SUCCESSION DEVELOPMENT

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Succession Development

Article 1, section 2, U.S. Constitution:

"When vacancies happen in the representation from any state, the executive authority thereof shall issue writs of election to fill such vacancies."

Succession Development

- Politics
- Athletics
- Religion
- Business
- Theatre
- Families

Vacancy Risk

Urgency drivers

- Risk of turnover not identified
- No prioritization of hard-to-fill positions or skill sets
- Protect key operations from critical talent departures

Transition Risk

Risk of poor assimilation of executive talent

Transition risk urgency drivers
- No benchmarking against the external labor market
- No selection criteria focused on compatibility or leadership ability

Portfolio Risk

Risk of poor development of talent against business goals

Portfolio risk urgency drivers

- Assumes current structure and definitions of responsibility
- Does not incorporate organization-wide goals (e.g., diversity, specialized skills)

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Readiness Risk

Risk of underdeveloped successors

Readiness risk urgency drivers

- Limited view into development pipeline

- Limited understanding of successor experience of skill level

Readiness risk imperatives

- Provide critical developmental experiences to executives at appropriate times in careers

- Balance the risks of placing potential succession candidates in stretch roles with long-term development benefit

- Develop talent

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Why Succession Planning is Important

Succession issues have surged to the forefront of management thinking in the U.S. and other nations for two very good reasons.

1. More job openings are expected to result from replacement needs (34.7 million) than from employment growth in the economy (20.3 million)

2. The nature of our economy and therefore labor-force has changed… The positions to be replaced are ever- more technical and "skill intensive," while our ability to prepare our workforce (educate) is remaining stagnant

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Labor Statistics

Baby-boomer caused labor shortage: conflicting headlines

- "The Worst Labor Shortage of Our Lifetimes"

- "The Labor-Shortage Myth"

- "The Great Labor Shortage"

- "What Labor Shortage"

- "Preparing for a Future Labor Shortage"

Where does the real truth lie?

Labor Statistics

A few facts: In case you haven't heard...

- The oldest of the 76-million baby boomer generation are set to reach their 65th year – traditional retirement age -- in the year 2011
- Already, the first of the boomers reached age 59-1/2 on July 1 of 2005
- The following generation – the "baby bust generation (or 'Generation X')" is not as plentiful; about 47 million born from 1965 to 1975
- The "echo boom (or 'Generation Y')," born 1976 to the mid-90's, number more than 60 million

SUMMARY: The percentage of older workers in the workforce is presently increasing at the same time younger worker percentages are decreasing. WHICH MEANS: "As the age of the labor force increases, a greater number of people will leave the labor force due to death, disability, or retirement

Labor Statistics (continued)

- The civilian labor force is projected to increase by 12.8 million over the 2006-16 decade, reaching 164.2 million by 2016.

- This 8.5 percent increase is less than the 13.1 percent increase over the previous decade--1996 to 2006--when the labor force grew by 17.5 million.

- The number of workers in the 55-and-older group is projected to grow by 46.7 percent, nearly 5 times the 8.5 percent growth projected for the labor force overall.

- Youths--those between the ages of 16 and 24--will decline in numbers and will see their share of the labor force fall from 14.8 to 12.7 percent.

- The number of prime-age workers--between the ages of 25 and 54-- will increase by 2.4 percent, but their share of the labor force will decline from 68.4 to 64.6 percent

Succession Planning vs. Succession Development

Succession Planning is traditionally defined as a means of identifying critical management positions, and planning replacements for those positions

vs.

Succession Development recognizes the ramifications of the new employment contract, where corporations no longer (implicitly) assure anyone continued employment, and where facilitating learning and career management replaces the value of life-long employment
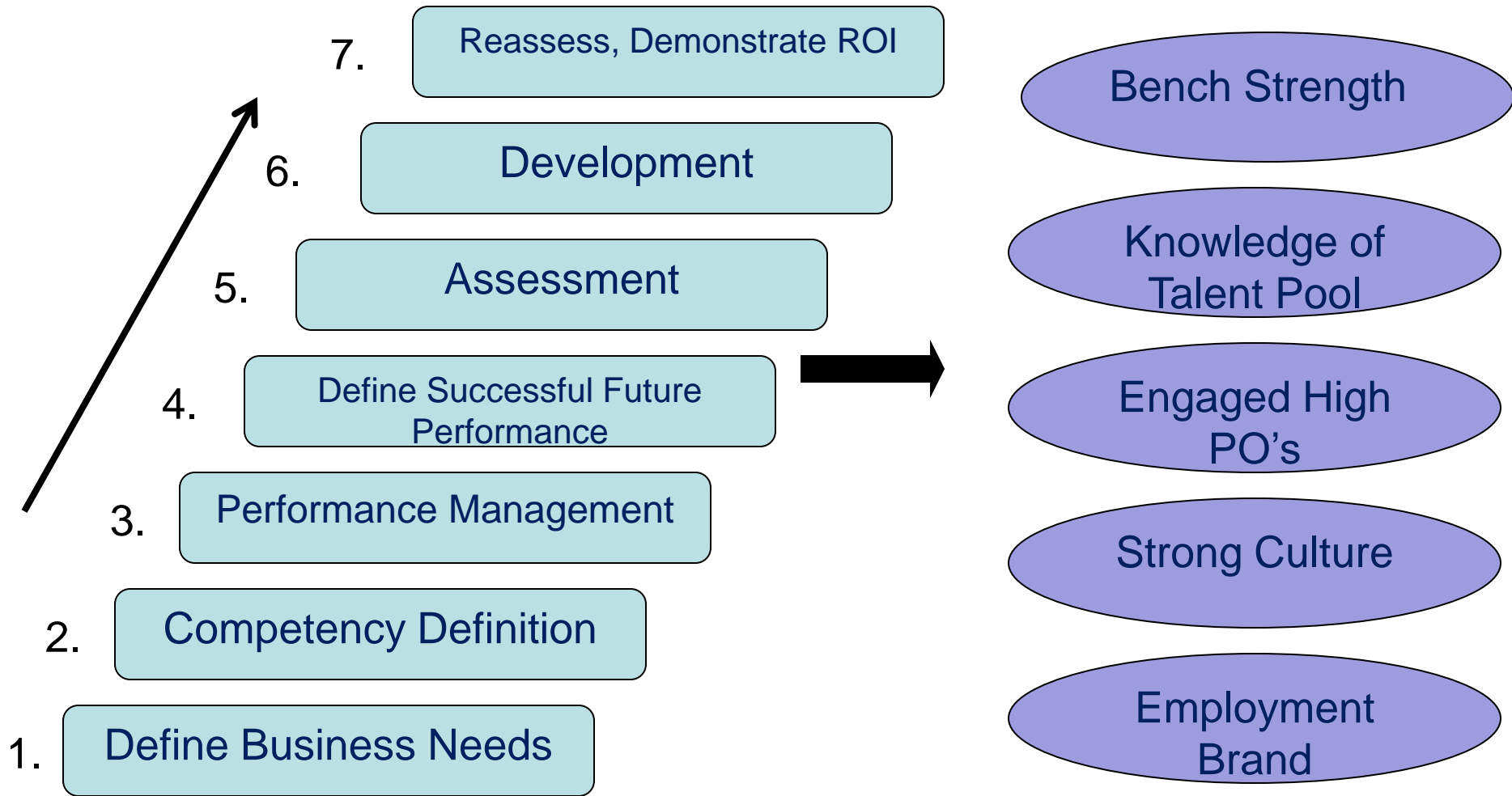
Succession Planning vs. Succession Development

Taken together, succession planning and succession development "is the process that helps ensure the stability of tenure of talent"

- "It is perhaps best understood as any effort designed to ensure the continued effective performance of an organization, division, department, or work group by making provision for the development, replacement, and strategic application of key people over time"

(Rothwell, 2000, pp. 5-6)

7 Step Model

7. Reassess, Demonstrate ROI

6. Development

5. Assessment

4. Define Successful Future Performance

3. Performance Management

2. Competency Definition

1. Define Business Needs

Bench Strength

Knowledge of Talent Pool

Engaged High PO's

Strong Culture

Employment Brand

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Step 1

KEY QUESTION: *What results are desired from a succession planning and development program, and what management commitment exists to support those results?*

Succession programs can meet many possible goals.

<u>Step 1</u>: Managers must clarify:

- What results they want
- Why they want them
- How they will measure results, and commit to providing the time and other essential resources to make the program successful

Step 2

KEY QUESTION: *What results are people expected to get in their work now, and what competencies are essential to help them achieve those results?*

Step 2:

- Competency identification and modeling is essential and foundational. Jobs have become a relic of the past (Bridges, 1995) But competencies understood - to mean any characteristics leading to successful performance - are relatively enduring
- Competency modeling provides a blueprint for building exemplars of the future

Step 3

KEY QUESTION: *How does the organization evaluate individual performance?*

Step 3:

- It is usually considered as a given that individuals will not be eligible for advancement if they are unable to perform their current jobs well (Rothwell, 2000).

- Performance management: The organization must establish a performance management system that helps individuals plan future performance and that helps the organization measure and track individual performance against required results

Step 4

KEY QUESTION: *How does the organization plan for future competencies?*

Step 4:

- Since the external environment of organizations do not remain static, that means that the competencies essential for future organizational strategic success—and for individual advancement—become a moving target.

- Decision-makers must therefore clarify what competencies will be linked to successful future performance

Step 5

KEY QUESTION: *How can individual future potential be assessed?*

<u>Step 5</u>:

To address that question, decision-makers must find ways to measure individuals against future competencies and future work requirements. That can be done through assessment centers or through multi-rater, full-circle assessment methods

Moving from:

- Subjective to objective
- Singular/anecdotal to "multi-method" assessment techniques

Step 6

KEY QUESTION: *How can the developmental gap between present individual performance and the present competency model be narrowed, and how can the developmental gap between future potential and the future competency model be narrowed?*

Step 6:

As individuals narrow their developmental gaps they bring their capabilities in line with needed competencies.

- Leadership development, rotation, enrichment, coaching, etc.
- Increasingly, the greatest responsibility for building competencies is shifting away from organizations and onto individuals as the paternalistic organizational thinking of the past gives way to the awareness that individuals have the greatest stake in their own development.

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Step 7

KEY QUESTION: *How can the relative success of the succession planning and management program be evaluated?*

Step 7:

Decision-makers must make program goals explicit and measurable. Evaluation also provides a way to build in continuous program improvement.

Defining key ROI metrics:

- Cost per hire and turnover (x level)

- Time to fill

- Cost for development etc

What do Organizations Want?

Organizations use succession planning to achieve a number of objectives including:

- Improved bench-strength
- Active development of longer-term successors (hi po's)
- Auditing the 'talent pool'
- Fostering a corporate culture through developing people

Four Evolutionary Stages

Most Fortune 500 companies are in stages 3 and 4, while most small businesses are not even at stage 1

<u>Stage 1</u>:

"The first generation is the simple replacement plan; solely a risk-management tool:

"If a plane crashes with the chief executive officer, who will be in charge? "In a big company, there are only a handful of senior executives," he says. "You can handle the succession planning in an afternoon."

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Four Evolutionary Stages

<u>**Stage 2:**</u>

"In the second generation, you take the same logic, apply it downward and come up with replacements at even the middle-manager level."

Four Evolutionary Stages

Stage 3:

In the third generation, companies go beyond the organizational chart to evaluate the competencies they need.

"At this level, you want to integrate succession planning with your development efforts and start grooming people from within, you'll be trying to develop a talent pool from which to draw the needed competencies."

Four Evolutionary Stages

Stage 4:

In the fourth stage, organizations look beyond the in-house talent pool to see who is available outside, as well.

"A company that outsources a significant portion of its manufacturing may be watching the manager of this outsourced function, could he or she be a possible replacement for the company's vice president of manufacturing, should that individual get hit by a car?"
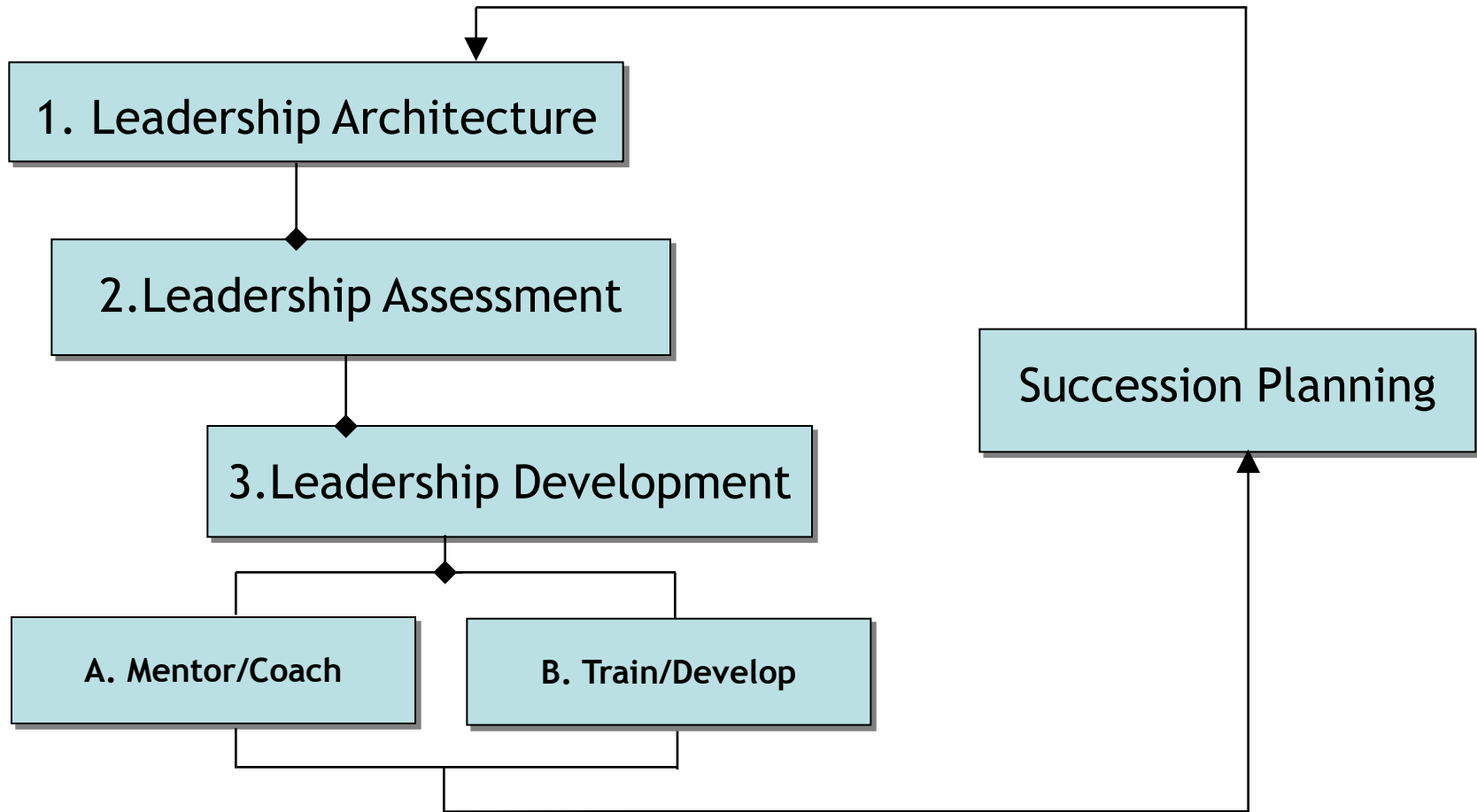
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Case Study: Small Family Business

1. Identify and broadcast the possible job opportunities (three years)
2. Identify the family members who are interested

    2a. Identify non family / "key" who were interested
3. Perform an assessment to see how good a fit there is
4. Set up development plans to improve needed competencies
5. Set up a schedule of education and training
6. Set up a system to measure progress and fine tune further development   **Please note what is missing**
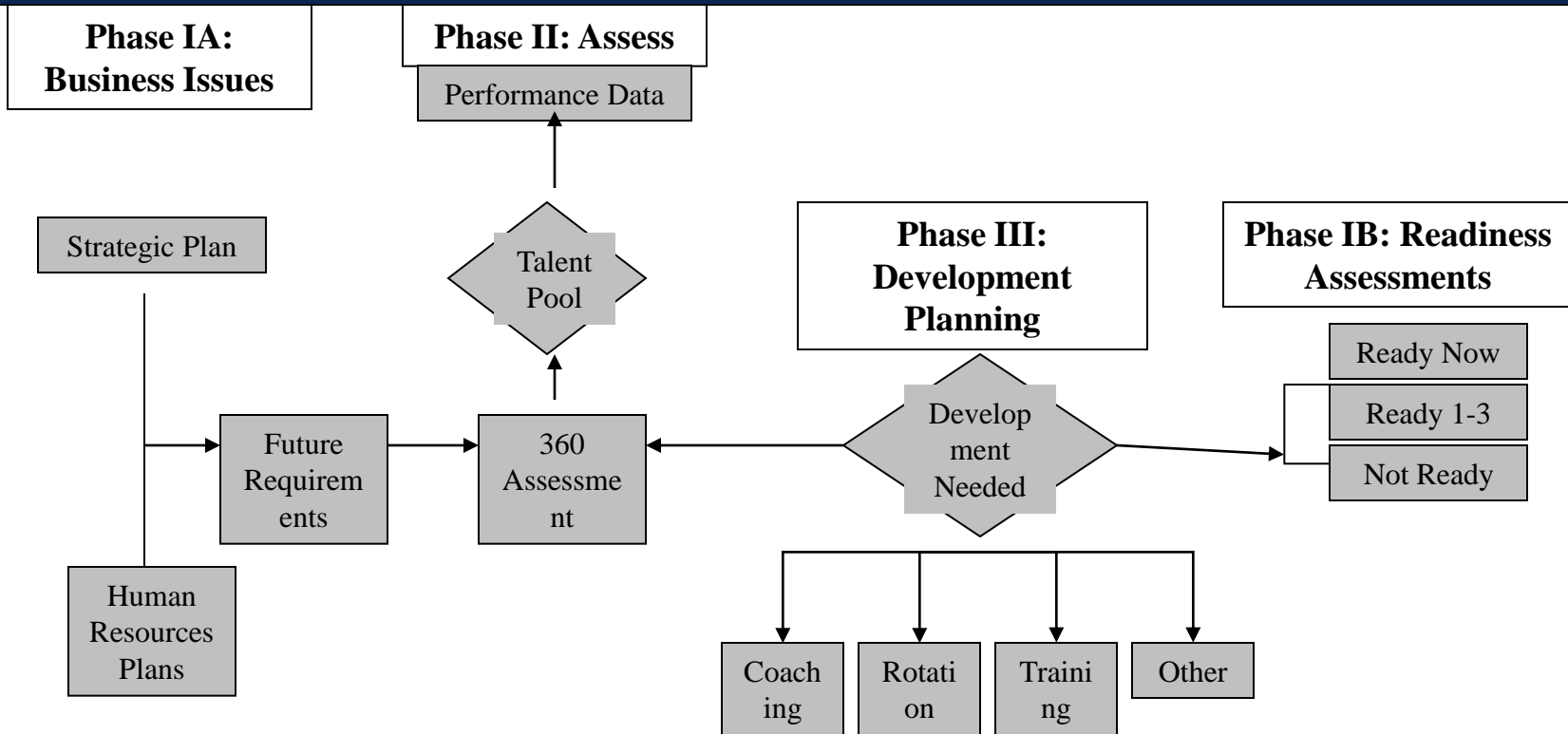
Case Study: Middle Market

- No formal leadership development

- Had fairly robust performance management

- Planning to go public and "need" was:

  - ✓ Define talent pool

  - ✓ Define "ready now" successor to senior management

Case Study: Middle Market

1. Leadership Architecture

2. Leadership Assessment

3. Leadership Development

A. Mentor/Coach

B. Train/Develop

Succession Planning

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Case Study: Middle Market

Phase IA: Business Issues

Phase II: Assess

Performance Data

Strategic Plan

Talent Pool

Phase III: Development Planning

Phase IB: Readiness Assessments

Ready Now

Ready 1-3

Not Ready

Future Requirements

360 Assessment

Development Needed

Human Resources Plans
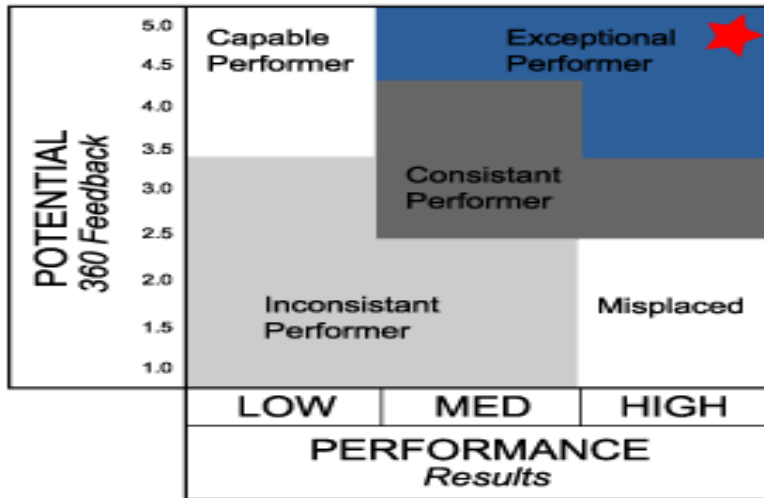
Coaching

Rotation

Training

Other

Case Study: Fortune 100

1. Broaden talent scope and build bench strength at senior level for "year" and beyond

2. Meet performance & profitability goals through enhanced performance management processes

3. Establish a comprehensive succession planning system across the corporation

4. Develop a succession planning system that will eventually link all predictive "organizational intelligence" (position requirements and skills, 360 evaluations, traditional HR data, management evaluations) with business strategies and link with LMS for development

Case Study: Fortune 100

Succession Planning Information
Candidate: Mark E. Johnson

Expected Competency Level:
Actual Rating

Leadership Competencies

Personal Leadership   4.9

Building Relationships   4.2

Results Orientation   4.9

Strategy Integration   4.9

Background / Experience

Education

BA Marketing
Arizona State University 1984

MBA Business Management
Princeton 1988

Key Courses
MBIC - 1995
EL - 1998

Company Service (Years)
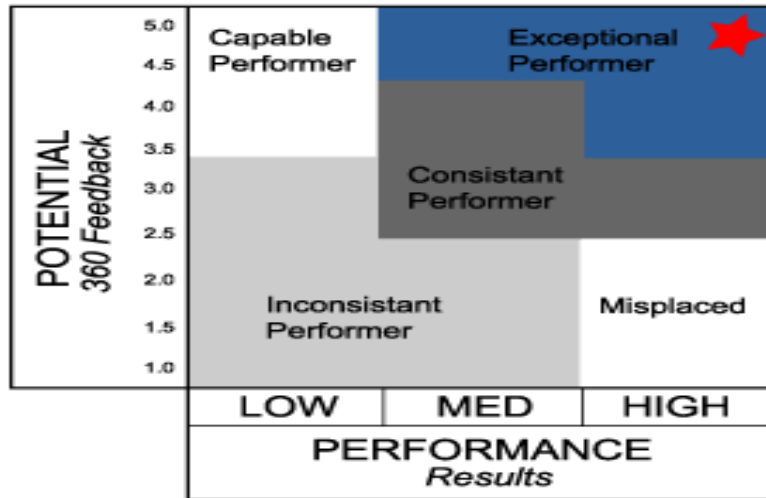5/1989 - 13 years

Current Position	Date Started in Position	Current Salary
Director of Marketing - US	5/2001	$ 89,000

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Background / Experience

Education	Key Courses	Company Service (Years)
BA Marketing Arizona State University 1984	MBIC - 1995 EL - 1998	5/1989 - 13 years
MBA Business Management Princeton 1988		

Current Position	Date Started in Position	Current Salary
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Succession Development

Procedural inertia   ⟶   Business-driven

Secrecy   ⟶   Openness

Company-owned   ⟶   Mutual ownership

Subjective   ⟶   Objective

Good intentions   ⟶   Active development

Paper intensive   ⟶   On-line, knowledge-targeted

Feedback-poor   ⟶   Feedback-rich

Vertical   ⟶   Horizontal

Succession Development

- Companies successfully leverage their human capital when they ensure the optimal utilization of leadership & management resources…
- Leverage is achieved when a company has:
  - ✓ right numbers and kinds of human talent
  - ✓ possessing the right levels of skills
  - ✓ in the right positions
  - ✓ at the right time

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Succession Development