The Power and Importance of Succession Planning

Succession planning and strategy are critical to the long-term success of an organization. By focusing on leadership pipeline and implementing robust leadership development programs, organizations build the foundation on which all future growth rests. David Ager, Senior Fellow for Executive Education at Harvard Business School puts it this way: “Having a succession strategy is as important, if not more important, than having a corporate strategy.”

“A critical difference between companies that manage succession well and those that don’t is the understanding that succession is a process, not an event.”

JOSEPH L. BOWER, DONALD K. DAVID PROFESSOR OF BUSINESS ADMINISTRATION, EMERITUS
Plan for the Long Term

Fluctuating market demand, emerging technologies, and a changing workforce are just a few reasons why succession planning must be continually revisited. Succession strategy and corporate strategy should be tightly linked; whenever you update your corporate strategy, you need to update your succession strategy as well. Prudent organizations are regularly asking, “What types of leaders will we need as we move into the future?”

And just as formulating and executing corporate strategy is a responsibility shared by the entire leadership team, thinking about succession is likewise the responsibility of each individual leader. Every senior leader in the company should be constantly thinking about the two to three people across the organization who could theoretically step in. Succession planning should be incorporated into the performance review process. That is, at least once a year, someone should be asking department and business leaders, “Who do you see replacing you should the need arise?”

What Kind of Leadership Will You Need in Five Years?

While every corporate leader should be thinking about and working to identify potential successors, the decision to choose a successor will rarely rest with that individual. Instead, particularly in larger and public enterprises, that responsibility will fall to the board of directors.

It is important that boards think about the leadership needs of the organization five to seven years out. Naturally, the board needs to be continually evaluating the performance of the current chief executive. But when it becomes clear that a transition is needed, the board can’t limit their thinking to, “Who do we need tomorrow?” Instead, boards need to ask, “Who will we need five years from now? What sort of knowledge and experience must that person possess? What skills? What demeanor? What personal brand?”

However, taking the time to identify these potential successors can, at times, reveal a difficult truth—there simply isn’t anyone currently in the organization who could effectively step in. In these cases, organizations must focus on the process they are going to use to identify and prepare someone to assume the role.

At least once a year, someone should be asking department and business leaders, “Who do you see replacing you should the need arise?”
In addition to planning for the next leader, the board also needs to have a clear understanding of the process for finding that person. This is of particular importance if, as often happens, the board needs to search outside the organization. In such cases, they may rely on executive search firms to facilitate and support the hiring process. For this process to be successful, however, boards must establish well-defined rules of engagement for working with such firms.

Focus on Inside Candidates

As tempting as it can be to seek a leader from outside the organization, it is rarely the best choice. Claudio Fernández-Aráoz, a senior adviser at the global executive search firm Egon Zehnder, has three decades of experience with executive searches. According to Fernández-Aráoz, “It is so much better to promote someone from within if you have the right type of candidate, not only from an economic point of view, as the research shows, but also from a motivational point of view.”

HBS Professor Emeritus Joseph Bower also states that “strong evidence supports the notion that a well-groomed insider is a key to sustained company performance.”

Nevertheless, there are times when a company has to find a leader outside the organization. In such cases, even if a search firm has identified a strong leader, a company doesn’t necessarily have to place that person at the top immediately. Instead, it could bring them in as COO, for example. In this way, the company can make an outsider an insider, providing them with a strong working knowledge of the organization before they eventually take the helm.

Develop Your Internal Leaders

Interestingly, even when an organization has strong, internal leadership development capabilities, they can and should take advantage of this inside/outside dynamic.

Developing internal leaders is not simply a case of performance management; it’s about actively cultivating the skills that people will need in order to advance to leadership roles. On the one hand, thinking about and defining those skills—for both the near and far term—is a critical piece of any succession strategy. On the other hand, organizations need to think about how future leaders will acquire those skills. While the traditional assumption has been that developing leaders will learn by assuming different roles across the organization, the newest trend is to incorporate outside experience in the learning process.

For example, a large privately held, family-owned spirits company that Harvard’s Ager works with has created a partnership with its major distributor that allows them to “swap” developing executives. In this way, emerging leaders gain an outside perspective on the business that fruitfully complements their inside experience.

In this case, Ager argues, “They learn how complicated the distribution of spirits is in the U.S. For example, you can’t just go direct, you have to go through a distributor. So working as a distributor and then returning to work for the company provides a developmentally enriching, holistic perspective on the business and the business ecosystem you couldn’t get otherwise.”
Interestingly, this approach mirrors Joseph Bower’s findings that “inside-outsiders” often make the best next-generation leaders. As he writes: “My research suggests that as a rule the best leaders are... people from inside the company who have somehow maintained enough detachment from the local traditions, ideology, and shibboleths to maintain the objectivity of an outsider.”

Provide Internal Leadership Candidates Experience Outside the Organization

The idea that your future leaders, even when they come from the inside, should also have external experience, reinforces Ager’s view that leadership development is about more than continuous learning—it’s also about being challenged, which is particularly critical when your future leaders will come from the ranks of millennials.

“We’re finding,” Ager says, “that millennials grow bored very quickly. As a result, you have to think about career paths that involve lateral transfers inside and outside the organization to keep them engaged.”

“One large organization I’ve been working with,” he explains, “understands that millennials don’t want to be beholden to one organization. So, as an approach to leadership development, they are focused on curating a set of challenging experiences that allow younger talent to develop themselves through both internal and external roles.”

“Ultimately,” he adds, “the goal is to cultivate enough loyalty that this approach actually flows into the succession process. Of course, what this also means is that companies will have to become more comfortable with employees moving in and out of the organization over the course of their careers.”

Overcome Bias in the Leadership Succession Process

In addition to becoming comfortable with future leaders moving in and out of the organization, boards and corporate leaders need to become comfortable with the fact that these leaders may also come from varied and unexpected backgrounds. That is, when thinking about succession, companies need to confront unconscious bias concerning who would and who wouldn’t make an apt successor.

It is an inescapable fact that implicit bias exists in the hiring process. One way to address this is to ensure that boards themselves reflect a certain level of diversity—not only in terms of race and gender, but also in terms of technical expertise and socio-economic background.

One of the biggest challenges companies face in succession planning is developing and maintaining a pipeline of internal candidates. By increasing the diversity of experience and perspective on your board or selection committee, you will inevitably allow for a broader, multi-dimensional evaluation of potential candidates. As a result, you will be far less likely to overlook promising candidates and far more likely to expand the pipeline of future leaders.
Key Takeaways

As we’ve seen, many companies struggle with succession planning. It doesn’t have to be that way, however. Here are some suggestions for how you can get succession planning right in your organization.

1. Succession strategy and planning must be an ongoing organizational imperative. It is not a one-time event; it is a process.

2. In addition to the board, each individual leader needs to focus on succession planning. The key question leaders must ask themselves is, “Who in the organization could step in if I had to step aside?”

3. Effective leaders have both an inside and outside perspective. For this reason, if you find a new leader outside your organization, you should provide that person with insider experience before they assume their role at the top. Likewise, your internal leadership development program should provide leadership candidates with external experience whenever possible.

4. Finally, many organizations struggle with leadership pipeline. Diversity of board membership is one way to ensure that an organization always has access to a wide range of candidates.

For more information
Visit www.exed.hbs.edu.