Consulting
Performance, Reward & Talent

# Best-in-Class Succession Management

*Who Will Take the Baton?*

## About This Content

This research brief defines a best-in-class succession management system and presents the business context for designing and implementing it. Drawing from primary research initiatives as well as Aon Hewitt's experience in consulting with leading organizations on their succession management systems, the research brief presents the process, tools, and principal characteristics that make a best-in-class succession management system a powerful tool for building and preserving future leadership capacity.

We collected data from published materials and Aon Hewitt's client experiences in this area. We studied and compared a broad range of perspectives to develop and present best-in-class practices for succession management.

# Who Will Take the Baton?

The appointment of Meg Whitman as CEO of Hewlett-Packard in 2011 marked the fourth time in six years that the technology company utilized an external successor to fill the position. Whitman's predecessor, Leo Apotheker (formerly of SAP), stepped down after less than 11 months on the job. Reports following Apotheker's resignation cited a major decline in stock price, poor sales forecasts, and a series of poorly executed strategic initiatives. Prior to Apotheker, CEO Mark Hurd had stepped down after allegations of unseemly behavior.[1]

In 2011, Timothy Cook replaced the legendary Steve Jobs as CEO of Apple Inc. after having been with the company for 13 years. Prior to Jobs's resignation, Cook had served as COO for five years, and had temporarily taken over Jobs's role on three occasions during Jobs's medical leaves. Apple's board reported having "complete confidence that Tim [was] the right person to be [Apple's] next CEO."[2] In the time since Cook took the reins, Apple's market value has increased by roughly $140 billion.

Although external leadership appointments tend to garner media publicity, multiple academic and business experts emphasize the significant benefits of succession from within. Notably, internal selections preserve corporate history, enhance knowledge capital, and reduce the ramp-up time required for external appointments. In addition, promoting leaders from within fuels the ambitions of the company's talent force to aspire to earn future leadership roles, keeping them from feeling stagnated in a role and jumping ship.

*The Top Companies for Leaders* study conducted by Aon Hewitt states that 100% of global Top Companies and 72% of all other companies have a formal process for succession planning. Yet only 88% of Top Companies and 53% of all other companies feel they have a sufficient CEO pipeline to be successful in the future.

Prior to the 2008–2009 recession, experts predicted that as the baby-boomer generation entered into retirement, the U.S. workforce would experience not only a massive talent shortage, but also a significant loss of skills that the retirees possessed. Companies who failed to proactively plan for these shortages caught a break as the economic downturn accelerated an already increasing trend toward delayed retirement. Delayed retirement is influenced by factors such as longer life spans, Social Security benefits, health care costs and—as a result of the recession—a lack of financial preparedness.[3] However, as the workforce continues to age and the economy begins to recover, these mature workers must eventually leave the workforce, making it more essential than ever for companies to understand where their talent will come from and have strategies in place to grow existing talent to meet future needs.

In a recent benchmarking survey conducted by the Conference Board, 44% of companies reported that developing top talent to support their organizational goals was the greatest challenge they would face in the next 12 months.[4] According to another survey conducted by the Conference Board, one-third of responding companies had 31% to 50% of their workers within five years of the company's average retirement age. Yet, only 29% reported having a human capital strategy in place to address these retirement issues.[5]

1 Schloetzer, J., Tonello, M., Aguilar, M. (2010). CEO succession practices: 2012 edition. Retrieved from The Conference Board online research database.

2 Schloetzer, J., Tonello, M., Aguilar, M. (2010). CEO succession practices: 2012 edition. Retrieved from The Conference Board online research database.

3 Levanon, G., Rappaport, A., Abel, A., and Cheng, B. (2012). Recession Aftermath: What the delayed retirement of mature workers means for business. Retrieved from the Conference Board online research database.

4 The Conference Board Inc. (2012). The 2011 Succession Management Conference keynotes report. Retrieved from the Conference Board online research database.

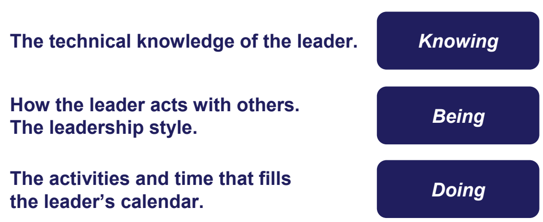
5 Levanon, G., Rappaport, A., Abel, A., and Cheng, B. (2012). Recession Aftermath: What the delayed retirement of mature workers means for business. Retrieved from the Conference Board online research database.

What will a company do when it's pushed into a leadership and talent crisis resulting from either an expected or unplanned departure of their C-suite incumbents or star players? Despite a decade of research pointing to this need, have organizations diligently invested in identifying and grooming their future leaders? And what's the benefit of having succession programs if companies aren't using them effectively for selecting and developing their talent bench?

## What Is Best-in-Class Succession Management?

The terms "succession management" and "succession planning" are often used interchangeably, but there's a significant difference. Where traditional succession planning focuses on compiling a list of possible "replacements," succession management looks to both identify and develop high-potential leaders who are capable of executing the corporate strategy. Therefore, best-in-class succession management involves two key activities: tracking pivotal roles that are emerging as "resource pressure points," and proactively sourcing and developing a strong talent pool of future leaders.

Best-in-class organizations are those that go beyond the traditional approach and focus on an integrated succession management process aimed at enhancing leaders' current and future capabilities. These companies have formal strategies for identifying, assessing, and developing leaders throughout the enterprise. Best-in-class organizations understand that effective leadership is the interplay between several aspects of a leader's performance.




Developing a succession management process that accurately assesses and develops leaders to meet these three areas is critical. In addition, organizations should focus on understanding their leadership talent along several timeframes for succession management purposes (e.g., leaders who are "ready now" for a critical role, leaders who will be ready "soon," and leaders whom the organization should "keep an eye on"). For leaders in each of these phases, appropriate leadership development actions should occur to ensure that a robust talent pipeline exists and individuals move through the readiness "stages" at an appropriate pace.

Best-in-class organizations target having one or two individuals identified for each readiness stage of their pivotal roles. To achieve this kind of pipeline ratio requires succession management to be a top priority for senior management. This means senior management having the right discussions on leadership talent during the year, as well as committing to developing and tracking leaders' progress.

All these activities take time, energy, and focus for organizations to get succession management processes right… and this is why so few organizations are truly world class!

## Why Is Succession Management so Critical Now?

Both the "graying" of the workforce and significant skill mismatches continue to be of great concern for organizations across the globe. It's not new, but organizations face severe talent deficits due to the currently cresting demographic tidal wave. A Pew Research Center study predicts that for the next two decades 10,000 baby boomers will turn 65 every day.[6] Additionally, while 200 million people are unemployed globally, 34% of companies are struggling to fill job vacancies due to a shortage of talent.[7] This percentage is higher than it was just three years ago when the economy was at its worst, indicating that as the economy improves, companies will face even greater challenges when it comes to talent. Companies who cannot fill their vacancies overwhelmingly cite (75%) a lack of technical competencies (hard skills), employability skills (soft skills), and lack of experience (manpower).[8] This skills shortage is a global issue—affecting 36% of companies in the Americas, 34% in EMEA, and 29% in Asia Pacific.[9]

Faced with a global skills crisis and pending retirements on the horizon, the war for top talent has never been more intense. For companies to come out on top, they will need not only to find ways to win the best talent, but also to engage and retain their existing employees. While the trend toward delayed retirement may have buffered companies with mature workforces from losing critical knowledge and skills, it has also created some distinct disadvantages. Mature workers who expected to retire sooner may become disengaged. Younger employees who are blocked from advancing because of these mature workers may also become disengaged as they struggle to see a future with the organization.

Moreover, leadership exits have never been so precipitously directed by performance as they are in today's turbulent times. According to the Conference Board, the probability of CEO succession failure is greater when a company has suffered poor performance. During the 2000–2010 period, the average CEO succession rate was 14.0% for poorly performing companies, compared to 9.7% for better-performing companies; indicating higher churn and more frequent succession announcements for struggling organizations.[10] This may be due in part to the unique challenges leaders are facing today as they navigate an increasingly complex and uncertain environment. Additionally, the collapse of renowned companies and their CEOs in recent times points to rampant problems at the top. While many companies brush these off as legal and ethical quandaries, it can be argued that a significant part of the problem is the way companies orient and groom their junior and mid-level talent.

Further, the average tenure for CEOs is decreasing, suggesting that companies will need to be more proactive in addressing CEO succession. The average tenure for a departing CEO in 2011 was 8.4 years as compared to 10 years in 2000.[11]

6 Passel, J., and Cohn, D. (2008). U.S. Population projections: 2005–2050. Retrieved from http://pewresearch.org/pubs/729/united-states-population-projections.

7 ManpowerGroup. (2012). Talent Shortage Survey research results. Retrieved from http://www.manpowergroup.com/research/research.cfm.

8 ManpowerGroup (2012). Breaking the crisis and complacency cycle: Get ahead of the global talent shortage. Retrieved from http://www.manpowergroup.com/research/research.cfm.

9 ManpowerGroup. (2012). Talent Shortage Survey research results. Retrieved from http://www.manpowergroup.com/research/research.cfm.

10 Schloetzer, J., Tonello, M., and Aguilar, M. (2010). CEO succession practices: 2012 edition. Retrieved from The Conference Board online research database.

11 Schloetzer, J., Tonello, M., Aguilar, M. (2010). CEO succession practices: 2012 edition. Retrieved from The Conference Board online research database.

Most companies and boards are aware of these issues, but are slow to respond to them. They are confident about recruiting from external sources to fill their leadership needs. Little do these organizations realize that this move is not only expensive, but the chances of success with an external leader are cut in half. Harvard Business Review conducted an 18-month study looking at 300 CEO transitions in S&P 500 companies between 2004 and 2008.[12] The study found that, overall, insiders and outsiders performed about the same. However, what did make a difference in the outcome was the company's health at the time of succession. In the study, 218 of the 300 companies were considered stable or growing. These healthy companies chose internal successors more than three-quarters of the time, and these insiders were three times more likely to achieve success than the outsiders. In companies considered to be struggling, external successors performed significantly better. The research found that external hires were three times more likely to achieve success than insiders.

The results of these studies point to the fact that companies face unique leadership challenges based on the shape they're in. However, while external successors may be helpful when a company is going through hard times, it can also be argued that poor performance may be a symptom of an already weak leadership pipeline. From this perspective, business leaders should view succession management as a way to manage people-related risk. Ensuring that a company has the necessary talent to reach its objectives is risk management at its best. Growing talent from within is also more cost-effective. Research has found that when companies fail to effectively integrate senior executives, they face lost opportunity costs of around 10% to 20% of the executive's salary. These failures can also lead to public distrust, resulting in loss of productivity and social costs of around $14 billion per year.[13]

The stakes for getting succession right are high, and companies that proactively develop their next generation of leaders will have a distinct competitive advantage. As the business landscape changes, companies need to think beyond traditional competencies and experience when considering a potential candidate's readiness. One dimension of succession management that is often missing is the business relationships developed by the executives. As companies become increasingly global and interconnected, the quality of potential leaders' business relationships holds much more weight. From a succession management perspective, therefore, companies should consider how well socialized a potential successor is, and what key relationships he or she may need to build prior to assuming a critical position. Research on the importance of relationships in business success argues that the coaching of high-potential employees is a powerful way to help these future leaders build meaningful relationships with stakeholders through conversation and feedback.[14]

Aditya Birla Group is a global "Top Companies for Leaders" winner in Aon Hewitt's 2011 study that strongly believes for succession planning processes to be impactful and deliver value to the businesses, they need to be formalized and institutionalized. All the key stakeholders need to invest adequate time and energy to ensure the succession planning list is refreshed regularly and it remains contemporary. This will ensure the list can be readily used for retention and developing the pipeline. "It can't be done once or twice a year; it has to be a continuous process, which only comes by having relentless focus." Deere & Company developed an in-house coaching program designed to offer accreditation to leaders as coaches who are trained to coach others and facilitate the process throughout their organization. To date, over 60 trained leaders completed this program.

12 Citrin, J. M. and Ogden, D. (2010). Succeeding at succession. Harvard Business Review, 88(11), 29-21. Retrieved from Business Source Complete database.
13 McKeown, E. (2010). Turbulent times highlight the need for succession planning. T+D, 64(1), 18-19. Retrieved from Business Source Complete database.
14 Rodin, M. (2004). Coaching creates relationships essential to business success. Retrieved from The Conference Board online research database.

Best-in-class companies are paying careful attention to the talent challenges of today to better prepare for those of tomorrow. Realizing the enormous benefits from the succession management process, the top leaders (including the boards of directors) at global Top Companies place specific emphasis to ensure a sustainable pipeline of talent is in place. According to Aon Hewitt's 2011 Top Companies for Leaders study, succession planning ranks as the top priority for 60% of global Top Company boards of directors (compared to only 31% of all other organizations). Top Companies realize the importance of being actively involved with the next generation of talent, with the majority dedicating, on average, 21% to 50% of their time on leadership activities such as succession planning, coaching and talent reviews. Leading organizations realize that their one window of opportunity in combating the chronic leadership shortage is to identify and develop their internal talent pipeline for critical executive positions—and to begin the process now.

Global Top Company PepsiCo's CEO, Indra Nooyi, takes a very "roll up your sleeves" approach to developing talent by personally spending time reviewing the top talent in her organization. Specifically, she spends almost a full day in talent reviews identifying the 300 most critical roles (encompassing almost 1,500 people), their successors, and potential successors, using the standard of "one ready now, two ready in one to three years, and at least three in three to six years" for each position. In these reviews, she discusses the skills and experiences (through on-the-job experiences, job assignments, and mentoring). These people are identified by name, and placed on a matrix to ensure full coverage in the succession categories.

North America Top Company Raytheon implemented workforce planning (WFP) across the enterprise in 2009 to identify the roles that are strategic to their long-term business strategy. By identifying these roles and potential actions to mitigate talent risk, WFP enables Raytheon to develop and position its leadership talent to meet its future needs as a company. Raytheon's three-tiered talent model exists to close the gaps identified through workforce planning.

# A Focused Strategy: Four A's of a Best-in-Class Succession Management System

For a company to build a best-in-class succession management system, it's necessary to adopt a structured process. A formal, proactive process is the hallmark of a high-impact succession management system.

Through such a process, priority positions are identified, leadership competencies defined, talent identified and developed, policies prepared, records maintained, accountabilities clearly stated, and measures used for continuous improvement.

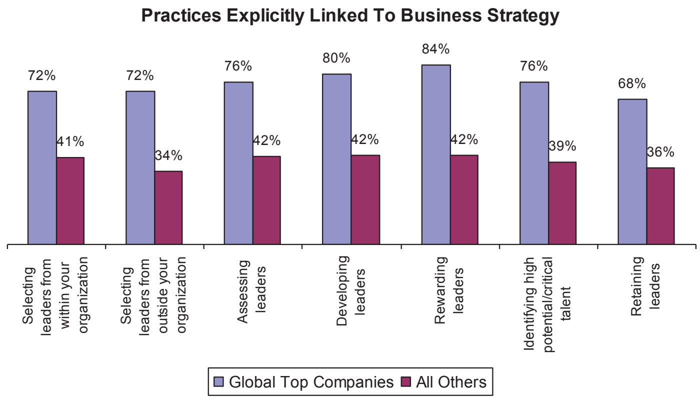
There are several types of succession planning strategies, from simple replacement planning to more integrated development planning. The core of developing a robust and reliable pipeline of "A" players involves focusing on four fundamentally important A's—alignment, accessibility, assessment, and advancement. Best-in-class organizations are those that overcome the inertia and work intensely on planning, executing, and winning these four A's of succession management.

These four elements are the supporting pillars of a succession management process. Best-in-class succession management systems that embrace the four A's are comprehensive and optimal. Below are examples from best-in-class companies that explain how these companies approach the four A's.

## Alignment

Best-in-class organizations use succession management as a strategic business-planning tool that focuses on both current and future needs and develops a pool of highly talented individuals in order to meet the organization's overarching long-term strategy. Leading companies rely on corporate strategies to determine and drive their leadership competencies and talent development needs. In an ever-changing business environment, companies need to constantly strive for and build a reliable supply of talent to not only fill executive vacancies, but also accomplish their future vision. According to the 2011 Top Companies for Leaders study, nearly all the global Top Companies integrate workforce planning with strategic business planning efforts and consider these efforts to be critically linked to one another.


An aligned succession process ensures both the current and future business needs of the organization. Leading companies integrate succession management with hiring, performance management, development, and retention systems. These components of talent management are explicitly linked with business strategy within the majority of global Top Companies. Managers use these systems to assess current performance, identify future potential, recommend developmental opportunities, and ultimately implement succession planning.




*"Talent mindset, led by our CEO, has been a transformational change over the past decade. Key metrics are wrapped around it so it is inescapable—you cannot opt out. Over the last three to five years we embedded it with technology to make it leaner, faster, and better to deal with 120 countries. It is foundational to what we do, and leaders are held accountable for it. Practices get better, and technology gets behind it. Behaviors and actions are well-documented, well-communicated, trained, and articulated with great frequency. If you wandered into any Whirlpool across the world you would see that same set of practices, vision, values, developing leaders, talent... you'd see it, hear it, feel it." (Whirlpool)*

*"Our succession planning process ensures the 10-year development plans are robust, and in alignment not only with business needs but also personal and family needs as well. We also keep a list of people we do not want to lose and we watch it closely. We emphasize the importance of 'sticking with the analytics' of identifying and tracking talent and succession." (PepsiCo).*

## Accessibility

Best-in-class companies have a simple, transparent, flexible, diverse, and robust succession management process that eschews administrative hassles for the end user.

**Simple**
Top Companies often leverage technology to create uncomplicated processes, with a unified approach to ensure consistency across business units, organizational levels, and geographic areas. In contrast, many organizations have overly complex and elaborate succession management programs in which executives spend more time filling out forms and attending meetings than engaging in the actual management of talent.

IBM developed specific business unit plans to include immediate and long-term successor charts. Decisions are made based on data and reported upon extensively. IBM reviews all benches for business and technical leadership roles, and evaluates them so IBM can focus on those benches that are most in need of help. Process allows IBM to determine whether it needs to hire, accelerate development. or borrow talent.

At General Mills, succession dialogues are intentionally scheduled to occur right after the board approves its annual operating plan, allowing leaders to embed talent commitments immediately. Leaders at General Mills recently streamlined their succession planning process to condense their documentation into a one-page synopsis of the most critical elements necessary to facilitate an open dialogue on the successor. They have found this to be successful in changing the dynamic to focus more on the conversation than the formalities.

**Transparent**

Where old succession management systems were characterized by secrecy and confidentiality, many current best-in-class organizations make their succession management process as transparent as possible. This transparency encourages clarity and integrity, and minimizes politics, which can result in better retention of top performers. Organizations with transparent systems let their key talent know how important they are as individuals to the organization and its future success. This assures that high potentials are certain where they stand in terms of potential and career opportunities within the organization. While even best-in-class organizations put some limit on transparency, there's general agreement that communicating openly to high-potential candidates is advantageous and engenders trust and buy-in from them.

Target Corporation's talent review process starts with each team member completing a self-review of their performance against their goals and other expectations on an annual basis. This is followed by its leaders assessing their performance and accomplishments—both what they accomplished and how they accomplished it—as well as personal strengths and opportunities. Additionally leaders across the company routinely discuss talent at all levels, intentionally plan for team member development, and discuss diverse talent among other things. This helps them evaluate whether they have the right leaders in the right place and calibrate talent consistently. This also demonstrates a deep commitment to leadership development at all levels within the company.

*"It's healthy for people to understand how the organization values them, and seeing someone who is valued. This is by design a meritocracy, and people understand how to get ahead."* (UnitedHealth Group)

*"'Apúntate'" is not only a job posting tool but also a decision facilitator; it assesses all current employees and ranks the most appropriate ones according the requirements of the target position. The manager posting the offer receives the ranking and is only able to select one candidate at a time. Only by discarding the top candidate can the manager move to the next one on the list. Candidates are anonymous; no name, age, or gender is disclosed to the hiring manager. The candidate's direct manager is not aware of the process until the candidate becomes a finalist. Should further information be needed for the decision-making process, HR in each unit provides it."* (BBVA)

Current research is also buzzing about the importance of transparency. According to Harvard Business Review, transparency is on the rise. In 2010, 85% of companies reported informing their high potentials of their status as compared to only 70% a decade earlier.[15] The 2011 Top Companies for Leaders research shows that 80% of North America Top Companies make high potentials aware of their status, compared to only 53% of all other North America participants. In addition, Top Companies are more likely to communicate to an individual when he or she is no longer considered high potential (71% versus 33%). Aditya Birla Group creates career charts to track performance paths. Aditya Birla is not only transparent about its plans but also gives an enormous amount of flexibility, and once ready ensures it has opportunities available for high potentials. L'Oréal's objective for its high potentials is to expose the critical talents to the organization and be transparent beyond operational performance, strive to provide them with ample opportunities to show their competencies through various events and networking opportunities so the high potentials know how to get to the next step, create a global network, share the culture and the vision, to engage them and make them proud of L'Oréal.

15 Ready, D. A., Conger, J. A., and Hill, L. A. (2010). Are you a high potential? Harvard Business Review, 88(6), 78-84. Retrieved from Business Source Complete database.

**Diverse**

Leading organizations also recognize diversity as an organizational strength and are increasing their efforts to incorporate diversity into their succession management processes. This effort is twofold, favoring both the inclusion of women and ethnic minorities in developing the future talent pipeline, and identifying and developing future leaders who are adept at managing diversity.[16]

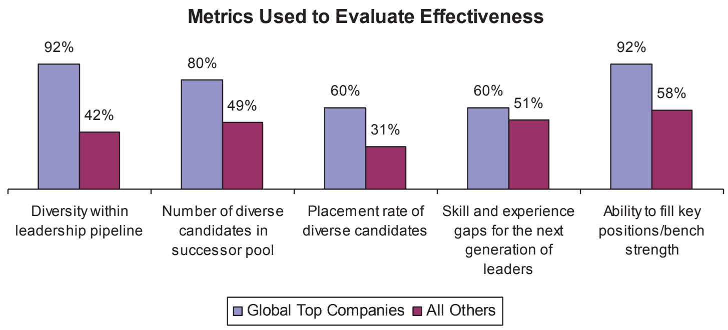
The business case for diversity in an organization's leadership has been steadily growing. A recent McKinsey study found that companies in the top quartile of executive board diversity (as measured by inclusion of women and foreign nationals) had ROEs 53% higher than those companies in the bottom quartile.[17] These results call attention to the value companies can derive by incorporating diversity into succession management practices. Further, as the workforce becomes increasingly diverse, building diverse bench strength will serve as a competitive advantage in the war for talent.

One of Unilever's top talent objectives is to provide all high-potential employees with stretching and diverse leadership experiences. Their top 100 leaders have, on average, experience in two-and-a-half continents—not countries, but different continents. That gives them more international experience and more exposure to different languages, cultures, and business environments. Quite simply, to be a high-performing global organization, Unilever believes that it needs to develop effective global leaders, saying this is a source of true competitive advantage.

Most organizations recognize the need to move the needle as it relates to diversity. However, the ability to create a pipeline of leaders that reflects the current business and cultural components required to meet customer demands is not a readily accessible endeavor. Top Companies struggle with this as well, but are much more intentional and systematic when it comes to evaluating the diversity within their current pipelines and building a diverse pipeline for the future. All the global Top Companies include increasing diversity as a formal element of their leadership development strategy (compared to only 73% of all other organizations). The median percentage of females in senior leadership positions is low for both Top Companies (17%) and all other participating organizations (16%), but global Top Companies take a significantly more active approach than other organizations to increase the female representation of senior leaders (84% versus 62%), under-represented groups (75% versus 39%), leaders with diverse experiences and backgrounds (88% versus 64%), and early career individuals in leadership positions (84% versus 54%). They are also more likely to incorporate diversity metrics in evaluating the effectiveness of their leadership strategy and succession planning processes.

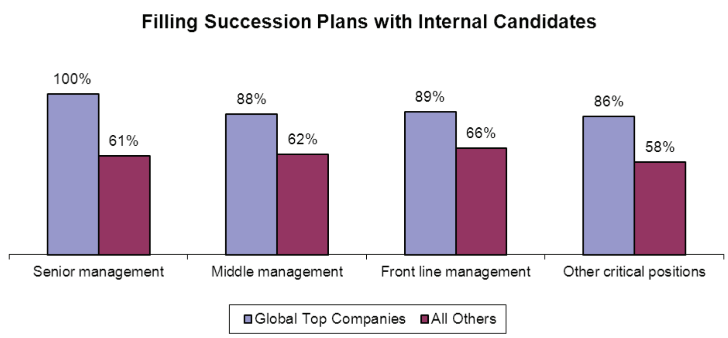
16 Greer, C. R., and Virick, M. (2008). Diverse succession planning: Lessons from the industry leaders. Human Resource Management, 47(2), 351-367. Retrieved from Business Source Complete database.

17 Barta, T., Kleiner, M., and Neumann, T. (2010). Is there a payoff from top-team diversity? McKinsey Quarterly, 2, 13-15. Retrieved from Business Source Complete database.




**Robust**

While succession management in most organizations is still focused on the top echelons, best-in-class succession management does not stop there. In a survey conducted by Ernst & Young in 2007 on the graying U.S. workforce, 41% of employers reported that their middle management ranks would be hit the hardest by mass retirements, yet 75% of the same companies reported having succession planning that focused on senior positions only.[18] Aon Hewitt's 2011 Top Companies for Leaders research revealed that all the global Top Companies fill senior management positions with a named successor. In addition, 88% frequently (i.e., at least 80% of the time) fill middle management positions with identified successors.



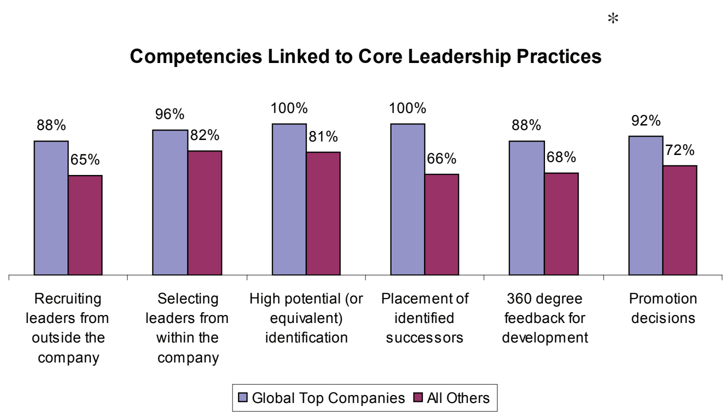

Organizations need to build leadership capabilities at every level and create a "succession culture" as an integral part of their corporate fabric. Severe talent shortages at front-line or middle-management levels can be equally disastrous for companies as those at executive levels. At one global company, leaders are built from within, right from the beginning. Managers who become leaders know their success lies in developing a strong bench of leaders. "Our role is to take the cultural of leadership and systemize it through the organization." Another top company Whirlpool, introduced its Leadership Talent Segmentation within the last 18 months, an intentional and systematic approach to evaluating the health and scope of its leadership pipeline for senior management, middle management, front-line management, and critical roles globally. Whirlpool created even higher levels of accountability for managing each of the action streams within its segmentation process: 1) Accelerate; 2) Take a Risk; 3) Engage; and 4) Transition.

18 Ernst & Young LLP. (2007). Aging U.S workforce survey: Challenges and responses—an ongoing review. Retrieved from The Conference Board online research database.

## Assessment

Assessment of targeted levels of management, as well as identifying and stocking pools of high potentials to fill these levels, form the crux of a succession management process. Best-in-class succession management systems target linchpin positions—jobs that are vital for the long-term performance and health of the business.

The process of assessing successors usually begins with a well-designed competency model based on the organization's strategic plans. After the core competencies are determined, a battery of talent review methods can be employed to assess employees on these skills and competencies to determine potential. Top Companies are keen to integrate their competency model into core leadership and talent practices to ensure direct alignment with business objectives and clarity surrounding expectations and consistency of execution.




**Indicates response of integrating leadership competencies well to very well with practices.*

*We put the best qualified talent in our most strategic, mission-critical roles to accelerate their development and deliver business growth. This is done using a very disciplined staffing process that is tied to our business strategy. We look to grow leaders who have a breadth of experiences, depth of mastery and multi-disciplinary skills (i.e., sales, marketing etc.)— Global Top Company*

## Advancement

Long-term bench development and advancement is the cardinal rule of succession management. Best-in-class companies adopt development as a strategic priority and provide a range of targeted developmental experiences for their rising stars. These companies strive to provide enterprise-wide exposure for their talent pool. Talent development and advancement can be reinforced by linking them to managers' performance and reward goals (e.g., managers' bonuses or promotions tied to developing top talent). At the time of a vacancy, a "chain of moves" analysis can be conducted to select the potential best candidate who can be safely transitioned into the vacant position, and identify successors.

The elements embedded into the formal succession planning process at global Top Companies focus on advancing leaders by evaluating and addressing competency gaps, readiness, feedback, and development. These factors make succession planning more than a one-time activity or reporting performance on an annual document. Rather, they build a fluidity that makes succession an actionable and accountable process specifically designed to advance leaders—and ultimately, the organization—to a more sustainable future.

| | Global Top Companies | All Others |
|---|---|---|
| Unique identification of a leader's current performance versus his/her future potential | 96% | 73% |
| Communication of accelerated development plan that results from succession planning | 80% | 58% |
| Development of high-potential (or equivalent) pools of candidates | 100% | 84% |
| Assessment of potential for advancement | 96% | 76% |
| Assessment of leadership skill gaps | 100% | 78% |
| Clear identification of which jobs/roles are critical to the future success of the organization | 100% | 72% |
| Ready now versus ready future ratings | 88% | 72% |
| 360-degree feedback | 84% | 66% |
| Workforce plan (e.g., 3–5 years in advance) | 84% | 41% |
| Internal successor pools (e.g., high potential) | 100% | 86% |
| Development of successors for specific positions | 96% | 75% |

*"Our data-driven talent review process uses a leadership talent database that has dozens of metrics on leaders—it's homegrown and tailored for us. Some companies track data on the top 300 leaders. We track data on 50,000 leaders and use it to simulate moves, to identify talent across the worldwide system that can move. We use it heavily all year long, not just twice a year. It includes information on people's experiences, potential, performance reviews, assessment center results, etc." (IBM )*

*"A lot of time is spent doing succession planning. It's not a one-time thing—it's a dynamic process, it's a way of life. Obviously the organization is churning, so you have to ensure that the succession pipeline is there dynamically, and I make sure I sit with managers at least two layers down when they do their review process. We do a skip level system, so every layer gets addressed." (Aditya Birla Group )*

An aging workforce and the slowing pace of retirements reduce the opportunities for younger generations and highlight the threat of a less skilled and experienced workforce. According to the ManpowerGroup's Talent Shortage Survey, 28% of employers cite a lack of experience as a key barrier in filling job vacancies.[19] It is paramount that companies engage in development at earlier stages. Companies can find a competitive advantage by working with younger workers who may not have the needed skills right off the bat, but demonstrate learning agility and can be brought up to speed quickly. Companies should also ensure that they are making the most of retiring workers before they leave the workforce, ensuring that they're involved in development and can transfer their knowledge to younger workers.[20] These efforts will not only develop the younger workers in preparation for their advancement to higher positions, but will also serve to keep them engaged while mature workers continue to block the leadership positions.

19 ManpowerGroup. (2012). Talent Shortage Survey research results. Retrieved from http://www.manpowergroup.com/research/research.cfm.

20 ManpowerGroup. (2012). How to advance the capabilities of today's workforce: Bolstering employability responsibility demands an attitude change. Retrieved from http://www.manpowergroup.com/research/research.cfm.

# Execution: Three Priorities to Drive Best-in-Class Succession Management

To achieve long-term value from a succession management process, companies must demonstrate significant discipline in their execution to ensure that the process is effective, reliable, and has commitment from all stakeholders. Our Top Companies for Leaders research highlights three priorities to drive best-in-class succession management:

- Gain commitment from the top
- Appoint multiple owners across the organization
- Measure progress regularly

### Execution Priority 1—Gain Commitment from the Top

Successful planning requires an ongoing involvement and commitment from the board of directors, CEO, and senior leadership. This may take several forms. First, the senior leadership should play an active role in the succession management process by driving and promoting it as a strategic priority for the organization. Second, senior management must lead by example by participating in identification and development of talent from within. Finally, adequate investment in financial and people resources will reinforce that senior leadership not only believes in the importance of succession management, but undertakes necessary steps to embed it in the organization.

For the board of directors in particular, succession management should be viewed as a risk management issue for the organization and incorporated as a routine part of the board's agenda. Scrambling to fill key positions at the last minute, especially the CEO role, often gives rise to rumors of instability both inside and outside the company. These rumblings may not only lead to the loss of high performers, but also create apprehension among investors and other stakeholders.

Though these forms of commitment may seem both reasonable and necessary, almost two-thirds of companies in 2011 did not have an adequate succession plan in place, and roughly one in five did not rank succession planning as a top priority. For those companies that did have a plan in place, 28% reported the plan being ineffective due to their inability to identify the successor or gain the successor's commitment.[21] In contrast, companies who excel at leadership have high levels of commitment from all executive committee members. Ninety-six percent of the 2011 global Top Company boards of directors are actively involved in reviewing talent, compared to only 77% of other organizations. All the global Top Company CEOs and senior management groups are involved in these activities—compared to only 81% (CEO) and 76% (senior management) of all other participating organizations.

### Execution Priority 2—Ensure Multiple Owners Across the Organization

HR can guide the succession management process and manage the infrastructure, but failure of line managers to commit and share ownership can be the death knell for succession. The responsibility for selecting and developing the critical mass of future talent is central to a business's success and must be shared by both HR and line managers. According to Marshall Goldsmith, one of the world's leading executive educators and coaches, "The act of engaging with senior executives to establish [development] goals will build support for planning and ownership for leadership development".[22] Though managers recognize the importance of developing future leaders, a number of challenges prevent them from doing it. First, short-term demands of meeting financial or customer goals overshadow long-term talent development needs. Second, line managers are unclear about how the success of long-term business objectives is dependent on the succession management system.

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21 DePardo, E., and Inveen, D. (2012). Sounding the alarm. *Investment Advisor*. Retrieved from ProQuest database.

22 Goldsmith, M. (2009, May 12). 4 tips for efficient succession planning.
Message posted to http://blogs.hbr.org/goldsmith/2009/05/change_succession_planning_to.html

Best-in-class succession management systems do not have the stamp of HR alone. They are jointly designed by HR and line leaders, with HR providing content expertise and leaders serving as the voice of the customer. The close involvement of line leaders in designing the succession process ensures their support and ownership during its execution.

Global Top Company 3M uses an in-depth planning process performed twice a year by the CEO, SVP HR, and each of the business/function/geography leaders. They review the key roles for their specific organizations, the depth of the replacement plans for those roles, the high potentials in the organization, and the development of those high potentials. Candidates are reviewed for succession roles and necessary actions to get them ready. One HR leader says, "I don't know if the leaders look at it as a responsibility, because they enjoy it so much. They get to talk about their talent and their plans."

At North America Top Company Accenture, human capital is at the core of the business, and the company's multi-year Human Capital Strategy paints a comprehensive picture of what its talent, leadership, and culture will look like in the future. The Human Capital organization, led by the company's chief leadership officer, focuses on having the right capabilities, in the right places, to support the needs of the company's clients and ensure its future growth.

### Execution Priority 3—Measure Progress Regularly

No program is error-proof, but a robust succession process can significantly increase a company's chances of having a continuous leadership pipeline if it is constantly monitored, measured, and improved. According to Marshall Goldsmith, "If leadership development is not enough of a priority for the company to establish goals and track progress against those goals, it will be difficult to make any succession planning process work".[23]

The most successful management programs are flexible and allow reinvention over time. Best-practice companies continually refine and adjust their systems as they receive feedback from end users, monitor new developments, and learn from other best-in-class organizations. Aon Hewitt's 2011 Top Companies for Leaders research shows that all global Top Companies use formal metrics to evaluate the effectiveness of their succession planning process, compared to only 48% of all other participants. Model succession management programs use a variety of outcome measures to evaluate the effectiveness of their succession planning processes. Among all metrics identified, 68% of global Top Companies consider the ability to resource growth initiatives the most effective metric (compared to only 26% of all other organizations) to evaluate the effectiveness of their succession management process. Top Companies also use outcome-focused metrics that emphasize talent movement and progress against diversity and other benchmarks. They use the results of their analysis to communicate future talent moves and determine enhancement areas for process improvements. Our experience with best-in-class organizations confirms that those who strive and perform experience success. Consider IBM. This global Top Company evaluates empirically based business results as well as a scorecard for senior leaders, including results, top contributors, retention, diversity, top business performers, and number of mentees and talent they've managed.

North America Top Company American Express uses scorecards to put "teeth" into accountability and support its metrics-driven philosophy (50% shareholder, 25% customer, 25% employee). Talent metrics include retention of employees, diversity of talent pool, engagement scores, and succession plan execution. American Express reviews its metrics every 18 months to identify opportunities and determine where they might need to shift to hold leaders accountable.

23 Goldsmith, M. (2009, May 12). 4 tips for efficient succession planning. Message posted to http://blogs.hbr.org/goldsmith/2009/05/change_succession_planning_to.html

## Helping the Organization Gain and Sustain High Performance

A best-in-class succession management system is a coherent and systematic effort to ensure leadership continuity in key positions, accelerate development, and improve retention of key individuals. While there's a clear acknowledgement of long-term benefits from a robust succession management system, organizations are often slow to invest in and commit to a best-in-class process that will effectively safeguard them from key talent departures.

A best-in-class succession management program is a well-founded answer to a significant business risk. An organization's critical leadership chairs will become vacant—either due to natural exits or unforeseen occurrences—thereby posing significant risk to the business. A tightly defined and well-executed succession management system can identify a variety of current and future mission-critical positions—the hard-to-fill jobs that are essential to an organization's future success—and develop a steady pipeline of high-potential employees who are competent to occupy a number of roles. A best-in-class succession management system can mitigate that risk and enhance the long-term stability and success of the organization.

## How Top Companies for Leaders Uses Succession Management to Drive Performance

Aon Hewitt's 2011 *Top Companies for Leaders* study is the sixth study of its kind aimed at exploring the organizational levers that contribute to leadership strength and depth. The research uncovered the strategies behind why some companies continually produce top-notch leaders, and identified the specific programs and practices that drive the success of these companies in leadership development. Presented below are glimpses of how some of the participating organizations use the succession management process as a key lever for developing great leaders internally.

Organization names are not disclosed here for confidentiality reasons, but their cutting-edge practices can provide ideas and insights for other companies striving for success in this area. Following are some leading practices from Top Companies:

- *"We use various tools, interviews, and performance ratings. We are very assessment-heavy and assessment starts from the very first job and continues throughout the employee's career. Individual development plans are used and diligently followed up."*

- *"We identify leaders for our 10-year program by using a robust talent pool methodology derived by assessing performance and potential. The selection methodology is further augmented with a measurement that blends potential and ultimate career runway. The result allows us to determine if a candidate's career trajectory fits with their development plan. For example, if the prediction requires 15 years of development to get to a role, but the individual only has 10 years left in their career, this is not the person to put in the program."*

- *"Leadership accountability is part of leaders' performance review and is 50% of the overall assessment. People objectives include bench building, effectiveness of people, succession planning, diversity and inclusion, and succession strength of top 20. Up to 20% of leaders' (i.e., senior management, middle management, and front-line management) annual incentive is tied to talent development. This is assessed through movement of talent, 360-degree feedback and engagement scores of direct reports."*

- *"We have a great record around talent. I've seen leaders take it personally if people resign. We want to keep our talent. Over 90% of our management promotions come internally. We have an ethic of hiring people not for their current job, but for the job two or three jobs out. A lot of the recognition things we do have an aspect of leadership to them. In our recent engagement survey, 95% of people say they are happy to work here! We are tying engagement to leadership performance like no other company I have seen. We have years of data and can now use the information on a predictive basis to see where our great leaders exist."*

- *"If I am a high potential, I don't want to be stuck to one function or one business forever—I want opportunities. So we have to move them around and let them understand the pains of different functions, different businesses. As long as an organization can facilitate movement, employees get attracted. If you give a person all this, then why would they leave and join other companies?"*

*Source: Aon Hewitt's 2011Top Companies for Leaders study*

## About the Top Companies for Leaders Research

Initiated in 2001 by Hewitt Associates (now Aon Hewitt), Top Companies for Leaders is the world's most comprehensive longitudinal study of leadership and leadership practices. The study, recognized for its global scope and research rigor, attracts hundreds of companies around the globe that seek outside-in insights on leader building and how the best develop and sustain their leadership pipeline. Aon Hewitt was pleased to work once again with FORTUNE, the leading global business publication, and The RBL Group, the esteemed HR strategy and leadership consultancy founded by thought leaders Dave Ulrich and Norm Smallwood. Through its 10-year history, more than 2,000 organizations have participated in the study, many participating year after year.

For more information on the Top Companies for Leaders research, methodology, and insights, visit **www.aon.com/topcompanies**.

## About Aon Hewitt

Aon Hewitt is the global leader in human resource solutions. The company partners with organizations to solve their most complex benefits, talent and related financial challenges, and improve business performance. Aon Hewitt designs, implements, communicates and administers a wide range of human capital, retirement, investment management, health care, compensation and talent management strategies. With more than 29,000 professionals in 90 countries, Aon Hewitt makes the world a better place to work for clients and their employees.

For more information on Aon Hewitt, please visit **www.aonhewitt.com**.