

SUCCESSION PLANNING: A STEP-BY-STEP GUIDE



INTRODUCTION

As the economy improves, organizations are finding it's more difficult to attract and retain talented employees. Between the talent war, declining retention rates and the anticipated retirement of baby boomers, organizations will face a shortage of qualified candidates who are ready with the knowledge and skills they need to lead. Succession planning can help anticipate this challenge and prevent it from holding your business back.

Succession planning is a topic every organization must address, but it often gets pushed aside until a crisis arises. The Stanford Graduate School of Business [2014 Succession Planning and Talent Development Survey](#) found only 46 percent of respondents have a formal process for preparing successors for key executive positions.

Putting together a succession plan can help your organization:

- Assess and mitigate organizational risks.
- Reduce the threat of losing key talent.
- Ensure talent is ready and available when needed.
- Save your business time and money.
- Create a sustainable operation capable of growth.
- Put high performers in positions where they will thrive.
- Hold on to the knowledge and expertise employees have developed over the years, even when those at high levels move on or retire.

This guide will explain the essential steps of succession planning, while sharing real-world examples and advice for developing a successful plan at your organization.

GET EXECUTIVE BUY-IN

Any succession plan needs buy-in from the top to succeed. Your organization's leadership must support and take an active role in designing and implementing the plan.

“The future of the business is literally at stake for those owners who fail to plan — they plan to fail,” says Eido Walny, founder of [Walny Legal Group LLC](#), a boutique estate planning and asset protection firm in Milwaukee. “Just as business owners obsess about their business' success, so too should they obsess about what the business should look like and how it will operate after them — and the sooner the better.”

“One way to create buy-in is to align succession planning to something bigger, such as the company's strategy, mission or vision,” says Devin Lemoine, president of [Success Labs](#). “When you align succession planning — which is a major part of your people strategy — with the business strategy, you are focusing on the long-term success of the business.”

3 TIPS FOR GETTING BUY-IN FROM THE TOP

- **TIE SUCCESSION PLANNING TO YOUR COMPANY’S STRATEGIC VISION OR MISSION.** Losing key people, knowledge or expertise can disrupt an organization’s long-term prospects. Not having an identified and prepared pipeline of talent can hurt a company’s ability to grow. Understanding that can help you plan your approach with the senior team.
- **MAKE A COMPELLING CASE FOR TAKING ACTION.** Look at the data. Asking “What if all of our top-level managers left at once?” can seem far-fetched. Identifying how many are eligible for retirement in the next five years can make the case for succession planning more pressing.
- **USE YOUR COMPANY’S CULTURE AS A GUIDE.** A nimble, risk-taking organization will take a different approach to succession planning than a conservative, careful one.

IDENTIFY WHAT'S AT STAKE

Take a careful look at your organization's situation to decide what's at stake if it were to lose key leaders or skill sets. For example:

- Losing a founder or longtime leader can bring a sense of uncertainty about an organization's future. If your organization doesn't have a clear view of who will step into a key position, the lack of leadership will be a significant disruption during an already tumultuous time of change, says Michelle Bomberger, founder and managing attorney at [Equinox Business Law Group](#).
- The loss of several key employees through resignation, retirement or reorganization can make the rest of the company feel unsettled and lost.
- Institutional knowledge is at risk when long-term employees leave without passing on what they know to those who are staying.
- When an employee with highly specialized knowledge or skills leaves, it can be difficult and time consuming to find a qualified replacement.

It's possible your organization isn't even aware of the level of risk it faces — and that's dangerous. “Look at the actual numbers,” says Lemoine, who recommends doing some preliminary data collection to identify what risks your organization faces.

At PCS Nitrogen of Geismar, Louisiana, the risk was loss of knowledge and leadership capacity because of mass retirement. In mid-2010, PCS realized several employees in crucial jobs had the potential to retire within a year. In addition, about a third of the management team was eligible to retire in the next three years.

PCS needed to reduce the risk to key positions, identify those who could fill in those positions, and develop successors down the line. With Success Labs' help, it identified and assessed candidates to replace retiring managers and created individual development plans to ensure effective knowledge transfer.

3 TIPS FOR DETERMINING WHAT'S AT STAKE

- **LOOK AT YOUR TIMELINE.** You may be planning around a known event, such as a key leader's upcoming retirement or a major growth agenda, or you may have a less specific timeline with the luxury of being more proactive.
- **LOOK AT THE NUMBERS.** What percentage of senior managers is eligible for retirement in the next few years? What's the experience level of people coming up behind them and can you hold on to them? What is your organization's growth rate and its projections for the future?
- **CONSIDER OTHER, INDIRECT DATA.** This includes how long it generally takes your organization to fill positions, where the candidates come from, and whether you have essential team members with hard-to-find knowledge or skills. "Looking at the hard and soft data can help you spot red flags," Lemoine says.

ASSESS AND ASSEMBLE YOUR RESOURCES

Succession planning is a must for organizations of all sizes. Small businesses need succession planning just as much as multinational corporations. It's essential to find a plan that fits your resources — both human and capital. This may include:

- Establishing a timeline and goals for the process.
- Deciding who should be involved in the process.
- Putting together a budget for software and consulting services you may need to assess employees, as well as the training, experiences and materials needed to develop them.
- Setting up tasks, tools, benchmarks and steps for leaders to follow throughout the succession planning process — and freeing time in their schedules to devote to that process.

The size and makeup of a succession planning team will vary by organization and will depend on factors such as mission, culture and size. “It’s certainly possible to cast the net of stakeholders too broadly when making this decision,” says Erik Gunderson, a business litigator at [Charlton Weeks](#). “A business is not a democracy, and while leadership changes affect every employee, it’s neither practical nor desirable to give every employee a vote.”

If your internal team lacks the time, tools or expertise necessary to carry out the entire succession planning process, you may also need to bring in outside assistance or employ a software solution.

The CEO and the board of directors for **Baldwin EMC**, the largest electric cooperative in the state of Alabama and one of the fastest-growing electric cooperatives in the nation, identified human capital development as a major strategic need. Specifically, the company was facing limited bench strength, lack of tools or metrics to objectively assess performance, and a significant number of retirements that were likely to occur over the next five years. Forty percent of employees at the manager level and above were identified as retirement-eligible within five years.

Working with Success Labs and using InQ© for support and to capture and manage the process, the CEO and his team not only committed to the succession planning process, but also committed to individually focused employee development planning. Baldwin EMC made this available to all employees to help them improve performance, increase contribution and position themselves for promotion. Not only did they achieve their goal to align their people strategy with organizational strategy, they also made headway in creating a culture of professional development that will continue to feed their talent pipeline.

3 TIPS FOR ASSEMBLING YOUR RESOURCES

- **TAP YOUR TALENT DATABASE.** You're probably already storing data on your employees' performance and potential, as well as demographic information such as education, experience and interest in career development. That's a place to start.
- **TAKE STOCK OF YOUR FINANCIAL RESOURCES.** Is there money in the human resources budget to put together a plan? You may need to request additional funds or find space in other line items.
- **CONSIDER BRINGING ON AN OUTSIDE PARTNER.** An experienced consultant can help you identify talent, analyze your organization's needs and develop a strategy.

ENTER THE PLANNING PROCESS

A multistep approach will help you put together the best succession plan for your organization. Steps may include:

1. ASSESS YOUR CRITICAL PEOPLE AND POSITIONS.

Make a list of positions that are critical to your organization's mission and success. Criticality of positions can be influenced by the rarity of the skill needed to succeed, the influence of the role, or the effect that the role has on the bottom line. Additionally, information about the incumbents in the roles, such as their flight risk, probability of promotion and retirement eligibility, can also affect which positions are considered at risk.

Growth can also be a factor. A company in major growth mode might realize that a certain role is critical because it anticipates a shortage of people ready for that role as growth takes off. Part of your plan will be to develop employees who can some day step into these roles when needed. Make lists of the skills, abilities, qualifications and experiences that are necessary for success in these positions.

2. ASSESS KEY SKILLS AND INFORMATION.

Part of your succession plan should involve an assessment of institutional knowledge that may disappear as people leave. Not only are you planning for key positions, you're also ensuring key information and core skills stay within the organization. This can include rare technical skills, contacts and networks, passwords, processes and best practices.

Use knowledge-transfer processes, mentoring, coaching and download sessions to help assess the institutional knowledge that needs to be passed on to others. Also think about what skills and competencies you'll need in the future to be competitive.

3. IDENTIFY KEY TALENT.

Using the lists from the first step in this list as a guide, identify employees who have the combination of high performance and high potential required to someday step into these key positions. To do this well, you must look at performance and potential competencies as well as learning agility.

A 2005 study by the Corporate Leadership Council found 71 percent of high-performing employees were not high-potential employees. They had limited success at the next level of leadership because of shortcomings in their ability, aspiration, motivation or engagement. In contrast, the high-potential employees seemed comfortable with new, different and challenging situations.

These managers and executives were willing to learn and develop from their experiences. Using a good **competency-based model** with clear delineation of performance versus potential, and honest assessment and discussion are essential to ensure successful transitions.

4. ASSESS KEY TALENT.

At this point, the core group can expand and bring in others — department heads and other leaders within the organization — to discuss candidates' suitability and developmental needs. Assessing employees' competencies, the skills and behaviors that determine whether they can step into key positions, can help succession planning committees consistently and objectively identify key talent. Results from these assessments should be kept confidential and separate from annual performance appraisals.

5. CREATE INDIVIDUAL DEVELOPMENT PLANS.

At this point, the executive team needs to make sure talent pool development actually happens, moving people from point A to point B so the talent pool grows. This begins by creating individual, customized development plans for each employee. These plans should include developmental events and experiences that match employees' development needs. These specific actions and events should be combined with a way to measure and assess progress and lots of feedback and coaching.

These plans are what keep the employees and the organization engaged and developing to ensure they can perform at the next level. These plans should be focused on developmental events and may include:

- Corporate assignments.
- International assignments.
- Managing change.
- High-level presentations.
- Rotational assignments.
- Startups.
- Mergers and acquisitions.
- Technical implementation projects.
- Strategic initiatives.
- 360 feedback and coaching.
- Mentoring.

For high-potential employees and emerging leaders, development encourages engagement and involvement, builds technical and functional skills, increases business acumen and helps emerging leaders develop key relationships along the way.

Weekends Only is a fast-growing furniture company out of St. Louis. Its rapid growth has created a need for talent, especially in the general manager role, so the leadership team embarked on an ambitious plan to quickly identify and develop emerging general managers to meet aggressive growth goals. To start, the senior team identified core performance and potential competencies for the general manager. They achieved this using InQ© for feedback and development planning, and combined it with a highly involved senior team committed to ongoing assessment, coaching and development of emerging GMs.

EXECUTE YOUR PLAN

At this point, you're ready to put the succession plan you've created into motion and track its progress. Are candidates developing as expected? Are development plans being built and executed? Are development events happening? And are candidates rotating into different positions in an effort to develop their strengths?

If you used assessment software or other tools to develop your succession plan, those same tools usually can be used to capture and manage the process through the plan's implementation. You'll want to continue to assess and develop talent on an ongoing basis as people grow and the organization's needs evolve.

With a plan in place, any transitions should go smoothly. Successors can step up immediately and the company doesn't lack for leadership, said Gunderson, the business litigator. In addition, "equity holders have assurance that the company will continue to profit, and the employees will know that they will continue to have jobs and incomes."

3 TIPS FOR EXECUTING YOUR PLAN

- **REVISIT THE PLAN AND ASSESS CANDIDATES YEARLY FOR PROGRESS.** At minimum, annual talent discussions and updates to the succession plan are needed to reassess talent, adjust for changes and measure progress. You may find risks, needs and talent pools have changed. You may also find some succession candidates have risen to the challenge and are ready to take on new roles more quickly than expected.
- **BE FLEXIBLE AND PREPARED TO PIVOT.** Don't hesitate to tweak your plan; it should be a living, breathing process. It will need to be changed to meet the needs of a dynamic market.
- **KEEP THE PROCESS SIMPLE AND EFFICIENT.** Don't try to take on too much. Start with the biggest risks and needs, use only the data you need, and don't bring in unnecessary people or complicated systems and processes before your organization is ready. This is a long-term strategy, and while it's important to put a solid strategy in place to ensure the organization's future, you want to avoid overwhelming or fatiguing people.

CONCLUSION

Alignment with the strategic plan, targeted development and talent management are key to successful succession planning, which requires more than simply putting a list of names on paper. A strong succession plan takes employees and makes their professional development — and your organization's success — a reality.



Success Labs is a full-service, strategic organizational and leadership development company located in Baton Rouge, Louisiana. For more than 25 years, our expert team of consultants has worked with hundreds of companies to explore their business potential and improve their company and cultural performance.

Contact us to get proactive about your people strategy.