SUCCESSION PLANNING: EVIDENCE FROM "BEST COMPANIES IN NEW YORK"

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ABSTRACT

Succession planning, as defined by Butler and Roche-Tarry (2002), is an ongoing dynamic process that assists a business or organization in aligning its goals and its human capital needs. Succession planning can prepare companies for future critical vacancies of middle and senior management positions. Forecasting the talent necessary for these roles can provide the groundwork and understanding of the characteristics needed to maintain and grow a company's strategic plan. Both short and long-term strategies must take into account the many forces at work both internally and externally, domestically and globally during planning. This paper presents survey results from New York State companies (N = 25) related to succession planning. This paper will also explore and review the importance of incorporating succession planning into every organtions business processes.

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KEYWORDS: Human Resources, Succession Planning, Organization

INTRODUCTION

Succession planning involves the identification and development of potential successors in an organization. This planning prepares for future critical vacancies of management positions by forecasting the talent necessary for these roles to provide the groundwork and understanding of the characteristics needed to maintain a company's strategic plan. Historically, succession planning concentrated on upper level management. Today, companies are utilizing this planning for all levels of their organization. It is important to continually evaluate and update the tools utilized to track, mentor, and train future leaders for an organization as employees retire, find jobs elsewhere, are promoted from within, are terminated, leave the workforce. Organizations cannot plan for everything, but existing software tools streamline the tasks associated with succession planning. Regulatory changes and, to a degree, competition can be monitored; with strategic planning at the forefront. This strategy must be forward thinking, anticipating the advances in technology that are possible and the changes in society that are probable. Decisions need to be determined about the qualifications and skills not only for the present, and for the future of the organization. Succession planning considers these areas, in conjunction with the company's mission, vision, values, goals and desired outcomes. Succession planning is not only useful in large global corporations, all companies (large and small) can benefit from the process.

This paper considers succession planning in relation to organizations; both large and small. Following the introduction is a literature review. The next section presents an explanation of the problem, methodology, and results for survey results related to succession planning of the "Best Companies to Work for in New York 2010". Subsequently an overview of succession planning and its importance in strategic analysis is presented, followed by the conclusion.

LITERATURE REVIEW

Orellano & Miller (1997) state that the three basic goals of succession planning include: "identification of critical management positions within the organization, identification of future vacancies in those positions, and identification of managers who would potentially fit into these vacancies" (p.2). Successful workforce planning may include sweeping changes to old processes and procedures; demanding the commitment and cooperation of all levels of management. The approach is systematic and a multi-step process which includes gaining a thorough understanding of the current workforce, envisioning the operating environment that will most likely exist in the future, identifying the competencies needed that will move the company forward to seize those future opportunities and thrive, and developing strategies for building that future workforce (Morfeld, 2005). Huxtable & Cheddie (2001) stress the importance of the level of the human resource function as positioned in the organization. They maintain that human resource management play a strategic role and must have the staffing to produce the data and the ability to analyze it to produce results. Depending on the expertise and/or size of the company's own staff and budgetary constraints, a succession management specialist may need to be obtained to initiate or manage the entire process.

The work of Shen & Cannela (2003) described a form of succession planning within the corporate environment. The authors analyzed the effect of relay succession planning on the shareholder response. This article demonstrated that the devotion of resources to ensure that management is prepared for turnover is directly proportional to shareholder satisfaction. This research shows that the sudden death of a key executive can negatively influence the shareholder wealth. This loss can be mitigated if a new successor is put into place within a short period.

Bower (2007) and Davis (2008) point out that both insiders and outsiders have strengths and weaknesses in entering new positions. Employees know the company and its inner workings, but may not recognize the need for change. New ideas can come from the outside, but many times these newcomers do not know the company well enough to foster the changes needed. A report by Cutting Edge Information (Howe, 2004) reported that over two thirds of organizations do not currently have a formal succession planning process; almost half of these organizations have no approach in developing their next CEO (as cited in Succession Planning Facts and Fantasies 2005, p. 5).

Lewis (2009) asks the question as to why more organizations are not instituting succession planning if there are so many benefits. Succession planning has been shown to boost employee retention leading to increased employee performance. Planning decreases recruiting costs because recruitment can be completed during periods of lowered stress, recruiting the "best" talent, not a body to fill a seat. He exudes the importance of good talent planning set these organizations up for success, not failure (p. 439). Recruiting talent from a local area may not meet the needs of the organizations requirements. As Lewis notes, "we must realistically cast a wider net" (p. 443).
There are different ways of classifying and ranking the importance of positions within an organization. Conlon suggests that the first step is to evaluate and decide which positions are critical roles in a company (Conlon, 2008). Once the positions are recognized as key,
Conlon (2008) separates these roles into one of the four following categories and suggests that specific actions be taken by the organization regarding each role type:

Strategic: These functions are critical to driving the organization's long-term competitive advantage. Employees in these roles have specialized skills or knowledge. Action: Build capability in these roles by hiring new staff or implementing targeted development.

Core: The so-called "engine of the enterprise", these roles are unique to the company and core to delivering its products or services. Action: Protect these roles by ensuring the company will always have adequate capabilities through rigorous in-house development.

Requisite: Although the organization cannot do without these roles, their value could be delivered through alternative staffing strategies. Action: Streamline or outsource these roles.

Non-core: People in these roles have skill sets that no longer align with the company's strategic direction. Action: Shed these roles. (p. 39)

PROBLEM AND METHODOLOGY

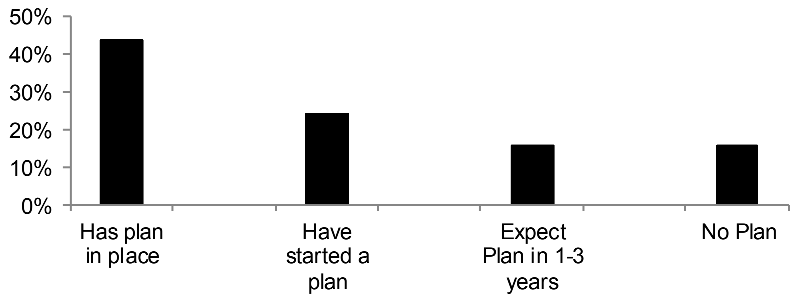
The purpose of this study was to examine succession planning utilized by the 2010 "Best Companies to Work for in New York". A survey process managed by Best Companies Group determined the "Best Companies" to Work for in New York 2010. The designation as a "Best Company" is a two-part survey process where the information garnered is evaluated to determine the final rankings. Organizations that completed the survey tool were then eligible for consideration as a "Best Company". Companies were divided between small/medium companies (15-249 employees) and large companies (250 + employees). "The assessment consisted of an employer survey that collected information about each company's benefits, policies, practices and other general data. Part two of the assessment consisted of a confidential employee survey used to evaluate the employees' workplace experience. The two assessments undergo an in-depth analysis of the strengths of each company and the opportunities to build a better workplace" (Best Companies to Work for in New York, p. 3). There are no specific categories for types or organizations. We examine 25 companies listed as "Best Companies to Work for New York 2010" determined by a survey of all public and private, profit and not-for-profits that have been in business at least one year with locations in New York State employing a minimum of 15 employees (Best Companies to Work for In New York, p. 3). The 40 companies named to this list is a fragment of the number of organizations in New York State, yet we wanted to garner information related to succession planning as it related to the "Best Companies to Work for New York", with the assumption that they would be incorporating strategies related to maintaining or improving their viability for the future.

A survey was developed consisting of 12 questions and distributed via the online survey tool "Zoomerang" to the contacts listed for each individual organization. Forty companies were awarded the distinction of being named to the list for 2010, twenty-five companies responded to the survey in this research; providing a 62.5 percent response rate. For the purpose of this research, the two categories designated by the Best Companies Group of small/medium and large were further divided to those companies with 2-50 employees, 51-150 employees, 151-300 employees, 301-499 employees, 500-999 employees, and more than 1,000 employees. This further division was initiated to determine differences at a more in-depth level. The surveys were emailed to the 40 companies named as a "Best Company to Work for in New York" using Zoomerang to the contact person noted for each organization named as a "Best Company" in the 2010 Edition of the newsprint publication. The 12 survey questions related to whether the organizations had implemented a succession plan and general data related to these plans.

RESULTS

This study was designed to evaluate consistencies or inconsistencies regarding succession planning data as reported by "Best Companies". PASW (Predictive Analysis SoftWare) Statistics 18 was employed for demographic and statistical analysis. Demographically, survey respondents reported that their organizations were founded as early as the 1820s to as recently as 2006 providing companies that had been in business for a significant time period versus a relative short time (five years). Figure 1 presents a bar graph of the results of the 25 companies and their succession plan, or lack of a succession plan. The data notes that 84% of the respondents have or will have a succession plan in place in the next three years. This is a significant percentage that would support Lewis (2009) in regard to organizations incorporating succession plans with the expectation of experiencing increased employee retention and performance, and permitting a more strategic process for recruitment. A frequency table provided results that there was no difference on the size of the organization and whether a succession plan was in place. The size of an organization did not influence an organization implementing succession strategies.

Figure 1: Company Results as to Whether the Organization Has a Succession Plan in Place



This figure shows what the company responses were to the questions "Does your company have a succession plan in place?"

Companies that responded to the survey ranged in size from 2 employees to over 1,000 employees, were family owned and corporations, as well as for-profit and not-for-profit organizations. A broad array of companies were represented; insurance, financial services, manufacturing, health services, retail, and higher education.. No names of organizations or respondents were utilized at any time during the research to ensure confidentiality while gathering pertinent information related to demographics and succession plan information. Table 1 provides the survey questions and the company responses.

Another question asked on the survey was ""Does your organization have a formal mentoring program?" A cross-tabulation analysis, or contingency table analysis, was completed to compare the population companies that have a formal versus informal mentoring program. The findings of this analysis is that there was no difference in the number of companies having a succession plan versus not having a succession plan based on the size of the organization related to having a formal mentoring program. This result was the same for the question, "Does your organization have an informal mentoring program?" In conclusion, size of an organization did not have an impact on whether a company had or did not have a succession plan in place. It could be inferred that individuals within organizations are self-identifying the mentor/mentee relationship seeking the association independently, without the human resources division "matching" individuals. Previous research (Husain, 2009) supports that "mentoring enhances sense of self-esteem; leads to fulfillment of development needs-satisfaction in leaving part of themselves to the next generation; improves professional, leadership and collaborative skills; makes mentors better listeners; helps reaffirm own successes, and the mere fact of being asked to be a mentor is a powerful compliment" (p. 301). From the point of view of the mentee, the mentor provides "career and psychosocial support; exposure to ideas and connections to the community; improved morale and increased leadership capabilities; valuable insights into building businesses as well as new information technical expertise and managerial skills (Husain, 2009, p. 301).

Table 1: Survey Questions and Responses

Size of Company (# of employees)	**2-50 16%**	**51-150 16%**	**151-300 12%**	***301-499* 24%**	**500-999 16%**	**>1000 16%**
Is your Company:	Family owned 28%	Corporation 48%	Subchapter 5 0	LLC 12%	Sole Prop 0	Other 12%
The President/CEO has been with the Company	< 1 yr 0	1-3 yrs 0	4-6 yrs 40%	7-10 yrs 0	11-15 yrs 0	>16 yrs 60%
Regarding a succession plan for your organization	Has a written plan in place 44%	Have started a plan & will soon complete 24%	Expected to have a plan in place in 1-3 yrs 16%	Expected to have a plan in place in 4-6 yrs 0	No plan 16%	
If your company does not have a succession plan, reason(s)	Sr. partners do not feel younger members of the company are ready to step into role 20%	Multiple owners have conflicting personal goals 0	Retirement age employees are unwilling to retire 0	Don't know 16%	Management hasn't made the decision to institute plan 16%	Company has a plan 44%
Does your organization offer training and development for employees earmarked in future leadership roles related to succession planning	Yes 72%	No 28%				
If your organization does plan for future succession, note all attributes evaluated for future leaders(number of companies noting attribute)	Education Attainment 7	Organization experience 8	Gender, race, ethnicity 1	Teamwork 7	Behavior traits 7	Personal traits 6
Does your organization have a FORMAL mentoring program	Yes 16%	No 84%				
Does your organization have an INFORMAL mentoring program	Yes 60%	No 40%				
Does your organization have a system for performance evaluation, an evaluation, an appraisal on an annual basis	Yes 72%	No 12%	has plan, but not completed yearly 16%			
Does your organization have a time line for succession, both for organizational need and for individual readiness	Yes 32%	No 68%				

This table shows the survey questions and results of the 25 companies responding from the "Best Companies to Work for in New York 2010"

An interesting finding related to the length of time that chief executive officers (CEOs) held their positions. All of the presidents or chief executive officers (CEOs) had been with the companies from four to more than 16 years. However, the distribution related to the CEOs was very distinct; forty percent of the organizations reported that their CEO had been in this position for four to six years, with the remaining sixty percent of the CEOs holding this position for more than sixteen years.

A question was asked in the survey pertaining to what the organization looks for in recruiting upper management positions. Experience within the organization was ranked number 1, followed by educational attainment, teamwork, and behavior traits noted equally, personal traits were ranked third. This information would support individuals either who self-identify or identified by their organization for leadership positions to obtain or learn these pertinent attributes.

SUCCESSION PLANNING AND ITS IMPORTANCE IN STRATEGIC ANALYSIS

The U.S Department of Labor Bureau of Labor Statistics (BLS) (Succession Planning Facts and Fantasies, 2005) project there will be 162.3 million people in the workforce by 2012. This number is increasing by approximately 1% each year. Increasing at a rate nearly four times this is the baby-boom generation (persons born between 1946 and 1964) at a growth rate of 4.1%. Essentially, the median age of the US population will increase to 45.3, up from 40.1 in 1992. This growth means that the age group most likely to hold senior management jobs, the segment 55 years and older, will have increased to 19.1%. The clear problem is that the aging workforce will cause a shortage in senior managers as the current ones retire. According to the BLS, 2010 will bring a shortage of 10 million qualified workers. The approximate 12 million family-owned businesses in the United States will also face problems. Only one third of family-owned companies survive transfer to the second generation; and, only 10-15% of those businesses exist into the third generation (Succession Planning Facts and Fantasies, 2005). Birthrates are also declining. This workforce transformation and these trends should be considered related to succession planning.

From the small company to the international conglomerate, leadership development is important in business. In large organizations the typical personnel planning process begins with job analysis, from which a job description is developed along with job specifications. During this analysis, data is produced which determines the duties of the job and the characteristics of the people who should be hired for each position (Dessler, 2010). This is where the leadership more than just identifies positions that will need to be filled and potential employees who might fill them. A comprehensive corporate succession plan will identify both a company's current talent needs along with its future needs and the organizational direction. This is a change from most companies' past practice. Traditionally, when a vacancy occurred, human resources would seek to fill the position as fast as possible completing this task either internally, staffing and personnel agencies, or recruiters. With the implementation of succession planning, many employers now have well conceived training and development programs to be certain to have qualified employees ready to fill key positions. Organizational success depends on having the right employees ready to take over with the right competencies at the right time. This planning allows managers to anticipate changes and act, rather than react to events (Eskenazi & Henson, 2005). Through internal programs, employers can identify employees who may be potential candidates to move up in the system and mentor. Some employees may not have all the qualities needed for these key positions, and that is what makes the leadership development program all the more important to prepare these employees to step in and take charge (Shaefer, 2007). This planning results in management making informed staffing decisions that benefit the company in both the short and long-term. It also provides a framework for other programs such as training, compensation, and diversity management. An organization can then recognize and optimize its human capital by creating a workforce that is and will continue to be flexible and responsive (Morfeld, 2005).

Forecasting the talent needed is much more difficult. This may explain why 60% of large companies in the United States (US) do not even have a plan in place to replace their most important position of Chief Executive Officer (CEO) (Bower, 2007). Talent forecasting includes accounting for not only the current workforce, but also the anticipated workforce; while factoring in the supply and demand dynamics of the industry. It is also imperative to consider the internal and external forces that may influence the availability of qualified individuals to not just fill, as well as have the potential to exceed the expectations of the position. In the current economic environment, forecasting can be a significant challenge. This can be achieved by ranking positions by priority. The highest priority role is critical to the company's initial strategy and should be filled before other positions (Ruse & Jansen, CUPA 2008). In the smaller business, only the CEO or the position of president may be included in the strategic plan for succession planning purposes. As the business becomes larger, middle and senior level positions could also be included. Today with global businesses, comprehensive employee data is gathered to recruit not only top-level positions, but also several levels below the top. For any strategic plan to be successful, the entire organization needs to be aware of the plan and be familiar with the parts of the plan that they are responsible for in order to achieve results. Information about the organization must be gathered both internally and externally. Competition, technology, regulatory changes, company priorities, market trends, the economy, turnover, retirements, promotions, and retention efforts are just some of the challenges that influence succession planning. The factors that affect the pool of available talent do not just come from within the company's corporate headquarters, but in this modern marketplace, are global (Conlon, 2008).

There are large numbers of skilled workers nearing retirement and the competition for skilled employees is growing. Expectations among Generation-X and Generation-Y workers regarding early responsibility and work/life balance are dramatically different from in the past (Cotton, 2007). Employees entering the workforce are more likely to say "no" to the 60-hour workweek and the "fast track" of previous generations. The previous methods of recruiting, retaining, training, and promoting employees are inadequate to meet the challenges of today and the future.

Another area that organizations need to observe is deregulation and its effects. Deregulation may seem to be a positive influence for an industry. However, the competition from new companies entering the marketplace, with state of the art technology, may end up putting established companies out of business. The companies that remain could view this as a positive for their succession planning to fill their key roles. Mergers and acquisitions, while eliminating duplication of top-level positions, also create opportunities to put the best of the best in the surviving company's key executive roles. These events also result in more talent in the pool for other top-level positions. Company priorities, such as a focus on diversity or the promotion of women into top-level positions will further influence a company's succession plan.

Companies that manage succession well understand that the process starts years before the event. They know how to think outside the box. These companies may look internally for potential candidates to fill their key positions from within to develop them to the level needed. There is a price to develop talent from within. Resources must be dedicated early in an employee's tenure, and there is no guarantee they will stay with the organization after time and money has been invested. Instead of hiring someone from the outside that would take a full year to understand the inner workings of the company, organizations are breeding their own. Companies realize that to be effective, individuals have to know the business and know the players. In a fast changing, competitive world, time cannot be sacrificed (Flander, 2008). An essential element of the mentoring process is anticipating situations and giving the successor the tools he or she will need to be successful in their position. Something as simple as taking the opportunity to introduce the individual to board of director members can make the person comfortable when they later have to present to the board. Acknowledging gaps in the person's career and exposing them to situations they have not experienced prior will make their success even more likely. The replacement will need to manage contradictory tasks along with the ability to judge, identify, understand and know all the possible solutions to a problem. This makes for a well-rounded replacement that has all the tools necessary to make their tenure a success. Companies have created innovative plans to provide the tools to grow and keep their talent. For example, Verizon Wireless provides college education onsite; offering classes toward associate, bachelors' and M.B.A. degrees (Yovovich, 2008). This is an expensive venture, but one that Verizon Wireless has determined to provide the strategic direction the company is looking to obtain.

Companies that view education as an investment and a logical step in their succession plan are seeing this investment pay off. Their employees recognize that they can become strategic planners, managers, and future leaders of their company (Yovovich, 2008). It is imperative to remember that succession planning is a continual process, with organizations creating a continuing cycle.

CONCLUSION

The goal of this paper is to examine succession planning in relation to organizations. The results of a survey of the "Best Companies to Work for in New York" conducted for this paper concur with previous suggestions and strategies related to succession planning in the US.

Limitations of this paper include the number of companies that the survey was distributed was relatively small; although it included all of the organizations receiving the distinction of "Best Company to Work for in New York. A larger number and/or extending the scope of the survey may have presented different results. Future research in this area could include a larger sample size, different population, and additional questions to add additional depth and breadth to this area of research. Including a survey question related to the specific industry an organization is a member of could lead to additional industry data. Additional qualitative and/or quantitative research regarding the impact of succession planning in organizations would also be beneficial to organizations. Future research could include an analysis of succession planning in today's economic conditions and analysis of specific industries. In addition, completing a survey with a larger population may produce different results; with research comparing those companies noted as a "Best Company to Work For" to "other" organizations. This may have produced results that provided data related to "Best Company" practices and if these companies were in the forefront of business practices.
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The human resource professional has come a long way from just monitoring policies and procedures to being a strategic partner in the plan of an organization. Succession planning focuses on growth through natural forces, but in times of uncertainty a reduction in the workforce is a common occurrence. When an organization is cutting back, it must ask some of the same questions when eliminating positions: Is management well equipped to carry out the procedure? How will the company justify its actions? What is the goal, short-term benefits or long-term advantages? Whether the economy is experiencing a peak or a valley, every organization needs a successful strategy for acquiring, developing and retaining talent. As the talent pool shrinks, business leaders need to continue to recognize that employees are their most important assets.

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