

Establishing a sustainable utility succession planning program



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Utilities are in an unprecedented state of change. Customers want reliable service on demand, they don't necessarily want to pay a lot for it, and some of them want to tell the industry how to produce it. Currently, utilities are faced with the following high level issues:

- > scrutiny from the current administration
- > pressure from regulators, ratepayers, and environmentalists
- > changing markets and pricing
- > technological changes, orders, and choices
- > fuel landscape impacts
- > cybersecurity impacts
- > regulatory compliance
- > oh, and our workforce is aging and needs an orderly transition

According to the Bureau of Labor Statistics, the average age of the electric industry worker is 47, and the industry unemployment rate is 3.9 percent. Earnings average \$37/hour. These indicators would point to a robust industry with the ability to attract and retain workers, but also one with concern about maintaining a vibrant workforce to replace retiring employees.

The age distribution of the average utility's workforce skews to the right as shown in Figure 1.

By some estimates, over 50 percent of executive level industry employees will be retiring in the next 10 years. The need for talented individuals to replace retirees is critical to maintaining the energy industry's standards of excellence and reliability of supply to its customers.

What is succession planning?

Succession planning is the process of identifying high-potential employees, evaluating and honing their skills and abilities, and preparing them for advancement into positions which are key to the success of business operations.

Succession planning involves:

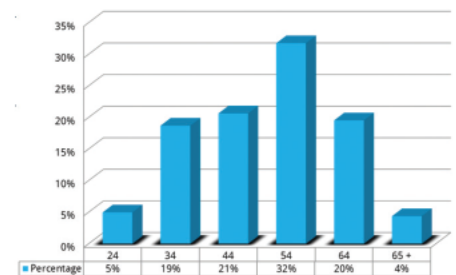
- > understanding the organization's long-term goals and objectives
- > identifying the high-potential candidates and their respective developmental needs
- > determining workforce trends and predictions

A successful program creates a culture of attracting, developing, and retaining quality talent by:

- > **Identifying top talent**—recognizing leadership talent based on consistent assessments and competencies
- > **Developing and retaining top talent**—ensuring growth plans are in place to retain and advance internal talent, which will in turn increase employee engagement
- > **Building internal strength**—renewing a focus on creating an internal talent pipeline, filling open positions quickly, and ensuring appropriate career growth

The Baker Tilly emphasis on industry specialization prepares us to offer honest, informed ideas and act decisively.

Figure 1. Utility industry age distribution



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The makeup of the utility workforce guarantees that succession planning will continue to be an issue that must be addressed in the industry for years to come. Establishing a formal succession program is critical to attaining utility strategy and maintaining service.

Tying succession planning programs to long-term strategies

According to studies, the average cost of replacing a utility employee is \$150,000 to \$200,000. Factoring in the metric that 46 percent of industry employees are aged 54 or older, a key utility strategy must be succession planning.

With an industry unemployment rate of 3.9 percent and an earnings average of \$37/hour, it seems utilities would have the upper hand when attracting and retaining workers. However, a succession planning program should strategically play to these industry strengths.

The main industry needs for intellectual capital are in the areas found in Figure 2.

Within each of these areas, specific skill sets needed range from the operational side (e.g., engineering, line crews, information technology) to the financial side (e.g., accounting, finance, upper level management).

Fortifying these areas of desired skill and ability involves developing a formalized strategy that addresses:

- > recruiting
- > strategic goals
- > performance measures and assessments
- > knowledge retention and transfers
- > compensation and rewards structure

The key is attracting and retaining talent not only for leadership, but also for areas of utility operations. This may or may not involve some organizational change and adjustment to internal culture.

Where do we start?

The most effective way to begin is to first look internally at your employee demographics, meaning ages and knowledge capital. At first blush, you might think that things are in an undesirable condition—that:

- > operations are already lean
- > employee retention is an issue
- > the candidate pool is small
- > the population is aging
- > there are geographical challenges in maintaining our workforce

Only once current operations are understood through a “gap analysis” of the present state can a roadmap be established to address your situation.

Figure 2. Areas in need of intellectual capital



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Effective approaches

An effective succession planning program has these characteristics:

1. It's tied to organizational goals
2. There is visible and vocal support from the top
3. Required competencies of employees are proven
4. Employee skills are readily assessed
5. Training can be tailored to individuals or groups
6. Roles are well defined

The effective succession planning program uses this framework:

Figure 3. Succession planning framework



There are many details under each of the steps above, but we think the two keys are performing an in-depth gap analysis of future needs compared to current staffing and talent and developing a detailed plan for knowledge transfer, training for existing employees, and recognizing hiring needs to assist in closing the identified gaps.

Resources and tools

Tools that are effective in succession program execution are those that examine the skill sets of current employees and will aid in the development of a roadmap towards the succession planning goal. These include:

Tool	What it is	How it's used	Effort to complete
9 box grid	A chart that identifies an employee's performance and potential. It provides a visual overview of staff capabilities.	Assists with the identification of staff who are prospective candidates for promotion.	Minimal—once initial assessment is complete, then this is updated semi-annually.
Individual talent profile	A tool that provides a summary of an employee's background, competencies and performance.	Helps identify strengths and weaknesses so that a development plan can be created to assist with developing staff talent.	Moderate—completed annually.
Action plan	A plan that lists detailed actionable items and due dates of tasks that are to be completed so that an employee's competencies are improved.	Helps set goals and time lines for when staff should be exposed to new opportunities or training.	Moderate—semi-annually.

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These tools serve a number of objectives that can include:

- > initial employee skills assessment
- > documentation for the employee, reviewer, overall program, and human resources as to employees' performance
- > a roadmap to keep all parties on track towards goals that are set
- > a roadmap that can be changed for changing circumstances and/or company needs

The detailed work is in the initial employee assessments and discussion of common goals. After that, these tools can become part of the employee evaluation process. These tools should not be static—as utility strategy changes and is impacted by industry events, so too does the roadmap need to evolve.

Summary

The changing workforce demographics call for planning for succession to the next generation. The playbook that was used in the baby boomer generation doesn't necessarily work for the millennial generation. This is neither good nor bad but just is key to employment strategy in attracting and retaining qualified personnel that will both run our current operations and have the foresight to develop and implement our next strategies needs to use tools such as:

- > embracing generational differences
- > improving organizational communication and workforce connection
- > using technology
- > collaborating on resource development

Formal succession planning is effective because it allows for transfer of knowledge while showing a career pathway to the next generation of your utility's workforce. These programs, coupled with communicating the positives of your organization, ensuring competitive pay, job advancement, and security will lay a firm foundation for sustainability of your utility and its strategies.

For a further discussion or questions of this and other utility management topics, please contact us.