FEATURE

Planning Your Succession Before It's Too Late

10,000 BABY BOOMERS PER DAY ARE REACHING RETIREMENT AGE AND POTENTIALLY CREATING A HUGE LEADERSHIP GAP.

WHAT IS YOUR BUSINESS DOING TO PREPARE?

BY JEREMY S. LUREY, PH.D.

With four generations of men and women in the workforce, we are in an unprecedented period in organizational life these days – one never experienced before. Succession management in today's multi-generational work environment has never been more important.

As of 2011, there were approximately 35 million Traditionalists (who range from 69 to 88 years old) and 84 million Baby Boomers (ranging from 50 to 68 years old) still in the workforce. For those who haven't already retired since those numbers were calculated, many of the remaining Traditionalists are likely still maintaining active roles in the companies that they themselves once started simply because they haven't determined how best to pass their batons to the next generation of business leaders.

Boomers actually present an even bigger problem, since they too have now started their mass exodus from the workforce. Approximately 10,000 Boomers a day are reaching that magic age of 65 and becoming eligible for retirement benefits and social security. This alarming "coming of age" is predicted to continue until 2030, and will create a huge leadership gap as it does.

With only 46 million Generation Xers, those ranging from 32 to 49 years old, in the workforce, this next generation clearly can't fill the gap that is being left in the wake of the Boomers' departures. Even if they do gain the confidence of today's Traditionalist and Boomer leaders, who frequently believe Gen Xers lack the maturity and experience required to run organizations, there simply are not enough of them to do the job. That means that we will quickly be turning to the roughly 76 million Generation Y Millennials, the oldest of whom are only 31 years old, to join today's high-potential Gen Xers in filling this leadership gap.

To further demonstrate the importance of succession management in today's multi-generational environment, consider the fact that leadership has been proven time and again to be the single most important factor in driving organizational performance. Leaders' managerial styles have a nearly 75 percent impact on the organizational climate employees experience at work, and it is this climate – either positive or not – that has employees performing optimally or not.

With this research and today's multi-generational workforce in mind, the following section presents some fundamental approaches to managing succession in organizations for those chief executives and business owners who intend to take this opportunity seriously, before it's too late.

Critical Success Factors

Succession management does not need to be complicated nor resisted. Where some organizations struggle is in letting this unique opportunity rest on the shoulders of a single person. This is often the CEO who plans to retire and must now not only face his or her own personal transition responsibly, but also manage the related organizational changes effectively. It is, as we will see, very much a shared responsibility.

Everyone plays a part in ensuring the success of an organization.

The chief executive must assess, and then freely communicate, his or her intentions about retirement. In doing so, he or she must also support the organization in grooming an appropriate successor – or two or three – until one is selected for the role. It is also that potential successor's responsibility to step forward respectfully and volunteer for different stretch assignments if he or she feels well-suited for the role.

Many vice presidents, for example, have proven themselves as capable leaders within their existing circumstances. In essence, their demonstrated leadership is "role appropriate." If these high-potential leaders are going to assume higher-level positions, though, they need to accept increased responsibilities and clearly demonstrate their leadership capabilities at elevated levels.

Succession management is typically managed by the human resources (HR) department, and often specifically by someone responsible for talent development. To be successful, the process requires a long-term commitment to leadership transition and therefore greatly benefits from having an owner who is first, not that retiring leader and second, can dedicate significant attention to the process. While HR might own it, succession management must also have direct and visible sponsorship from the president/CEO as well.

Regardless of who owns the process, succession management requires open communication and relative transparency across the organization. It is also important to keep the process simple by focusing on a narrow set of leadership roles and key actions initially.

For example, all business-critical leadership positions should be a part of the succession process. Whether that includes an organization's top 10 percent or simply the eight members of its senior leadership team, an organization could be severely impacted if one of these leaders, such as the vice president of operations or chief financial officer, were to leave suddenly.

If a succession management process has not previously been developed and implemented, then it is more practical to start small with the more pressing need of managing the succession of the president and/or CEO if he or she is the one who is planning to retire.

Also, it might not be prudent to hire an expensive headhunter or launch an extensive external candidate search prematurely before offering internal candidates reasonable opportunities to demonstrate their abilities.

Finally, it is essential to establish specific success criteria for succession management. Once defined, typically by HR and a select group of senior leaders, these performance metrics will serve as the foundation for the program and enable ongoing monitoring over time to ensure the program achieves its intended results.

For example, is the goal to identify a CEO successor in three months? If so, an external search for someone qualified to assume the role quickly may be required. If, however, the objective is to groom three potential CEO successor candidates over the next three years to determine who might be the best fit at that time, then an internal leadership development strategy would be more effective.

Succession in Family Businesses

Many of today's post-recession organizations are privately-held family businesses with Traditionalist and Boomer owners trying to establish their exit strategies.

These leaders have invested significant sweat equity in their companies and clearly would like to see them endure well after their departure. According to recent research, nearly nine out of 10 family business owners believe their family (or families) will control their businesses in five years. Only about a third of all family businesses actually succeed in transitioning from the first generation of leaders to the second, and it's far less with the third and fourth generations.

The following are three different scenarios that explain why transitioning from one generation to another is so difficult in family businesses:

1. ***No single next-generation child as best fit for the chief executive role*** – Since personal relationships are at the heart of family businesses, objectively distinguishing one family member from another can be challenging. Just having candid conversations about this sensitive topic with fellow family members can even be overwhelming, especially if anyone is conflict-avoidant and would prefer to keep focused on running the company today, rather than planning for tomorrow.

2. ***No next-generation leaders are interested in the role*** – One family-run restaurant company has experienced this very challenge because none of the co-CEOs' three daughters seem interested in assuming their shared executive positions. Each of these women has accepted various positions in the business in the past. They just aren't likely to step into the CEO roles that their mother and father currently perform anytime soon.

3. ***Incumbent next-generation family member is present, however, the current-generation leader does not believe that he or she can run the company*** – This happens when next-generation leaders do not emulate current-generation leaders' ideal executive profiles. It is actually more common now that each generation of workers often has different professional aspirations and different managerial styles. One Baby Boomer CEO recently experienced this very scenario and ultimately sold his company to a private equity firm after promoting his Gen X son to president. because the son had a very different management approach that the CEO did not believe would be successful.

Regardless of the scenario, it is important for current-generation leaders to depersonalize the process by working with HR to develop a position profile for the role and clearly define position requirements.

With requirements defined, it is then important to have individual conversations with each potential next-generation leader to more clearly understand his or her passion for the company and future vision. This is done to determine if a strong match exists with the defined role. Having HR own this process is also key so family members are never pit against each other.

As these different family business scenarios impact succession, current-generation leaders must determine whether it is more important to have their companies outlive them, or to have their family businesses exist with family leadership active at the top.

The succession process will likely look very different if recruiting non-family member executives is allowed.

It does, however, present a unique challenge for maintaining a company's rich culture and established family values and that challenge must be addressed.

A Few Final Thoughts

It is time for us to embrace succession.

As Marshall Goldsmith declared, "What got us here, won't get us there," so it is time for our Traditionalist and Boomer leaders to pass their batons for others to lead the way and create new possibilities for breakthrough and innovation that would not otherwise exist under the current leadership regime.

Some companies are being proactive in addressing this unprecedented business opportunity. They have established robust succession management programs to identify their next generation of high-potential leaders and provide them the training and support they need to get to the next level.

Some have also designed more complete knowledge management systems and mentoring programs to capitalize on the many years – if not decades – of organizational history and foundational knowledge that would otherwise disappear with their retiring Traditionalists and Boomers.

More companies than not, however, still are not actively addressing this critical succession situation. This lack of action puts the business at risk and neglects the Traditionalist and Boomer leaders who laid the foundation and persevered in hard times.

Unfortunately, these organizations will likely experience a major crisis rather than unique opportunity for years to come.

Dr. Jeremy Lurey (jslurey@plusdelta.net) is the CEO and Chief Architect of Plus Delta Consulting, LLC. He works with senior executives and business leaders to improve performance and implement positive changes in their organizations.

MEMBER NEWS

NEWS FROM MEMBERS OF GCCA CORE PARTNERS

Accellos announced the release of a carrier qualification and monitoring module for its Prophesy Dispatch transportation management software. The new module, made possible by integration with SaferWatch Carrier Qualification and Monitoring service, gives transportation brokers using Prophesy Dispatch the ability to retrieve constantly updated data on the carriers with which they do business and be alerted at various steps in the dispatching process to any compliance issues.

A M King Construction launched its new website at www.amkingconstruction.com, which streamlines content, showcases current and past projects, and provides an overview of the company's culture and broad capabilities. The company also promoted Jon Miller from Preconstruction Manager to Business Development Manager of Regional Industrial Projects.

ARCO Design/Build, Inc. was awarded Nordic Cold Storage's new 400 KSF public refrigerated warehouse in Pooler, Georgia, USA (servicing the Port of Savannah). The new warehouse is expected to be approximately 400,000 square feet with 350,000 square feet of cooler/freezer space.

Metl-Span has expanded production of its Tuff-Cast insulated metal wall panel. Tuff-Cast, which combines the masonry look of finished precast concrete with the thermal efficiency of an insulated wall panel, now is produced at Metl-Span's plant in North Las Vegas, Nevada, USA, in addition to the company's Prince George, Virginia, USA, facility.

OOCL is pleased to announce the introduction of a new service to the Intra-Europe network, the Scan Baltic