

Succession Planning

Creating Value, a Culture and a Legacy

Strong leadership sets the tone for a company in both culture and legacy.

All business owners hope to increase their companies' monetary value. But forward thinking leaders also want to build a positive corporate culture and develop a top notch leadership team. Planning for the smooth transition of the business in the future can only enhance company value.

Making sure your organization has a strong and positive culture, good infrastructure, and talented people in key positions will allow future challenges to be met with confidence.

A long-term succession planning program to identify, groom and mentor future leaders enables current executives to develop deeper relationships with the next generation and strengthen the organization from within, giving the business a strong foundation. Strategic planning should include the identification of future needs, personal goal-setting to identify human potential, professional development to foster internal capabilities, and mentoring to support all of these processes. Without this sort of development, the unexpected loss of leadership in an organization may put the company's survival in jeopardy.

Succession Planning Facts

Among family owned businesses, only one third survive into the second generation, 12 percent into a third and a mere 3 percent into a fourth generation. Often this is due to a lack of succession planning; the poorly handled transition of a business can cause substantial loss in a company's value.

The National Association of Corporate Directors reports that fewer than 25 percent of privately owned businesses have a formal succession plan.¹

Here are a few reasons why leaders *don't* have succession plans:

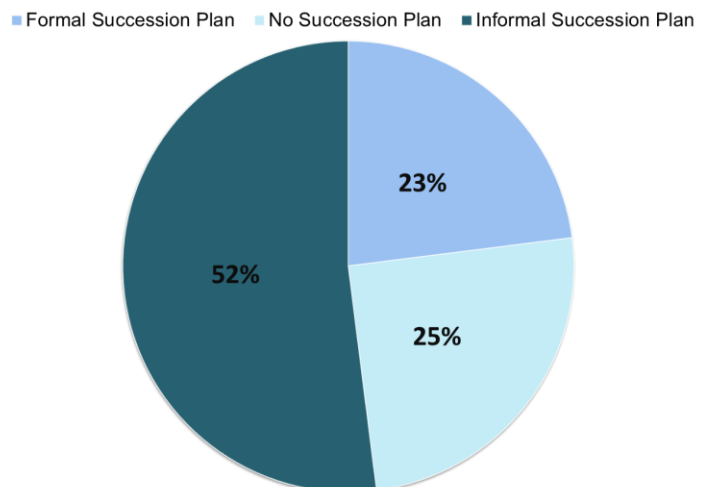
- They have a scarcity mentality vs. abundance.
- They're too focused on day-to-day operations.
- They don't know how to begin the process of choosing the right successors and management team.
- They don't want to talk about their financial and personal matters.
- The process seems too complicated.
- There is no perceived immediate value.

Owners and executives are busy managing their companies, developing sales opportunities and fending off competitors. However, lack of succession planning can have disastrous consequences. Without a plan you lose control over the outcome of the business after your departure, decreasing chances for your company's survival. Failure to plan diminishes the intrinsic value of a business.

Process Management

Succession planning is a multifaceted process. There are many people involved: owners, c-suite executives, advisors, management team and employees, to name a few. It takes focus, development and time.

Privately Owned Businesses with Succession Plans



Incorporating various business disciplines requires you to:

- Examine and define the culture and subculture of the organization, reviewing strategic goals, vision and priorities,
- Implement corporate and individual goals that are measurable, actionable and timely,
- Identify the company's financial resources for strategic planning and succession planning,
- Analyze marketing, sales and finance,
- Incorporate a formal or informal training and mentoring system,
- Create an organizational chart with clear roles after detailing attitude, knowledge, personality profile and skills needed for success in each role,
- Identify who and what could be potential roadblocks in closing the gap between where your company is and where you want to be.

Strategic planning takes into account the three key components of the business advisory wheel: human capital, systems and accountability. If this work is done, the results go beyond succession planning. Your company will have a proficient and accountable business culture with employees who are well equipped to meet current and future challenges.

Within any succession plan should be a list of potential trigger events such as death, disability or retirement of an owner or key employee, unexpected departure of stakeholders, or a substantial change in profits or operations. Planning for change is tantamount to planning for the future.

Implementation and Reevaluation

Make sure that your succession plan can be implemented by verifying that it is both financially and legally sound. You must be sure that the plan meets your objectives and has legal standing.

Create a detailed summary of the succession plan. At the time of transition, the summary will give company leadership, stakeholders, customers, lenders and suppliers a clear vision of where the company is heading and assure them that the business will remain stable.

Your plan should be periodically reviewed and updated as necessary, and a formal process should be in place for choosing successors. A properly crafted and implemented succession plan can deliver exceptional value to all those involved.

What will be the legacy of your leadership team?

Succession Planning Case Study

Plan Now, Be Prepared Later

Early succession planning is an integral part of the business advisory process, and essential to the future success of an organization. The following case study shows how a consulting firm with 100 employees used a succession planning model to proactively plan for a founder's retirement.

Background

At the time of transition the three founders of the company were the CEO, Director of Consulting, and Director of Sales and Marketing. Once a three-person organization, the company today has 15 employees in sales and marketing, 70 consultants, and approximately 15 employees in accounting, IT and sales support.

Sally is Director of Sales and Marketing. With 14 direct reports and 20 years of experience in this role, her knowledge of the consulting business and gift for developing and executing solid marketing plans are her strengths. Sally, gregarious and possessing top-notch interpersonal skills, expertly communicates the value of her firm's services to clients and skillfully manages her team.

Ongoing Employee Development

Leadership transition can be planned or abruptly forced upon a company. Sally and her partners have deliberately groomed, mentored and developed potential successors in the event of a leadership or management transition. This is an ongoing effort. So, when Sally announces her retirement, it is not a difficult conversation: they already have a succession plan in place. The executives have witnessed succession planning gone wrong in larger corporations, and they know it is critical to get it right.

Groom for Growth

Thinking about who could take her place after retirement, Sally notices that one candidate stands out. John, a Regional Sales Manager and long-term employee, has leadership experience and a certain finesse.

Sally begins to include John in meetings with other top executives; this allows them to assess his interpersonal skills along with his leadership and management abilities. Sally takes the time to groom her successor and have candid conversations with him about her expectations for his professional growth.

Successful Succession

Preparation through ongoing financial planning was reflected in the budget, and when the time came for Sally's retirement, the founders were able to buy her out. In the same way, a compensation plan had been designed for the new Director of Sales and Marketing, complete with incentive bonuses tied to company objectives.

Sally knew she had chosen the right successor because employees viewed him as a leader even before she officially departed. When she retired, the firm and John were prepared. John accepted the salary package and became the new Director of Sales and Marketing. This seamless transition was a result of active planning and ongoing development.