INCREASE YOUR SUCCESSION INTELLIGENCE IQ

IS YOUR ORGANIZATION PREPARED TO PREVENT COSTLY PRODUCTIVITY DELAYS AND OTHER ISSUES?

Talent Intelligence
Leadership Risk Management

EXECUTIVE SUMMARY

Abstract: Succession plans can help organizations avoid operational delays associated with high-level and other vacancies by proactively identifying future employment needs and high-quality candidates. By initiating contact with potential candidates long before a need arises, organizations can reduce hiring times — and the effect an unfilled position may have on operations.

Some organizations, however, haven't realized, or fully utilized, the many advantages a succession plan can provide. If your organization is struggling to maintain its plan, or doesn't have one in place, find out how you can benefit from succession planning — and the steps involved in creating a long-term strategy to ensure your company is adequately prepared for the future.

SUCCESSION PLANS' SAFETY FACTOR

For organizations in essentially all industries, rushed hiring decisions present a significant amount of risk.

Companies that are under pressure to quickly fill open positions may choose candidates who are a poor fit, which can lead to reduced productivity, morale issues — and can also be costly. Bad hire issues have cost 29 percent of companies in Germany 50,000 euros ($65,231) or more; 27 percent of U.K. companies more than 50,000 British pounds and more than $50,000 per bad hire for 27 percent of companies in the U.S., according to research from CareerBuilder.

To prevent hurried hiring decisions, organizations can utilize succession planning practices — one of the most effective ways to obtain a screened and updated short list of candidates to increase hiring success rates and reduce hiring times. Succession planning can help protect an organization against unforeseen senior-level vacancies and prevent the need for often costly search and placement fees.

Maintaining an ongoing succession planning program, however, can be an uphill battle for organizations that lack the time and resources to dedicate to passive candidate sourcing and other efforts.

More than half of hiring decision makers said recruiter-based sourcing contact with potential candidates had been less effective in attracting highly qualified workers in the past year, according to a recent survey from Glassdoor. Large and mid-sized companies, in particular, experienced sourcing difficulties.

Hiring decision makers cited a number of influencing factors for the trend, including a reduced effect from certain communication efforts. Fifty-one percent felt candidates have grown wary of emails from networking sites and, as a result, tend to respond at a much lower rate.

Despite the many benefits succession plans offer — including assurance vacancies won't prevent an organization from experiencing continued productivity and profitability — a number of companies don't emphasize their use.

A 2014 report from the Institute of Executive Development and The Rock Center for Corporate Governance, a joint initiative of Stanford Law School and Stanford Graduate School of Business, found that while corporate leaders generally feel succession planning is important, the majority feel their company isn't doing enough to prepare for future leadership changes. Companies often don't know who is next in line to fill senior executive positions and don't have a system in place to choose candidates.

The average succession planning intelligence score for respondents in a 2013-2015 global survey involving 600 organizations from Halogen Software was an underwhelming 48 percent. Only 15 percent of respondents rated themselves as doing well or very well in establishing measureable succession planning goals.

In times of relative calm, it's easy for an organization to focus on operations, instead of future plans. But no matter how tranquil things seem, delaying succession plan implementation and updates can be a dangerous proposition.

A company without a solid succession plan can be derailed by a number of risk-related scenarios — including:

- **Employee retention issues:** Without a clear path for advancement, some workers may leave. Nearly half (45 percent) said they planned to exit their job because they were dissatisfied with the advancement opportunities their employer offered, according to a CareerBuilder survey. HR professionals identified ensuring employees remain engaged and productive as the biggest challenge their organization is facing; retaining key talent was their third biggest concern, according to a recent Human Resource Executive survey.

  Low retention rates can impact an organization's bottom line. In the U.S., turnover can cost 21 percent of an employee's annual salary, according to a Center for American Progress study. British businesses, according to Oxford Economics research, spend a minimum of £4.13bn on employee turnover every year.

- **Knowledge gaps:** Training employees to assume new positions takes time. Middle- and high-skill jobs comprise the largest gaps, according a 2012 study by the American Society for Training & Development, which has members in more than 100 countries. More than half of the organizations that responded to its skills gap survey said leadership and executive-level skills were the top skills gap issues. Thirty percent attributed skills gap issues to holes in the organization's talent pipelines; 41 percent cited a lack of commitment by senior leaders to employee learning and development and training investment reductions.

  Forty-one percent of U.S. employers, for example, said skills gap issues were likely to cause reduced competitiveness and productivity; 32 percent anticipated an increase in employee turnover as a result, according to the ManpowerGroup.

- **Delayed retirement and other generational changes:** Recent research has shown many employees in their late fifties and early sixties are, in growing numbers, choosing to work into, and in some cases, past their sixties.

  Predictions indicate a number of U.S., European and other workers — due to a variety of factors, including some nations raising their retirement age to reduce state-funded pension costs and, fueled by the economic downturn, issues with debt and a lack of retirement savings — may not leave the workforce when they reach traditional retirement age during the next decade.

  The percentage of over-55 workers rose in all 27 EU countries, except Portugal and Romania, according to Eurostat, between 2000 and 2010. Countries in Southern and Eastern Europe are expected to soon see a rapid increase in the proportion of older citizens. In the U.S., roughly 82 percent of baby boomers also plan to work past age 65, or already are older and still working, according to the nonprofit Transamerica Center for Retirement Studies.

  Succession plans need to address the delayed retirement trend to be effective. Without a succession plan, organizations may just be making an educated guess about which roles will be vacant, putting them in a weakened position for filling positions at different levels in the future. Thirty-four percent of companies already faced difficulty filling vacant positions as of 2012, according to the Manpower Group's Talent Shortage Survey. In the U.S., that figure is closer to 50 percent; management and executive vacancies rank among the top 10 most difficult to fill.

- **Unexpected illness and other emergencies:** Take, for example, United Holdings Inc. Just over a month after the aviation company had named a new CEO, Oscar Munoz, after its previous CEO resigned, Munoz suffered a heart attack. A few days later, United announced that its general counsel would temporarily fill the position while Munoz, 56, was on medical leave for an undetermined amount of time.

  United had a succession plan in place; its Corporate Governance Guidelines outline the company's succession planning process. Its Nominating/Governance Committee is responsible for reviewing corporate succession planning with United's CEO and the chairman of the board on a periodic basis. Emergency situations are mentioned, including situations "in which the CEO becomes unavailable to serve." The company suggests successor recommendations be provided on an annual basis.

  However, since Munoz's appointment was relatively recent, according to the Washington Post, the company may not have had a successor or specific succession plan in mind yet.

  United's situation isn't entirely unusual. Approximately seven publicly traded CEOs pass away each year, according to a 2006 study published by the Stanford Graduate School of Business; research published the same year by Pittsburg State University's Department of Economics found that long delays in naming a successor caused by a lack of succession plan can potentially decrease financial performance and firm equity value.

  Although many health and other emergencies are, by nature, unexpected, succession plans should incorporate procedures to address worst scenario situations; without any type of succession plan, companies risk investor panic and potentially negative financial effects.

BECOMING A SUCCESSION PLAN SPECIALIST

The succession planning process begins with identifying your organization's mission-critical leadership positions — and then developing succession profiles that align with your plans for strategic growth.

If your organization currently has a succession plan, review it to look for potential areas and issues you may not have addressed — such as:

- **Do you have a formal written version of the plan?** Having a current, updated physical record will prevent confusion and misdirection.
- **Have you built regular revisions into your annual calendar?** Staffing needs change throughout the year; your succession plan should, too.
- **Are the appropriate individuals involved in succession plan reviews and updates?** Do you have buy-in and involvement from key leadership officials, as well as input from managers at all levels regarding current and future employment needs?
- **Does your succession plan include processes to identify and encourage rising stars?** How are potential future leaders being prepped for roles you hope they'll some day ascend to?

If a brief review of your succession plan reveals some significant gaps — or you need to create a plan from scratch — the following practices can help you strengthen your organization's current approach to recruitment and growth:

- **Get detailed insight.** To create a thorough succession plan, you need to obtain a 360-degree view of your organization. Involve representatives from various departments and levels to gain a thorough understanding of each section's current and anticipated needs and how they will affect the overall needs of the organization.

  Succession planning, in some instances, tends to be limited to top leadership roles — but it doesn't have to be. A 2006 SHRM survey found just over half (56 percent) of companies include mid-management positions, and 17 percent included nonmanagerial roles.

- **Create job profiles.** Identify the important skills and experience needed for leadership positions to help you successfully locate candidates for each role. Knowing what a position will entail is a crucial part of finding the right candidates — and being able to convince them to join your organization by highlighting aspects of the position that will help advance their career. Yet only 38 percent of respondents in Halogen Software's global succession planning survey say their organizations prepare job descriptions well or very well to clearly identify the work involved.

- **Cultivate internal talent.** In many cases, companies' coaching and internal talent programs aren't aligned with their succession plan, according to The Rock Center for Corporate Governance and Institute of Executive Development's "2014 Report on Senior Executive Succession Planning and Talent Development." Offer training, and provide a clear path for advancement within the organization so all expectations are understood.

  Once internal candidates for future advancement have been selected, as the Society for Human Resource Management points out, developing a plan to guide their professional growth, assigning them a mentor and allowing them to participate in endeavors like budgeting can help prepare them to assume roles that involve an expanded skill set.

  Evidence suggests internal candidates may be a strong choice. A study from the University of Pennsylvania's Wharton School found that external hires had lower performance reviews during their first two years, compared to internal workers; were paid 18 percent more and had higher exit rates.

  Offering incentives can help convince top performers to remain with your organization. If your employee value proposition needs some fine-tuning, try these tips and these budget-friendly incentive ideas.

- **Reach out to external talent on a regular basis.** Establish a talent pipeline to provide qualified candidates when you need them by researching, contacting and regularly following up with in-demand industry members.

  Having a list of qualified candidates to reach out to can also provide significant savings. In addition to eliminating the need for recruiter costs, you'll also save your HR department the time involved in combing through a large group of applicants, some of which will likely not be qualified for the position.

Your chances of bringing on a bad hire will likely also be reduced — saving the organization up to 150 percent of the person's first year of compensation, the amount the International Business Times estimates a bad hire can cost. Being able to quickly find the right candidate through previous succession planning preparation will also prevent the need for a second potentially costly recruiting search in a few months.

- **Carefully ponder any staff reductions.** If layoffs are, at any point, necessary for financial reasons, ensure you're holding on to talent you've already invested in and employees you feel possess key skills that would be difficult to replace. Reviewing your succession plan, and all related talent pipeline elements, can help an organization determine which roles it is most prepared to fill, should they need to be eliminated temporarily and later reinstated, merged with other roles or altered in another way.

CONCLUSION

The importance of having a detailed, thorough succession plan cannot be overstated. Proactively addressing anticipated skills gaps, employment needs and drastic, hopefully only hypothetical scenarios will position your organization to quickly address issues that might otherwise derail operations — helping you to maintain your competitive edge in both your industry and the often aggressive talent market.

However, succession planning can be a time-consuming endeavor. Successful initiatives involve extensive research; frequent candidate contact and periodic reviews to gauge employee sentiment and staffing needs. Organizations with an HR department that is already stretched thin may benefit from utilizing additional resources, such as external succession planning assistance.

Working with an organization that can identify high-quality candidates, make initial contact and maintain an ongoing relationship with potential future employees provides several key advantages. Your organization is then uniquely primed to be able to reach out to a pool of prescreened candidates, if you need to fill a position; and you'll also receive invaluable insight into what competitors pay, what today's candidates are looking for and other key information to help successfully position yourself in the marketplace.

To find out more about how succession planning can help your organization succeed — and receive a comprehensive organizational review and consultation — contact Talent Intelligence at http://bit.ly/235cx4J.

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About Talent Intelligence
Talent Intelligence is a global leadership risk management company that solves its clients' critical talent challenges by integrating external talent intelligence in four key areas: succession planning, talent pipelining, diversity intelligence and human capital competitive intelligence. All intelligence is securely stored so clients can access it on demand and integrate it into their existing workforce planning process. Our Intelligence Delivery Teams flag high-potential candidates, bringing them directly to our clients' attention — so when the time is right, we can facilitate a networking engagement between you and any candidate of interest.