Succession Planning

- Despite warnings from the federal government, public companies still have not embraced succession planning for their top executives.
- Workers continue to express a desire for more training and career development in their organizations, which could make succession planning easier for companies that are considering internal candidates for promotions.
- Some research says workers will have less loyalty to their companies in the future. This increases the likelihood of unanticipated departures and augments the need for solid succession planning.

In September 2010, Time Warner Inc. unveiled an unusual plan that would assure stability for the next several years at the top of the company’s global entertainment subsidiary, Warner Bros. As part of the strategy, Warner Bros.’ top two executives will remain with the company until December 2013, at which time the CEO will retire and the COO will end his tenure as a consultant to Warner Bros. As part of a succession strategy, an “Office of the President” was created to combine the talents of the three top executives of Warner Bros.’ motion picture group, television group and home entertainment division. All three were expected to keep their current responsibilities as well as become more engaged in the overall operations of the company—and perhaps be groomed as the next in line for Warner Bros.’ top job.

Ultimately, Time Warner created a clear path of succession and an opportunity to promote from within when Warner Bros.’ CEO retires in 2013. Those forward-thinking actions might be praised in most business circles and probably come as a relief to many shareholders of Time Warner—but they are not the norm.

Succession planning still not prevalent

In a period of tepid economic growth and job creation, succession planning has not exactly risen to the height of corporate America’s priority list. Anyone who has held a job through the recent recession is likely hanging on to it with a firm grip, and that group includes CEOs who do not plan on leaving their posts in the near future. However, the lack of a concrete plan to replace executives and other top corporate officials can still harm a company. Outside shareholders may lack confidence in the company’s prospects without a strong succession plan, and an unexpected departure at the top, coupled with the lack of an immediate qualified replacement, could create uncertainty and doubt among the organization’s employees.
While succession planning often refers to chief executives, the philosophy should extend to the lower levels of a company. Promotion from within has long proven to be a motivator for workers, and research shows that training and career development opportunities are strongly desired by many employees.1

Without planning at the top, though, it is not likely that a culture of succession will be created among the employee ranks. More than half of companies today cannot immediately name a successor to their CEO should the need arise, according to a 2010 survey on CEO succession planning by Stanford University and consulting interest Heidrick & Struggles.2 The survey of 140 CEOs and board directors of North American public and private companies “reveals critical lapses in CEO succession planning,” according to the authors of the report.

Some of the survey’s findings include:

- While 69% of respondents think that a CEO successor needs to be “ready now” to step into the shoes of a departing CEO, only 54% are grooming an executive for that position.
- Nearly two-fifths (39%) of respondents said they have “zero” viable internal candidates to replace their CEO.
- On average, boards only spend two hours a year on CEO succession planning.

Some might argue that there is not enough movement in the current labor force to warrant the development of succession planning policies in the workplace. Economists and other labor market observers agree that job growth in the United States is not expected to surge for the foreseeable future. Even if the economy improves substantially in 2011 and demand for new jobs rises, many of the jobs that have already been lost to technological improvements and structural changes in the economy will not come back. Opportunities for workers to move up the ladder will be more limited as a result.

From a demographic standpoint, the lack of job growth is creating fewer openings for younger workers, and as a result, the workforce is aging. The number of persons aged 55 or older in the labor force is expected to increase by 12 million, or 43%, during the 2008 to 2018 timeframe, according to the U.S. Bureau of Labor Statistics.3 This age group is projected to make up nearly one-quarter of the labor force in 2018.

From an economic standpoint, most of those older workers lack confidence in the strength of their retirement resources, and they simply need to work longer to earn more money for their golden years. The percentage of workers who expect to retire after age 65 has increased dramatically in recent years, from 11% in 1991 to 33% in 2010, according to the Employee Benefit Research Institute.4

Numerous unscrupulous business practices and accounting scandals in the past decade have also forced the U.S. Securities and Exchange Commission (SEC) to keep a closer watch on the CEO’s office. These events led to the approval of the Sarbanes-Oxley Act of 2002, which established a slew of new accounting standards and increased responsibilities for boards of directors.

In October 2009, following an economic recession that was brought on by the return of lax financial practices, the SEC issued “Bulletin 14E,” which does not call for actual enforcement of succession planning, but urges companies to shore up their practices for stronger corporate governance and leadership development.

Part of the bulletin states: “One of the board’s key functions is to provide for succession planning so that the company is not adversely affected due to a vacancy in leadership. Recent events have underscored the importance of this board function to the governance of the corporation. We now recognize that CEO succession planning raises a significant policy issue regarding the governance of the corporation that transcends day-to-day business matters of managing the workforce.”5

### Encouraging succession from the ground up

The fact that many workers are willing to stay put in their current jobs does provide an opportunity for human resource professionals and corporate executives. It offers a chance to more thoroughly evaluate an organization’s top talent and identify candidates for promotion to leadership positions.

All signs are pointing to employees’ desires, at least in the near term, to remain with their employers and pursue advancement opportunities within their current organizations. More than two-thirds (70%) of employees said they were not likely to look for work outside of their organization in 2010 (41% said very unlikely, 29% said unlikely), according to the SHRM 2010 Employee Job

![Figure 1: CEO Succession Planning](image)

<table>
<thead>
<tr>
<th>If you had to name someone as CEO immediately (not on an interim or emergency basis), could you?</th>
<th>If you have an emergency candidate to replace the CEO, is this person also a succession candidate?</th>
</tr>
</thead>
<tbody>
<tr>
<td>48.8% Yes</td>
<td>67.8% Yes</td>
</tr>
<tr>
<td>51.2% No</td>
<td>32.2% No</td>
</tr>
</tbody>
</table>

Source: Stanford University, Heidrick & Struggles (2010)
Satisfaction survey. With economic conditions expected to remain in a slow-growth mode in 2011, that statistic may not change much in the future. The survey also found that most employees (80%) place some degree of importance on career development opportunities. Whether they find those opportunities remains to be seen. According to a spring 2010 poll by SHRM, more than half (51%) of HR respondents said there was some degree of likelihood that “retraining employees for new positions in the organization” would not occur if the current financial challenges to the U.S. and global economy continue.

New data do show, however, that HR executives and corporations are starting to realize that development from within will be the key to their success in the future. Nearly half (47%) of respondents said the biggest investment challenge facing organizations over the next 10 years is obtaining human capital and optimizing human capital investments, according to a September 2010 report by The Economist and sponsored by SHRM. That same report revealed that 57% of respondents believe there will be less loyalty to their organization in the next 10 years.

Knowing that, businesses large and small would benefit from creating succession plans as soon as possible. History shows that economies rise and fall, with varying degrees of length for each expansion or contraction, and our current trend of controlled growth is not likely to last for too long. When prosperity returns to the economy, there should be a commensurate increase in movement in the labor force, creating more opportunities for advancement and promotion—and departures that will create vacancies of strategic importance.

There are several key steps to take for CEO succession planning, according to the Stanford/Heidrick & Struggles report, but they could likely be applied to all levels of employees. Among them are:

- **Recognizing that succession planning as practiced by most companies gives a false sense of security.** “Make sure the board devotes meaningful time to this exercise,” say the report’s authors. “They need to ask themselves: could they really name someone today, or is everyone in the succession plan always one-to-three years out from being viable?”

- **Focus on making succession plans operational.** “Companies need to move from the ‘names in boxes’ approach to truly developing viable candidates.”

- **Pay attention to your bench.** “Open lines of communication with potential internal candidates will minimize surprises down the road. When it comes time, you don’t want your #1 contender to turn down the job.”
Keep the “runners up” happy. “Otherwise terrific executives who may not have been chosen as the CEO’s successor [are often] left hanging with no explanation. If you want to retain these executives, tell them why they weren’t chosen at this time and why they are still valuable to the company.”

Endnotes


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