

# What is Succession Planning?

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Succession planning is a strategic human resource (HR) initiative, and it is one of the most important talent development practices an organization will undertake.

When people hear the words “succession planning,” they usually think of choosing someone to replace them after they retire. But succession planning is so much more.

A key aspect of succession planning is the identification of an internal talent pool, also known as a [leadership pipeline](#), that feeds into each of an organization’s critical roles — the roles that have the greatest impact on an organization’s performance.



# What is Succession Planning?

Because succession planning focuses on talent pipelines, it requires an ongoing process of employee development. The goal is to identify high potentials early in their career and provide them with opportunities to hone their skills.

A strong succession plan works to create a [bench](#) of candidates for each critical role, rather than just selecting a single successor. A deep leadership bench supports the strength and stability of an organization, both now and in the future.



# Effective Succession Planning Is

**Ongoing:** Succession planning is not a one-time decision or strategy; it is an ongoing process.

**Strategic:** Succession planning should involve senior leaders and their vision for the future of the organization.

**Long-term:** Succession planning starts early by investing in candidates at all levels.



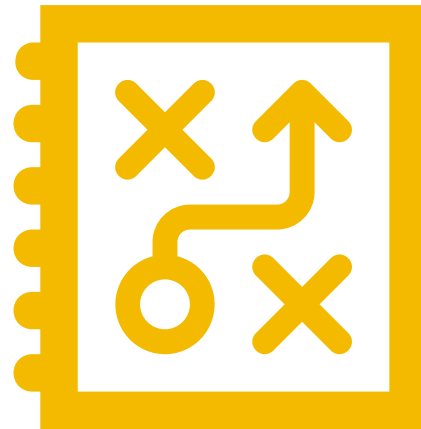
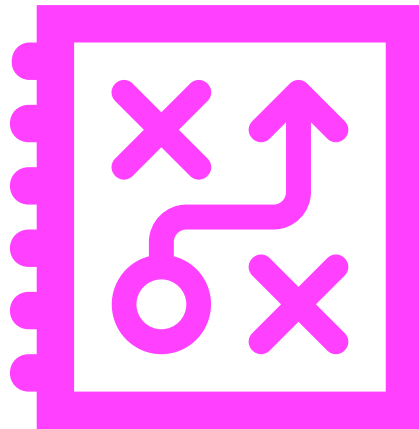
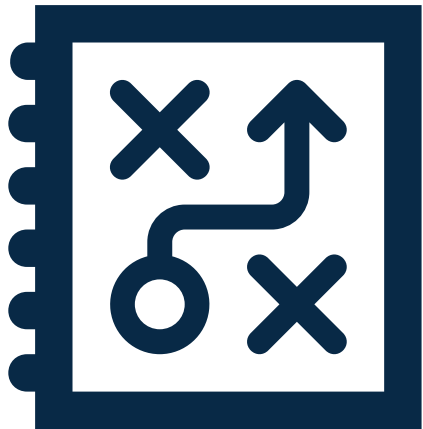
**Structured:** Strong succession plans are systematic and follow a process.

**Standardized:** The succession planning process should be the same for each individual or group, making it easy to scale across an entire organization.

**Objective:** Strong succession plans are data-driven.

# Succession Planning vs. Replacement Hiring

One of the common misconceptions about succession planning is that it's nothing more than choosing a successor. However, choosing one's own successor usually doesn't enable strong succession. That's why Peter Drucker, an Austrian-American management consultant, cynically stated "succession planning often results in the selection of a weaker version of yourself."



When most people use the term "succession planning," what they are really referring to is replacement hiring.

**Replacement hiring** is the process of selecting or hiring a replacement without any long-term talent development to support the process.

# Succession Planning vs. Replacement Hiring

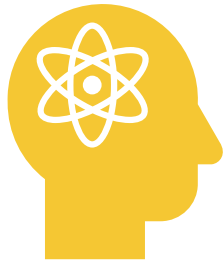
We often speak with clients who struggle to maintain the vitality of their leadership team because they've been operating under the principles of replacement hiring for years. Rather than preparing for change in their leadership teams, they wait until change happens and then realize they are not prepared. Even if there is a viable internal candidate, they usually haven't been given the development opportunities that are necessary for them to be fully prepared for the role.

The pattern of replacement hiring is widespread. In 2016, 1 in 3 CEOs were hired externally.<sup>1</sup> This number is especially staggering because 50 years ago, only 1 in 10 CEOs were hired externally.<sup>2</sup>



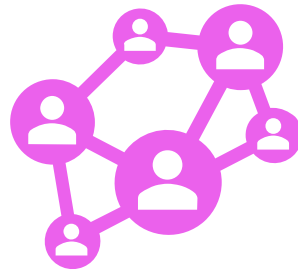
# Succession Planning vs. Replacement Hiring

Of course, there is nothing wrong with hiring externally — sometimes it is even preferred. However, when it comes to onboarding an external hire vs. an internal hire, there are a few distinct challenges an external hire will face:



## Knowledge

External hires begin their roles without any institutional knowledge and are unfamiliar with the corporate culture, history, and day-to-day operations of the organization.



## Relationships

In most situations, external hires don't have any pre-existing relationships with their team.




## Onboarding

The onboarding process tends to take much longer for external hires. Performance may suffer while new hires build trust with other employees and become comfortable in the organization.

# 5 Myths About Succession Planning

In addition to the confusion between replacement hiring and succession planning, there are a few other misconceptions about the nature of succession planning. Below are five common myths we've encountered in our work with clients:

1. Succession planning is just for CEOs.
  2. Succession planning is just for people who are retiring.
  3. Succession planning is HR's job.
  4. Succession planning is not necessary for flat organizations.
  5. Succession planning is irrelevant for family firms.
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# Myth #1: Succession planning is just for CEOs

Many leaders and HR professionals are under the impression that succession plans only need to be developed for CEOs or senior leaders. This impression may be driven by the fact that succession planning usually only garners media attention when a president or CEO of a large organization retires. As a result, most people only think about senior leaders when it comes to making succession plans, when they really should consider critical roles across the entire organization.

**Critical roles** are the roles that have the greatest impact on an organization's performance and are the most difficult to replace. These are the roles for which succession planning should be prioritized. While critical roles include the president and CEO, they also encompass other roles that are essential to the successful operation of the organization, including those that are not traditionally seen as leadership positions.

For example, office administration and technical roles are often overlooked in the succession planning process. These roles may not be prominent on an organizational chart, but they are often critical for keeping day-to-day operations running smoothly.

## Myth #1: Succession planning is just for CEOs

Ideally, each role in an organization should have its own succession plan.

However, this may not be feasible in large organizations. Instead, leaders can start by creating a succession plan for critical roles and then scaling the process throughout the organization.

## Myth #2: Succession planning is just for people who are retiring

Coupled with the assumption that succession planning is only for CEOs, many believe that succession planning is only necessary when an employee retires. Unfortunately, there are many other reasons why a position may become vacant — some more sudden than others. Leaders may decide to change roles or organizations, people fall ill, families move, high-potential employees get recruited, and of course, people retire. Organizations may also choose to restructure, change, combine, or eliminate certain roles. In each of these scenarios, a succession plan is needed to help the transition go smoothly.



## Myth #3: Succession planning is HR's job

Another common myth about succession planning is that HR should be entirely responsible for managing the process. Results from SIGMA's online succession planning quiz show that 42% of organizations rely on HR alone to manage the succession planning function. Another 35% of organizations delegate the responsibility of choosing a successor to each individual leader. Only 23% of organizations have their board, C-suite, and upper management involved in the succession planning process.<sup>3</sup> That's a very small number of organizations — barely 1 in 5 — doing succession planning the way it should be done. A proper succession plan includes all senior leaders in the decision-making process, as well as any associated stakeholders.



# Myth #4: Succession planning is not necessary for flat organizations

Some leaders argue that they don't need a succession plan because their organization doesn't have a hierarchical structure. Rather than having a clear, upward path to promotion, flat organizations have few levels of management between senior leadership and employees, and in some cases, none at all. Small businesses and startups are two types of organizations that often have a flat structure. In particular, these organizations may not think to plan for succession because they don't expect employees to leave in the early stages of organizational growth, or they don't feel like their talent pool is large enough to support a proper succession planning process.



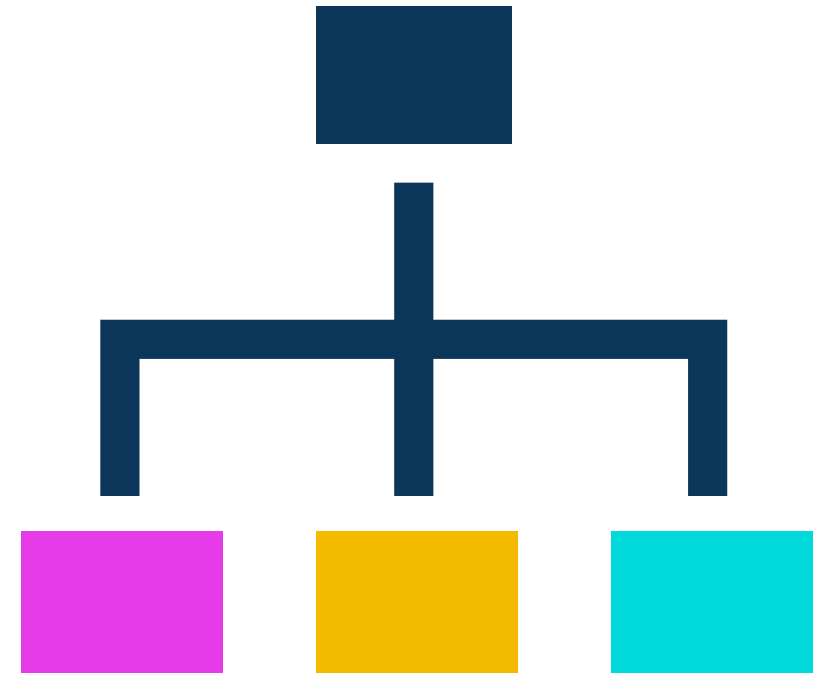
## Myth #4: Succession planning is not necessary for flat organizations

While the assumptions outlined on the previous page are common, neither are correct. Start-ups are just as likely to lose staff as well-established organizations. In fact, startups may be more likely to lose talent because of the many challenges associated with entrepreneurial ventures. In these cases, having a succession plan becomes even more important because every role in a small organization is critical; each founder or first employee is an important source of institutional knowledge. Additionally, the stability of a small or new business is already precarious; any disruption to operations or staffing could seriously harm the viability of the venture.

It is just as important for small business, flat organizations, and startups to develop a strong succession plan.

## Myth #4: Succession planning is not necessary for flat organizations

For small or medium-sized enterprises (SMEs), succession planning comes with a unique set of challenges. The scale of a succession plan should be customized to suit the size of an organization. In the case of small businesses, for example, it may be more important to cross-train individuals so that they can cover for one another during vacation, illness, or long-term absences. For more information about how succession planning can be tailored to small and medium-sized enterprises, download our workbook [Succession Planning in SMEs](#).

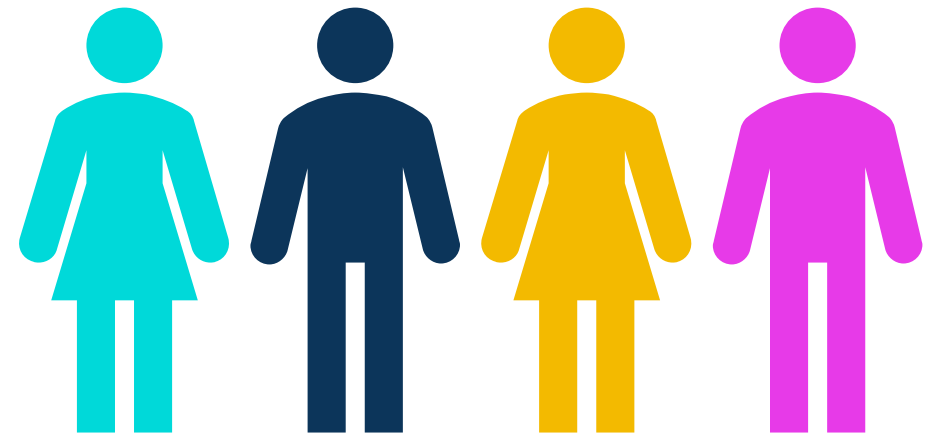


## Myth #5: Succession planning is irrelevant for family firms

Succession planning is about more than determining the next leader of a family business; it's about setting a foundation to protect the family's legacy as the leadership of the firm is passed down to the next generation. Just like any organization, family businesses face conflicts over power and control. Succession planning is one of the greatest family business challenges, and family dynamics can make these issues even more difficult to address.

Succession plans clearly define the roles family members may take on in the business, how profits should be distributed, who may serve on the board, how to plan for future leadership, and other matters such as taxes, liability, and estate planning.

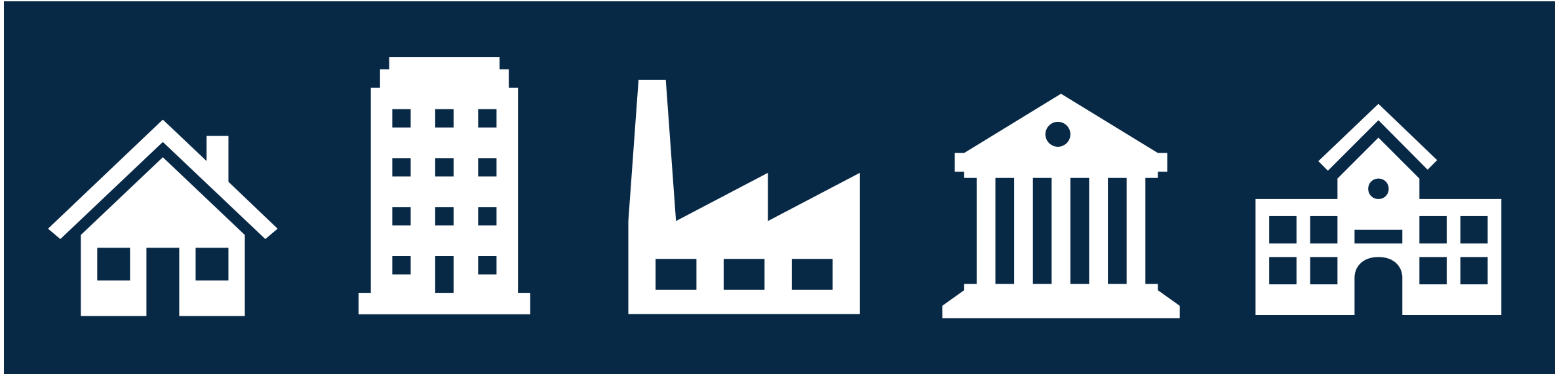
Like any other organization, family firms also need to be objective when choosing a new CEO. Perhaps there are individuals outside of the family who should be considered as candidates for succession? In this case, a formal succession planning process can prevent bias from clouding the decision.





# A Critical Strategic Process

Ultimately, succession planning is not just for one type of organization. Succession planning is a critical strategic process for all organizations: public, private, for-profit, not-for-profit, startups, and family firms. Everyone benefits from intentional leadership development and smooth succession — in other words, a proper succession planning process.



If you have questions about anything in this report,  
please don't hesitate to reach out to us.  
We are always happy to chat.

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