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MANAGEMENT SUCCESSION

2018

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INTRODUCTION: WHY MANAGEMENT SUCCESSION?

By 2027, it is estimated that as much as $10 trillion of wealth will transfer from one generation to another. Much of that wealth transfer will occur through the transition of the active management and ownership of 4.5 million businesses.¹

The business landscape is changing in America as the Baby Boomer generation (born between 1945 and 1964) ages into retirement. Between 2017-2027, it is estimated that 10,000 Baby Boomers a day will transition into retirement, taking with them decades of knowledge, experience, and capability. The departure of the Boomer generation is further compounded by the fact that the number of Generation Xers (born between 1965 and 1976) in the marketplace is far smaller than the Boomer generation. Exhibit 1 shows a graphic representation of the relative population size of the different generations.

Exhibit 1: Millennials (born between 1977 to 1995) will comprise the majority of the workforce by 2025

Part of the challenge in management succession is preparing a new generation of leaders, comprised of both Xers and Millennials, to step into expanded leadership roles.

How prepared are companies to deal with the management transition that will invariably occur over the next decade? According to a study by Deloitte, only 10% of companies assess themselves as having a management succession plan that is effective in preparing for the departure of seasoned executive leadership and the transitioning of younger leaders into senior executive roles. Though 86% of companies report that leadership development is one of their main concerns, it appears that awareness of the critical need has not translated into effective action.²

Management succession is defined as the plan or process by which new internal leaders are identified and developed to replace existing leaders who will be transitioning out of their current responsibilities because of retirement, disability, termination, or death. Management succession is a critical factor in the future viability of every business in America today. Without an effective management succession plan and a commitment to execution, businesses are ignoring the inevitable risk that threatens the future success of their company. Without effective senior leadership, organizations will struggle and fail. History is filled with companies that once dominated their marketplace only to disappear as they failed to adapt to changing times: Pan Am, Circuit City, and Blockbuster to name a few.

The construction industry has been experiencing a talent crisis since the recovery from the 2008 downturn. Companies are scrambling to find the talent...
to address their current backlog of work. The focus on
talent acquisition and development is focused on the
immediate needs of the company and not the needs
over the next 5-10 years.

The greater talent crisis is still ahead for the
construction industry, as companies lose hundreds and
thousands of years of industry knowledge and expertise
at all levels of the organization, from project leadership
to senior management. How construction companies
address this crisis will determine which organizations
will thrive and which will struggle in the years to come.

Management succession is an opportunity for
construction companies to gain a competitive
advantage that will benefit them for years and even
decades to come. Construction companies that
recognize the looming crisis in management succession
and act on it, will be able to turn the crisis into an
opportunity and gain a competitive advantage in their
marketplace.

SMACNA’s Management Succession Manual is written
to provide members:

- An overview of the benefits of internal
  management succession
- Best practices in management succession
- A process for effective management succession

**BENEFITS OF INTERNAL MANAGEMENT SUCCESSION**

Besides securing the future viability of the organization
by preparing for the leadership transitions of key
management, there are numerous benefits for
organizations wise enough to execute on their
management succession plan.

**Benefit 1: Increase the odds for success at key positions**

Whether a company promotes an internal candidate
to fill an important position or hires externally, there is
risk involved. Success is not guaranteed that the person
will have the capability to perform up to expectations.

Research is clear that internal promotions have a far
higher likelihood of success than external hires.

The reasons for the higher rate of success for internal
candidates can be:

- Greater familiarity and fit with the company
culture
- Deeper network of relationships with key
  stakeholders which can lead to greater
  collaboration
- Knowledge of the company’s strategy and
  execution of that strategy

Outside CEOs have twice the failure rate of internal
CEOs. The higher failure rate is also true for
management positions below the senior executive, with
external hires for middle-management positions having
nearly twice the turnover rate.

With the cost of turnover in key executive
positions, estimated as high as 200-300% of annual
compensation, the risks involved in hiring externally
deserve serious consideration.

**Benefit 2: Reduce the costs associated with external recruiting and hiring**

Promoting an internal candidate is far more cost
efficient for organizations than recruiting and hiring an
external candidate, even if the external hire is successful
in the new role.

Cost advantages of promoting internally are:

- **Internal candidates are less costly regarding compensation:** In research done by Wharton
  School professor Matthew Bidwell, it was
discovered that external hires are compensated
  approximately 18-20% more than an internal
  candidate.

- **Elimination of the hard costs of recruitment:**
  Hiring an internal candidate eliminates the costs
  associated with advertising for the new position,
payment to recruitment firms, and human
  resource staffing costs.
Reduction of the soft costs of recruitment: Hiring an internal candidate reduces the costs associated with resume review and interviews by Human Resources (HR) personnel and management staff.

Shortening the learning curve: Internal hires can become productive in their new roles nearly twice as fast as external hires due to familiarity with the culture, work processes and key stakeholders.\(^7\)

**Benefit 3: Quicker transfer of institutional knowledge**

When a company has an effective management succession plan in place, the transfer of essential institutional knowledge from key executive leadership to rising new leadership can take place over a period of years as opposed to months or even weeks. Developmental opportunities can be embedded in the context of real life business issues, with coaching and mentoring from existing leadership, allowing for a more orderly transfer of institutional knowledge that might otherwise be lost in a hasty search for an external replacement of a key executive.

**Benefit 4: Execution of the organization’s strategic plan**

Selection of internal candidates for higher positions can be based in part on how the individual executed their role in advancing the overall strategy for the organization, minimizing the possibility of hiring an external candidate with the right skillsets but a misalignment with the strategic direction of the company.

**Benefit 5: Retention of high potential leaders**

The cost of losing a high potential leader can be very pricey to an organization. In addition to the loss of productivity and the costs associated with replacement, the departure of a high potential leader reduces the talent pool available for future senior management positions. The cost of turnover for the departure of a middle level manager can be as high as 100% of annual compensation.\(^8\)

A study conducted by the Harvard Business Review found that a large percentage of high potential managers actively look for job opportunities outside of their current companies. Their main source of dissatisfaction with their present employers is the lack of formal leadership development in regards to coaching and mentoring.

One of the top reasons that employees choose to join and stay at a company is the availability of career advancement. When the company culture does not support development of internal candidates into higher positions, high potential leaders can be de-incentivized to remain. Conversely, companies that aggressively pursue employee development for the purposes of management succession are far more likely to retain their high potential leaders.

**Benefit 6: Talent development increases productivity**

Talent development yields both near term and long term results. Investing in the development of high potential leaders increases their immediate productivity as well as prepares them for expanded roles in the future.

**GUIDING PRINCIPLES IN MANAGEMENT SUCCESSION**

When an organization develops a management succession program, there are several guiding principles that will increase the effectiveness of the program and prevent a haphazard implementation that could compromise future success. The Center for Creative Leadership estimates that 38-50% of executives in new leadership positions will fail within the first 18 months, with a far larger percentage failing to meet expectations for performance.\(^9\) These statistics are an indicator of the lack of rigor in the management succession processes of many organizations.

The following guiding principles of management succession will help organizations achieve better results in their management succession programs.
Principle 1: Ownership by the CEO and key executive leadership

Successful management succession requires ownership of the process by the CEO and other senior executive leadership. When management succession is considered an essential element in ensuring the future viability of the organization, senior executives give the attention and commitment needed to create a robust program that delivers results. When management succession is viewed as a function of Human Resources and under their domain, the program may accomplish little. Human Resources can be supportive of the process but is less effective if they are the primary driver of the process.

Principle 2: Understand the impact of culture

The culture of an organization is more influential in the present and future of an organization than strategic change initiatives. When the culture of an organization is not supportive of the direction dictated by a strategic plan, culture often prevails and stymies the strategic plan.

Culture is defined as the way things operate in an organization and can be seen in the way that:

- Managers lead their teams (micromanaging vs. empowering)
- Company vision is communicated (information regularly withheld vs. frequent communication)
- Performance management is handled (little to no feedback vs. regular developmental feedback)
- Different departments work together (silos vs. active collaboration)
- Talent development is approached (sink or swim vs. intentional talent development process)
- Promotions happen (political favoritism vs. clear performance metrics achieved)

It is estimated that 70% of all organizational change initiatives fail to achieve their desired results.10 In many cases, failure is due to the organizational culture’s resistance to the change initiative. Understanding of an organization’s culture can lead to purposeful change in certain elements of the culture to make it more supportive of management succession. Management succession is one of the most significant change initiatives that an organization will undertake.

The following questions can aid in identifying elements of an organization’s culture that may need to change to better support management succession:

- Does the culture actively support talent development?
- Are there established processes and budgets for talent development?
- Are mentorship and coaching part of the management culture?
- Are performance reviews held regularly and do they include a discussion on career planning and tracking?
- Is developing one’s replacement criteria for promotion?

Developing a culture that is supportive of talent development will accelerate the success of the management succession program.

The Role of the Leader in Culture

Senior leaders have a more significant impact on shaping organizational culture than other team members. Because of their influence and authority, senior leaders set the tone when it comes to culture. Their habits, actions, and perspectives help define what is normal and expected in any culture.

When a senior leader makes the decision to grow in their leadership effectiveness, they change the normative culture around them. When senior leadership raises the bar of expectation on their own leadership development, it raises the bar for those below them in the organization.
A deeper understanding of an organization’s culture also helps selecting candidates for key leadership roles who align with and uphold the company culture. Skill and experience are not sufficient criteria to make a selection decision for key management roles. Without a right fit in culture, candidates promoted into significant positions will struggle to lead effectively when the norms of the culture are not their personal-professional norms.

Principle 3: Follow a process rather than intuition in selecting candidates

The ability of current management to select future management, without an established process, is quite low. In fact, 60% of new managers fail within the first year of their new position\(^1\), implying that selection decisions are often unsuccessful.

Selection decisions are often based on the candidate’s success at their present job versus their aptitude to succeed at the competencies needed for their new position. For example: “Joe has done such a good job with his work, I am certain he will do well at a promotion to a new role.”

The Peter Principle

The Peter Principle is a management concept developed by Laurence Peter that states that the selection of an individual for a particular position is predicated on that individual’s performance at their current responsibilities rather than skills needed to succeed at the new position.

The natural conclusion of the Peter Principle is that an employee will eventually be promoted to a position for which they lack the competence to succeed, thereby stopping their career advancement.

The Peter Principle, continued

The end result is that an organization may have numerous positions that are filled with unqualified people who lack the competencies to be truly effective at their current roles.

Successful management succession is based on a process that ensures selection decisions are not based upon gut-level intuition but on establish criteria such as:

- An understanding of the competencies needed to succeed in a role
- An assessment of the competencies of the potential candidates
- Selection based upon clear criteria
- Developmental support to prepare the selected candidate to succeed in their new role

Principle 4: Management succession is not a one-time plan

Creating a plan for succession of key management roles is a necessary step in the process, but it is not the end goal of management succession. The goal of management succession is to prepare successors for key roles in senior management, middle management, entry level management, and key technical positions in a culture that supports the continuous development of the talent in the organization. Companies committed to maximizing their talent through intentional development have a sustainable competitive advantage.

Principle 5: Be aware of the emotional aspects

As logical as the process for management succession may be, there is an emotional aspect that needs to be considered. Letting go of the responsibilities that determined one’s value to an organization and the marketplace can be an emotionally challenging process. Ignoring the emotional aspect can lead to irrational undermining of the succession process through such activities as the following:
Creating a critical path process for management succession ensures that the right elements are identified and then executed in the appropriate sequence for the maximum benefit. The process is comprised of steps that can be easily remembered with the acronym SMART:

- **Specify** the vital success factors for the organization
- **Model** of the competencies needed to succeed in key roles
- **Assess** talent for high potential leaders
- **Relevant** and results driven development of the high potentials
- **Track** the progress and development of the high potentials

This process for management succession provides a step by step plan that organizations can follow to achieve a successful management succession program. Each of the 5 steps in the process will now be explained in detail.
Step 1: Specify the Vital Success Factors

Successful management succession starts with a deep understanding of what drives success for the organization. Without insight into the unique business context of the organization, it is difficult to be on target with succession planning. The right starting point is to identify the key positions that are essential to driving the company’s success.

As senior leaders delve into understanding the key drivers for success for the organization, they will gain more clarity about which functions in the company are essential for success. For example, if a company has a long history of partnerships with key clients, the business development function may not be a primary driver for the organization’s success. For another company, business development might be an essential driver for success if the company strategy is focused on expansion into new markets and developing new client relationships.

When succession planning starts with the existing organizational chart, rather than a deeper understanding of the vital factors driving success, the risk is identifying the wrong positions as vital for replacement. Ultimately, a management succession program needs to be tied directly to the company’s strategic plan. Strategy is a company’s plan to win in the marketplace, both in the present and in the future.

The following questions can help organizations understand their business context and strategy in relation to management succession:

- How do we succeed in the marketplace today?
  Answering the question of how a company succeeds in the marketplace brings clarity to what distinguishes the company and gives it a competitive edge. Examples of drivers of success could include:
    - Consistent excellence or efficiency
    - Unique relationships or client network
    - Integrating technology into project execution

- How will we succeed in the future? This question helps organizations consider the future and anticipate market changes that could have an impact on how the company plans to succeed in the future. Companies that anticipate the possible changes ahead can chart a course to sustain a competitive advantage. Market changes could be:
  - Project delivery (design-build, public-private partnerships, integrated project delivery, etc.)
  - Pre-fabrication

- Based on how we succeed today in the marketplace, what are the roles/functions in the company that are critical to our success? Ideally, a management succession plan cultivates future leaders at multiple positions and levels in the company by providing access to development resources that accelerate leadership growth.

Management succession also needs to address ‘mission critical’ roles in the organization that are identified as essential to the success of that organization. Mission critical roles could be defined as:

  a. Critical to the organization’s long term competitive advantage
  b. Require specialized skills, knowledge, and abilities that are not easily replaced

An effective tool for this process is a matrix that evaluates the level of risk associated with criticalness and replace-ability. See a sample in Exhibit 2.

Exhibit 2: Replace-ability and Criticalness Matrix

<table>
<thead>
<tr>
<th>Difficulty to Replace</th>
<th>Low</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Quadrant 2:</strong> Critical but Not Difficult to Replace</td>
<td>Identify Roles</td>
<td>Quadrant 1: Critical &amp; Difficult to Replace  Identify Roles</td>
</tr>
<tr>
<td><strong>Quadrant 4:</strong> Not Critical or Difficult to Replace</td>
<td>Identify Roles</td>
<td><strong>Quadrant 3:</strong> Not Critical but Difficult to Replace Identify Roles</td>
</tr>
</tbody>
</table>

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Filling out the Replace-ability and Criticalness Matrix for both a company’s current success as well as future success identifies the key positions that are mission critical for the organization.

Succession planning can then advance to the next step, identifying how to measure success for the mission critical roles.

**Step 2: Modeling Competencies for Success**

Modeling competencies for success is the process of defining the skills and abilities necessary for success for specific leadership roles.

A leadership competency model is a framework that defines the skills, knowledge, and abilities that drive success for people within the organization. Developing a leadership competency model gives the organization a common language and criteria for the evaluation, selection, and development of talent within the organization. When the competency model is adopted throughout the organization, people management and development decisions are tied back to the model and can be made in a more uniform and objective fashion.

Based upon the leadership competency model, specific skills and abilities can be identified as enabling success at a particular leadership role. These identified skills and abilities can then be used to create a ‘success profile’ which provides criteria to evaluate candidates for the leadership role.

An effective competency model needs to have these 3 attributes:

1. Competencies in the model need to be proven to drive effectiveness. The validation process to determine that an identified competency drives effectiveness requires rigorous research and testing. Organizations can conduct their own validation of the competencies or utilize competencies that have been already validated by third party providers.

2. The model serves as the basis for all talent management programs throughout the organization (Recruitment, Selection, Development, and Promotion).

3. The criteria of the competencies must be clear enough to be useable for performance evaluation.

Organizations typically pursue one of two options to create an organizational competency model.

1. Adopt an existing leadership competency model that is both validated and reliable.

Competencies need to be both validated and reliable, meaning that the competencies in the model have been tested to be valid in predicting effectiveness as well as reliable in producing consistent results.

Numerous leadership consultancy companies offer competency models that are both valid and reliable. Though the words used to describe the different competencies will vary from company to company, the general themes of what types of competencies drive effectiveness will have considerable overlap.

The advantage of using an existing leadership model is the ability to utilize a ready to use model as opposed to doing the very difficult work of creating a model from scratch, which involves significant work to ensure that the model is both valid and reliable.

The disadvantage to using an existing leadership model is the fact that the definitions of the competencies may not be the types of words that the organization uses to describe skill and abilities. Organizational wide adoption of a generic competency model may be hindered if all members of the organization do not buy into the definitions of the competencies.
2. Customize an existing leadership competency model to fit the organization.

Customizing an existing competency model starts with reviewing validated competency models and identifying which of the competencies can be seen as driving effectiveness within the organization.

After collecting the different competencies that seem most relevant and important to the organization, the competencies can be sorted into skill themes or buckets. These themes can then be renamed to better resonate with the vernacular of the organization.

For example, an organization may decide that the competency definition of ‘business acumen’ may be better renamed as ‘understands the business’ to fit the organizational culture. ‘Strategic connector’ could be renamed as ‘market networker’. Customizing the definitions to fit the organization can result in a greater level of buy in from the personnel.

**Exhibit 3: Example of a Competency Model**

<table>
<thead>
<tr>
<th>Soft Leadership Skills Cluster</th>
<th>Competencies</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Able to Motivate</strong></td>
<td>- Recognizes achievements frequently</td>
</tr>
<tr>
<td></td>
<td>- Takes time to connect on personal level</td>
</tr>
<tr>
<td></td>
<td>- Connects across different demographics</td>
</tr>
<tr>
<td></td>
<td>- Inspires to perform at high levels</td>
</tr>
<tr>
<td><strong>Builds High Performing Teams</strong></td>
<td>- Creates atmosphere of trust</td>
</tr>
<tr>
<td></td>
<td>- Promotes healthy ideological conflict</td>
</tr>
<tr>
<td></td>
<td>- Leads collaboratively</td>
</tr>
<tr>
<td></td>
<td>- Creates buy in for stretch team goals</td>
</tr>
<tr>
<td><strong>Maximizes Talent</strong></td>
<td>- Coaches for performance</td>
</tr>
<tr>
<td></td>
<td>- Gives frequent feedback</td>
</tr>
<tr>
<td></td>
<td>- Delegates for growth</td>
</tr>
<tr>
<td></td>
<td>- Helps with career development</td>
</tr>
<tr>
<td><strong>Social Intelligence</strong></td>
<td>- Good listener</td>
</tr>
<tr>
<td></td>
<td>- Is others focused</td>
</tr>
<tr>
<td></td>
<td>- Cares for wellbeing of team members</td>
</tr>
<tr>
<td></td>
<td>- Manages conflict productively</td>
</tr>
<tr>
<td><strong>Results Driven Execution</strong></td>
<td>- Consistently meets deadlines and target goals</td>
</tr>
<tr>
<td></td>
<td>- Holds others accountable for their commitments</td>
</tr>
<tr>
<td></td>
<td>- Follows through on commitments</td>
</tr>
<tr>
<td></td>
<td>- Uses communication to achieve alignment</td>
</tr>
<tr>
<td><strong>Leads with Vision and Values</strong></td>
<td>- Exemplifies the company values</td>
</tr>
<tr>
<td></td>
<td>- Connects the work to a larger purpose</td>
</tr>
<tr>
<td></td>
<td>- Coaches behavior to core values</td>
</tr>
<tr>
<td></td>
<td>- Reinforces the company strategy frequently</td>
</tr>
<tr>
<td><strong>Strategic Thinking</strong></td>
<td>- Future oriented</td>
</tr>
<tr>
<td></td>
<td>- Recognizes trends and their impact</td>
</tr>
<tr>
<td></td>
<td>- Proposes initiatives that increase the competitive advantage</td>
</tr>
<tr>
<td></td>
<td>- Explains the impact of change initiatives on the entire organization (systems thinking)</td>
</tr>
<tr>
<td><strong>Self-Leadership</strong></td>
<td>- Realistic self-awareness of strengths and weaknesses</td>
</tr>
<tr>
<td></td>
<td>- Leads by example in honesty and integrity</td>
</tr>
<tr>
<td></td>
<td>- Trustworthy in words and actions</td>
</tr>
<tr>
<td></td>
<td>- Committed to personal growth and development</td>
</tr>
</tbody>
</table>

*Exhibit 3 continued on page 10*
<table>
<thead>
<tr>
<th>Hard Technical Skills Cluster</th>
<th>Competencies</th>
</tr>
</thead>
</table>
| Technical Expertise | - Demonstrates technical knowledge and expertise in exercise of responsibilities
- Early adopter of technology |
| Critical thinking and problem solving | - Makes consistently good decisions
- Has strong critical thinking and analytical abilities |
| Change Champion | - Creates compelling vision for change
- Works to get buy in with key influencers |
| Business Acumen | - Understands how businesses work
- Knowledgeable about the competition |
| Strategic Connector | - Creates connections that help the company succeed
- Creates or improves services that meet client needs |
| Innovation Leader | - Has new and unique ideas that bring improvement
- Facilitates productive brainstorming |
| Process Champion | - Designs processes to streamline production
- Commitment to continuous improvement of current processes |

<table>
<thead>
<tr>
<th>Competencies</th>
</tr>
</thead>
</table>
| - Credibility inside and outside of the organization because of technical knowledge
- Able to problem solve and troubleshoot complex technical issues |
| - Is decisive in decision making
- Actively collects the information and different perspectives needed to make right decisions |
| - Champions initiatives that bring improvement
- Skillful in the practical implementation of change initiatives |
| - Has insight on how to improve competitive advantage
- Aware of policies, trends, and information that may impact the business |
| - Builds trusting partnerships with key clients
- Has political savvy to get things done |
| - Can bring innovative ideas to market
- Challenges the status quo with different perspectives and ideas |
| - Measures and tracks production to drive productivity
- Gets more out of less resources |

**Creating Success Profiles**

A success profile provides a framework to define what skill clusters and accompanying competencies will most enable success in a particular position. Success profiles will inform the process of evaluation, selection, and development of candidates for the position. Creating success profiles for key positions is an important action item in the management succession process.

In creating a success profile for a particular position, the tendency will be to create a long list of skills clusters. The challenge will be to select only the most essential of the skill clusters to include in the success profile.
Step 3: Assess Talent for High Potentials

Upon adoption of a leadership competency model and completion of the success profiles for key positions, the next step in the management succession process is assessing the current talent in the organization to identify the high potential employees, the individuals who have the potential, ability, and desire to raise to higher levels within the organization. High potentials are identified for both the general high potential leadership group as well as potential successors to the critical positions in the company.

How to assess talent in the organization

There are two common methods that talent is assessed within an organization. Using both methods together provides a more robust assessment process.

1. Management identifies the high potentials.

   Managers are in the best position to evaluate the talent potential of their team members. Due to proximity, managers have seen their staff members in their day to day behavior and performance. Yet, even with the familiarity that managers have with their people, creating a talent potential evaluation process is important to ensure that high potential identification is done in an objective fashion. The tendency for managers is to have a bias towards their people's potential in the organization based more on their current performance than a more objective evaluation of their potential for future performance in a new position.

   The most popular tool used to evaluate the potential of employees is the 9 Box, which is a 3x3 matrix with potential on one axis and performance on another. Each of the nine boxes has a title and description of what each box represents. Employees are then plotted on the matrix, based upon their potential and performance.

   Exhibit 5, on the next page, illustrates a 9 Box, with descriptions of what each box represents.
After filling out their 9 Box, managers gather to discuss their assessments of the individuals. The goal is for the managers to calibrate their ratings, so there is consistency in what constitutes a high performance-high potential individual as well as the criteria for a high performance-low potential individual. The more clarity that is achieved about what defines each of the nine boxes, the greater the alignment will be in assessment of key talent.
9 Box discussions can be facilitated by an internal HR person or an external consultant who is familiar with the process and can facilitate the discussions. The 9 Box is a simple tool that benefits management teams in identifying their high potentials:

- Avoids common pitfalls in talent assessment:
  - Focusing on present performance without consideration of potential for higher positions.
  - Not having standard assessment process of criteria across the organization.

- The simplicity of the tool allows for managers with little experience in talent assessment to begin the process with relative ease and discuss the state of the organization regarding succession management.

- Can result in more objective talent assessments by minimizing talent potential bias, addressing blind spots, and bringing more objectivity into the process.

- Creates a common ownership for the process of management succession by having managers actively participating and working collaboratively on an organization wide priority.

- Can be used for both assessment and development. For example, if an individual is assessed as high potential but only medium performance, there may be need for development in their current role to improve performance.


Assessments can yield valuable information that may facilitate talent development. By increasing self-awareness of one’s strengths, weaknesses, and personality tendencies, an assessment can highlight key areas to target in talent development.

**360 Multi Rater Assessment**

The 360 multi rater assessment consists of a list of questions about an individual’s work performance that is sent to a number of raters, who may be a mixture of managers, peers, direct reports, and others (clients, vendors, or past work associates). The raters then rate the individual on their performance on a number of behaviors, using a numerical (Likert) scale. Raters would also have the opportunity to provide comments in addition to their numerical ratings.

A 360 assessment provides valuable feedback into an individual’s strengths as well as weaknesses. The 360 feedback can provide confirmation of known areas of strength and weakness for the individual or reveal unknown areas of strength and weakness. A 360 assessment can be one source of information that can used to create a development plan for the individual, to prepare them for expanded roles in the future.
Benefits to using 360 assessments:

- A 360 assessment allows an individual to receive feedback regarding their performance in several areas and from a variety of raters. This feedback could identify areas of strength that the individual should continue to use as well as areas of weakness where they could focus their development efforts.

- By utilizing a variety of raters, the individual gets a more complete view of how they are perceived in their performance by different levels inside and outside the organization.

- The 360 is helpful in identifying both blind spots, areas of weakness that one is not aware of, as well as hidden strengths that the person may be unaware of.

- A 360 can help guide an individual’s development plan to increase their effectiveness as a leader and team member.

Best Practices in using 360 assessments:

- Scoring and comments must be kept anonymous. Without anonymity, the 360 process will most likely be compromised as raters may not be candid in their ratings, particularly if rating a manager.

- 360 evaluation questions should be relevant to effectiveness at the job and be specific enough to provide useful feedback. Vague questions provide little valuable feedback. Ideally, the 360 questions should be based on the organization’s leadership competency model.

- Providing a confidential 360 debrief session with a neutral party who is skillful in debriefing a 360 is an important element. This person can be internal to the company, such as a HR person, or an external consultant or coach. Receiving a 360 assessment can be an emotionally volatile experience and an effective debrief session can help the individual to move beyond painful emotions to focus on a few high impact areas that could accelerate their development.

- Follow through on an individual development plan. Based on the developmental goals established from the 360 review and debrief, an individual development plan should be created and shared with a manager who will be committed to check in and provide support as needed.

- Used primarily for development as opposed to selection. Using a 360 assessment for selection purposes is problematic for the following reasons:

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Exhibit 7: 360 Multi-Rater Assessment

The 360 multi-rater assessment consists of a list of questions about an individual’s work performance that is sent to several raters, who may be a mixture of managers, peers, direct reports, and others (clients, vendors, or past work associates). The raters evaluate the individual on their performance on a few behaviors, using a numerical (Likert) scale.

The following is an example of 360 questions with a numerical rating scale:

<table>
<thead>
<tr>
<th></th>
<th>1 - Needs Improvement</th>
<th>2 - Below Expectations</th>
<th>3 - Meets Expectations</th>
<th>4 - Exceed Expectations</th>
<th>5 - Exceptional</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequently recognizes the achievements of individuals and team.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Is a good coach to team-members and coaches to higher performance.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Raters most likely have little training to calibrate their ratings, leading to large swings in scoring between raters.

Raters may score for tasks and behaviors that they have little personal experience with.

Raters may have a personal agenda to either make the person look better or worse than their performance would warrant.

A single rater can submit comments that may be significantly variant from the other comments but have an influence on the overall perspective of the person’s performance, especially if the comments are strongly negative in nature.

While the 360 can yield helpful information for personal development, the ratings are not objective enough to qualify as valid criteria for identifying and selecting future successors.

Psychometric Personality Assessments
A psychometric assessment is a quantitative test for the measurement of psychological variables such as personality traits, aptitude, and intelligence.

The two most widely used psychometric assessments for talent identification and development are the Myers-Briggs Type Indicator (MBTI) and the DISC Profile.

The usage of assessments such as MBTI and DISC has grown increasingly in corporate America. It is estimated that 89 out of 100 Fortune 100 companies use the MBTI for their talent program. The reason for the growth in usage is that psychometric assessments provide quantifiable data for personal factors that are difficult to assess otherwise. Psychometric assessments provide an easy to implement mechanism to help assess the soft attributes of personality preferences and tendencies.

Cautions in Using Psychometric Assessments
- Use the assessment for the purposes it has been designed for. Using a psychometric assessment such as the MBTI can be helpful for an individual to understand their temperament preferences and then using that self-awareness to become more effective in their interactions with others. The MBTI, however, does not measure leadership capability or potential. It would be a misuse of the assessment to use it as a basis to make hiring, promotion, and succession decisions.
- Assessment data should not be used in isolation from other evaluation methods. Psychometric assessments should be used in conjunction with other methods of evaluation, such as feedback from direct reports, co-workers, and managers.
- Provide both the results of the assessment as well as a debrief session for participants. A best practice is to give the assessment results to the individual as well as provide a debrief session with a trained facilitator who can help the individual understand the results as well as discuss how to use the information to identify areas of possible growth and development.

High Potential Notification
Once management has identified a list of high potentials, whether for a general talent development pool or for a specific position, a common question that arises is whether the high potential individuals should be notified of their identification as such.

There are potential risks and benefits from either notifying high potentials or not notifying.
### Exhibit 8: Potential Risk vs Benefit of Notification

<table>
<thead>
<tr>
<th>Potential Risk</th>
<th>Potential Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>The high potential individual becomes arrogant towards current co-workers.</td>
<td>The high potential individual sees a longer-term opportunity to expand their role and responsibility, leading to a higher chance of staying with the organization rather than seeking opportunity externally.</td>
</tr>
<tr>
<td>The high potential individual shares the information with other co-workers, which results in a decline in morale in those not part of the high potential group.</td>
<td>The high potential individual begins to have conversations about the competency gaps they need to fill to be considered for expanded responsibilities.</td>
</tr>
<tr>
<td>The high potential individual starts to act entitled, demanding higher pay, while simultaneously putting less effort into their current position.</td>
<td>The high potential individual starts to take on more responsibilities to expand their capabilities.</td>
</tr>
<tr>
<td>Difficulty in removing a high potential individual off the list if such an action is warranted.</td>
<td>Succession planning success is enhanced by enrolling a high potential on an intentional development plan to accelerate preparation.</td>
</tr>
</tbody>
</table>

On average, 85% of organizations utilize some level of notification of high potential individuals. While there is risk associated with doing so, the potential benefits may ultimately outweigh the risks. Retaining top talent needs to be a top priority for every organization and the failure to notify a high potential individual could lead to seeking opportunities externally that very well exist internally within the organization.

Recommendations for notification of high potentials:

- Do not guarantee or promise promotion to a position that could set unrealistic expectations. Communicating instead that the person is being considered for expanded roles and responsibilities allows more leeway in the process.

- Have a two-way conversation that allows for the discussion on what being a high potential represents and determine if the individual desires an expanded role and responsibilities.

- Tie the potential for advancement to development in key competency areas that will grow the individual’s capabilities for expanded responsibilities.

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**Step 4: Results Driven Development**

While the need for leadership development is great, the statistics paint a grim picture of the effectiveness of most leadership development programs within organizations. $14 billion is spent annually on leadership development across US companies, yet 75% of respondents rated their leadership development program as ineffective.

Designing a results-driven leadership development program is a critical step in a successful management succession plan. The following are guidelines to ensure that a leadership program will be successful.

- Tie leadership development to the organization’s overall strategy

  - When organizations fail to integrate leadership development into their organization’s overall strategy to succeed, the ensuring leadership development program will lack the vision for its purpose and fail to gain buy in from key internal stakeholders. Without the
commitment of resources and senior executive involvement, a leadership development program will be of limited value in preparing high potentials for future expanded roles.

- Senior executive buy-in and involvement
  - Senior executive buy-in and active involvement in the creation and support of a leadership development program is essential for success. When senior executives see management succession as one of their key responsibilities for their role, there is much greater ownership of the entire process and commitment to its success.

- Embed leadership development into real business situations and challenges
  - Leadership development loses its effectiveness when education in leadership is disconnected from the real life challenges of the organization. The staple of leadership development programs conducted by external providers is an offsite or onsite seminar-workshop that combines lectures on key leadership concepts and some hands on exercises. While the lectures may be expertly delivered and highly engaging, an average person's retention of the content is only a fraction of what was presented after a two week period.

  - When leadership education is directly tied to challenges in the participant’s everyday work life, retention is dramatically increased because the concepts are applied to solving real issues in the workplace. Programs that build in both time and follow up accountability to address real life work challenges with the tools of leadership will be more effective to embed such skills into the learner’s capabilities.

- Address mindsets and not just behaviors
  - Leadership development that only addresses external skills and behaviors will have limited effectiveness. Real behavioral change is difficult to achieve when the focus is solely on external behavior. Leadership development that is informed by the psychology of people will first address the mindsets that are at the root of certain behaviors.

  - Leadership development can be an inside-out process where change first happens on the inside before it happens on the outside.

- Equip managers to effectively develop talent
  - In an effective leadership development program, the direct manager of the high potential-learner has a vitally important role in supporting the growth of the learner. The manager can be deeply involved in accelerating the growth of the high potential employee by such activities as facilitating career development conversations, providing developmental feedback, and assigning stretch assignments.

  - Providing the tools and training for managers to accelerate the development of their key talent is essential to the success of the leadership development program.

- Utilize different modalities for leadership development
  - The effectiveness of leadership programs is increased when different modalities are utilized. The following guidelines are recommended by the Center for Creative Leadership.

  - 70%: hands-on learning and experience that is job focused (OTJ) requires intentional stretch assignments and immediate feedback on performance from managers, peers, and direct reports.

  - 20%: learning through mentorship, coaching, and interaction with others.

  - 10%: formal education through traditional sources such as training workshops, lectures, and books.
**Process for Leadership Development**

Creating a process for leadership development ensures that steps are taken in the right order. The following is a three-stage process for leadership development:

- Identify gaps in competencies and skills
- Create a development plan for the high potential leader
- Implement and support the plan

**Identify Gaps in Competencies & Skills**

Assessing the high potential employee along the criteria of the organization’s leadership competency model identifies the potential gaps that exist between the employee’s current capabilities and desired capabilities for expanded roles and responsibilities. Refer to Step 2 (Model of Competencies to Succeed) of the SMART Management Succession process.

Utilizing a multi-rater 360 assessment based upon the organization’s leadership competency model is an effective way to identify the potential gaps and prioritize the highest impact areas that can be addressed in a leadership development program.

For example, to evaluate candidates for a position that has a Success Profile (created in Step 2: Model of Competencies to Succeed), a worksheet could be created that rates each candidate on the different competencies identified in the Success Profile.

In Exhibit 9, the three candidates, Ashley, Keith, and Bryan, would be evaluated around the skill clusters of:

- Builds High Performing Teams
- Results Driven Execution
- Maximizes Talent
- Process Champion

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**Exhibit 9: Sample Skill Clusters**

<table>
<thead>
<tr>
<th>Skill Clusters</th>
<th>Ashley</th>
<th>Keith</th>
<th>Bryan</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Builds High Performing Teams</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Creates atmosphere of trust</td>
<td>1</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Promotes healthy ideological conflict</td>
<td>1</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Leads collaboratively</td>
<td>1</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Creates buy-in for stretch team goals</td>
<td>2</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td><strong>Results Driven Execution</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consistently meets deadlines and target goals</td>
<td>2</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Holds others accountable for their commitments</td>
<td>2</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Uses communication to achieve alignment</td>
<td>1</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Demonstrates commitment to continuous improvement</td>
<td>1</td>
<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>

*Exhibit 9 continued on page 19*
Assessing the candidates by the Success Profile would identify skills gaps that would need to be addressed to adequately prepare the candidate for the new role.

Once gaps in skills and competencies are identified, the next step in the process is the creation of a development plan.

**Create a Development Plan for the High Potential Leader**

This step involves a process where manager and high potential employee work together to create a development plan, also known as an IDP (Individual Development Plan) or PDP (Personal Development Plan), that identifies target areas to work on.

Once an IDP is signed off on by both manager and high potential employee, the next step in the leadership development process can be taken, Implement the Plan.

**Qualities of an Effective IDP**

- Establish a clear and compelling reason for the IDP that provides internal motivation
- Identify the key gaps in skills and competencies to address based on importance for success in a future role
- Select actions that will result in growth and development

**Implement & Support the Plan**

Successful implementation of a development plan requires support from 3 key spheres:

- Leadership Training and Education
- Manager Coaching and Mentorship
- Action Learning Contextualized in the Business
1. Leadership Training and Education

While a high potential employee may be technically proficient, they may lack a practical knowledge of how to lead with soft skills, such as motivating their teams or resolving conflict. Without access to the training and education that is needed, it is likely that the high potential employee would struggle to address their developmental gaps.

The leadership training and education resources may be sourced externally from the company if the company does not have an internal training and education department. Possible options for external high potential employee training and education are:

- Leadership development professional services firms
- Executive development programs run by universities
- Professional trade associations (SMACNA)

The advantage of using an external resource is the efficiency of utilizing a pre-existing program without having to create an internal program from scratch. The investment required to create an internal leadership training and education program in regards to time, money, and expertise may not be an attractive option for many companies, so finding an external program that would adequately address the developmental needs of their high potential employees is an important step in implementing the development plan.

An organization may decide to take a hybrid approach where a professional services firm that specializes in leadership development is brought into the organization and tasked with working within the leadership competency model of the organization. By customizing their standard content to fit the unique context of the organization, the result can be a leadership training and education program that is more relevant to the high potential employee participants and to the specific business needs of the organization.

2. Manager Coaching and Mentorship

Coaching is defined as an interaction between two individuals, one a coach and the other a coachee, where the coach helps to improve the performance of the coachee by facilitating conversation aimed at increasing the coachees’ depth of understanding of a situation to choose better decisions and actions.

The key words in the definition are:

- Coach and Coachee: The manager serves as the coach and the coachee is the high potential employee.
- Improve performance: The objective of coaching is performance growth for the high potential employee.
- Facilitating conversation: coaching is not advice giving or command directives, but a conversation aimed at facilitating a deeper level of understanding by the high potential employee of a situation to identify and then pursue decisions and actions that will bring better results.

When high potential employees have access to coaching and mentoring from their managers, their ability to progress in their development plans is significantly impacted.
3. Action Learning Contextualized in the Business

The last key sphere of support for the development plan implementation is action learning in the context of real business situations. Action learning is learning that takes place in the context of the everyday business context of the high potential employee. As opposed to theoretical learning that is based on leadership and management theory and concepts, action learning is on the job (OTJ) learning that has a real impact on business results. Developmental opportunities within the business setting can be created that will help the high potential grow in a competency gap area.

Action learning can take on several different forms:

- Identifying an area of growth within one’s current responsibilities
  - For example, a high potential manager may have a competency gap in the area of delegation of key responsibilities to their direct reports. An action learning task might be to develop and execute a plan to delegate selected responsibilities to their direct reports. The plan would have specific details on how to train their direct reports, target milestone dates, and commitments to follow up to ensure accurate completion of the delegated tasks.

- A stretch assignment that will require an expansion of current responsibilities
  - An action learning task can also be a stretch assignment that represents an expansion of the high potential employee’s current responsibilities. The stretch assignment would be chosen to help build out the high potential employee’s capabilities in an identified competency gap area.

- For a high potential employee without experience in bringing a new product or service line to the marketplace, a stretch assignment might be to head up a team to bring a new product or service to their clientele.

- Cross departmental experiences to gain knowledge in different business disciplines
  - Action learning experiences can include cross departmental exposure. A rotation for high potential employees to gain knowledge in different business disciplines or geographical regions can grow the high potential employee’s understanding of the overall business.

- Enterprise wide assignments focused on solutions to challenges the business is facing
  - Action learning in the context of enterprise wide assignments is focused on the high potential employees working on solutions to an enterprise wide problem. Rather than working on a case study from a historical business scenario, high potential employees are given the opportunity to provide solutions to challenges the business is facing.

**Recommended Best Practices for Manager Coaching**

- Regular one-on-one meetings (30 minutes) with the high potential employee, held either weekly or bi-weekly
- Agenda is driven by the high potential employee and not the manager and focused on individual progress and challenges, not business issues
- Practice active listening: manager coach should aim to talk for only 20% of the meeting time
- Ask open-ended questions aimed at promoting discovery
- Provide positive and constructive feedback
Step 5: Track Progress & Development

Just as contractors track metrics such as margins, estimates versus actual and safety to measure success, keeping track of the progress and development of the high potential employees is an important step in ensuring that there is accountability as well as effectiveness in the management succession program.

Because of the importance of management succession in the future success of the organization, measuring the progress of leadership development is a necessary step in ensuring the viability of the development program. Tracking progress and development creates a built-in feedback mechanism for the leadership development program. If there is little progress in the development of the high potential employees, then the feedback needs to inform that the program needs to be modified in order to be effective. There needs to be diagnostic discovery of the root causes for the ineffectiveness and a plan executed to address the root causes.

Measuring the development of high potential employees is not as straightforward as measuring actual job costs versus estimated costs or keeping track of safety recordables per jobsite. Leadership development is often focused on growth in the soft skills of human interaction, such as communication, conflict management, and motivation, which can be far more difficult to measure and quantify. Yet, determining a method to track and measure progress in leadership development is necessary for a successful management succession process.

Methods of Tracking Progress

The following are methods of tracking progress and development:

1. Regular check-in meetings with manager to review overall development plan progress
   a. Unlike the weekly or bi-weekly 30 minutes one-on-one sessions recommended in Step 4: Results Driven Development, a meeting to discuss overall progress against the high potential employee's development plan could be held at a longer interval, such as quarterly or semi-annually. This session could also include a broader discussion of career pathing in light of recent organization changes or needs.

b. A regular manager check-in meeting would provide a high-level view of the overall progress of the high potential employee. If progress is lacking, then a diagnostic conversation could be held to identify the obstacles to progress and then formulate a plan to overcome the obstacles. Persistent problems with making progress in the high potential's development plan may be indication that the person may be incorrectly identified as a high potential employee and may need to be reclassified.

2. Periodic 360 multi rater assessments to track progress in key areas of competency gaps
   a. If a 360 multi rater assessment was utilized in Step 3 of the SMART Management Succession Process, Assess Talent for High Potentials, then the initial 360 assessment could be utilized as a baseline measurement to track progress in key areas of competency gaps.
   b. The periodic usage of subsequent 360 assessments given at yearly or bi-yearly intervals could provide quantification of progress in the identified gap areas. The initial 360 assessment could be condensed down to focus only on the key gap areas, which would stream line the subsequent 360 assessments to be more efficient for raters to complete the 360 assessment.

3. Measuring team performance metrics as a source of tracking progress by high potential managers in their leadership capabilities
   a. Leadership has a direct impact on team performance. The most capable leaders produce team results that can be 100% better than poor and mediocre leaders.16
   b. The following are possible team metrics that could quantify progress in leadership development:
Employee engagement

The Gallup organization has conducted extensive research into the engagement levels of employees in corporate America. Their engagement surveys have been administered to nearly 30 million participants and reveals the direct connection between engagement levels and business performance.

Engagement refers to the level of ownership that employees have for their organization’s mission (business objectives) and culture (the normative practices). The higher the engagement levels, the more the employees have ownership of the organization’s mission and culture. Lower engagement scores represent a lack of ownership.

The biggest factor identified as influencing an employee’s engagement score is the employee’s direct manager. Higher engagement scores could represent leadership competence in the direct manager as lower engagement scores could represent some level of leadership incompetence.

Tracking engagement scores for the team could represent one way to track development progress by the high potential manager. By establishing a baseline, initial measurement of team engagement, subsequent engagement surveys could be administered at periodic intervals of semi-annually or annually.

Employee turnover and retention

Another area where managers have great influence over is employee turnover and retention. Gallup research indicated that the #1 reason that employees leave their jobs is their relationship with their direct manager. Their direct manager has a significant impact on whether they stay at their jobs or quit and leave the organization.

Measuring turnover in a high potential manager’s team over a set period of time could be an indicator of leadership development progress. Extenuating circumstances would need to be taken into consideration in the case of such circumstances affecting turnover outside of the manager’s control. Otherwise, higher retention rates of team staff could be interpreted as leadership competency growth.

Business performance of the team

Since leadership impacts team performance in business results, measuring business results for the team of a high potential manager could be used as another possible indicator of growth in leadership capability.

A drop-in business performance by the team could be an indicator of a lack or even regression in progress in leadership growth by the high potential manager. Having a conversation to discuss such with the high potential manager could diagnosis the issues that would need to be addressed to get back on track with developmental goals.

4. Senior executive evaluation of high potential employee progress that brings accountability to the process

a. Senior executive evaluation of the high potential employee development progress will ensure that senior executives are kept informed and able to intervene as needed to ensure success of the overall leadership development program.

b. Senior executive involvement helps to bring accountability to the entire process by all involved, whether the high potential employees or the managers who are actively involved in their development.
5. Measure the number of high potential employee promotions

a. Keeping track of the number of high potential employees are promoted to higher positions is an important indicator of the success of the leadership development program. The ultimate goal of the leadership development program is to prepare current talent for high levels of responsibility in the organization. A scarcity of high potential employees being promoted to available higher level positions would represent failure of the leadership development program to fulfill its primary objective.

b. Without measuring the number of high potential employees promoted to higher level positions, a key performance indicator would be ignored and valuable feedback on the performance on the program would be lost.
SUMMARY

Management Succession is critically important to all organizations, especially during this time when workforce shortages are of utmost concern. Contractors that develop and execute a Management Succession plan are preparing their organization for future leadership transitions and creating a competitive advantage in the marketplace. The execution of Management Succession is unique to each company but in essence should center around a SMART process:

- Specify the vital success factors for the organization
- Model of the competencies needed to succeed in key roles
- Assess talent for high potential leaders
- Relevant and results driven development of the high potentials
- Track the progress and development of the high potentials

Aligning the process around the company’s strategic goals, focuses Management Succession on the key drivers for success for the organization and clear definition of the critical skills and attributes for each position. Developing a formal process for leadership development is critical for the retention of high-performing Gen-X and Millennials that seek ongoing career development. Management Succession is an on-going process that contractors should embrace to remain competitive as markets and employee needs change. Investing the time to develop a SMART plan today will reap its rewards through greater understanding of business needs, preparing for leadership transitions, and recruiting and retaining talented employees.

END NOTES

1. Peter G. Christman. The Master Plan
5. Christina Merhar. “Employee Retention: The real cost of losing an employee”
6. Matthew Bidwell. Professor at Wharton School of Business
7. Mellon Financial. Corporate Learning Curve Study
8. Karlyn Borysenko, “What was management thinking? The high cost of employee turnover”
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16. Jack Zenger. “Great leaders can double profits”