

*Energy insights*

# *Succession planning: What is the cost of doing it poorly...or not at all?*

## **At a glance**

**There are substantial benefits to be gained by identifying talented employees – including those deep in the organization with specialized skills – and coordinating their training and development to prepare them for the future.**

**Investing the proper amount of time and effort needed to carry out a fully defined, organization-wide succession planning program is crucial.**

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## Introduction

*Succession planning can provide a long-term competitive advantage for companies in the energy industry. The key is investing the proper amount of time and attention to ensure that pivotal talent is identified and nurtured.*

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By Todd Hoffman and Stanley Womack

Most companies today claim to have a succession planning program in place, designed to identify talented individuals throughout the organization and prepare them for defined leadership roles. In many cases, however, these efforts are focused only on a handful of high-potential executives who are considered next-in-line for C-suite positions. Beyond that first or second organizational layer, the succession planning team typically has only minimal awareness of the employees who actually produce results for the company – the “pivotal talent” that makes the organization successful. Nor is there an in-depth understanding of the skills and experiences those individuals will need to round out their development and make them capable of handling more responsibility in the future.

For companies in the energy industry, the lack of an in-depth, corporate-wide succession planning program can be especially troubling. Today’s oil and gas business has two unique characteristics that make it critical for smart companies to invest in a coordinated, holistic employee development effort.

First, because of the highly specialized and technical nature of the industry, most energy companies have a handful of non-executive employees – including some five or six layers deep in the organization – who have a significant impact on company results. These individuals typically have unmatched technical knowledge and experience that is critical to the company’s core mission in key areas such as geosciences, offshore and international operations, reservoir engineering/completions or project management. Losing a handful of these pivotal talents over a short time frame would cripple some companies. And in the case of especially skilled employees working in highly technical fields, finding and recruiting equivalent talent from outside the company would be extremely difficult if not impossible; there simply aren’t many workers in the industry with similar expertise.

Second, many energy companies still haven’t solved the well-publicized “talent gap” issue, caused by the industry downturn in the 1980s when many young employees were laid off and left the business and new hires were non-existent. There is still a considerable demographic disparity at many firms, with a scarcity of employees who could be considered “bench talent” with the experience to step in as leaders over the next few years.

In short, there are substantial benefits to be gained by identifying talented employees – including those deep in the organization with specialized skills – and coordinating their training and development to prepare them for the future.

In fact, when performed properly, succession planning can provide a significant long-term competitive advantage, ensuring that the company has the talent, skills and expertise to achieve its strategic objectives over time. Investing the proper amount of time and effort needed to carry out a fully defined, organization-wide succession planning program is crucial.

### ***Developing – not just replacing***

Companies that do practice successful succession planning typically view it as a development process versus a replacement process. When critical openings occur, these companies are ready to fill the positions with skilled, experienced internal candidates because they have planned for such a transition – by ensuring that the individuals selected have been exposed to the proper training and career development opportunities. And they are also ready to move selected employees strategically – like pieces of a puzzle – to fill the resulting positions that open up. In these organizations, the loss of one key employee results in improved career opportunities for multiple high-performing people, and the company continues on even stronger than before.

Of course, this type of measured, planned approach requires a great deal of work and focus, underpinned by the strategic direction of the organization. It takes into account the skills, abilities and personal attributes of all pivotal employees – and their potential replacements – and compares them with the values and cultural “DNA” of the organization to ensure the best possible fit for every critical position within the company.

### ***Five elements of success***

Successful succession planning programs typically require input and effort from a wide range of key individuals across the enterprise. Senior management, human resources, training and development and managers and supervisors all have ongoing roles to play in identifying and developing talent and ensuring that succession activities are seamlessly embedded into the organization.

In fact, implementing a succession planning program is no different than the rollout of any other important corporate initiative, requiring a focus on change management, communication and cultural alignment that must be actively managed. While these may be customized depending on the organization, successfully implemented programs share five common elements.

First, they are integrated into the organization’s long-term business strategy. Successful companies think beyond hiring or promoting for today – they are interested in the skills and experience they will need to be competitive tomorrow. That means understanding where the industry is headed and how the company plans to move forward over the next five to 10 years. What areas of the business will grow? What areas will be scaled back? Is it likely the company will expand through acquisitions, which could bring new talent on board? How will technology change the way work is performed? And for companies involved internationally, what types of national content needs – and talents – will emerge?

To be successful, succession planning teams must identify the core competencies required for a broad range of key positions, including those that may not even exist today. They must also evaluate the company’s current capabilities and develop or acquire the learning and training opportunities that are required to fill the gaps. In addition, they need to be aware of the functions and business units that will need an infusion of outside talent in the future, and begin working now to bring in new employees with the proper skill sets or at least the foundation in these skill areas.

Second, successful programs are owned by the senior management team. As with any corporate initiative, buy-in and involvement from the C-suite is imperative. The company's leaders must understand the value of succession planning, and they should be involved in coaching and development of talent – beyond just their immediate reports. The leadership team should have some level of accountability, too, with compensation tied in part to succession planning metrics.

Third, the company must continually assess key talent to determine if pivotal talent has the proper competencies and experience needed to move beyond their current positions. Ongoing assessment is critically important for energy companies because of the technological nature of the business and the scope and scale of work projects.

It's a common fallacy that an individual who is doing a good job in his or her current position is ready for promotion. The succession planning team needs to determine the leadership and management requirements for each critical position in the company, and then determine if there are high-performing employees who meet that detailed criteria. If the identified candidates do not yet have the full range of required skills, the succession planning team must determine the training or work experience that will help fill the gaps.

For example, some employees might be encouraged to return to school to earn an MBA. Others might benefit from leading a cross-functional project team or taking a specialized training class. Still others might require a short-term assignment in other business unit. The key to remember is that every employee is different, and thus every development path should be different, too. Communication with high performers is critical to ensure that employees understand what the company is working to accomplish through these recommendations, and that they see assignments and training as part of a tailored plan designed to improve their value, not random suggestions.

Assessing talent regularly is also important because, as we mentioned earlier, filling one position typically creates a cascading effect that involves a number of employee moves. The company must be ready to act in order to keep positions filled and employees moving properly on their development path. In some cases, an employee may need a horizontal move to fill gaps in their skill set, or a diagonal move to help round out experience for two positions down the line. For this reason, it is important that the company's culture recognize the fact that development often occurs via a "career lattice" rather than a "career ladder."

In other words, climbing straight up quickly is no longer considered an ideal approach for career development because it eliminates the opportunity to gain valuable experience in different functions – experience that can help the individual obtain a broader, more complete view of the company and how it works.

One caveat: Because the energy industry is an international business, many companies strive to give high-potential employees experience in overseas operations. It is crucial that these moves be made with care, because studies show that ex-pat employees are more likely to seek employment outside the company upon their return than those who remain in domestic positions. Screening for overseas assignments should be done very carefully, and every attempt should be made to communicate with potential candidates to ensure that they – and their families – can adjust to such a move. Sending an employee who has school-aged children or an elderly dependent to a remote location might create undue hardship and negative feelings, which could ultimately drive the individual to leave the company.

Leaders involved in the succession planning process should not be afraid to talk with candidates to gain an understanding of their unique personal situations before recommending ex-pat assignments or other key rotational assignments outside of the normal work location. Remember that succession planning is really about developing individuals, not just filling positions.

In addition, sending a top performer to a remote location without ensuring they remain connected to the home organization can sometimes make the employee feel forgotten or abandoned. Regular interaction with managers back home is critical, and all ex-pat employees should have combined home country-host country evaluations, at least annually, to ensure that they are obtaining the desired skills for development and not just marking time in a position that has no future.

Fourth, companies must ensure that succession planning is linked to other talent management processes and practices, including job titling, training, compensation, learning and development and rewards and recognition. For example, as mentioned earlier, a successful succession planning program will often require employees to accept lateral or diagonal career moves to round out their experience. Ensuring that employees' job titles and compensation opportunities are not diminished by such moves is critical to employee acceptance and job satisfaction.

Finally, companies must monitor and evaluate the performance of their succession planning efforts, and make adjustments as necessary. Some key metrics used by successful companies include measurement of the reduction in the cost of turnover, percentage of key vacancies filled by internal candidates and number of successful promotions.

Also, some companies use employee surveys to identify the engagement levels of high performers as well as others to gauge how they feel about the company's career development efforts.

### ***In summary***

Companies that view succession planning as a one-time effort – with a deliverable that consists of nothing more than a binder with proposed organizational charts – will be disappointed in their results. But investing the resources necessary to maintain an ongoing, in-depth succession planning effort is worth the time and effort.

Companies that lack the in-house resources to develop and maintain the many tools, processes and protocols related to succession planning can rely on a third-party consultant to provide strategic guidance and ongoing assistance. An experienced consultancy firm can ensure that your program includes:

- Organizational and cultural alignment – Identification and development of successor candidates is aligned with organizational strategy, culture and growth.
- Integration for sustainability – Succession planning is linked to other talent management processes, including rewards, recognition and staffing.
- Comprehensive talent assessment – Structured, data-focused evaluation tools that focus on assessing talent, readiness and potential are used to identify talent across the organization.
- Accelerated talent development – Leadership development programs that leverage a multidimensional learning approach.
- Targeted communication strategies – Top talent is made aware of their status to improve engagement and retention.
- Enabling technologies – The succession planning process is automated, linking performance management, career planning and development.

In the end, the proof of your program's success is the company's ability to maintain and grow its competitive position over time – an ability that requires leaders who have the proper knowledge, skills and expertise. In today's world, one or two wrong promotions can be catastrophic.

In that context, management shouldn't ask "what does succession planning cost?" The proper question is, "What is the cost of NOT implementing a strategic succession planning program?"

## Authors

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