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Succession Planning: Why your company cannot afford to wait.

In recent years we began to offer services in succession planning at SpenglerFox as part of our Assessment and Development portfolio. If you look at succession planning, many company owners and/or corporate executives view it, to a degree, similar to insurance policies. It has value: but it's not always deemed a mission critical expenditure. Until it is.[1]

At SpenglerFox we work with a number of global, multinational businesses (where succession planning strategies are more common), but also we increasingly counsel smaller, successful start-up companies, where awareness of the need for succession planning is not always present. This stems, in part, from the nature of managing entrepreneurial initiatives or start-ups. The company is your baby, you've been with it from the beginning and it can become your life. But just as you would insure your child, or more importantly your own life, to protect for their future, you also need to plan for a successful future for your business: once you and your current management team are no longer at the helm of the ship.

Why engage in succession planning?

Succession planning ensures stability. A well-thought-out and scrutinized succession plan guarantees fluid management changes and successful long-term business development. Larger corporations, for example, engage in succession planning to ensure confidence among both executive and advisory board teams, as well as among their shareholders. A succession plan looks to satisfy and guarantee compliance with criteria such as continuity, stability, transparency and long-term viability. The absence of a succession plan can unfortunately lead to public bickering among managers, shareholder disputes, etc. that suggest business instability and damage both stock value and customer/client relations.

Where do we begin the succession planning process?

The process most often begins when a business' executive management team starts to think about life after their own tenure. Many factors can motivate this: upcoming retirement, possible illness or old age, advances by potential buyers, etc. It's also important to note that the process varies based on whether the company is a larger, publicly-traded business or if it's a smaller mom-and-pop company, where the family owners have been involved from day one.

To begin the process, you need to set up a medium- to long-term vision for the company. This requires detailed, frank discussions with your management team (i.e. senior managers, executives or possibly board members) on where *EVERYONE* sees the business 10 years down the road. This includes a broad array of issues such as future product/service development, company expansion (entry onto new markets), identification of successor CEOs and other executives, etc.

In this process, the best approaches encourage dialogue among current executives and board members. To ensure a comprehensive plan, we recommend that you publish briefs on board positions and invite board members to present their roles so as to ensure that the entire board understands what each member brings to the table. This allows for better discussion

[1] The consultancy firm, ProBono Australia, reports that 7 out of 10 boards they review or whose members they meet with do not have an actionable succession plan in place (*even if they think they do*).

among board members and also better informs general board evaluations and future planning: i.e. what skills might be lacking, what skills/insight will the company need from board members in the future, should we be mentoring candidates in this area already, etc.?

Once this debate has been launched, it is critical to map out all decisions agreed and put them in writing. Work based on the premise that what's not in writing does not exist. The written plan should be clear, transparent and address any and all contingencies. These might include issues such as choice of CEO (internal advancement, third-party candidates, external search), funding plans for new management appointments (pay packages, stock options, severance agreements, etc.) and the eventuality of a future sale or buy-out (who decides on the sale, under what terms, what are conditions for brand licensing, trademark regulation, etc.). Once all these issues have been sorted out, either during management or board debates, the written succession plan should be submitted to these stakeholders for a final vote and written approval.

Communications: disclosure ensures stability

Once all stakeholders mentioned above have come to an internal agreement, they should also, at the end of the process, agree how to take the information public. This, of course, does not mean that the company will reveal every minor detail of how it has planned for the future. But rather it will announce publicly that it has taken steps to ensure that the company's business is viable well into the next decade and beyond.

Communications should optimally take place in two phases: 1/ a broader internal communications effort to management, employees and business partners and then 2/ a public announcement targeted at analysts, shareholders and the consumer public.

The alternative to a well-planned, thorough communications strategy (internal and external) is chaos. This only makes partners and stakeholders worry, i.e. what is the board/management hiding, are they not sure of their new CEO appointment, is there internal disagreement: should investors expect future infighting, etc. In extreme cases, this can lead to loss of business, falls in share value and critical brand damage. So ultimately, *how* you communicate the succession planning process is as important as the process itself.

Continual process

One of the most important aspects of succession planning is to bear in mind that it's a continual process. Just as your company evolves, so will the needs of, and demands on, its management team. That is why we recommend to our clients: *keep recruitment processes active.* It's important to be aware of market developments and know that you will need to react to them. Engage your board members, have them also scout for talent and be aware of the talent strengths, and also gaps, that your board or executive team might have. Constantly review and look at issues such as skills, expertise, geographical provenance, age, gender, tech savvy, M/A experience, etc. to ensure that your executive and advisory teams can handle whatever the market throws your way.

Also take the time to nurture talent you feel might eventually fit your company's future executive management needs. This can range from maintaining a personal relationship and/or keeping them abreast of news from your company, etc. on to tapping them for information on market news and external views/feedback on your company. Similarly, regular interaction with potential future candidates for executive functions can involve participation in short-term company

projects (provided their schedules allow). There's no better way to test a potential executive-to-company fit than seeing how they work in action.

Likewise, it can be helpful (depending on the nature of the process) to solicit external opinions and feedback. Ask trusted partners and stakeholders for their advice on the "eternal WHY" that should guide your business activities: What does the company do? Why does it exist? Where will it be 5-10 years down the road? What industry risks and/or problems might pose a threat to the business?

Respect those who have gotten you where you are

Succession planning is important, but it should NOT come at the expense of the team that has served your company well in the past and which has helped lead your business to its current success. In this regard, it's critical to recognize time investment and personal sacrifice. Both executive functions (CEO, CFO, etc.) and board positions demand a lot of personal involvement and foster feelings of personal investment in a business' future development. In many cases it can be hard to leave and let go. It is critical that your board and executive team acknowledge this fact and seek (to the degree possible and feasible) outgoing executive input on new hires and transitions. However, there is one caveat here and all executive teams and board must watch out for it: you cannot let an outgoing executive or board member second-guess or undermine the work of the newly-appointed management team.

Ultimately succession planning can offer a business numerous benefits and guarantee long-term stability. However, the process is not always easy to manage and should be approached with a good dose of scepticism. Companies that plan for a "tough future" oftentimes end up better off than those, which are overly fond of their "glorious past." Make sure you set common expectations (both from the executive team and from board members) and encourage all stakeholders to speak up. There is a need for frank discussion and openness in the succession planning process. However, if you gather all stakeholders' opinions and achieve consensus on a written, broadly agreed succession plan, this will boost the likelihood of your company's future stability and success.

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