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ULTIMATE GUIDE TO

SUCCESSION PLANNING

SUCCESSION PLANNING GUIDE

If your CEO were to suffer a major heart attack and have to step down--or worse, died, as a result…

Do you know who could step in to take over the business?

How about if one of your key executives is lured away by a competitor… and takes several other top leaders along?

Most companies don't have a plan in place.

Maybe they don't think it will happen to them, or their general plan is to rely on momentum or cash reserves to get them through unforeseen rough patches. Maybe they're "too busy" with more immediate issues to give it the attention it deserves.

The truth is this: The only way to ensure your company survives a leader's exit, whatever the cause, is careful succession planning. You can think of it as "contingency planning" for your business.

When you consider all the things we make contingency plans for in our daily lives, it seems crazy that so many organizations forgo this critical measure.

Think of it this way, would you willingly board a commercial flight without a co-pilot? Probably not.

If you're rolling your eyes, consider this: Without a co-pilot, would you feel comfortable with anyone else attempting to land the plane? Not likely.

It's no different in business.

Proper succession planning gives your business a plane full of employees, trained and ready to step into the cockpit at any moment.

This also gives you the luxury of asking, "Do we want to hire from another company or promote from within?"

Both options have their advantages and disadvantages. Having the option means you can make the best choice for your company's strategic positioning at the time.

What is succession planning?

Succession planning is an investment in your current workforce, as well as the future of your organization. It is a concerted effort to get employees ready for key roles before they are vacated. That means identifying high potential employees now, so that you can develop them for key leadership positions and create a pipeline of leadership for your organization's future.

Why is it important?

"By failing to prepare, you are preparing to fail."

Most leaders have used that famous Benjamin Franklin quote a time or two. After all, CEOs spend a majority of their time developing and executing their organization's strategic plan.

They prepare budgets and sales projections, study the market, and evaluate their competition. They set goals and benchmarks for achieving them.

What many leaders fail to do is plan for their business to succeed without them.

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But planning for succession is just as important as planning your other strategic objectives. Here's why:

1. You owe it to your investors.

While many companies keep money in reserve for a market downturn or natural disaster, few plan for a disruption to their leadership.

Without an established succession plan, your company is left vulnerable when key roles are vacated. You owe it to investors (even if you are a sole owner) and your customers to ensure a lapse in leadership does not hurt the company's bottom line.

In fact, with successful planning, your business can continue to grow during a transition.

2. Hiring an external candidate is often more expensive.

According to research conducted by Matthew Bidwell, a professor at the University of Pennsylvania's Wharton School of Business, external hires are typically paid 18 to 20 percent more than internal candidates.

That's a significant cost difference, and it comes with a steep learning curve for your new leader.

Bidwell estimates it can take up to two years for an external hire to get up to speed on your company's products and services, your company culture, and the internal politics necessary to get things done.

When you have the option to hire from within, you're able to realize savings on compensation and the onboarding process, by promoting a candidate that already has a deep understanding of your company, your people, and what it takes to win in your marketplace.

3. External hires have a higher failure rate.

A company without a strong succession plan is often more apt to look outside for a new leader. The board is drawn to external candidates who look good on paper and believe they can bring new ideas and a fresh perspective to the organization.

While that can be true, it can also be risky.

Take the high-profile example of Ron Johnson. Based on his incredible success as Apple's senior vice president of retail operations, Johnson seemed like a sure thing when JC Penney hired him as its CEO in 2011. The department store chain had been experiencing declining revenue for several years and was looking for an outsider who could breathe new life into the company.

Johnson's big move was replacing JC Penney's longstanding practices of coupons and sales with "fair and square"

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everyday pricing. In doing so, he confused shoppers and alienated their loyal customer base.

It was also widely reported that employees felt Johnson was aloof and that he did not fit in well with the company's culture.

After just 17 months, JC Penney let Johnson go and rehired its former CEO, Myron Ullman, to clean up his mess.

Moral of the story? Never underestimate the value of someone who knows your customers, your market, and your culture inside and out.

4. Succession planning can improve employee retention.

When employees know the company has a plan for the future, they feel secure in planning their own.

A company with a succession plan develops employees who know what it takes to win.

They know how they can contribute to its success and are also empowered to take responsibility for their own career advancement.

5. Succession planning improves synergy.

It's no longer considered good business practice for a CEO to handpick his or her successor.

Good succession planning requires the full commitment of the entire executive team, human resources, and the board of directors. It also requires open communication and participation by all divisions of the company.

By involving employees from around the company, you're less likely to overlook core competencies, more likely to identify the very best talent for the job, and you'll show stakeholders that their opinion is valued, increasing their sense of loyalty and responsibility.

How's that for win-win?

6. Succession planning benefits the business now.

When you intentionally develop people for future roles, they get better at their current ones too.

When you invest in preparing people for the future, it's not like they're sitting on the bench waiting for something to happen to the CEO. They're out there applying those lessons to their current position--and increasing the value of their direct reports as well.

Finally, succession planning forces executives to review the company's goals on an ongoing basis, making it better equipped to respond to market changes.

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The 5 Characteristics of Successful Succession Planning

While no two succession plans are the same, the good ones do have several things in common.

The five core characteristics of a successful succession plan will help you focus on the things that matter when it comes to planning for your company's future.

Use this checklist to make sure your succession plan succeeds in setting your team up for success, instead of finding it's way to the circular file.

1. It's not complicated.

   A good succession plan shouldn't be complicated. Over-complicated plans that cause more upheaval than stability are likely to find their way to the back of the file cabinet during a transition.

   The more straightforward the plan, the more likely it is to be executed.

2. It's championed by the top leadership.

   When top leadership prioritizes succession planning as a strategic necessity for the future of the organization, succession planning is taken seriously by the rest of the stakeholders, resulting in a solid plan for the future.

3. It's integrated.

   Effective succession planning doesn't happen in a vacuum. It's integrated with other human performance systems to ensure that the right skills are tapped, the potential gaps addressed, and the best people are identified for development.

4. It's aligned.

   A successful plan must be implemented with clarity and unity around what it means to win as an organization. That means your organization needs to have a clear vision of why it exists, where it's going, and what it takes to get there, so you can identify the right people (and skills) to lead the way.

5. It's talent-centric.

   It's easy to talk about identifying the right people for the job. But effective succession planning takes measurement.

   Successful plans use scientific assessments to benchmark the necessary skills for the job, accurately identify gaps in the existing talent pool, and strategically match people to current and future roles.

If you follow just those five characteristics of a successful plan, you'll be off to a great start. But read on. Next up is the eight Steps to a Successful Succession Program.

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Where to start: 8 Steps to a Successful Succession Plan

Knowing where to start is half the battle when it comes to a successful succession program.

Now that you know the five characteristics of a successful plan, let's talk about how to get started.

1. Establish scope and parameters:

   Ask yourself: How can succession planning help our organization perpetuate a winning strategy? Your answers will help you identify they key areas your plan should focus on.

2. Benchmark key roles:

   Clearly define key roles and use scientific job benchmarks to understand what skills and styles are needed for each role.

3. Assess current talent:

   Identify employees who have high potential for development to assume key leadership positions within the next two to five years.

4. Analyze future role fit:

   Compare high potential talent to the job benchmarks to bring to light areas of strength and gaps in five sciences: behaviors, driving forces, competencies, acumen, and emotional intelligence.

5. Implement development plans:

   Create and carry out individual development plans for those high-potential employees to maximize strengths, close gaps, and prepare them for future roles.

6. Build the leadership pipeline:

   Utilize performance monitoring, leadership development coaching, and business simulations to build a deep, high-quality pipeline for all key positions in your organization.

7. Communicate proactively:

   Communicate the process, timelines, and expectations to ensure succession planning is embraced as a helpful strategy throughout the organization.

8. Evaluate progress:

   Evaluate the effectiveness of succession efforts so you can revise strategies as needed.

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Avoid the traps: 7 common succession planning pitfalls

Whether you like to admit it or not, succession planning can be a rather emotional undertaking. Even for the more rational, level-headed leaders.

It's not you, it's the process. That being said, here are seven common pitfalls to avoid when planning for your organization's future:

1. "What will happen to me?"

The thought of succession planning can dredge up some fear in even the most well-intentioned CEO.

The trick: Instead of asking "What will happen to me?" reframe that and think about your legacy. Ask "What will happen to the company without me?"

If the answer is "It's going to struggle to find it's way," you need a succession plan. A company that continues to thrive after you've gone is a great legacy to leave.

2. Viewing succession planning as a luxury instead of a necessity

It is common for CEOs to put off succession planning in order to focus on the more urgent issues at hand. They often think of it as something that would "be nice if I had the time."

Ask yourself, "If I left the company today, would they know exactly what to do to keep winning?"

If you answered anything but an enthusiastic "yes!" a succession plan isn't a luxury--it's a critical insurance policy for your organization's future.

3. Focusing on who you like, instead of who is objectively right for the role

Left to their own devices, CEOs often choose successors who are mirror images of themselves. But it shouldn't be about who you like (or who is like you), it should be about who is qualified to lead the organization into the future.

That might mean a leader with a completely different skill set. If your organization was launched by a software engineer, your organization's future growth might require a leader with a sales or marketing background to take advantage of a new set of opportunities.

This is where benchmarking the job and identifying the gaps becomes a critical guide for a successful plan.

4. Playing favorites

All candidates must be afforded the same opportunities to show their worth. Make it clear that while only one person will be selected, each individual will get the opportunity to stretch his or her skills and gain experience. Good communication and full transparency make the succession planning process work.

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5. Leaving it at the letdown

When you make your selection, don't just leave it at that. It's important to let other employee candidates know why they weren't selected--and turn it into a development opportunity for their future. By developing plans for their continued growth, you reinforce that there are other opportunities for them, and you continue to develop your pipeline.

If you don't, it's likely that otherwise good employees will look elsewhere for advancement.

6. You "set it and forget it" with your succession plan

There are many factors that will impact what and who an organization needs in order to be competitive.

It is important for the succession planning team to review and revise the plan on a regular basis to ensure the plan remains relevant in a changing marketplace.

7. You think of hiring new employees as the finish line

It's common to breathe a sigh of relief when you finally fill a role with a new internal or external hire. For too many organizations, that hire is viewed as the "finish line." It's fine to take a breather, but recognize that your new hire has a development learning curve.

If you treat every new hire as the starting line for another potential leader in your organization, your leadership pipeline will always be full.

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Conclusion:

Now that you know what succession planning is, what a successful plan looks like, how to get started, and the pitfalls to avoid along the way, let's circle back to that analogy between the CEO and the airline pilot.

Just as pilots are required to file flight plans before takeoff, good CEOs should plan for their departure.

Here's a recap of what to do along the way:

Maintain good communication with ground control.

Make sure you're gathering input from all areas of the company. A good succession plan involves everyone.

Do your inspections.

Look at the talent you have within your organization. Identify employees with the qualities that may make them good leaders.

Look at the forecast.

What is the competition doing? What new technology is on the horizon? How will your markets change in the years to come?

Create great copilots.

Most importantly, remember that a plane can only fly on autopilot for so long. Make sure your team has the training hours and real-life experience necessary to assume control.

It's simple, but it's not always easy. If you could use some help developing your plan, the team at Sagency would love to help your company soar to new heights.

To book an initial free consultation with our succession planning team, contact us at www.Sagencytalent.com.

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