

SUCCESSION PLANNING

By Brian Sun, Managing Partner

“From recruiting the right candidate to developing new leadership from within, succession planning needs to be considered for an organization to meet its strategic goals”

Shanghai’s large and highly skilled work force has been one of the major attractions for foreign investments and established regional headquarters of Fortune 500 corporations. With the average Shanghai population size hovering at 17 million, this city is highly competitive in many aspects. Measuring the significant foreign investments in China, the one important asset that differentiates a highly successful business from those that struggle is human capital.

While there is an ongoing effort to develop a strong and capable workforce, many organizations focus almost entirely on hiring and training, such as localization initiatives to management training. They neglect succession planning perhaps the most essential ingredient in building an organisation that is capable of achieving its strategic goals.

Some companies consider the execution of localizing management workforce and customized training to be a form of succession planning. Today, succession planning requires more than just an organisational chart showing who holds what job within the enterprise. Best practice organisations; use succession planning to develop and maintain strong leadership and to ensure that they address all the skills and competencies required for today's business environment. Succession planning can also be an extremely powerful tool in motivating and retaining top leadership.

Succession planning should be an ongoing, dynamic process that helps an organisation to align its business goals and its human capital needs. It also ensures that an enterprise can keep pace with changes to the business, industry, and overall marketplace. To achieve outstanding results using succession planning, an organisation must develop an effective and highly focused strategy that centers on organisational excellence

The Need for Succession Planning

It is not unusual for a management team, particularly a CEO, to spend years leading an organisation. During that time, business practices and procedures become increasingly entrenched and daily issues take precedence. Too often, the enterprise neglects succession planning and does not have people available who are fully prepared to assume the top posts. Although large organizations are at risk, the problem can prove especially severe at small companies, which often flounder, and sometimes collapse, after the founder or CEO leaves. At many businesses, having little or no succession planning wreaks havoc when the organization's leader retires. Nobody is fully prepared to assume the top post.

It is often difficult to plan for the unimaginable. Without a succession plan, the sudden illness or death of a key executive can reverberate throughout an organisation, paralysing both management and staff and impeding the organisation's ability to execute its business plan. Unfortunately, diseases, automobile accidents, plane crashes, and other disasters are an ongoing reality.

Thus, it is entirely realistic to map out a chain of command and understand who will assume control if and when a key executive is lost. Recent world events illustrate how important

succession planning is. When the World Trade Center attacks took place, dozens of companies lost key executives, including CEOs and CFOs, who were on the planes or in the buildings that were destroyed.

Aside from crisis management, succession planning has a direct impact on an organisation’s human capital value. It ensures that an organisation has the right personnel to function at peak efficiency. Today, many organisations strive to identify key objectives and business goals and shape a work force accordingly. Although executives and senior managers play a crucial role in defining such organisations, there is a need for specific skills and competencies throughout the enterprise. Not only does succession planning serve as a way to create an organisational hierarchy, but it can also help organizations conduct an inventory of human capital and better understand gaps. It can also help organizations manage change in a more holistic way.

Barriers Against Succession Planning

Many CEOs and senior management teams fail to develop in their successors the high-level skills and competencies they will require. Too often, leaders are too absorbed in day-to-day issues, overly focused on short-term results or unable to adapt to change. Sometimes internal political issues prompt a CEO to get rid of the second in command or other high-ranking officials. This is especially true at organisations where the CEO has molded the company and engineered a specific vision.

Another problem is that even the best training program cannot always supply the talent needed to run an organization at peak efficiency. This is particularly common at companies that are growing rapidly. Sometimes, it is essential to find talent from the outside. But this, too, can pose a formidable challenge. An executive search, for example, can require six months or longer. Even then, an organization might require several additional months to "groom" and train the individual for a key position or a position higher on the corporate ladder. Most companies can ill afford to take a year to replace key personnel and the skills they offer.

A Strategic Approach Towards Succession Planning

Some organisations, such as the military, have considerable experience and expertise with succession planning. In the event of a personnel change or a loss, the leadership knows exactly who will take over and what his or her role will be—from the newest recruit all the way up to the commander-in-chief. What's more, these organizations typically understand the strengths and weaknesses that particular individuals within the organisation possess and what is required to fill gaps in skills and competencies. Then they train workers appropriately.

Although successful organisations usually focus on training to develop leadership from within the executive circle, they also understand that it is sometimes wise to look outside for particular skills and knowledge. Of course, the more prominent a position within an organization, the tougher it is to find a suitable candidate. Thus, some turn to outside consultants to manage recruiting and, sometimes, the entire succession planning process. Consultants can provide objectivity and help develop a strategic plan that encompasses all levels of the enterprise.

Organizations both large and small are increasingly looking to outside expertise to bolster their capabilities. Consultants can provide specific expertise that matches an organization's requirements. By assessing best-in-class candidates and understanding an organization's existing internal talent pool and needs, it is possible to identify specific skills, competencies, and candidates from within and across industries ranging from financial services, semiconductor manufacturing to real estate.

Ultimately, this allows the enterprise to focus on its core business while the partner analyzes organizational needs. A consultant or outsourcing provider can track wages and ensure that its client is paying appropriate compensation and benefits to attract and retain top-notch talent. It can also ensure that hiring takes place at the right time. For example, if an organisation knows that the CFO will retire within the next year, it can hire a highly qualified candidate well in advance and seamlessly integrate him or her into the company.

Executing Succession Planning

There is no *modus operandi* for putting a succession planning process in place. Every organisation is different, and each organisation must develop a succession plan that fits its specific needs. Management must guide this process and the human resources department must oversee it. And both must focus heavily on organisational culture—what exists and what is required in order to succeed. Effective succession planning also demands assessment systems that can measure the development of skills, competencies, and knowledge within the enterprise.

More than anything else, succession planning requires that an enterprise detail the structure of the entire organization, from top to bottom. Typically, the process requires several steps that lead through design, development, and implementation of the actual succession plan.

- (i) An organisation identifies its existing competencies, related to both its leadership needs and the industry it competes in.
- (ii) It evaluates and assesses current employees to determine how they match up to organizational needs.
- (iii) The organisation introduces coaching, mentoring, training, and recruiting methods that match personnel requirements—and future needs.
- (iv) It develops the actual plan. Although some companies, particularly smaller ones, can store an organization chart and succession plan on paper, many large organizations require succession-planning applications or human resources management systems (HRMS) that provides visibility across the company. This is particularly crucial for global organizations, where talent can reside in dozens of different countries.



"Placing People Ahead"

Parting Thoughts

Succession planning is a complex task that requires constant attention and ongoing resources. Best-practice organisations also prepare for unforeseen events and the potential loss of key executives. These organisations view succession planning as an ongoing process rather than an event that must be addressed every year or two.

The emergence of China's economic influence on Asia and its strategic importance to global organisations suggest that China-based multinationals should expand the succession concept. They should take succession planning beyond one traditionally used to manage only senior level positions to encompass managerial positions across the organisation. Ultimately, a comprehensive succession-planning strategy helps businesses leverage the full value of human capital.