

IN TOUCH WITH THE BOARD

Avoiding Vacancy: Becoming a “Succession Leader” in the Real Estate Sector

Conversations with CEOs from across the real estate industry in recent months have revealed a disturbing lack of preparedness for CEO succession. While many firms have succession plans in place, few of these plans contain the necessary ingredients for proven success. To understand how pervasive this issue might be across the industry—and to gain greater clarity around what distinguishes the most effective companies from the rest when it comes to CEO



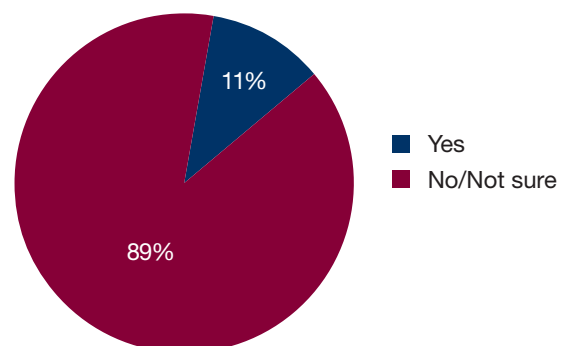
succession—Russell Reynolds Associates and the Urban Land Institute jointly launched a quantitative research initiative on executive succession in real estate, surveying senior leaders (primarily CEOs) at more than 235 real estate firms in the United States. To our knowledge, this is the largest dataset of its kind—and below we are pleased to share with you our findings.

An Urgent Challenge

Only 11% of our respondents believe the real estate industry is adequately prepared for CEO succession. Validation of this concern can be found immediately in the lack of substance and rigor within most succession plans. Of the 235 firms we surveyed:

- Only 48% review their CEO succession plans at least annually.
- Only 43% include assessments of potential internal CEO candidates in their plans.
- Only 28% specify the capabilities that will be required for future CEO success.
- Only 22% consider their succession plan to be formal and written.
- Only 18% include a transition plan that maps out a transition timetable for a new CEO.

As an industry, do you believe we adequately prepare for CEO succession?



A lack of plan breadth is another major concern. Succession planning for C-suite executives is a key driver of how effectively organizations manage succession at the top. However, of the firms we surveyed:

- Less than half of respondents believe their firms are effective at developing the next generation of C-suite leaders.
- Only 59% of firms maintain succession plans for their CFOs.
- Only 53% maintain plans for division heads.
- Fewer than half the firms we surveyed maintain plans for COOs (45%), General Counsels (31%) or CIOs (29%).

From these responses, it is unsurprising perhaps that two-thirds of real estate firms rate themselves as less than effective (or worse) at succession planning. No less surprising—but more troubling—nearly one-third do not feel confident that they would be able to name a new CEO tomorrow.

These findings carry special urgency given that 23% of respondents report that their last CEO succession event was unplanned. Put starkly, real estate firms have a 1 in 4 chance of confronting an unplanned CEO succession event—and very few of them will be ready.

Succession Leaders vs. Laggards

To help real estate firms better understand what successful succession planning looks like, we segmented our respondents into two groups: “Succession Leaders” and “Succession Laggards.” Succession Leaders (17% of our overall response base) are defined as firms that do *all* of the following:

- Report high levels of effectiveness at succession planning.
- Report high levels of effectiveness at developing the next generation of leadership talent.
- Report having a high degree of confidence that they would be prepared to name a new CEO tomorrow.

Firms falling short in any one of these areas are considered Succession Laggards. Here is what the Leaders do differently from the Laggards:

Let the Board Own Succession. Succession Leaders put succession responsibility into the hands of the Board, often with support from the CEO. Laggards are far more likely to assign exclusive responsibility to the CEO:

- Eighty-five percent of Succession Leaders cite the Board as playing an essential role in CEO succession, with 96% satisfied with the outcome. In contrast, only 50% of Laggards cite a prominent role for the Board in CEO succession, with only 23% reporting satisfaction with their Board’s succession guidance.
- Only 11% of Succession Leaders place primary responsibility for CEO succession in the hands of the CEO. In contrast, fully 39% of Laggards place primary responsibility for CEO succession in the hands of the CEO.

Succession Leaders Defined



Get the Basics Right. Succession Leaders have a plan, and they review it on a regular basis.

- Ninety-five percent of Succession Leaders maintain some form of CEO succession plan, and more than half have created formal, written plans. In contrast, only 35% of Laggards have articulated a CEO succession plan, and only 5% create formal, written plans.
- Seventy percent of Succession Leaders review their succession plans annually at least. Only 30% of Succession Laggards review their plans on an annual basis.

Emphasize Future-Focused Succession Plan Components. Succession Leaders bring a future-focused orientation to their succession plans, working to define the CEO capabilities required to meet tomorrow's challenges, not just those of today.

- Succession Leaders are nearly twice as likely as Laggards to include a list of the CEO capabilities *required for tomorrow* in their plans.
- Succession Leaders are more than twice as likely as Laggards to include a CEO transition plan that maps out a specific timetable.

Build Succession Plans for the Broader C-suite. Succession Leaders recognize the link between effective CEO succession planning and succession management for other executive-level positions. The latter ensures stability in the C-suite and deep pools of potential CEO candidates.

- CFO: Seventy-nine percent of Succession Leaders create succession plans for this role vs. only 35% of Laggards.
- Business/Division Heads: Seventy-one percent of Succession Leaders create succession plans for these roles vs. only 32% of Laggards.
- COO: Sixty-two percent of Succession Leaders create succession plans for this role vs. only 24% of Laggards.

Relentlessly Focus on the Assessment and Development of Leadership Talent. Succession Leaders understand that merely creating a plan isn't enough. Successful firms build a steady pipeline of talent by effectively assessing and developing rising leaders. This—by far—is the largest and most important gap between Succession Leaders and Succession Laggards. To optimize assessment and development, Succession Leaders must assess talent regularly and rigorously and develop talent thoughtfully and systematically.

- **Regularly assess internal candidates for CEO succession.** One hundred percent of Succession Leaders conduct assessments of internal candidates for CEO succession, and 61% conduct these assessments annually. Only 61% of Succession Laggards conduct assessments of internal candidates for CEO succession, and only 11% conduct these assessments annually.
- **Evaluate internal candidates for CEO succession via planned (but informal) interactions with Board members.** Seventy-eight percent of Succession Leaders deploy this tactic compared with 50% of Succession Laggards.

- **Systematically measure the readiness of rising leaders for succession.** Ninety-one percent of Succession Leaders deploy this tactic compared with 16% of Laggards.
- **Create a connection between leadership development and succession planning.** Eighty-nine percent of Succession Leaders deploy this tactic compared with 12% of Laggards.
- **Provide a formal development plan for high-potential employees.** Eighty-six percent of Succession Leaders deploy this tactic compared with only 16% of Laggards.
- **Provide rising leaders with targeted development experiences to help them rise to the next level.** One hundred percent of Succession Leaders deploy this tactic compared with 35% of Laggards.
- **Offer a structured and rigorous onboarding process for newly hired executives.** Sixty-one percent of Succession Leaders deploy this tactic compared with 14% of Laggards.
- **Build an HR team that is effective at developing leadership talent.** Sixty-seven percent of Succession Leaders have achieved this goal compared with 14% of Laggards.

Becoming a Succession Leader

To further assist real estate firms in optimizing their CEO succession planning efforts, below we offer a series of recommended tactics for translating each of the 12 Succession Leader differentiators into practice.

Succession Leader Differentiator	Best Practice Recommendation
Let the Board Own Succession	<ul style="list-style-type: none"> • Provide formal CEO succession training for Board members. • Ask the Board to evaluate its own track record at CEO succession planning to identify areas for improvement and build an action plan to create a more effective CEO succession strategy with owners and deadlines.
Emphasize Future-Focused Succession Plan Components	<ul style="list-style-type: none"> • Convene an executive committee meeting to collectively map out the barriers to future company success. Ask each functional leader to (separately) define the skills, knowledge and experiences that are required of their role to overcome those barriers. Request that functional leaders utilize this information to build succession plans for their roles. Who is ready now? Who will be ready in three years—and in five years?
Build Succession Plans for the Broader C-suite	<ul style="list-style-type: none"> • Require all C-suite leaders to report to the Board annually on the depth and quality of the succession pools for their roles—both internal and external.
Get the Basics Right	<ul style="list-style-type: none"> • Have an emergency plan for unforeseen vacancies. • Regularly include high-potential employees in the informal events that surround Board meetings (e.g., pre-meeting dinners).
Regularly Assess Internal Candidates for CEO Succession	<ul style="list-style-type: none"> • Review the plan every six months. During these reviews, utilize the following materials to systematically assess how candidates are progressing: <ul style="list-style-type: none"> —The aforementioned C-suite succession plans and pipeline stage gates (see below) —360 reviews —Psychometric testing —External candidate benchmarking
Evaluate Internal Candidates for CEO Succession via Planned (but Informal) Interactions with Board Members	
Create a Connection between Leadership Development and Succession Planning	<ul style="list-style-type: none"> • Use the results of these discussions to build/refine development plans for rising leaders/high-potential employees.
Systematically Measure the Readiness of Rising Leaders for Succession	<ul style="list-style-type: none"> • Map out the four to five key stages of development for a rising CEO and determine how long it normally takes to get from one stage to the next. Each stage should include the skill levels, knowledge and experiences required for success. Then continually measure the number of rising executives within each stage of the pipeline. This will tell you who will be ready and when.
Provide a Formal Development Plan for High-Potential Employees	<ul style="list-style-type: none"> • Require all high-potential candidates to maintain a development plan that documents specific on-the-job experiences that they will be pursuing within the next six months to achieve their development goals.
Provide Rising Leaders with Targeted Development Experiences to Help Them Rise to the Next Level	<ul style="list-style-type: none"> • Ask senior leaders to highlight the most valuable developmental experiences in their careers and the key lessons those experiences taught. Then use that information to develop rising leaders by showing them the lessons they will learn <i>before</i> completing a particular developmental experience. Finally, encourage each rising leader to reflect on lessons learned <i>after</i> the experience to truly drive home the learning.
Offer a Structured and Rigorous Onboarding Process for Newly Hired Executives	<ul style="list-style-type: none"> • Create a basic, one-page “first 100 days” onboarding document for all newly hired executives. The information should cover: (a) what the executives need to learn, (b) who they need to meet and (c) what they need to achieve across the first 30, 60 and 90 days in the role.
Build an HR Team That Is Effective at Developing Leadership Talent	<ul style="list-style-type: none"> • Request that your head of HR build a succession plan for himself/herself. • Ask senior HR candidates to prepare and present a mock succession plan for a real senior leader.

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The Mission of The Urban Land Institute.

The mission of the Urban Land Institute, (ULI) is to provide leadership in the responsible use of land and in creating and sustaining thriving communities worldwide.

ULI is committed to

- Bringing together leaders from across the fields of real estate and land use policy to exchange best practices and serve community needs;
- Fostering collaboration within and beyond ULI's membership through mentoring, dialogue, and problem solving;
- Exploring issues of urbanization, conservation, regeneration, land use, capital formation, and sustainable development;
- Advancing land use policies and design practices that respect the uniqueness of both the built and natural environments;
- Sharing knowledge through education, applied research, publishing, and electronic media; and
- Sustaining a diverse global network of local practice and advisory efforts that address current and future challenges.

Established in 1936, the Institute today has nearly 30,000 members worldwide, representing the entire spectrum of the land use and development disciplines. ULI relies heavily on the experience of its members. It is through member involvement and information resources that ULI has been able to set standards of excellence in development practice. The Institute has long been recognized as one of the world's most respected and widely quoted sources of objective information on urban planning, growth, and development. For further information see www.uli.org.

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