THE BOARD MINDSET™

The vital attribute of exceptional boards

THE BOARD'S ROLE IN SUCCESSION PLANNING

Boards have always considered CEO succession one of their prime responsibilities—and it is. However, the environment in which most boards have operated has changed radically in the past years. In 2020, we began the year with unprecedented low unemployment and ended the first quarter with a virus that has affected every aspect of business. Now, more than ever, leaders will turn to board directors for the advice they have always needed about succession and for guidance about how to plan for the talent needs of the organization in both the short- and long-term.

Even with the revolving doors at the top of many companies spinning faster than ever, organizations still overlook opportunities to develop talent from the bottom up, and they continue to allow the selection of top leadership to turn into messy melodramas. Instead of leaving the future of the firm to fate, directors need a systematic, comprehensive course of action that takes the guesswork out of determining the future. They need a process that provides objective, indispensable data to help make succession decisions and avoid costly mistakes as the Baby Boomers leave the workplace, the next generation enters, and competitors attempt to steal your top talent.

The previously perceived quiet crisis of succession is now sounding its siren, and smart companies are responding by creating disciplined approaches to managing their futures. When circumstances usher in change, you should be ready with a carefully tended pool of candidates. Unfortunately, most companies have not managed the talent pools well, and too many pools could use a dose of the organizational equivalent of chlorine.

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Decision makers at smart companies know they must do better, and they understand that they should now rely more heavily on the board to help them.

In the past, leaders used the terms *replacement planning* and *succession planning* synonymously, but the two differ. Convincing decision makers to have a disaster replacement plan if key individuals die or depart unexpectedly is not too difficult; persuading them to prepare people for advancement years ahead of their actual promotions presents more challenges. Therefore, replacement planning is a start, but only a start.

Successful succession planning requires a balanced evaluation of talent, potential, experience, and performance. A course of action for identifying talent throughout the organization, it involves the selection of talented employees to replace key managers who will leave the company because of personal preference, retirement, reassignment, or termination. We use this definition of succession planning:

Succession planning is a deliberate, systematic effort to guarantee leadership continuity, a process for ensuring a suitable supply of candidates for current and future key jobs so that the careers of individuals can be managed to optimize both the organization's needs and the individual's aspirations.

Done well, succession planning maintains a balance between implementing business strategy and the achievement of organizational goals with keeping the disruptions that often accompany personnel changes to a minimum. In contrast to an automatic promotion system within the chain of command, succession planning prepares people for present and future work responsibilities so that high-potential individuals are preparing for promotion at all levels. A powerful way to maximize human capital both now and in the future, it creates an ongoing, continuous plan to focus attention on talent. It establishes a way to meet the organization's needs for talent over a long period of time, starting with the sometimes-daunting plan to advance someone to the number one position, the Chief Executive Officer.

Succession planning prepares people for present and future work responsibilities

To determine whether the board should be involved in the succession plan, ask the following:

- Do managers complain that no one is ready when vacancies open up?
- Are expenses for external searches increasing?
- Will you compromise your strategy because you don't have the talent to support it?
- Are possible successors for key positions leaving because they perceive no room for advancement?

A "yes" answer to any one of these questions implies that your company has not adequately established or communicated its plans for the future of its people, both for replacing people in key roles and for developing high potentials for advancement.

One has only to pick up the *Wall Street Journal* to understand the depth and breadth of the leadership crisis in corporate America and to learn of CEO failure. Clearly, whether they are being forced out or whether they are retiring, CEOs are leaving organizations, and too many companies have not developed a well-thought-out plan for replacing them with internal candidates—or replacing people in jobs the CEO candidate vacates.

Why should that matter? First, your company will have trouble holding on to the talent you have if those in key positions perceive that they have no hope of advancement. Also, the perception that no one is ready to fill vacancies fuels the insecurities of both employees and other stakeholders. Keeping talent in your organization depends on you having a deep pool of skilled candidates who have been part of a well-defined leadership initiative, stars who have been given every opportunity to realize their full potential.

Second, when organizations lack the culture or discipline to grow their own talent, they have no choice but to look to outsiders; however, companies are usually better off with internal contenders.

Also, external candidates usually create greater risks because no one knows them well. According to Booz Allen reports, during their first two years, CEOs from outside the organization produce higher returns for investors. But as the tenure grows longer, insider CEOs tend to do much better. The numbers point to an indisputable conclusion: In the long run, companies fare better when they grow their own talent. In organizations that stretch their abilities and expand the knowledge of their high potentials over time, when replacement becomes necessary, decision makers can select from internal candidates that they have spent time observing, evaluating, and developing.

When companies do not have a well-defined succession plan, the reliance on internal candidates can backfire

A word of caution: When companies do not have a well-defined succession plan, the reliance on internal candidates can backfire. Known quantities may sail through the promotion process when board directors and senior leaders fail to engage in the rigorous and sometimes arduous task of evaluation. Instead of engaging in due-diligence, decision makers can allow social and emotional ties to particular individuals to guide their choices. Outside candidates should always be an option, but they should not be your only option.

When is the right time to start succession planning? Now! If you start five or even ten years before the estimated departure of the CEO or other key leaders, it may be too late. Unforeseen circumstances can interfere with your best-laid plans, and the company will be faced, not with the "quiet crisis of succession," but with a screaming one. Whatever your current situation, these steps describe how you can start a strategic succession plan:

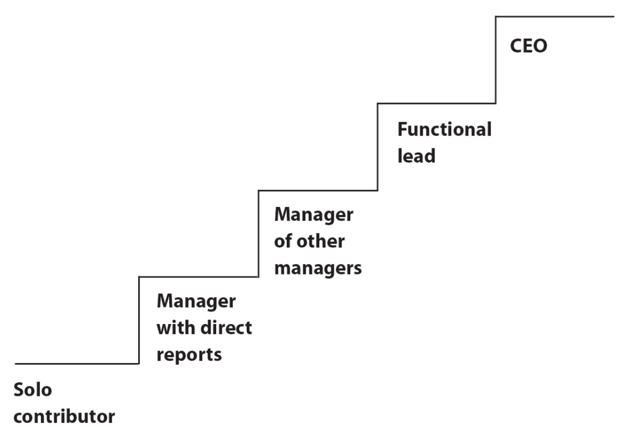
1. Clarify expectations. What does the current CEO expect from each level of the organization? No initiative has a hope of succeeding if the CEO doesn't support it and require commitment to it. Certainly, the human resources department will probably oversee the step-by-step process of implementing the plan, but the CEO must drive the process. Don't forget the board of directors. Particularly when it comes to future CEOs, board members will want to be involved and informed.
2. Review the current succession plan for the organization. Audit its architecture to reveal vulnerabilities. Determine if this leadership pipeline supports your mission, vision, and values of the organization. Analyze the one, three, and five-year strategies, and evaluate these strategic objectives vis-à-vis the current pool of talent.
3. Based on this information, forecast future talent needs. Examine current versus required performance, existing enhancement initiatives, projected turnover, anticipated retirements, talent growth projection, demographics, and changing business trends.
4. Working together, the members of the leadership team establish competencies for each key position. The reason for doing this is that key positions underscore and dramatize important work processes that must be carried out. Key positions warrant attention because they represent strategically vital leverage points affecting organizational success. When leaders leave them vacant, the organization cannot confront the competition successfully. Key positions exert critical influence on both strategy and execution and have traditionally been viewed as those at the pinnacle of the chain of command.
5. Identify excellence markers and critical success factors for each position on the leadership team. Ask yourselves, "what are the skills, experience, knowledge, and personality characteristics required for exemplary performance?" Competency models can be created for each job or each level in the organization, but there should be some commonality at the upper echelons of the company. In general, you will want

to address decision making and problem solving, results orientation, leadership abilities, and people skills. For as many roles as possible, identify different levels of achievement and the criteria for moving from one level of achievement to the next. Start with your most important roles and scrutinize your top performers. Build a talent profile that encapsulates the best practices of these achievers. Any leadership pipeline demands a continuous flow of talent, so extend succession planning throughout the various levels of the organization. In other words, establish a systematic method for moving from the bottom to the top.

6. Next, as a team, agree on standards for high potentials. Some organizations concentrate on the top 5% of their population. The criteria for determining a high potential would include the following:
    - The ability to advance two job levels in five years
    - A willingness to relocate or acquire requisite field experience
    - The potential for at least 10-15 years with the organization
7. Identify the strengths and weaknesses for each individual you are considering for key positions. Assess "ready now" people, identify a timeline for "ready now" in the future, and examine each high potential vis-à-vis this list.
8. Ask each member of the leadership team to identify high potentials currently in the organization and one or two possible successors for each key position in the pipeline. For immediate decisions compare this list of high potential candidates with the list of "ready now" candidates or look at the timeline for projected readiness to determine when they will be able to take on new responsibilities.
9. Finally, assign members of the leadership team accountability for development plans for each high potential.

Because succession planning is a deliberate, systematic effort to guarantee leadership continuity, organizations need a clearly defined way to understand the steps in the leadership pipeline. Your organization, depending on your size and structure, may define the transition from solo contributor to CEO in as few as three or four steps. For the purpose of this discussion, however, I offer five stages of leadership development that can be applicable to both large and small organizations.

Leadership Pipeline



In short, successful succession management can lower employee turnover, improve morale, fuel the leadership pipeline, and place the most qualified candidates in key positions. Even though critical, succession planning can't happen overnight. It requires considerable attention to design, commitment of top managers, the credibility of the planning staff, and resource allocation, but with board and CEO buy-in and a well-planned approach, companies can begin to collect the data that will start the process. Leadership continuity and excellence remains the paramount responsibility of the board of directors, and nothing should stand in its way. It is truly no accident that the root of the word "succession" is "success."