

# Why Succession Planning Matters

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Without a defined succession plan in place, a vacancy to a critical role can create confusion and be a massive risk to an organization's stability. To be truly effective, succession plans must be created long before they need to be enacted. However, our data shows that many leaders underestimate the value of having a strong succession plan:<sup>1</sup>

- Nearly 1 in 10 leaders believe succession planning is not worth the time and money that it costs.
- Nearly 50% of leaders believe succession planning has operational benefits but no financial benefits.

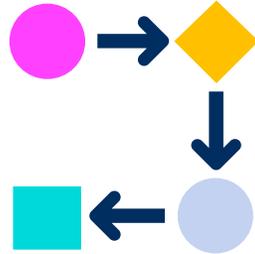


# Why Succession Planning Matters

Although some business leaders struggle to understand the benefits of having a strong succession plan, there are many that recognize its value. Almost 60% of leaders agree that the risk of not having a succession plan is high,<sup>2</sup> and 48% of leaders understand that succession planning has significant cultural, operational, and financial benefits.<sup>3</sup> A robust succession planning process only serves to strengthen these important success factors.



Cultural



Operational



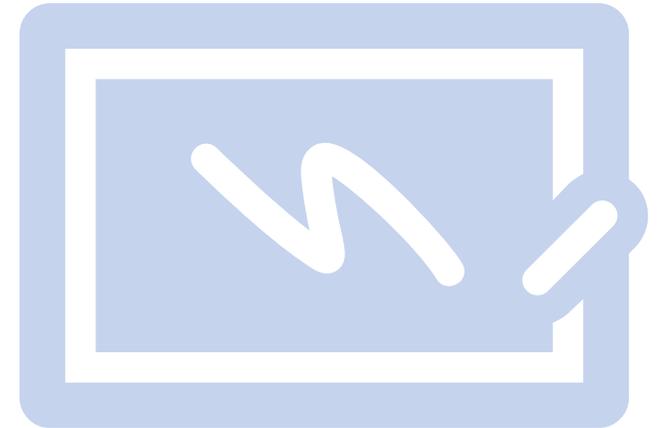
Financial

# Cultural Benefits of Succession Planning

Organizations that have a succession planning process demonstrate commitment to long-term stability. This can be both reassuring and motivating for employees. The cultural benefits of succession in an organization come from its structured, dependable process.

A well-designed plan makes it clear how candidates are identified, developed, and tracked over time. This transparency reduces uncertainty and strain on shareholders, board members, and clients who count on organizational stability. Having a clear, transparent plan is also reassuring for employees — both in times of transition and in times of stability. Employees see that their leaders have a plan and that steps are being taken to build a leadership pipeline that will be sustainable in the long term.

Studies show that general anxiety is significantly correlated with ambiguity and a lack of structure.<sup>4</sup>



# Cultural Benefits of Succession Planning

Beyond offering reassurance, succession plans can be highly motivating. The succession planning process involves identifying and developing talent, which demonstrates to employees that high-performers will be recognized and rewarded.

This creates a culture of learning and growth that motivates individuals to do their best. Therefore, succession plans can boost employee motivation and performance too.

**Culture** refers to the social and behavioral norms that are common among a group of people; it is a product of shared values and a common mission and vision.



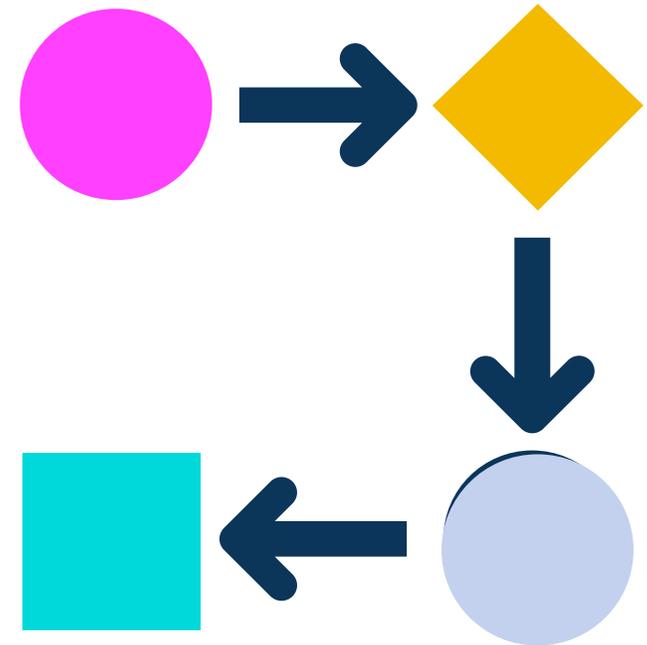
# Succession Planning as a Foundation for Diversity

Diversity, Equity, and Inclusion (DEI) have become critical elements in organizational policy — so much so that many organizations now include DEI messaging in their mission, vision, and values statements. Additionally, succession planning can be used to build a foundation for DEI initiatives. A succession plan, by nature, promotes diversity through its objective process for talent development and promotion. A proper succession plan reduces similarity bias and other elements of conscious or unconscious partiality by focusing on the competencies and skills required for success in critical roles. Further, assessments can help inform decisions about candidates, thereby limiting the opportunities for bias to influence selection processes. Succession plans can also make leadership pipelines more equitable and inclusive by providing opportunities and developmental support to a diverse range of employees. Not only that, when organizations are transparent about their succession planning process and advocate for objective decision-making, they are more likely to attract and retain diverse talent. Therefore, succession planning can be used as a powerful tool for accomplishing goals around DEI.



# Operational Benefits of Succession Planning

Of the many benefits associated with succession planning, operational benefits may be the most apparent. The operational benefits of having a strong succession plan include increased employee morale, greater job satisfaction and commitment to the organization, and an improved ability to attract and retain talent. Succession planning also helps organizations build a talent bench around each critical role. These talent benches allow organizations to reap the benefits of having a stronger set of leaders, even though only a handful of them will become successors in the future.



# An effective succession plan can help organizations:

- ✓ Identify critical roles and create clear job descriptions.
- ✓ Identify multiple candidates for each critical role so that vacancies are filled with the best candidate, rather than the only one.
- ✓ Ensure successors are prepared to step into vacant roles.
- ✓ Develop strong leaders who benefit the organization every day, not just in their role as successors.
- ✓ Reduce the time for onboarding candidates into new roles.
- ✓ Create a standardized process for succession planning that can be easily communicated, replicated, and scaled across other teams and departments.
- ✓ Demonstrate the organization's commitment to invest in their employees, resulting in improved attraction and retention of top talent.
- ✓ Train employees now for future roles by upskilling them in their current capacity.
- ✓ Make merit-based decisions that help organizations maximize performance.

# Financial Benefits of Succession Planning

Often, when organizations think of succession planning, they primarily think of the cost — the time spent planning, the capacity spent training, and the dollars spent consulting. Many are unaware of the fact that [a strong succession plan saves money](#), and that there are costs to not having a plan. In fact, when it comes to unplanned succession, the stakes are higher than most people think.

Recently, a study of the world's largest 2,500 public organizations found that unplanned succession costs an average of \$1.8 billion in shareholder value.<sup>5</sup> These expenses come from a combination of direct and indirect costs.



# Direct Costs of Not Having a Succession Plan

- Severance packages.
- Recruiting or executive search firm expenses.
- Unplanned board meetings with unexpected travel costs.
- Time spent reviewing resumes.
- Screening candidates and conducting interviews.
- Discussing alternatives.
- Premiums paid for unplanned and external hires.
- Lawyers, consultants, public relations, and more.

According to new benchmarking data from the Society for Human Resource Management (SHRM), the average cost per hire in 2022 was \$4,700. However, employers estimate that actual costs are closer to three times the position's salary.<sup>6</sup>

It usually takes 1-3 months to complete an external hire. That's a long time for a ship to sail without its captain! This is why it's especially important to have a succession plan for leadership positions and other critical roles.<sup>7</sup>

# Indirect Costs of Not Having a Succession Plan

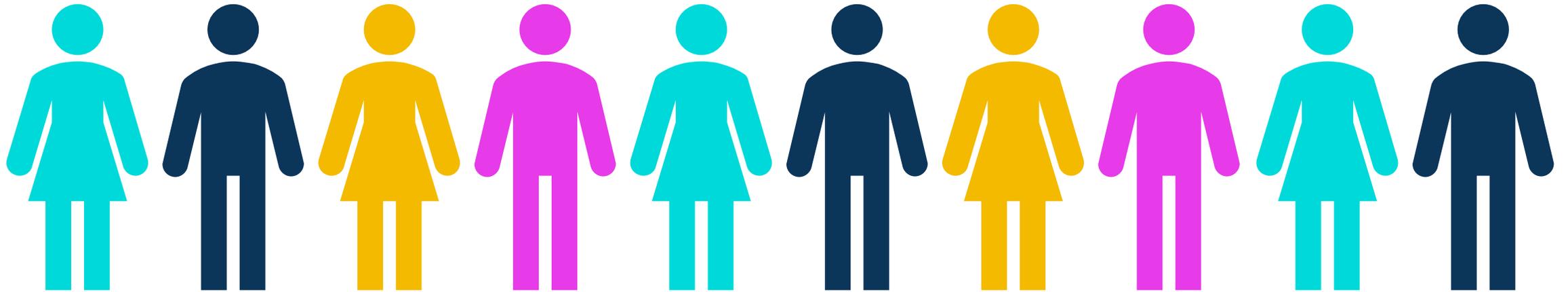
- The time and capacity lost while onboarding unprepared candidates.
- Perceived instability within the organization.
- Damage to third-party relationships, such as clients, suppliers, or contracts established based on relationships with outgoing leadership.
- Lower morale and disrupted team dynamics.
- Expenses related to establishing new strategy and procedures.
- Further turnover as employees leave for more stable organizations.
- Loss of revenue, earnings, and share price for public organizations.

## **Turnover is contagious.**

A study by LinkedIn showed that 59% of respondents considered leaving their job as a direct result of a colleague's resignation.<sup>8</sup>

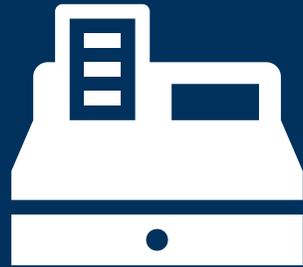
# Financial Benefits of Succession Planning

The cost of unplanned succession doesn't show up as a line on a balance sheet. There are relative degrees of costs associated with how unprepared an organization is for succession. A study of organizations that had engaged in a search for a CEO concluded that the longer the organization took to name a successor, the greater their performance suffered.<sup>9</sup> We've seen this happen among our own clients as well. Not having a succession plan can be very costly for organizations both in the immediate term and in the long term; it's the ripple effect of a talent pool that hasn't been built for the future.



# Financial Benefits of Succession Planning

There are financial benefits to having a strong succession plan — benefits that many leaders (44%) find hard to believe.<sup>10</sup> Having a strong succession plan increases organizational productivity, reduces down-time during onboarding, helps to sustain client relations, and boosts investor confidence in the organization. These factors can significantly improve both revenues and stock prices for publicly traded organizations.



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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