

Succession Planning for Long Term Stability

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Boards of directors often ask their CEO's for a succession plan, and review it annually. And while the plan should include the name of any potential successors, it should go far beyond this bare minimum.

A succession plan should spell out a process that identifies and develops those who, with time and the right experiences, could be ready to move into not only the CEO role, but other key roles within the organization. It also should help the board understand when it may need to look outside the company to fill a key leadership position.

Succession Challenges

Succession plans may face some all-too-common obstacles. For starters, anticipating the future is challenging for most of us, and especially so for some.

For example, a CEO who is 40 or 50 years old and plans to stay on the job for many more years may not see the need for a succession plan.

Older CEOs may be reluctant to think about retirement, or the possibility that it may occur for reasons they can't control.

And some leaders believe that identifying and grooming their successors makes them vulnerable to being replaced—and that failure to plan for a successor provides job security.

Further, business leaders may be reluctant to enquire about key employees' plans for the future. Asking promising employees, "When do you plan to leave?" can make them feel they are being pushed out.

Boards have a responsibility to overcome challenges like these so they can manage risk and ensure the company's stability. Ensuring that there is a succession plan for the CEO—and all key positions—is simply good business.

When addressing these challenges, consider some of the following ideas.

Develop Multiple People for Each Position

Often when leaders think about their successors, they identify one team member and focus all their development efforts on that single person.

This is a risky strategy. You can't ensure the person you've identified won't be lured to a competitor, move to another city when his or her partner gets a new job, or be impacted by some other unanticipated situation that results in her or his departure.

If your department is large enough, it is wiser to focus development on more than one person.

Development might take the form of assuming new responsibilities, learning new skills, taking on stretch assignments, or participating in formal leadership development programs, assessment, and coaching.

Developing more than one person for every critical role has the benefit of strengthening your team overall and expanding each individual's skills to prepare for a range of new potential opportunities.

Some leaders fear that developing multiple potential successors will cause high-profile employees to view each other as competitors, or to leave the firm if the jobs for which they are being prepared go to someone else.

These possibilities can be minimized if developing leaders becomes an important and ongoing part of your firm's culture.

Develop a Process

Rather than thinking of succession planning as one event for one position, consider it an ongoing process focused on continually developing your company's future leaders. With a solid succession system in place, you will be prepared to replace departing staff members with minimal disruption. You also will deepen your organization's leadership capacity, positioning the firm for growth.

When a succession system is in place, everyone can be asked annually to indicate their future plans, knowing that they are not committing to specific dates. A regular process normalizes the question so people won't second guess why you are asking, and encourages people to regularly consider their future plans.

Beyond this advantage, a well-integrated succession system results in a steady stream of talent prepared to move into critical positions when needed, whether the need exists because an employee leaves or because company growth creates new leadership opportunities.

Moving Ahead

When building a succession system, it pays to focus on several key components.

Don't forget about culture. ESOP companies in particular need executives who possess both the right business skills, and the right cultural skills to support and sustain the ESOP.

At far too many ESOP companies, CEOs identify a

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successor—only to find that the person selected is not committed to employee ownership or the values supporting an ownership culture. In these cases, the CEO succession process needs to begin again, and valuable time is lost.

Focus on future competencies. The skills your business will need five years from now may be very different from those needed today.

For example, as your business prospers, its finances may become more complex. So your future CFO may need more sophisticated financial skills than the current CFO.

Or, as you add more employees, you may want to move from a transactional HR leader to one who is more strategic and who possesses organizational development skills.

Consider shifting responsibilities to existing team members. Sometimes the skills provided by one member of the leadership team can be provided by another team member.

For example, the board at a company with an effective “inward-facing” CEO who has focused on supporting the culture and building a solid infrastructure may think that the next CEO also should be inward-facing.

But what if the infrastructure and culture are now firmly in place? The company might benefit more if the next CEO is “outward facing,” focused on building relationships with allies and customers.

In this case, some other leader already on staff, such as a COO or HR executive, might take a more inward-facing orientation.

The important outcome is that all the leadership skills your firm needs are covered by the entire C-suite team. Instead of thinking about only the potential CEO transition, the company may benefit more by reimagining the combination of roles and competencies needed on their executive team of the future.

Move responsibilities to new roles. Sometimes a single person takes on a slew of very different roles and responsibilities. This is especially common when an individual holds the same position for many years.

When considering succession for people in this situation, it can be beneficial to move these responsibilities to new roles.

For example, we often see founders who serve as the CEO, head of business development, and CFO (with someone else acting as controller or bookkeeper). For the successor CEO, it might make sense to add specialists who can provide these capabilities. This might result in creating and filling—internally or externally—new positions for a CFO and/or Director of Business Development.

Develop or hire. Once you consider the future competencies needed to support your strategic goals, you can assess how best to obtain those competencies—

either by developing existing employees or searching outside the company.

Leadership Development

A solid succession system stands on a leadership development program that provides people with the skills they need to advance to the next level. To begin creating internal leadership development programs, consider the answers to these questions:

- What skills do all employee owners need in your company’s ownership culture?
- What additional skills do supervisors need?
- What do regional or division managers need?
- What competencies do C-suite members need?

Leadership development programs strengthen your company’s overall leadership capacity and reveal who may be ready to step into a position with more responsibilities when the opportunity arises.

Meshing Succession and Development

The most effective means of creating a well-integrated succession system is to ensure everyone in management is held accountable for developing team members, identifying potential successors, and focusing, supporting, and tracking each individual’s development. When this is in place, it will be easier for managers to identify gaps in their team’s capacity, both now and in the future.

The author reviewed this article with the Chair of the Advisory Committee on Ownership Culture, Debra Williams, GreatBanc Trust Company, Lisle, IL.

Benefits of Building a Succession System

Building a succession system as part of your overall talent management process has many benefits, including:

- Minimizing risk by ensuring that people are prepared to step into key positions, in case these positions are suddenly vacated.
- Contributing to long term sustainability by ensuring senior leadership and your board are continually thinking about the future and the present.
- Providing a clearer sense of your company’s leadership profile and where gaps may exist.
- Supporting employee owners’ desires for professional development by expanding their leadership skills and potential career paths;
- Supporting your culture by developing people who know it, value it, and have the skills to support it.
- Deepening your firm’s overall leadership capacity.