Putting the success in succession

Workforce challenges are having a ripple effect on corporate succession planning, negatively impacting companies' competitive stance.

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At a glance

Succession planning does not stop with nominating successors: it should be continuously realigned with market trends, business strategy and talent developments.

Effective plans include strategic alignment, talent process integration, technology and a data-driven approach.

Organizations should start with strategy and the roles that drive the business—and focus on developing, motivating, retaining and providing growth and career opportunities for key leaders.

Introduction

In the current business environment, change is the new norm. Progressive organizations are modifying their business models and re-aligning strategies to respond to new external market demands. As they readjust, companies need to have a clear view of the talent that will drive business success. While most organizations conduct succession planning, too often it doesn't get the full attention of the leadership team until a crisis forces it on the agenda. And by then, it may be too late. True planning for the workforce of the future, for the success of the future—means addressing succession planning today.

A leadership priority

Leaders across all industries state that talent is a top investment priority and that there is a pressing need for key skills in the leadership pipeline: 54% of global CEOs say that skills availability is a potential threat to business growth. As the war for talent heats up, properly planning for succession will be increasingly crucial to an organization's competitive edge: but many feel their programs are not cutting it.

Eighty-nine percent of US CEOs say their company has active succession planning processes, but over half (53%) state the programs are only somewhat effective. And one in five say their succession programs are not effective at all.[1]

The reality is that succession planning is often stunted by obstacles—like employee attrition, disconnected processes or the lack of available workforce data—tempting executives to relegate it to a once-a-year meeting with their Human Resources team. But giving succession planning a back-burner position diminishes leadership motivation for developing succession plans or to even execute those already on the shelf, creating a "ripple (RIPL) effect". As leadership gaps arise and combine with the looming talent shortage, the effects splash over, further magnifying existing challenges and creating new obstacles along the way.

Succession Planning

The process of defining future leadership and critical competencies, managing gaps and identifying the pivotal talent to carry on the company strategy

1 All stats from PwC's 16th Annual Global CEO Survey, 2013.

New Rulings, New Considerations

Corporate governance changes from the Securities and Exchange Commission (SEC) and Dodd-Frank Act have put a spotlight on succession planning, forcing executives to rethink their corporate structures, talent strategies and their successors. SEC Staff Legal Bulletin No. 14E (CF)[2], recommends greater transparency and shareholder disclosure about the management of succession risk "so that the company is not adversely affected due to a vacancy in leadership." The change indicates that regulators have reframed CEO succession as a risk management issue and placed its responsibility firmly in the boardroom.

SEC regulations have made succession planning a hot topic for executives and shareholders:

- Given the SEC's new guidance on the critical nature of CEO succession planning and shareholders' rights to assess companies' succession risk, boards will have to work far more proactively and diligently in the future to demonstrate their succession risk competency to their shareholders.
- New guidance calls for the adoption and disclosure of written, detailed CEO succession policies including criteria for the role, reveal the identities of internal candidates, and outline a formal assessment of potential successors.
- Boards should institutionalize succession planning as a continual, meaningful exercise lest shareholders, rightly concerned about risk management, invest elsewhere.
- Ratings agencies (and thus creditors) are incorporating Succession Planning into their company reviews. They recognize the risk to continuity of operations posed by a poorly handled transitions.
- How a board handles succession planning is increasingly viewed as a proxy for the competency and level of care it brings to its governance responsibilities.
- For most boards, this means more meetings, more dialogue, and more robust review of internal human resource practices.

How concerned are Directors?

Succession planning tops the list of significant concerns for Directors; an area where they'd like to spend more consideration and time, according to PwC's Annual Corporate Directors survey.

80% Boards in our annual survey say they have discussed business continuity plans during the last 12 months.

50% of all boards report they have discussed business continuity "at a high level", 29% have actually tested a continuity plan.

68% of respondents say they would like their board to devote more time in the upcoming year to succession planning than in the past.

75% of inside directors are satisfied, compared to 62% of outside directors reporting satisfaction.

Our survey also found that the higher the company's annual revenue, the more likely a director is to be satisfied with the CEO succession plan. This suggests that the boards of larger companies may be spending more time on identifying successor CEO candidates.[3]

2 www.sec.gov

3 PwC's Annual Corporate Directors Survey, 2012

Workforce challenges have a "RIPL" effect on succession planning

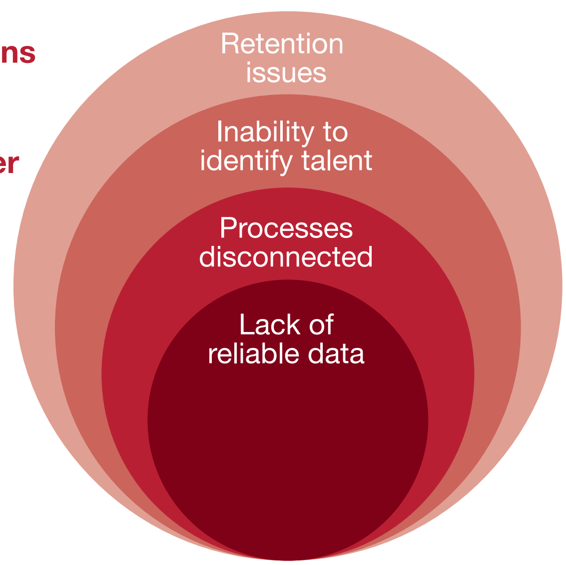
Research on the priorities of Global CEOs and corporate directors make it obvious that planning for succession is not an option anymore. Many organizations have implemented succession planning initiatives and achieved different maturity levels—but are dissatisfied with the results. Several factors make it difficult for organizations to plan for future leadership needs and devise long-term employee career paths. These obstacles have a "RIPL" effect on succession planning, making it more and more challenging:

R: Retention rates on the decline

Lower rates of employee retention at all levels render it difficult to plan for future needs and devise particular employees' long-term career paths. Today's lower retention may be due to:

- Instant, real-time accessibility of job openings and employee information through social media. This makes 'jumping ship' seem like less of a jump for employees; and makes it easier for recruiters to lure talent away.
- Intensified job-hopping attitude of Millennial workers: What leadership sees as a step up the corporate ladder, today's young employee is more likely to see as a resume-builder: only 18% of Millennials plan to stay with their current employer.[4]

Factors that make it difficult for organizations to plan for future leadership needs and devise long-term career paths for employees



4 Millennials at work Reshaping the workplace, PwC, 2012

I: Inability to consistently identify and develop pivotal talent

Managers devote up to 20% of their time on coaching but many times are ineffective: over half of their coachees feel they are ineffective at driving performance.[5] This deficit bleeds into developing personnel for succession, which is further impacted by:

- Failure to define pivotal roles
- Subjective candidate identification based on gut rather than business results and impact.
- Inconsistent and varied methods to spot and reward top talent.
- Lack of accountability and ownership for individual development plan execution.
- Disproportionate emphasis on identifying successors, leaving inadequate time to develop them.

P: Processes that are disconnected

Companies often do not think holistically and connect initiatives related to succession planning, stemming from:

- Failure to see succession planning as a living, ongoing business process that embraces market imperatives and integrates the identification, assessment and development of talent with long range strategic planning.
- Promotions based on hitting or exceeding short-term targets with little or no consideration of critical leadership behaviors.
- Organizational focus on the latest "hot trend" to provide a one-stop solution instead of a strategic process that fit the unique needs of the company.
- Failure to align individual and organizational objectives to address the company strategy: only 41% of CEOs believe that their people understand the strategy sufficiently to inform decision-making.[6]

L: Lack of reliable talent data

Only 16% of CEOs state they get workforce data that is sufficient for their needs.[7] A clear picture of talent potential is complicated by:

- Information on talent often comes from direct manager input alone. Unfortunately, whether or not these managers "see themselves" in a subordinate often creates a bias in performance ratings, promotion or other advancement decisions.
- Most organizations do not get full participation in performance assessment programs, compounded by the fact that employees often fail to see the value in the process and just go through the motions. With each passing year, this creates a larger and larger gap between the goals and capabilities of the workforce and of the organization.

Companies that proactively address succession planning avoid the negative impact of the RIPL effect. They recognize that organizational viability and competitive stance can be negatively affected when these challenges are not properly addressed. Leading companies also develop a habit of continuous re-alignment of their succession planning efforts with industry market trends, business strategy and talent development approaches.

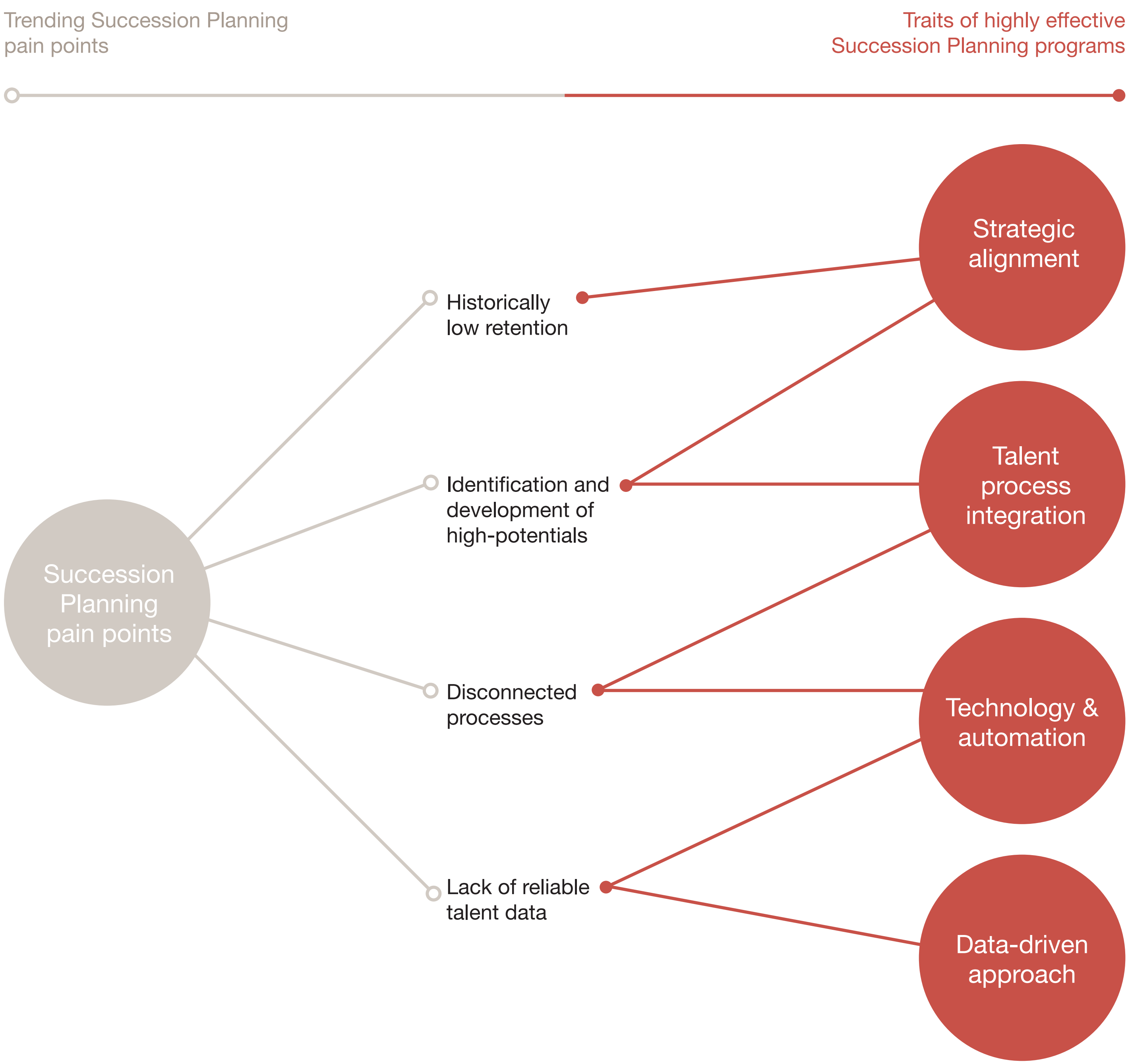
What leadership sees as a step up the corporate ladder, today's young employee is more likely to see as a resume-builder.

5 Sibson Consulting, 2010 Study on the State of Performance Management, October 2010.

6 PwC's 16th Annual Global CEO Survey, 2013.

7 Talent mobility: 2020 and beyond, PwC 2012.

Turning succession planning pain points into a competitive advantage



Succession planning and the "RIPL" effect

Top-performing organizations use these RIPL obstacles to spur excellence through effective succession planning. Through our experience with clients from a wide variety of industries, PwC has identified four elements of a successful succession strategy that distinguish high-performance organizations from the rest:

- Strategic alignment
- Talent process integration
- Technology and automation
- Data-driven approach

1. Strategic alignment

High-performing organizations are four times more likely than others to explicitly align succession plan with the business strategy.[8] These companies identify roles critical to success for both the immediate future and long term. They know the roles that drive the business and review them periodically. And rather than depending on hearsay and personal experience alone, they use executive leadership team consensus meetings to review employee talents and strengths and to plan developmental experiences that match candidates with the company's overall strategy.

These companies also ensure their managers have strong internal coaching and development capability. A manager that possesses both the willingness and ability to facilitate continuous meaningful coaching conversations is essential to talent development. After all, more than 70 percent of development takes place on the job through informal, unstructured learning.[9] Managers should establish a more frequent, richer conversational coaching dialogue that includes both formal and informal elements. This action has a proven return on time investment: fair and accurate feedback, according to one study, drives 39 percent of employee performance, and the quality of communication drives 38 percent of employee intent to stay.[10]

Strategic alignment improves succession planning at a large financial institution

Issue: While the executive leadership team at a large insurance organization was looking for strong talent to replace current leaders, they noticed a common theme: the majority of the talent pool had exposure to only one business unit. But due to company size and growth goals, it was critical to groom talent that understood the entire business holistically and globally.

Action: The company developed a leadership rotation program. High-potential undergrad and graduate students would be required to work four, six-month rotations in various business units and functions. They would be tasked with special projects that would expose them to key management and leaders. At the end of the rotation, students would interview and eventually work with the business unit of their preference.

Impact: The organization can now draw from a pipeline of pivotal talent with varied experiences within the organization, with a 'big picture' view of the company's structure and how functions work together to achieve business goals. While the program initially grew out of a strategic business need, the program taught the organization volumes about how it developed talent, its unique culture, and existing silos within individual business units.

8 Succession Planning: Sustainable leadership for the Future, Aberdeen Group, 2010.

9 Blending Learning for Leadership: The CCL Approach. The Center for Creative Leadership, May 2013.

10 Ibid

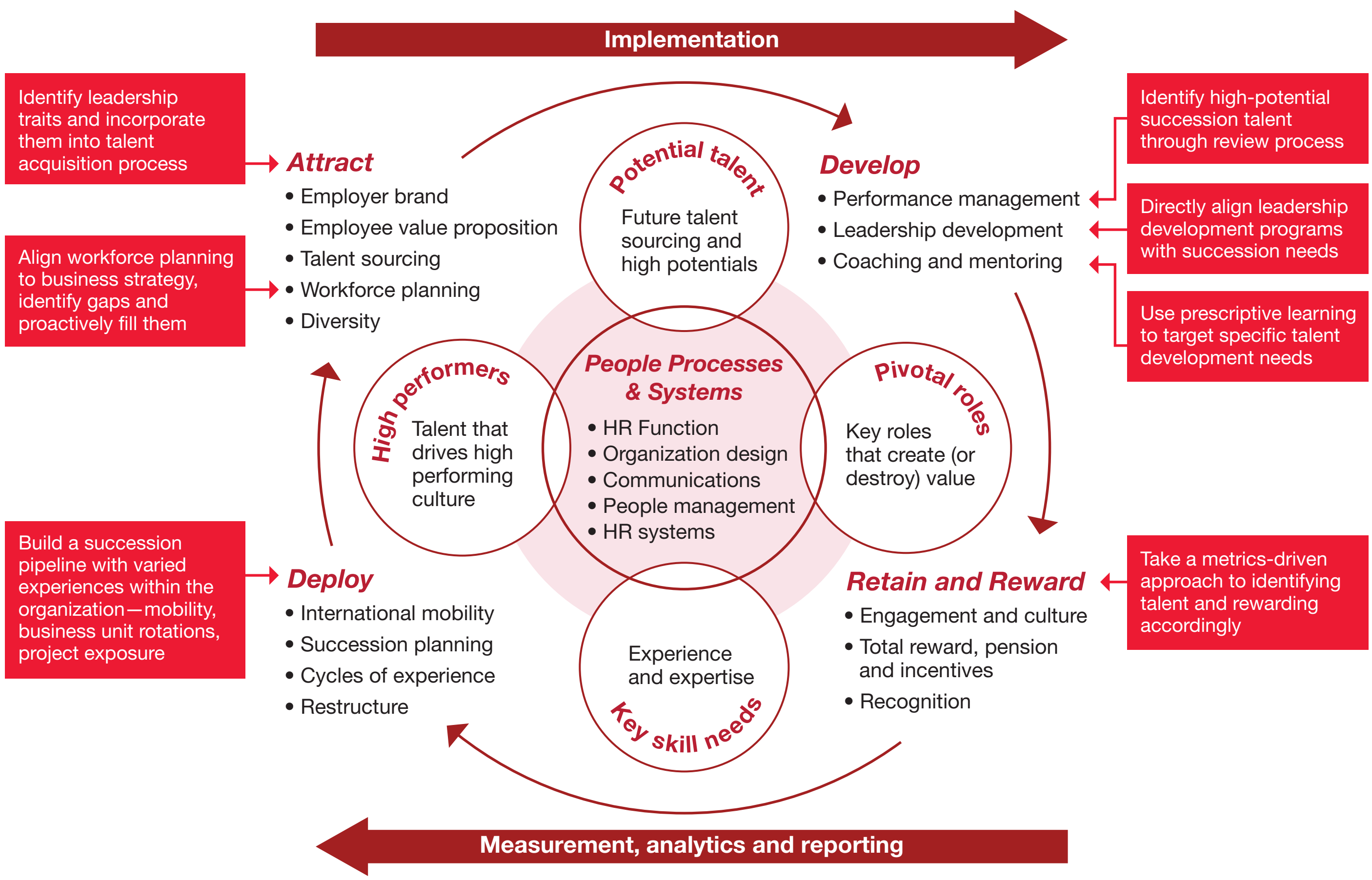
2. Integration, integration, integration

Succession planning processes work optimally when they are integrated with key talent processes including recruitment, performance management, leadership development and strategic workforce planning. At a high level, leading-practice organizations have two critical integration points that differentiate them from the competition:

A) Goals for company succession are tied to overall business strategy and drive talent management activities— from recruitment and development through retention and rewards—to ensure the business is well positioned to meet its human capital needs today and ten years from now. This also enables the talent strategy to flex with changing business goals and needs. In order for this alignment to work, there has to be cross-functional sharing: bench successors need to be shared with talent acquisition to better inform hiring needs; hiring evaluations need to be shared with learning and development, and so on. This transparency should also be coupled with technology solutions that make sure connection points are scalable as the company grows.

Succession planning and the talent management framework

Succession planning processes work optimally when they are integrated with key talent processes



Source: Talent management framework, PwC Research

B) Existing talent management processes are directly aligned to the succession plan. There are many processes that should directly connect to succession planning to ensure optimal integration. Some companies have found that career pathing integrates quite naturally into succession planning. When job titles and personal plans are clear, identifying key talent aligned with succession is an easier task. A number of companies have found that clearly defining roles as part of succession planning helps identify strengths that already exist "in house"—and also enables them to spot skill gaps that need to be filled through external talent.

Integrating succession planning with key talent processes should be part of a continuous flow and not a one-time, annual event. A detailed and pervasive change management effort is absolutely essential to ensure the business is able to follow and align with leadership in the transformation.

3. Technology and automation

Effective succession programs use integrated technology that spans the entire organization to assess performance, readiness and potential. This may include integrating HR data and talent management processes through comprehensive platforms such as Ceridian, Oracle, SuccessFactors, Workday and numerous others. As previously mentioned, technology is a key enabler in cross-functional sharing of employee criteria and evaluations to determine bench successors. Significant to these efforts is a competency model that establishes a common language across all talent processes – ensuring that each function shares evaluative data in common terms. This builds consistency and ensures the value of evaluations at each step in the talent management process.

4. Data-driven approach

Leading companies also apply strong data and metrics when planning for executive succession. These organizations give more credence to hard data and assessment tools and rely less on manager instinct. Organizations that excel in succession planning define and apply clear criteria to assess potential performance—such as assessment of critical thinking or business acumen—and then use this quantifiable data and metrics to supplement gut instinct. Because planning for succession requires significant time investment, it is paramount that it proves its value and delivers expected outcomes. Progressive organizations track and measure return on investment of succession activities. Leading companies establish an ongoing process of data analysis regarding succession implementation, and identify what they can do differently for process and outcome improvement.

One company found success in applying data from its annual employee survey to improve its succession planning programs. The organization synthesizes the survey data on career growth, development opportunities and coaching by department (and in some cases sub-department) and holds managers accountable for response rates and levels of satisfaction as a vital performance measure. Additionally, this further supports the link between strong manager coaching and development skills and an effective succession program.

Succession concerns all populations

Succession used to be just about the CEO and top-level executives. Now the importance of planning for the future has cascaded down to all levels of the organization, spilling over and impacting career paths, incentives and mobility. No longer is it sufficient to know who could replace the CEO; instead, you must know whether the right people are moving at the right pace into the right jobs at the right time.

Role	*Chief succession concerns*
High potential workers	• Focusing on high-potentials means companies can channel resources and coaching towards those key employees with the greatest promise. • But there is risk in this focus: great members of the workforce can be overlooked, alienating and frustrating employees and impacting morale and turnover.
External hires	• External hires are 61% more likely to be laid off or fired, and 21% more likely than internal hires to leave a job on their own accord.[11] • Outside hires typically have higher pay, but get lower marks in performance reviews during their first two years on the job.[12]
Diverse employees	• Managers often seek people who are like them to mentor and promote, which can lead to steady state in leadership roles. • For true diversity, succession planning processes should encompass steps that actively promote women and minorities for leadership opportunities and train managers on how to encourage diversity on their teams.
Human resources	• Succession planning is owned by the business. HR plays a critical role in facilitating the succession planning process and helping the business operationalize the plan. • HR should and, work with the CEO to educate executives and managers about the business value of succession planning efforts. Without active support from leadership; succession planning won't have the desired impact. • HR should align talent management efforts with strategic plans to increase business impact and drive results.

11 "Why external hires get paid more, and perform worse, than internal staff", Knowledge@Wharton, 2012

12 Ibid

7 things to think about succession planning

Face the facts

If we all know it's coming and we all know we should prepare, why do many organizations avoid focus on that inevitable day? It's easy to pay lip service to succession and leave it to the HR department to sort out— with perhaps an annual conversation on the subject within the C-Suite. But taking this "easy way out" means that the business will not get the most value out of the current skills and future potential of its human capital. More alarmingly, it potentially puts the organization's strategic viability at risk: over half of CEOs say lack of talent meant they either cancelled/delayed a strategic initiative, were unable to pursue a market opportunity or could not innovate effectively.[13]

Eliminate silos

Succession plans become real and executable when they extend beyond HR, engaging organization-wide leadership and middle management. Succession plans work best when they are integrated into strategy and consistently supported by data and analytics.

Make it a living process

Succession plans—like companies—naturally mature over time. Like all capabilities, succession planning should be appropriate for the needs and maturity of the organization. It should be built starting small, taking root, and growing with the organization. Companies should identify unexpected contingencies and future needs to keep the plan flexible.

Recognize that talent comes first

PwC Saratoga's 2013/2014 Human Capital Effectiveness Report finds that 68% of US companies fill key roles within the organization from their internal succession talent pool.[14] Succession plans should be responsive to the talent at hand. This is not merely about matching high-potential people to existing roles. Successful succession plans develop high-potentials into leaders based on their own innate strengths, rather than fitting them into a pre-defined role.

Realize it's not just about the executives

Even an executive team that is perceived to be stable requires complete and thorough succession planning. Perhaps more importantly, that team should identify capabilities and roles that add value to the organization even—and especially—when they're found outside the C-suite.

Look forward, not back

Meeting or surpassing target succession plan metrics is certainly beneficial. But strong plans do not merely reward past performance. Strong programs use metrics in setting, measuring and meeting standards for future performance, in new roles.

Differentiate through execution

Having a succession plan is important—but only if that plan is properly executed. Like an out-of-date will that no one can find, a succession plan that's never implemented will make no difference.

Succession planning is a business necessity and does not stop with nominating successors. Successful programs start with strategy and the roles that drive the business—and focus on developing, motivating, retaining and providing growth and career opportunities for those leaders. To be effective, succession plans must be truly integrated into talent management processes as part of the ongoing business process, referenced regularly, and acted upon, formally and informally, every day.

13 PwC's 15th Annual Global CEO Survey, 2012.

14 State of the workforce: Results from PwC Saratoga's 2013/2014 US Human Capital Effectiveness Report, PwC, 2013

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