In a survey we: DO NEW CHALLENGES REQUIRE NEW THINKING?

Insights from client interactions on how increasing complexity in pivotal roles requires new talent management strategies.
What is Succession Risk?

Succession is a material risk: it’s time to treat it like one

Succession Risk Management is the process of continuously identifying and evaluating external and internal leadership talent, benchmarked against the company’s own criteria for success in the role and within the organisation’s environment.

Smart companies are now implementing robust solutions to ensure they secure the best available talent in these roles, through continuously driving a succession risk management and leadership development program. These programs tend to proactively address a company’s talent challenges now and into the future by building a pipeline pool of ‘ready now’ leaders.

Crucially, best practice in succession risk management means this pipeline is addressed both internally and externally.

In this short primer, we’ll bring to life what best practice looks like in this area.

Maria Leske
Principal Consultant

About Maria Leske
Maria is HFL’s Assessment Practice Leader and has been specialising in building robust succession risk frameworks for clients for several years. Maria brings a strong strategic and commercial focus to HFL clients, drawing on her extensive corporate experience that includes over 20 years of consulting. Please contact Maria at maria.leske@hflleadership.com.
It’s time to re-state the risk involved in critical role loss

Senior executives and boards understand the huge market risks of not properly preparing for CEO and CFO transitions. These risks are easy to understand because they are so visible: huge coverage in the business press, a barrage of questions from analysts, and, quite often, a plummeting share price.

But do executive teams understand the risks involved when the pivotal roles are one or two levels below the executive team? We strongly recommend involving the risk team in assessing the impact on the organisation of churn and changes in pivotal roles.

The data shows that failed promotions and hires can result in exorbitant costs due to significant losses in productivity, impact on morale, negative impressions and disengagement.

**The Top 6 risks identified by global talent management studies**

1. Losing ‘ready now’ internal candidates, usually to direct competitors
2. Alienating potential successors
3. Naming an ill-fit successor
4.Poor employee morale
5. High employee turnover
6. Competitive decline

Our experience is that a properly conducted risk review of critical roles quickly gets the executive team’s attention, especially when they realise that when ‘ready now’ employees leave, this simultaneously weakens the company and strengthens its competitors.

**HFL Primer: Succession Risk Management**

The HFL Leadership team scours the world for the latest research and best practice case studies to enable us to deliver future-focused solutions for our clients. We constantly review our interventions to sharpen knowledge, gauge effectiveness of program design and impact, and explore new emerging trends. Our philosophy is to openly share insights with the leadership and talent development community, and this primer is an example of this. We very much welcome feedback.
Defining ‘ready now’ leaders

Having a steady stream of ‘ready now’ leaders is the ultimate goal of a company's succession management plan.

To succeed in leadership roles and be considered part of the succession pool, individuals must meet certain criteria.

An example of criteria or process steps some of our clients use include:
- Accurately identified as high-potential candidates
- Aligned to future positions
- Developed specifically to be successful in those roles
- Evaluated for readiness and given further targeted development to close gaps
- Deemed ‘ready now’ once those gaps have been closed

Best practice organisations take a holistic approach to identifying successors. This provides a complete picture of the individual qualities that drive performance and engagement. And it forms the basis of all talent initiatives.

Leading companies have clarity about what makes a ‘ready’ leader. Comprehensive frameworks, which are anchored by research, describe talent at all levels and address the foundations of human behaviour:
- Traits
- Drivers
- Experiences
- Competencies

Getting leaders to think objectively about ‘talent’

One of the most difficult challenges for senior HR and OD teams is to help senior leaders with the transition from seeing talent through their own eyes and experiences, to seeing talent objectively. The process you deploy to engage leaders must have a dual purpose. It must illicit the right information from leaders, and to do it in a way that educates leaders in how to look at leadership capabilities objectively, using a future focus rather than depending on limited criteria.

LESSON LEARNED:
Objective clarity about ‘talent’ and ‘readiness’ is critical
To grow or to grab?
The case for internal promotions

Internal candidates and external hires offer different benefits for organisations when filling leadership positions.

Our clients often debate whether they should concentrate efforts on growing their leaders or securing talent to build their pool of ready successors.

Research suggests that in many cases internal candidates are the better choice (see box below). This is driven by the following factors:

- The leader is accustomed to the organisational culture and they have well-developed networks
- They tend to have a good motivational fit and do not require extensive orientation
- They have the power to be more successful because there is more information available to make accurate decisions
- Performance records and examples of past work provide enough information to assess future performance
- Internal candidates can be guided through a series of customised development experiences to ensure success in future positions
- Organisations don’t have to guess about the quality of internal candidates’ past experiences.

Studies say internal promotions have greater success

- **72%** of internal hires are successful when companies predominantly build their talent pool
- **65%** of leaders succeed when companies combine buying and building talent
- **48%** of leaders succeed when companies buy talent
- **34%** of leaders fail, in general, when hired from the outside while only 24% fail when hired from inside.

Sources: Kelly-Radford, 2001; Berthnal & Wellins, 2001; DDI “Risks & Rewards; Corporate Leadership Council (various)
Beyond ‘replacement’. 5 steps to best practice

The ‘traditional’ way of managing succession risk is to identify specific individuals for specific roles, often senior leadership roles, and actively groom these individuals to step into the roles when they become vacant.

On the surface, this replacement planning approach makes some sense. In practice, however, it can be exceptionally risky, especially in an environment characterised by frequent changes in role demands.

Best practice companies do not dismiss replacement planning but advocate enhancement to this approach by building a pool of people with potential to undertake a particular type of critical role.

5 Step best practice succession risk management process

1. **Understand content**: Before our clients embark on succession planning they first consider what needs to be undertaken within their organisation, now and in the medium-term future, and the types of roles are critical to this work. They then consider the potential for both current and new, external staff to undertake the key roles.

2. **Identify possible risks**: Next our clients assess what will happen when the need arises to fill critical roles and if the capacity of the workforce to undertake these roles are not aligned.

3. **Prioritise**: The risks of greatest concern to their company are then identified. Using scenarios that are most likely and least desirable, priority can then be given to roles for first action.

4. **Target mitigation activities**: Succession management efforts and resources are targeted towards addressing the risks of greatest concern. For greatest effect, the mitigation strategies need to address misalignments by changing aspects of either the role (and its context) and/or the people who may be available to take on the role. Strategies should be developed to mitigate the most immediate risks and to reduce succession risk overall in the longer term.

5. **Review regularly**: Best practice means regular reassessment of risks and evaluation as to whether mitigation strategies are continuing to be effective and appropriate.
What are the key factors for success when implementing a succession risk management program?

**Commitment from the right people**
Leaders have unique insight into the organisation’s current work, capacity, environment and future. They, therefore, should initiate and direct succession risk management.

Keepers of organisational HR metrics and external labour market information will have much of the information necessary to understand the potential of the current workforce and what might happen when the critical roles need filling.

**Regular discussion, debate and review**
Regular discussion is needed – at least twice a year as well as every time there is significant change in the work of the organisation or its workforce.

**Evidence**
Key pieces of information that will help the organisation predict the likelihood and impact of vacancies in critical roles, and to direct efforts to address the likelihood and mitigate the impacts.

**Targeted action**
Everyday management activities need to be strengthened or modified in light of particular succession risks.

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**Accelerated success profiling is the answer**
Let’s be honest, the world is littered with leadership competency frameworks that HR produced over many months of work, which are then completely ignored by the senior leadership team and, therefore, by the rest of the organisation. Using an accelerated success profiling process, that puts the leader at the centre of things and thus ensures their ownership, is a critical success factor for succession risk planning.

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**LESSON LEARNED:**
The process must be owned by the leadership team.
HFL Leadership is a specialist leadership development firm headquartered in the Asia Pacific region. We boast a core group of specialists, strongly supported by a collaborative wider group of coaches and leadership specialists who run their own independent practices. We are part of a global network of like minded and skilled firms which enable us to deliver internationally for our clients.

Many of our principal consultants come from a business background, and this might account for our pragmatic, results-based approach to leadership development. Our research informs our designs to ensure every participant on every program can develop their leadership capability and measure that they have done so.

Please contact us at info@hfleadership.com

SYDNEY   SINGAPORE   MELBOURNE
1300 360 691