Putting C-Suite SUCCESSION PLANNING in Corporate Strategy

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Transitions in the C-suite are critical moments in an organization's trajectory.

The disproportionate power C-suite executives have over the direction and operations of a business often means that succession and disruption go hand in hand. A smooth transition has the potential to sustain the confidence of investors, ecosystem partners, customers, and employees, while a rocky one can derail momentum for years to come.

Unlike CEO succession, which is managed by the board of directors, C-suite succession is led internally and typically lacks consistent methods and data to predict the next leader, making the transition even more risky for the organization. The best asset to increase the probability of a smooth transition is advanced planning. Successful transitions are grounded in a comprehensive succession plan, which integrates the organizational strategy, growth objectives, and transformation goals of the business with the desired profile of a new leader. The caveat is that developing such a plan and securing the buy-in of key stakeholders is a three- to five-year process, longer than many companies plan for, despite the obvious benefits.

While an unexpected succession event with a shortened time frame will still result in the hiring of a new leader on paper, the risk of misalignment between the new leader and the organization poses significant risk to the operations and the bottom line. The goal of succession planning is to mitigate that risk.

And yet, many organizations do not have a comprehensive succession plan readily available. In "The holy grail of effective leadership succession planning: How to overcome the succession planning paradox," a September 2018 Deloitte study, 86% of leaders expressed their belief that leadership succession planning is an "urgent" or "important" priority, but only 14% of them believe they do succession planning well. This shift toward prioritizing resources and investments toward greater succession management maturity can have a profound impact on organizations' health: It can reduce the risk of vacancies in the C-suite, accelerate the development of high-potential executives, and ultimately position organizations for uninterrupted, long-term performance.

MILESTONES FOR A SUCCESSION STRATEGY

While developing a comprehensive succession strategy for the C-suite can be a complex process, it is generally composed of four discrete milestones: (1) determining the organizational context, (2) identifying and assessing talent

pools, (3) determining the roles and responsibilities of key stakeholder groups, and (4) providing transition support to a newly appointed leader.

Determining the organizational context. Succession planning ultimately seeks to answer one fundamental question: What leadership does the organization need to ensure its future success? The journey begins with the organization itself. A comprehensive succession strategy is one that projects where the organization is headed in the next five to 10 years and then uses that data to determine what type of leadership is needed to execute against that vision. To that end, strategic goals, market trends, blind spots of previous or current leadership, and other variables impacting performance must be acknowledged and considered.

However, a senior team that is fundamentally aligned on an organization's five-year strategic plan is the exception rather than the rule. As such, addressing these differing perspectives and bringing the senior team into alignment is a necessary precursor for accelerating the development of a success profile that outlines the key leadership requirements of the potential successor.

Identifying and assessing talent pools. A common question brought up with respect to a talent succession pipeline concerns the merits of tapping into internal or external candidate pools, with both options providing unique benefits. The strength of internal candidates lies in their cultural alignment, institutional knowledge, and potential reduction in disruption to ongoing business operations. Furthermore, if identified far enough in advance, organizations can develop the needed capabilities in high-potential internal candidates.

External candidates, on the other hand, provide an outside-in perspective which may be required if the organization is going through a fundamental shift in strategy. When both pipelines are filled in unison, the organization can compare internal and external talent against each other. This helps ensure that identified high-potential internal talent has the necessary skills and capabilities compared to the external talent market and provides a balanced view of investments required to make the leader successful.

Determining the roles and responsibilities of key stakeholder groups. The hallmark of a smooth transition is the integration and alignment of all key stakeholder groups. Depending on the position being vacated, the CEO and chief human resources officer, with perhaps the board's succession subcommittee, should take responsibility for various portions of the succession planning process, up to and including providing support for the new leader's transition into the organization.

Having each of these respective stakeholder groups aligned on their individual responsibilities during the earliest stages of succession planning greatly increases the chances that the right candidate is accurately placed into the role and that his or her transition into the organization is relatively seamless.

Providing transition support. By their very nature, transitions are rocky at best. Done quickly, the uncertainties and ambiguities only become magnified. But when executed

in a well-planned and thoughtful manner, the new executive's transition is likely to be a success. In fact, as reported by McKinsey's Scott Keller and Mary Meaney in a May 2018 blog post, "Successfully transitioning to new leadership roles," nine out of 10 teams whose leaders had successful transitions go on to meet their three-year performance goals, but when they struggle through transitions, "the performance of their direct reports is 15% lower than it would be with high-performing leaders."

Designing a process to manage senior leadership transitions sets the new leader up for success, engages the leadership team in supporting the new leader, and strengthens the external position of the organization, thereby stabilizing shareholder value during a period of change. In addition, identifying and addressing the hurdles a new leader will face can minimize growing pains, mitigate clashes with the prevailing culture, and define a support system for the newly appointed executive independent of formal channels. And lastly, by connecting with members of the investment community, the leader can reduce the market's anxiety about how the most urgent business issues that affect company performance will be tackled.

Russell Reynolds Associates, therefore, recommends a two-pronged approach to mitigating the risks of executive transitions: Transition Preparation that is focused on arming the individual with necessary organizational context before they arrive; and Transition Launch that is focused on the specific year-one priorities, key team members and stakeholders required for success. Many times, transitions fail due to factors that were known prior to the executive's start.

INDEPENDENT FAMILY-OWNED VS. PUBLIC

A question that continually arises with respect to succession planning concerns the differences in planning for a family-owned business versus a public company. While the outputs are similar, the path to succession planning is often very different due to the varying levels of politics and formality present in family-owned businesses. Analyzing the terrain in a family-owned business is a necessary step that may not always be needed for non-family-owned companies. This includes understanding the role of the family, the management team, and the potential "family trust," which can be the controlling entity composed of generational leaders. These entities may have different intentions and expectations.

When conducting the initial analysis, there are additional questions to consider such as the amount of control family members have over decision making, the priority given to maintaining familial control in the business, and the level of independence of the board. The analysis can reveal deep complexities or even contradictions within the governing body of the company. According to Northern Trust in "Family Business Transitions: Rising to the Challenge," only 12% of family businesses make it to the third generation, and there are primarily two reasons that explain why family business transitions often fail at this critical juncture. First, the third generation is simply not prepared to take over the business. Second, the current leadership generation has not developed a well-thought-out plan to prepare for this leadership transition. While no insights are better or worse than the other, the level of complexity identified through the findings must be considered when developing a succession plan.

The other major factor to consider is how the desired traits of a C-suite leader in a family-owned company may be different from those in a public company, all else being equal. To better understand this difference, Russell Reynolds analyzed in "Leading a Legacy: How Outsiders Can Thrive as Family Business CEOs," the psychometric assessment data of successful non-family CEOs of family businesses. We discovered these family-owned business CEOs scored higher on three main traits compared to their public company counterparts: deliberate, flexible, and collaborative. Translated into observable actions, these non-family CEOs of family businesses better knew how to pick their battles, had a higher-than-average ability to juggle and extend deadlines when necessary, and were more willing to work with others than the average public company CEO. This difference is notable because it materially affects the development of a succession strategy.

EMERGENCY SUCCESSION

While never the ideal, most companies today recognize the need for an emergency plan to account for a catastrophic or unexpected event that debilitates the CEO and other C-suite leaders of the corporation. A company should have a clear, detailed emergency plan that sets forth the processes should such an event occur. A plan would take into account exactly who will notify the directors of the event, the process to implement when contacting the media, who will be designated the acting CEO and/or chairman, as well as the search process to determine a permanent appointment. Catastrophic event planning should also include an assessment of the top external candidates, potential internal candidates, and any board members who are also viable candidates. Such a plan should be refreshed semiannually.

The ultimate goal of succession planning is to identify a leader who can help ensure an organization's future success. A secondary goal is to help mitigate against the operational and financial risks posed by a rushed or misaligned transition. While highly complex in nature and unique to the individual organization, succession planning follows a sequence that can be executed at any company and can dramatically improve the likelihood of the future success of the organization. AQ

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