Marketing Instincts

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Succession Planning…

Can the succession minefield be avoided with a sprinkle of good planning and a pinch of wisdom?

So much has already been written about succession planning that I was hesitant to write about it. Would I be able to bring new observations? Would my comments present a fresh outlook? Most importantly, can I bring practical recommendations and suggestions about making better succession plans?

While I may not be an authority on the subject, during the past 21 years, I have been part of many succession plans at companies I had the honor of managing and leading first hand. Also, during the last six years at my young management consulting practice I was exposed to various degrees of succession plans. Many of my assignments include the coaching of executives at private family owned businesses. So, with the hope that you find some nuggets of wisdom in the next four pages, here goes…

What Is Succession Planning?

Succession planning *is the process by which an organization plans the passing of the baton from one leader to another*. The passing of the baton is actually a most delicate moment. Athletic coaches will tell you that races are won or lost by the manner in which the baton is handed over between runners. Good planning and execution improve the odds of making smooth transitions. Unexpected succession and lack of planning increase the chances of failure.

Succession planning is not only applicable to businesses, it is pertinent to any organization such as governments, churches, political parties, etc. Any grouping of people and resources are in need of a succession plan. I will however, for the purpose of this article, concentrate on succession planning as it applies to businesses.

Why Is Succession Planning Important?

First, succession planning is important because it not only influences the performance of an organization, but also determines its survival. Many companies have been destroyed by the lack of succession planning. Several have been significantly set back strategically because of their poor succession planning.

The Chief Executive Officer role is the most influential role of the organization. Whether we call this position the business owner, the president, the general manager, the coach, the prime minister or the pastor, the CEO role is similar to the “orchestra conductor”. He or she might not play any instrument directly but they influence the entire team’s performance and their role is decisive. Whether the outcome will be a great symphony or a mediocre one depends largely on how the orchestra was conducted.

A good leader successfully leads the organization to its destination, a mediocre leader just makes it “float”, while a poor leader may cause it to drown completely.

A good CEO influences the ***strategic momentum*** and direction of the organization. He or she leads the ***team to higher levels of performance***, no matter how this “performance” is measured. In businesses, increased profitability, revenue growth, attractive return on equity, gains in market share, etc. are indicators of such performance. In a sports team, championship wins and team ranking may be the indicators. In a country, economical growth, unemployment rate, balanced budget, popularity indexes, etc. may be the parameters and so on. Finally, a good CEO influences the ***reputation of the organization.***

Secondly, transitional periods are critical because there is a change of leadership. It is a moment where a new balance has to be established. A new person will take over and new adjustments have to be made.

Published research indicates that in private businesses, 70% of family owned businesses do not survive the transition to a second generation and 90% do not make it to the third generation.

These are terrible statistics! Public corporations probably do not score any better. These days we are witnessing an unbelievable number of large corporate failures and phenomenal gaffes that puzzle the mind.

But is poor succession planning the source of all these failures? While not all were due to it, poor succession planning is at the root of the vast majority. Here is why.

When To Do Succession Planning?

Today’s business pace is incredibly high. The CEO’s role should “turn” within a reasonable period of time. What is a reasonable period of time? Anywhere between 4 to 8 years is, in my opinion, reasonable and healthy. This range gives enough time to make a difference but is not too short to call it instability. Any time the tenures of a CEO goes beyond the ten-year period, the risk of “problems” increases.

I am sure you will be able to cite exceptions to my rule. Finding the exception however does not alter my observation. As a rule of thumb, I strongly believe that today’s organizations need a change at the helm on a more frequent basis. Complacency is one big reason for the decline of a corporation. Good leaders are by nature strong people. Strong people with time have a tendency to become “Kings”.

And what’s wrong with Kings, if they are good you ask?

Kings are usually unable to choose successors and do not like to share power with others. These two reasons by themselves constitute fertile soil for complacency. In addition, Kings do not like active boards because they fundamentally dislike being accountable to others. They are usually the “center” of everything.

Need examples? Just in the last three months or so, so many corporations suffered humbling destinies: market devaluation and the wiping of billions of dollars of equity (major telecoms), outright bankruptcies (large department store), marketing defeats at the hands of newcomers (important computer manufacturer), corruptions (major conglomerate), financial debacle (major utility company) and even fraudulent actions (energy company) etc. The list goes on.

Corporations that had everything required to succeed. Why this outcome? Simply put, many good CEO's became Kings and did not know when it was time to pass on the baton and most certainly, Boards of Directors that fell asleep at the wheel.

Poor succession planning is not a "disease of small organizations". It is a disease that infects the small as well as the big. It contaminates public and private businesses, governments, non-profits, churches, etc.

Here is a very "real" scenario: A strong leader does a wonderful job. Once he/she achieves high performance, glory is earned. This glory is brief, however, and the performance must now be sustained. They work hard at putting the wheels in motion to sustain the performance and they succeed, initially. Organization complacency sets in, "high egos" and "emotional prides" come into play, less "listening" and more "directing" takes hold of the top of the organization etc… Slowly but surely things do not go as planned… What does the leader do? They start to do whatever it takes to sustain the high performance. Something along the lines of ".. by hook or by crook.." This is where a "clock" starts to … Tic… Toc… Tic… Toc… It is only a matter of time before the bomb explodes. What does the bomb look like? Restating earnings… overpaying for businesses that have vanishing equity… building debts that cannot be repaid… attempting to fix mistakes by making others… and yes, up to fraudulent conduct as we have seen so much of recently. All this is done, with the "blessings" of their board, of course, since the board was sound asleep.

Succession Planning Is An Absolute Necessity
Every organization must have a succession plan. Large organizations will have an elaborate one. Small ones will have a simple one.

A plan that is made in advance and has been reasonably thought through will help make an orderly transition. A no plan scenario and/or one made hastily in response to an emergency - and condensing the time of action - will have a high chance of failure.

Strategic Perspective
Succession planning must also address the strategic context of the organization. Meaning that if the present leader, for example, did a good job turning around the business in the past, the next leader will probably need a different set of skills; those of building the business. A business that had a strong record of consistent earnings growth would benefit from an innovative leader who can take the organization to the next level and so on.

In short, a succession plan must plan for the future rather than copy the past. A common pitfall is when an organization wants to find a leader similar to the one they have. Another, is when organizations "fall in love" with the incumbent to the extent that they "do not want to rock the boat". The former happens with the retiring CEO while the latter may apply as a result of an emergency such as a "heart attack". Don't be afraid to rock the boat if it is the right thing to do.

You are better off rocking your own boat inside the harbor than sailing into the high seas unprepared and having the waves do the "rocking" for you!

A Process - Not A Destination
The search for candidates should take a balanced approach too, meaning looking for successors from within *<u>and</u>* from outside the company. Depending on the context of the organization, there are pros and cons for internal vs. external candidates. Good

succession plans are not made effective overnight. They take time to be made, planned and executed. This is a process and not a destination. A good succession plan is always a work in progress.

Family Owned Businesses
For family owned businesses wishing to keep it in the family, sometimes a separation between ownership of the company and management of the company is needed. As the business grows, a separation is not only healthy but is also desirable.

Expertise, Independence and Objectivity
This may be self-serving, but it is of paramount importance to seek independent and expert advice. Experts bring wisdom and the benefit of past trials and errors. External experts also bring objectivity to your organization.

Please remember ***"the value of advice is in direct relationship to the expertise of the giver and in indirect relationship to the degree of their involvement or interest".***

Proverbs 12:15 says: "A wise man listens to advice". You may not always agree with the advice that is given to you. That is OK, but it is important to listen.

Advisory Board
An advisory board made up of independent and external counselors allow the owner/operator of the business to receive regular business advice and counsel without any dilution of equity.

The advisory board can then "push" the organization to excellence by requesting that a strategic plan be made, a succession plan be implemented, quantifiable financial targets be established and so on. This disciplined approach is certainly helpful in keeping management on track and in building shareholders value.

Conflict of Interest
All too often, we read about the directors who also provided services, the auditors who were also the consultants and the public servants that enjoyed these so called privileged relationships with third parties… This is conflict of interest. Be watchful and do not compromise on principles. Making exceptions on the ABC's of business fundamentals and Ethics 101 will return to haunt you.

The bottom line is: a succession plan is a necessity and not an option. Good planning includes a broader outlook, expert advice, common sense, objectivity and business flair. Approach it as a process rather than a destination and you will pass through the succession minefield safely.

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