



Performance, Compensation & Talent Management Committee

Agenda Item 5a

September 17, 2024

Item Name: Succession Planning Overview

Program: Human Resources Division

Item Type: Information

Executive Summary

This agenda item will provide an overview of the CalPERS Succession Planning framework. Our plan will initially focus on the Chief Executive Officer (CEO) position and members of the executive team before expanding to other leadership levels within the organization.

Strategic Plan

The CalPERS Succession Planning framework is directly aligned with our 2022-27 Strategic Plan, particularly the goal of Organizational Excellence. By implementing a comprehensive succession planning process, we will ensure business continuity, enhance leadership development, and maintain a strong leadership bench.

Background

Succession planning is a critical component of human resources management for any organization, including CalPERS. Succession planning ensures that we can maintain business continuity, develop future leaders, and retain top talent by providing clear career paths for high-potential employees. It also aligns with California Department of Human Resources (CalHR) requirements, which mandate that all state agencies develop and implement succession plans to ensure a stable and qualified leadership pipeline. We are committed to implementing a comprehensive succession planning framework that will:

- **Retain Top Talent:** By providing clear career paths and development opportunities, we can retain high-potential employees who are crucial to our future success.
- **Increase Engagement and Productivity:** Engaged employees are more productive, and a transparent succession plan fosters greater workplace engagement.
- **Reduce Risk of Leadership Gaps:** Succession planning helps avoid gaps in critical roles when leaders or key employees leave the organization.
- **Ensure a Diverse Workforce:** Our succession planning will actively promote the development of a diverse workforce that aligns with and enhances CalPERS' Core

Values. By focusing on inclusivity, we aim to ensure that our leadership reflects the diverse perspectives and backgrounds of the communities we serve.

In March 2024, the National Association of Corporate Directors (NACD) Board Advisory Services presented the results of the CalPERS Board 2023 Self-Assessment to the CalPERS Board of Administration. The self-assessment identified CEO Succession Planning and Talent Oversight as key initiatives of the board in the coming year. Specifically, the board underscored the importance of establishing a sustainable and rigorous process to identify potential CEO successors, both within and outside CalPERS. This was recognized as a key fiduciary responsibility and a priority for the next two years, with a particular focus on enhancing executive management succession planning. Over the next two years, the board would also like to have further discussions regarding talent development, retention, and succession planning for key executive roles.

Analysis

The Human Resources Division has conducted extensive research into industry best practices. We have drawn insights from other government agencies, private investment firms, and organizations dedicated to research. Research shows that the following are necessary components of effective succession planning:

1. **Leadership Commitment:** Leadership must actively support and participate in succession planning to ensure that the future leaders are prepared to meet an organization's long-term objectives.
2. **Clear Objectives:** Succession planners clearly identify the critical roles that require succession planning and the key competencies needed to ensure success in those roles. Human Resources professionals use evidence-based assessments to evaluate potential candidates, ensuring that selections are based on merit and organizational fit.
3. **Comprehensive Talent Identification and Development:** Succession candidates were regularly identified, assessed, and developed. Personalized development plans were created for each successor, which enhanced their leadership skills, industry knowledge, and other relevant competencies.
4. **Diversity and Inclusion:** Organizations should actively seek to develop and promote a diverse pool of candidates to reflect the organization's commitment to inclusion. This is done by Human Resources professionals who implement processes and tools to reduce bias in the selection and development of successors.
5. **Sustainability:** By regularly measuring the progress of succession planning efforts, succession plans can adjust to address changes in the business environment or organizational structure.

Topic for Discussion

With direction, participation, and support from CalPERS board members, the Human Resources Division will develop a Succession Planning framework. We will begin by completing a Workforce Environment Impact Analysis. This analysis will use CalHR workforce planning data, existing CalPERS workforce data, and industry best practice research to analyze the current and future capabilities of a role. Then, we will identify potential successors for each role, assess their competency levels, and create personalized training plans that fill any competency gaps and enhance their strengths. Information from the Workforce & Environment Analysis,

Leadership Competency Level Assessments, individualized Succession Management Plans, and Leader Readiness Evaluations will be presented to the board in the form of an Annual People Review. The Succession Planning framework will be integrated as part of the 2024-2029 Workforce Plan. In the future, we hope to use the new Oracle system to backfill the mid- and senior level positions left behind by executive and CEO succession candidates.

As we approach succession planning for the CEO, it will be critical to ensure that the board is supported and that their feedback is sought and acted upon. Industry best practice research suggests that there are several ways this could be approached:

1. **CalPERS Human Resources:** The CalPERS Human Resources team can lead succession planning efforts under the board's direction and CEO guidance. This will ensure consistency with the methodology used for executive team and senior leader succession planning.
2. **Succession Planning Consultant:** We could consider the use of a Succession Planning consultant. They would provide a level of support for one or all the CEO succession planning phases listed above. For example, a consultant could be used to administer candidate readiness profile assessments, executive coaching, upskilling, or for overall Board consultancy on the topic.

Attachments

Attachment 1 – Succession Planning Overview

The PowerPoint presentation outlines CalPERS' Succession Planning Framework, emphasizing the importance of aligning succession efforts with CalHR requirements and the organization's strategic goals. It details a phased approach to ensure leadership continuity through evidence-based assessments, stakeholder involvement, and the integration of succession planning into broader performance management and workforce development strategies.

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