


Succession Planning as a Management Strategy

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Objectives

- ▶ Understand the scope and complexity of SP
- ▶ Identify the key components of SP processes
- ▶ Establish a foundation for launching a SP process

Topics

- ▶ What is at Stake?
- ▶ Scope and Definitions
- ▶ Key Questions and Considerations
- ▶ Succession Planning Strategies
- ▶ Best Practices in Implementing a Succession Plan
- ▶ Selecting, Preparing and Evaluating Successors

There is no “one-size-fits-all” formula for Succession Planning

When to Start Planning . . . ?

- ▶ SP -- an integral part of starting and managing your business
- ▶ SP is a process that takes time
- ▶ SP has short- and long-term consequences
- ▶ SP impacts multiple stakeholders

Defining SP

Succession Planning is the process of selecting, training, and formalizing **interim** or **long term** replacements for top managers in the event of their **untimely departure** or **retirement** from the company.

Definitional Perspectives

- ▶ “Filling the Empty Chair” – replacing yourself as head of the company



- ▶ Filling the organization’s key positions and building internal bench strength through succession management

CEO Succession

- Are you willing to face the reality that you will retire at some time?
- Is there a plan for your unanticipated departure or incapacity?

Key Person Succession

- ▶ Short term replacement
- ▶ Long term replacement
- ▶ Development and alignment with the future of the market/industry
- ▶ CEO succession in a large corporation

What is at Stake?

Why is succession planning important?

At the top . . .




Even large, public- or privately-held corporations are impacted by and sometimes have difficulty transitioning from one CEO to another

- ▶ SPs alleviate employee uncertainty in times of change
- ▶ Guide management successors in conducting business
- ▶ Assure customers and the marketplace

In key positions . . .

- ▶ At the executive level, by the year 2020, 64 million people, or 40% of the workforce will be poised for retirement
- ▶ Costs of replacement (churn) in terms of
 - Productivity
 - Head-hunter expense (20-40%)
 - Lost company knowledge and experience
- ▶ Generation succession (failure) rates

Scope of the SP Problem

- ▶ Short term risk management 
- ▶ Long term loss prevention 
- ▶ Opportunity to strategically restructure/
realign the company 
- ▶ Succession Planning/Development as a
component of integrated management
excellence

CEO SUCCESSION PLANNING STRATEGIES

CEO Succession Considerations

- ▶ Emergency vs Planned Succession
- ▶ Business Succession Structure Options
 - Corporate Shareholders
 - Partner-Owners
 - Employees
- ▶ Personal Goals
- ▶ Family Interests
- ▶ Availability of Potential Successors
- ▶ Who participates in the process (and when)

CEO SUCCESSION STRATEGIES

- › Identifying/Mentoring a Successor
- › Transitioning Managers to Leaders
- › Family Planning as Successors/Heirs
- › Buy-Sell Agreements Among Multiple Owners
- › Merger/Acquisition
- › Selling the Business

Identifying/Mentoring a Successor

- › Future vision of the company
- › Knowledge and leader skills base
- › Professional development program
- › Tactics for vetting the candidates
- › Revealing THE chosen successor
- › Mentoring

Preparing a successor is a vital and unique responsibility of a CEO

Manager to CEO Transition

- | | |
|---------------------------------|-----------------------------------|
| › Focus on tasks and objectives | › Focus on people and performance |
| › React to events | › Seek new opportunities |
| › Control risks | › Take risks |
| › Enforce rules | › Change the rules |
| › Seek and follow direction | › Provide vision |
| › Coordinate effort | › Inspire achievement |

Managers

CEO Leaders

SP in the Family Business

- ▶ Can your family run the business—successor?
- ▶ Liquid assets to hire a successor--insurance?
- ▶ Partners agreement to buy at a fair price?
- ▶ Estate planning: accounting/tax issues, insurance, investment, and legal issues?
- ▶ If you retire, are you willing to give up (some/ enough) control?
- ▶ Are you and your spouse in agreement as to the ultimate disposition of the business?

The Costs of Not Planning in the Family Business

- ▶ Loss of business to estate taxes
- ▶ Loss due to lack of liquidity at time of death
- ▶ Loss due to lack of formal ownership transfer agreement
- ▶ Loss due to lack of trained family successor
- ▶ Loss due to family conflicts

Are you willing to pay the costs of business succession planning to ensure your investment in your business pays off for you and your heirs?

Buy-Sell Agreement Basics

- ▶ A contract among partners/shareholders
- ▶ Events and conditions which trigger agreement
- ▶ Voluntary and mandatory agreements
- ▶ Buy-out prices and secondary options
- ▶ Funding the buyout

Selling or Merging the Business

Critical question -- What factors impact whether or not to sell?

- ▶ Timing vis-à-vis the market/economy?
- ▶ Reasonable return on your investment?
- ▶ Continued relationship to the business?
- ▶ How does sale impact my future options?
- ▶ Mergers - pros and cons

Measures of CEO Succession Planning Success

- ▶ A board aligned on the company's vision, strategy, and challenges
- ▶ An effective CEO in place with sufficient candidates in the pipeline (both internal and external)
- ▶ Well-managed and minimized risks associated with CEO transition
- ▶ A company prepared to take advantage of the opportunities associated with CEO transition
- ▶ **Stakeholder** consensus that the succession process is fair, well executed, and will result in a good succession decision

KEY POSITION SUCCESSION PLANNING

Key Position Planning Considerations

- ▶ CEO successor-in-waiting
- ▶ Build bench strength that ensures business and operational continuity
- ▶ Use professional career development to enhance company performance AND encourage key employee retention

Proactive succession planning has the power to transform how a company develops its management talent, with results that impact the bottom line

Strategic Thinking → Planning

- ▶ How have the market and needs of customers changed?
- ▶ Survival strategies in difficult times
- ▶ New EC technologies
- ▶ Short term/long term trends in company size, geography, etc.
- ▶ Changes in skills required - both technical and management

Analyzing Management Team Strategic Needs and Risks

- ▶ Which positions are "key" to the future of the company?
- ▶ Do you have the right people in the key positions?
- ▶ Potential losses of current managers?
 - Retirement projections
 - Internal movement vacancies
 - Turnover data
- ▶ Do you have successors/backups in place?
- ▶ Are they prepared to step in as needed—the 80% rule?

Key Person Action Plan

- ▶ Training/experience requirements
- ▶ Financial assessment/budgeting
- ▶ Priorities and schedule
- ▶ Supervision and evaluation
- ▶ Commit in writing

Best Practices

- ▶ CEO formal, written succession agreement
- ▶ Long range tax and estate planning
- ▶ Critical document maintenance and access
- ▶ Involve all relevant stakeholders
- ▶ Assess internal candidates as well as family members
- ▶ Consult with outside advisors/customers
- ▶ Establish and oversee the Key Person development plan
- ▶ Targeted training, coaching and mentoring
- ▶ Use "management committee" participation as an assessment tool

Make succession planning part of your corporate culture

Summary Check List

1. Establish goals and objectives
2. Assemble a succession planning team
3. Assess needs and risks
4. Identify successors
5. Estate planning
6. Critical documentation file
7. Transfer methods and financing
8. Emergency planning and dispute resolution
9. Business valuation
10. Plan review and update as needed

NECA Succession Resources

- ▶ Contractor 101
- ▶ MEI Business Management Courses
- ▶ Executive Management Institute
- ▶ One Day Succession Planning Workshop – available through NECA MEI, includes exercises which tailor succession planning strategies and practices to your company

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