

# Succession Planning: What, Why & How

## 2005 NAIOP Round Table Discussion

### **What it is.....**

Succession Planning establishes a process that recruits employees, develops their skills and abilities, and prepares them for advancement, while retaining them to ensure a return on the organization's training and development investment. Succession planning is an investment that business leaders are recognizing as an important strategy in achieving the long-term vision of their organization; it is perhaps the most essential component in building an organization.

There are two aspects of succession planning. The two aspects are management succession and ownership succession.

### **Why succession planning is needed....**

#### Related Facts about Succession Planning

- In 2005, one of five executives will be eligible for retirement (Development Dimensions International)
- Significant numbers of companies will see 40-50% of executive level staff retire in the next five years (DDI)
- 90% of 21 million US businesses are family owned
- One third of Fortune 500 companies are either family-owned or family controlled
- Only 30% of family run businesses succeed into the 2<sup>nd</sup> generation
- Only 15% of family run companies succeed into the third generation reportedly due to a lack of orderly succession.
- Given the number of executives expected to leave the workforce over the next several years we could soon be entering a period of a fierce competition for professionals also referred to as a "talent war".
- Of the companies who have succession plans in place only 1% of participants in those plans rate them excellent with 2/3 receiving a rating of "Fair to Worse". (study entitled - Effective Succession Management)

#### Organizational Insurance in the event of

- A key employee leaving the company with little or no notice
- An unexpected event e.g. sudden illness, death or other unfortunate loss of key a leader(s)
- Retirement
- Normal attrition of key employees

### **Succession Planning Goals and Outcomes....**

- To develop and maintain effective leadership
- Align business goals and its human capital needs
- Keep abreast with changes to the business, industry and overall marketplace
- If applicable, allow for the orderly transfer of financial control, responsibility and in some cases ownership
- Improved retention of key professionals
- Increased employee satisfaction

- Ensure the viability and continuity of your Company according to your preferred leadership style

### **Why Succession Planning does not take place....**

Despite the logic of succession planning some reasons given by many entrepreneurs unwilling to plan are:

- Reluctance to give up control
- An inability or unwillingness to see someone else in charge
- The belief that “No one could possibly take over after me” and “If I give up control, the company will inevitably fail”.
- Disasters or the unexpected won’t happen to me...
- No one in management or family is prepared to take over for them
- Just don’t have the time

### **The process....**

There is no one way or simple template for putting a succession planning process in place. Succession plans need to be customized to meet the individual needs, outcomes and requirements unique to each situation. It is an ongoing process involving all management that requires constant review and adjustment to assure its long term effectiveness.

#### Ownership Succession

This process can be broken down into four basic parts:

1. Clarifying the needs of the owner, business and important participants  
(Income, investment, business involvement, community involvement and legacy)
2. Exploring the legal options
3. Leadership identification and development (family versus non-family)
4. Recording and implementing the plan

#### Management Succession

Some common steps in developing and implementing a successful leadership succession plan

1. Determine vision & goals
2. Prepare leadership-successor profile(s) e.g. exact knowledge, skills, abilities and attributes
3. Thoroughly evaluate internal talent
4. Now is the time, this process is ideally a multiple year process
5. Develop a transition plan including timeline, transfer of responsibility and assessment of progress
6. Communicate the plan internally and to key customers and partners
7. Monitor the plan

Simple or complex....you determine what will serve your interests best...something is more advantageous than nothing!

By: *Al Marco*

*Principal, Trovato Group, LLC*