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Sustainability Through Succession Planning

In this paper you will learn:

- What is the most important corporate resource over the next 20 years
- How to avoid being one of the 50% of companies that fail to plan
- The five step process to a comprehensive plan
- Why today's marketplace poses unique challenges

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I. The Story of the Spice Company

Robert Lawless led McCormick and Company for only 6 years when he realized at some point he was going to leave the company. Over the next 5 years the board of directors, along with this forward-thinking CEO, developed a comprehensive succession plan that would groom the next generation of leaders and identify his successor.

According to a yearlong study conducted by McKinsey & Co., the most important corporate resource over the next 20 years will be talent. [2]

Lawless was so committed to the concept that he requested a portion of his compensation to be based on succession planning, including the successful development of several key players within the organization.[1] With the board, he developed the program, identified a slate and participated in choosing the new CEO.

In 2006, Alan Wilson was named the company's President and COO. He worked side-by- side with his predecessor for two years, and in 2008 took over the helm at the Baltimore-based spice company. Their 1st quarter earnings report this year reflected a 7% growth in sales, demonstrating a truly seamless transition.

II. Defining Succession Planning

Robert Lawless understood the importance of succession planning to the stability, viability and bottom line of his company. This simple task remains one of the most difficult challenges that an organization faces in today's complex era of organizational management.

While the term is most often associated with the succession of the CEO, successful companies look beyond the C-suite. Succession planning for organizations with an eye for strategic development is the process of identifying and preparing strong employees through mentoring, training and development to move into their next role.

Leadership transition should be a strategic initiative driven by the board and embraced by Human Resources and the executive team, beginning long before outgoing leaders depart. Developing an effective succession plan, although time consuming and at times difficult, provides a unique opportunity to evaluate and address the complexities, challenges and future of the company.

III. Two approaches to succession planning

The continued success and survival of an organization depends on having the right talent in the right place at the right time. As an organization identifies and develops future leaders, it is in fact shaping the culture of the company. Organizations that do not strategically plan to recruit, develop and retain potential leaders are setting the stage for their own demise.

If we get the right people on the bus, the right people in the right seats, and the wrong people off the bus, then we'll figure out how to take it someplace great.[5]

The constant activity of people leaving, creating new positions and developing new talent can seem at times like a burden to every manager's workload. But without this critical change within the organization, there would not be growth. As the company grows, you need more people, because the high performers in your company are promoted and the cycle continues. In this way succession planning is not just a good practice—it is a necessity to survival.

A. The head in the sand approach

Still, there are those that are in a state of denial or ignorance. And while many organizations will say that succession planning is important, most have not acted on that belief. A recent study of more than 720 freestanding hospitals by the American College of Healthcare Executives found that only 21% reported leadership succession planning was routinely done at their hospital.[3] Yet, the majority of those same hospitals felt that a well-defined process was ultimately effective.

The Center for Board Leadership, in conjunction with Mercer, conducted a similar study and found that only about 50% of public and private corporate boards have CEO succession plans in place.[4] This is the case even at mega-conglomerates with thousands of employees and robust human resources departments. While smaller companies are less likely to have a succession plan in place—reasoning that they do not need it—the fact is that they are more vulnerable to a leadership vacuum in the event of a key player leaving suddenly.

It certainly seems counter-intuitive not to develop a succession plan. Why do some companies avoid this key strategy? While the reasons are varied, they can include:

- Boards and CEOs are so focused on getting through the next quarter that they simply do not have time to mentor and focus on the next generation of leaders.
- Executives see it as a one-time issue and have decided to deal with the crisis when it comes.

- Current leadership embraces intuitive decision-making and their egos are just big enough to believe that they will be able to identify the next generation of leaders through this same intuitive process—the "hire those you like" approach.

- Boards fear that by identifying candidates publicly they will create political unrest among employees and negatively affect morale.

- Executives loath the thought of their own career demise, much like avoiding completing a will.

... If the organization does not embrace succession planning as a key element to long-term success, they will find themselves without strong leadership and afloat in a sea of economic turmoil.

Henry Singleton focused on building Teledyne from a small enterprise to number 293 on the Fortune 500 list in just six years. He had completed over 100 acquisitions, but never gave succession planning a second thought. Once he retired, his entire organization began to dissolve. The stock fell 66% and the failing company was acquired by Allegheny in 1995. While he had become a great businessman, he failed to build a great company with a solid succession plan for the long-term viability of his organization.[6]

B. Making a plan for all the right reasons

The best reason to support and drive this strategy is of course to protect the growth, development and survival of any organization. According to Price Harding III, Founding Partner at CarterBaldwin Executive Search, the recipe for success is not all that elusive: sustainable, profitable growth.[7]

Good strategy provides growth. Strong management provides profitability. But the right succession plan makes your organization sustainable. There are plenty of businesses that produce phenomenal growth and profitability in short order, usually due to one leader with a timely entrance into the market. But if the organization does not embrace succession planning as a key element to long-term success, they will find themselves without strong leadership and afloat in a sea of economic turmoil.

Besides the fact that it just makes good business sense, there is one more reason to drive succession planning. For leaders within their organization, helping to facilitate their transition is the last act of their legacy. Marshall Goldsmith, renowned executive coach and author observes "The development of a great successor is one of the most important accomplishments that a CEO can achieve." [8] A key responsibility of the CEO is that while carrying the baton of leadership s/he should prepare their successor for the hand-off, much like a relay. As executives begin to slow down, they need to help their successors get up to speed.

III. The 5 step process for building a strong framework

Building a successful program requires a systematic, documented and supported approach. Teams focused on improving their organization's current process should:

> *Succession planning requires talking candidly about what qualities are missing. It's sort of like a married couple trying to calmly discuss who the perfect replacement spouse would be.*
>
> *–Jack Welch[11]*

A. Socialize the plan

"Succession planning isn't an event; it is a process that is best managed over three, five, even 10 years, because it involves building a pipeline of talent," offers Joseph Bower, author and Harvard Business School professor.[9]

Any solid foundation includes top management participation. Nothing sends a stronger message about the importance of the plan than executive involvement and support. Top managers need to not only be committed on paper, but invest the time and energy required to build and maintain a strong succession plan. By doing so they set expectations for the entire organization.

According to Beth Pollard, Vice President of Human Resources at Cisco Systems, if organizations want to achieve success, they must have a utilized process that is built into the DNA of the organization.[10] That means that there not only has to be a plan that is clearly defined, but that the entire team, from the board down, follows that plan and does not make off-the-cuff decisions about promoting and placement.

B. Be prepared

That strong foundation needs a pool of candidates readily available. Regular talent reviews and the creation of a talent "database" are critical to the success of any plan. Human resources professionals, along with the executive team, must develop an organization compilation of data on performance, competencies, education, experience and interests.

A relevant set of data is the first step in assuring that roles are filled efficiently and with the right individual.

Leaders should start out with their exit in mind—making their transition successful is the ultimate goal for the consummate professional! The CEO and executive directors must be ready and own the process of transition. There needs to be a clear vision for future leadership, from the board through the ranks.

C. Develop strong assessment tools

Strong companies need strong management and strong systems. Crucial factors that create value at the end of the day for any company include the willingness to change and the identification of the best possible staff. Beyond that, organizations must be prepared to support with mentoring, coaching and training.

Keeping strong players creates a dynamic tension that can be a challenge to manage, but produces uncommon results.

A robust and rigorous formal assessment tool is critical to this process. Effective human resource executives know the value of these tools in predicting future success. Best practices organizations have developed programs that are:

- Individualized
- Experience-based
- Measureable and trackable
- Multi-faceted to include mentoring, coaching and feedback

Trisha Earls, Vice President of Human Resources and Legal Affairs at the Savannah College of Art and Design believes it is critical to get your top leaders exposure to all facets of the organization so they are ready for the next level.[12] This can include a mentoring program, 360 degree reviews and other developmental opportunities. Keeping strong players creates a dynamic tension that can be a challenge to manage, but produces uncommon results.

D. Identify future talent gaps

The next step is to identify gaps between the company's future leadership needs and the existing talent pool. The organization must decide if a new leader can be promoted from within, or if an external search is required.

The future vision of the organization must be well-established, so that the selection of the new leader is based on choosing the right person to lead the organization with this vision and plan in mind. An important task is determining the type of actions that will ensure a good fit between a potential leader and the organization's culture. Matching the leader to the desired culture is critical.[13]

Additionally, as the need for talent changes, the company needs to evaluate whether the current positions meet the organizations needs, or is there a need to develop new roles for the future. The systems must be fluid enough to accommodate change and position development as well.

E. Facilitate transition

Ideally the incoming leader has the opportunity to work with the outgoing leader for a period before taking office. This helps support some of the critical learning required by the new manager for them to be successful. At the very least, the board and the entire management team needs to help make the transition as seamless as possible.

Studies suggest that external candidates need to be at least 1.5 times better than the internal candidates to justify taking on the additional risk.

Leaders spend most of their energy thinking about how to drive the company successfully forward, but they usually spend far too little time thinking about the right time (and way) to exit gracefully. A successful transition can be a seamless, productive and exciting experience—for everyone. The way leaders choose to leave can be a generous gift to an organization and the people in it.

The plan also needs to be open and communicated to all involved. In the past, less informed companies kept succession planning a secret process where even those identified as having high potential were not aware of it. However, today the public nature of open succession planning helps to ensure a thorough process and increases the visibility and respect for leadership development.

IV. Internal versus external candidates

A strong and well-developed succession planning process will produce the best possible end result—internal candidates who are ready to move into new positions effortlessly, maximizing the success and survival of an organization. However, there may be times when looking outside the company cannot be avoided. These include:

- A rapidly changing market that requires a specialized skill set.
- An ethics or public relations conflict.
- The current pool does not have any candidates who are ready in the event of a sudden departure of the predecessor.

There are some risks in looking outside the company for successors. Studies suggest that external candidates need to be at least 1.5 times better than the internal candidates to justify taking on the additional risk.

It is important to curb board expectations that hiring from the outside will guarantee a "name brand" leader with an impressive track record of success. In fact, the board may become star-struck with the thought of a high-profile CEO. Recent changes at the helm at Home Depot and Hewlett-Packard have shown that without a thorough assessment process, this approach can have disastrous results.

In the event that the needs of the organization simply cannot be met by the current slate of internal candidates, consulting a retained executive search firm is the best approach to assure success. With their focus on critical evaluation standards such as skills and cultural considerations, firms with a strong track record of success can assist companies who find themselves with a dry pool of talent.

The talent gap continues to widen with the looming reality of the baby boomer retirement in the future.

V. Unique challenges in today's marketplace

Today's marketplace presents some unique challenges that should be addressed quickly to minimize the potential for them to disrupt the planning process.

A. A void in the talent pool

It is widely accepted that the retiring baby boomers will negatively affect the availability of strong talent. Add to that the fact that individuals with tremendous talent have generally achieved success and are financially independent. With the challenges businesses face, these executive managers find themselves in the unique position of being able to pull out of the workforce on a whim. If the challenge is no longer exciting or thrilling as it was in years past, these boomers can just quit.

The talent gap continues to widen with the looming reality of the baby boomer retirement in the future. Unfortunately, the majority of organizations are not prepared. In fact, a recent global poll of HR leaders indicated there is a marked lack of urgency among many U.S. firms about how to respond to the looming departure of this highly skilled and experienced generation of managers.[14]

Human Resources managers need to be prepared to deal with the void. The success of Wells Fargo exemplifies this strategy. In the early 1970s they began to build one of the most talented management teams in the banking industry. They anticipated major changes in banking, but CEO Dick Cooley did not know in what format those changes would materialize. He and chairman Ernie Arbuckle focused on injecting an endless stream of talent in the organization. They hired outstanding people when they found them, even if there was not a specific job available for them. The result—when banking deregulation came about in the early 1980s, Wells Fargo outperformed the market by three times over.[15]

B. Getting ready for the next level

In today's highly competitive global marketplace it is more important than ever to have a strong system in place that evaluates and develops talent for the long-term goals of the organization, which may include teaming with a retained executive search firm.

In today's highly competitive global marketplace it is more important than ever to have a strong system in place that evaluates and develops talent for the long-term goals of the organization.

Now is the time to step up development internally and prepare for the next wave of growth--the executive of the future will be expected to be even more skilled in order to develop and lead new global and technological initiatives. Leadership development, executive coaching and career development should be priority investment areas for forward-thinking companies today. s

VI. The best plans evolve

Effective succession planning is a journey, not an end result. The most effective management teams do not stop once a succession planning process is put into place; they continually update, monitor and adjust their plans. Feedback from internal teams as well as incorporating global best practices and utilizing retained executive search firms help savvy companies maximize their human capital investment. By making succession planning an integral component of the overall corporate business strategy, organizations will achieve their long-term objectives and goals.

Find Out More

We hope you've enjoyed this paper on cultural considerations in hiring. If you'd like to discuss any of the approaches or insights in this white paper, we invite you to call to speak with anyone on our partnership team.

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Dave Clapp is Managing Partner for CarterBaldwin. In addition to his executive leadership for the firm, Dave leads CarterBaldwin's B2B technology & business/professional services practice areas. In addition, Dave also focuses on select B2C executive recruitment assignments for brand and consumer driven businesses.

Before joining CarterBaldwin, Dave was SVP & GM for Thomson Reuters Corporation with P&L responsibility for the global indirect tax software and service business portfolio. His organization delivered tax & accounting software and managed services solutions to Fortune 1000 and mid-market customers and processed over 1MM tax returns and $20B in tax remittances annually to 10,000+ state & local jurisdictions.

Prior to his years as a business GM, Dave was VP of Business Development for Thomson where he led strategy and acquisitions for the company's corporate tax & accounting division. In addition to his strategy responsibilities, Dave was personally responsible for spearheading and negotiating a number of key acquisitions for the company. Dave was also a member of the Executive Committee of Thomson Reuters' $1B tax & accounting business, playing an active role in global expansion, product and human capital strategies for the company.

Prior to Thomson Reuters, Dave was a founder and senior executive of Tax Partners, responsible for sales and marketing. Under his leadership, the company grew rapidly from a VC funded startup into the nation's largest indirect tax outsourcing business and was successfully sold to Thomson in 2005. Earlier, Dave held senior leadership positions in marketing and brand management with the Coca-Cola Company and Cadbury Schweppes. Dave started his career in sales with the Xerox Corporation.

Dave has a Masters in Management from the Kellogg business school at Northwestern University and a BA in Political Science from Lawrence University. He and his wife Mary Anne live in Marietta, GA and have four children. Besides his family, Dave loves running, cooking and pretty much anything that allows him to be "active and outdoors."

Author Bios

David M. Sobocinski is a Founding Partner of CarterBaldwin and has been with the firm since its inception. His practice is across Fortune companies and Middle Market Private and Private Equity backed entities primarily in Commercial and Consumer Services as well as Manufacturing arenas. Dave's portfolio of searches includes corporate and divisional presidents and their direct staffs, primarily in the domestic market.

Before founding CarterBaldwin, Dave led a regional search firm to national prominence, expanding it throughout the Mid-Atlantic and New England markets, resulting in two consecutive listings on the Inc. 500. Prior to executive search, Dave was in the consumer products industry, where he had responsibilities for business development and sales across the Southeast. He earned his Bachelor of Science degree from James Madison University.

Price Harding's clients range from industrial and technology companies to non-profit organizations and vary in size from entrepreneurial and venture-backed start-ups to multi-billion dollar corporations. He has been principle consultant on more than 200 successfully completed recruiting engagements while building two successful companies in his twenty-plus years of executive search. With a strong specialization in senior management selection and team alignment, Price's recruitment consulting focus includes searches for C-Level leadership, officers, and directors for both privately held and publicly traded companies, and non-profits.

In addition to his responsibilities at CarterBaldwin, Price currently serves as Chairman of United Technology Group, and on the boards of High Tech Ministries, The Technology Association of Georgia and The Trinity Forum. His articles have appeared in various publications and he has been quoted in INC Magazine, The Wall Street Journal, The Atlanta Business Chronicle and numerous industry and trade magazines.

Prior to entering the recruitment industry, Price served as Director of Manufacturing Operations for Astechnologies, an Atlanta based company that produced hydraulic presses that were used in the manufacture of automotive headliners. He received his Bachelors Degree in Theology from Baptist University of America, and conducted Masters level studies in Pastoral Counseling at Temple Baptist Seminary in Chattanooga.

Price and his wife, Nancy, have two married daughters and live in Atlanta, where they walk to Buckhead Church most Sundays.

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Jennifer Poole Sobocinski is a Founding Partner of CarterBaldwin. Jennifer has achieved regional and national recognition for her skill and expertise in executing "C" level officer, and board of director level searches for public and private clients. Her clients range from start-ups to Fortune 500 companies in the manufacturing, industrial, and technology sectors.

Under her leadership, CarterBaldwin has achieved more than 400% revenue growth since its founding in 2001, been named twice to the prestigious Inc. 500 list of fastest growing privately held companies, been named among Atlanta's Top 10 Retained Search Firms, and has expanded the organization's presence throughout North America. The recipient of numerous awards and recognition in the search industry as a consistent top producer, Jennifer was recognized by Catalyst Magazine as being among Atlanta's Top 50 Entrepreneurs.

Prior to founding CarterBaldwin, Jennifer was the leading search consultant for one of Atlanta's top search firms. She began her professional career as a Financial Advisor in the Financial Services Sector.

Jennifer is on the Board of Women in Technology, a professional organization in Atlanta. She is also an active member of TAG (Technology Association of Georgia).

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Bill Peterson co-leads CarterBaldwin's nonprofit and academic practice, recruiting senior leaders for state university systems, private education institutions, nonprofit entities, healthcare organizations and related companies. With over fifteen years of executive search experience, Bill has successfully led hundreds of searches for chief executive officers, presidents, provosts, vice presidents and deans for private and public institutions, as well as senior level executives for corporate clients.

Before joining CarterBaldwin, Bill spent six years in the Atlanta office of a national search firm as a partner, leading the firm's healthcare and higher education practice. Bill's earlier search experience focused in the health care sector where Bill recruited and led clinical and physician searches for North American health systems and academic medical centers.

Bill graduated from Liberty University with a bachelor's degree in political science. He and his family have frequently opened their home to foster children and are actively involved with Fostering Together at North Point Community Church. Bill serves on the advisory board of the Atlanta Mission. He has been married to Angela for more than twenty years and they have three children.