make it to the top, leaving their companies within five years. Even more startling is the success rate for people coming into #2 positions from the outside: after five years, only 24% have become CEO.¹⁰

In the article NAVIGATING THE SUCCESSION MINEFIELD the authoress discusses one successful way of identifying successors to retiring executives. The former bosses, current bosses and seniors should discuss the likely successors. The authors have tested this method and found it to be quite effective in identifying previously unknown traits and shortcomings.

Another approach is to have a good plan assessed for the results it would give. Ask the question whether the process would give the desired results before embarking on the journey of succession planning.

Ageing Workforce Discussion Paper Series has listed the following steps:¹¹

Identifying Future Leadership Needs of the Organisation

This step involves reviewing biographical data (corporate experience, education) by a review team of senior, credible managers and review of performance (360° feedback, challenging projects, formal appraisal). Also interviews to determine career

preferences and self-perceptions, psychometric testing and determining competence through simulated work exercises.

Competency Assessment and External Recruitment

It would involve identifying the competencies required by the company now and in the future. Once the competencies needed are identified the internal potential employees can be evaluated for the competencies and these shortcomings would form the basis for development activities. Also judiciously external talent can be recruited where internal talent is not available

Development Activities

Would include a variety of job assignments including action learning projects, education, training and self-development.

Program review

As with any program, review and evaluation is a lynchpin of success. The complexity of the system could be the cause of its downfall.

Strategies to attract and retain leaders

For managing succession planning successfully employees should be retained using strategies like incentive and reward systems; varied work assignments to maintain interest and a sense of growth and challenge.

Mel Hensey in the Journal of Management in Engineering also concurs with the above system of succession planning.

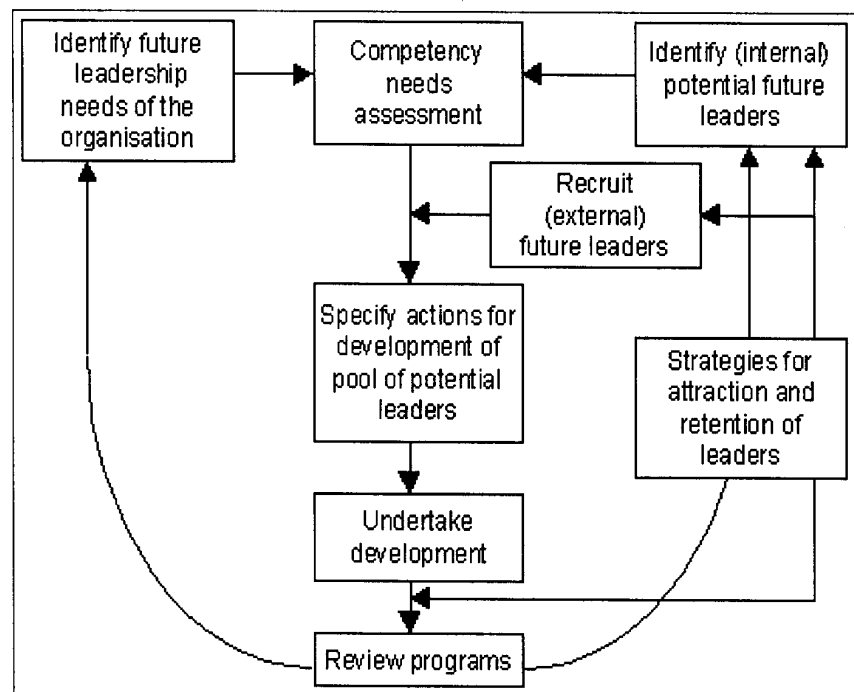
In his 2001 book, the former CEO of General Electric Co., Jack Welch, wrote of choosing his successor: "Making the pick was not only the most important decision of my career, it was the most difficult and agonizing one I ever had to make. For at least a year, it was often the first thing I thought about each morning and the last thing on my mind at night." Welch approached the selection process with four criteria. He wanted his

successor: to be GE's unquestioned leader; to take the politics out of the process; to be young enough to be in the job for at least a decade; and he wanted the board involved in the decision.

Why succession planning fails¹³

- High potential candidates are arbitrarily defined.
- The qualities that a successful business unit head has and what he should have after becoming CEO are different. Business unit heads may not have strategic vision or ability to communicate effectively with external stakeholders.
- Many executives make excellent No. 2s and act as a fine complement to their CEOs but fail miserably when they move into the corner office. The primary reason is the #2's inability to navigate the political currents that buffet every heir apparent.¹⁴

- The designated replacement may be far from ready to take over.
- Promotions are made keeping in mind the organizational needs, but totally ignoring the aspirations of the employees.
- The process lacks transparency and confuses talented people, who may hence decide to leave.
- Outsiders are indiscriminately hired without explaining the rationale to insiders.
- When one person leaves or retires, instead of moving decisively and appointing a successor.



Jack Stack provides a useful real world summation of approaches that work:

"It's hard to think about the future, decide what you want, and commit yourself to a plan. It's much easier to focus on the day to day and forget about next year."

"That's why you need a system. You need a regular routine that forces you to pay attention and do what's in everyone's long-term interests. It's a bit like starting on a diet and starting an exercise program. The best way to get rid of bad habits is to replace them with good ones."¹²

sor, the portfolio is split between two people at the next level, leaving employees totally confused.

- The program is perceived as being limited to the 'elite' core.

Effective Succession Planning: Some useful guidelines

- Successful Planning should be customized to suit the present needs of the organization. For example, if the skills necessary to manage the company in a changing environment are not available in house, there may be no option but to hire an outsider.
- Succession Planning should be driven by line managers and HR executives.
- Succession Planning should anticipate rather than react to job openings.
- Succession Planning is not just selection. Development of employees through job rotation, mentoring and formal training programs is equally important.
- Succession Planning must take into account the culture of the organization.
- Succession Planning must be consistent with the company's strategic intent.
- Succession Planning initiatives must be driven by the need to develop leaders within the organization on an ongoing basis

Succession Planning should examine all positions, which are critical to the core functions or are difficult to replace.

Succession planning should be:

1. Customized to the organization. No one company has the "right" answer. Succession planning must be tailored to the organization's needs.
2. Focused on future strategy and culture. Succession planning must be aligned with future stra-

tegic direction. The organization must assess its current culture and define its ideal culture. It must define the competencies needed today and in the future for the critical, key positions. Then it must assess and develop its leaders based on what it needs to become in the future.

3. Driven by top management. Top management must be involved with and support the succession planning process. Succession planning must be owned by line management and guided by human resources, but not owned by human resources.
4. Based on objective multi-rater assessments. Succession planning should be based on objective, multi-rater assessments. Multi-rater feedback offers higher reliability than single rater assessments and more accurate performance assessment.
5. Focused on development, with shared responsibility. Succession planning is not just assessment and selection. Development is key. Identify individual development plans for each individual. Focus on development opportunities with the greatest impact—cross-functional/cross-sector job assignments, executive coaching, and mentoring. Each employee must take ownership of his or her development with strong management support.
6. Focused on development of a leadership cadre. Build pools of talent.

What is being done today in the name of succession planning? ¹⁶

Select a set of key leadership criteria and provide support to help leaders meet requirements for advancement

In large companies since it is often difficult for one group to know all

the qualities that a leader must possess, the company is limited in its search for the most qualified talent. Two top pharmaceutical manufacturers have developed their own approaches to avoid the possibility of overlooking critical leadership success factors. Eli Lilly using numerous focus groups, comprised of varying levels of management, identifies the critical core competencies of effective leadership. Glaxo Wellcome outlines key areas of development for all employees, including "on the job experience," self-development, training, and participation in coaching and mentoring.

In addition, Glaxo Wellcome's employees follow an integrated development process. Collaborative performance planning between employees and managers helps employees work to develop and meet a set of performance goals. The success of the development plan depends on the commitment of those involved; therefore Glaxo encourages manager and employee to carry on a running dialogue about the plan and what the employee is doing to meet his or her goals. Also, the manager and the employee are expected to meet quarterly to discuss performance and development progress.

Screen effectively to identify high potential and to concentrate development resources on future leaders

In addition to identifying critical positions and any gaps in the corporate structure, Glaxo seeks to develop – and thereby retain – employees with extraordinary skills and/or performance. The company also emphasizes female and minority employees as part of its commitment to diversity.

Glaxo Wellcome concentrates heavily on matching its star employees' talents and interests to available opportunities. A rich variety of assignment, visibility, excitement, and change rather than strict financial re-

wards has enabled Glaxo to retain employees.

Spread responsibility and ownership for process design, execution and refinement

The succession plans at Lockheed Martin identify pools of candidates for job openings at all levels throughout the organization. Ultimately, executives at the corporate level manage the candidate pool. With almost 200,000 employees, Lockheed has a succession planning process that is continually reviewed at increasing levels, from HR directors to presidents of operating companies, before elevating to upper management.

Align succession planning with corporate culture to ensure that executive structure reflects corporate values

Competencies are critical at General Electric. However, as the company's CEO Jack Welch has noted, the company's values are even more central. GE stresses the importance of "high achievers" – those who are successful wherever they go. Another key factor that GE looks for is the desire to perform leadership tasks. Past performance still figures prominently in the performance review process, but an employee's promotion record has less impact than it once did. GE culture now focuses more on people staying and seeing their individual projects through to successful completion.

Measure the results of the succession planning process to ensure alignment with goals

In areas where employee development leads clearly to improved performance (financial workshops, sales negotiations) the results can clearly be measured. Organizations that provide development opportunities and expect concrete results have the ability to document the employee's increased performance and reward them accord-

ingly.

For example, as in many field forces, sales reps at Novartis, a biopharmaceutical company, receive bonus compensation based on the extent to which they meet stated goals and objectives. Novartis takes the additional step of having the Human Resources department assess the performance reviews themselves as a measure of corporate development effectiveness.

The Indian Scenario

The problems in Indian scenario are acute. We have lot of family owned and managed businesses. These spend their time dividing and selling family silver rather than selecting and preparing the successor for the top job. Though there have been instances where the family has decided to appoint professional managers, like Ranbaxy, Murgappa and TVS.

L&T for one has embarked upon a planned succession program. It prefers internal candidate to external candidates. It also compares the internal candidate with external candidate to identify areas for improvement for the chosen one.

The need for succession planning and the effect of the lack of it can be understood from the example of Thermax. The founder Rohinton Aga did not identify his successor. After his death Abhay Nalwade the only designated executive director was selected, but he was unprepared for the transition from peer to boss.

Conclusion

In order to continuously improve the succession planning process, companies must prioritize the many best practices and lessons learned and fit the critical best practices into an operating strategy, including a detailed improvement path forward for the succession planning effort. Improved employee retention, training and preparation, commitment and satis-

faction, as well as an improved corporate image are some of the benefits to companies improving their practices.

The current trend in the Industry is to move from the traditional succession planning practices of position replacement to talent management philosophy. Talent Management is about identifying and assessing the talent in the organisation for running the units in the future, investing in the development of these personnel. It also is true that there is no standard succession planning approach, it has to be specific to the company. Also like any other organisation developmental activity support and commitment of the top management is necessary for the success of this issue.

Succession planning is a complex process that requires constant attention and ongoing in resources. Successful organisations devote considerable time and resources to mapping out skills and competencies so that they can hire and train appropriately and achieve a distinct competitive edge. Best-practice organisations also prepare for unforeseen events and the potential loss of key executives. Finally, these organisations view succession planning as an ongoing process rather than an event that must be addressed every year or two.

A growing number of companies are recognizing the value of succession planning and they are expanding the concept from one traditionally followed to manage organisation wide managerial positions rather than only senior level positions. They are taking beyond organizational charts and using it as a comprehensive change-management tool that helps the organisation identify gaps in talent and fill them more effectively. Ultimately a comprehensive succession planning strategy helps business leverage the full value of human capital. ■