



BUSINESS SUCCESSION BRIDGE BUILDERS

Includes a Complimentary Internal
Management Succession Checklist

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The challenge of creating a realistic structure for Succession Planning

The late 19th and early 20th centuries were filled with many magnificent civil engineers and bridge builders. These masters of engineering created numerous international icons that are still admired to this day. Who could not admire the foresight and engineering expertise of Isambard Kingdom Brunel? A man whose Clifton Bridge in the United Kingdom set the benchmark for an entire generation of engineers. Additional engineering wonders such as the Sydney Harbour Bridge by John Bradfield and the Lions Gate Bridge in Vancouver by Alfred Taylor have become symbols of their respective cities, and inspired later engineers to push the limits of their field. This period in history brought about unprecedented advances in the use of technology, and changed the landscapes of entire cities and economies. The legacy left behind endures beyond generations.

Just as societies must constantly push boundaries and build increasingly colossal bridges to reach their desired destinations, businesses must also analyse their futures, and at times, build almost impossible bridges to reach their goals. The business landscape also changes over time with numerous milestones and signs of growth as time passes.

In business growth cycles, there are critical points that either make or break the organisation and at these points strategic choices must be made. Strategic planning can be viewed as the "blueprint" of the business, and it is necessary every so often for leaders to pause and reflect so they can make wise business decisions. Perhaps one of the most important elements of this strategic planning is the process of establishing a strong succession plan.

The Harvard Business Review published a paper in relation to the subject entitled "The Five Stages of Business Growth" by Churchill and Lewis which fully explores the mentality of leaders and business. In the article, a common thought process known as "grow or die" was described.

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According to the “grow or die” mentality, managers face two considerations in dealing with reality. First, they must ask themselves how they can maximise their personal return and what legacy they will leave behind. For a business to be sustainable, a bridge must be built to connect the short term to the long term and to connect a manager’s personal return to the long-term viability of the business.

This bridge is often **built** through connecting business succession with an internal succession planning process. The challenge lies in creating and executing a realistic structure, and fully implementing the plan.

How Relevant is Succession Planning to today’s Business?

According to both the Family Business Institute and the Family Firm Institute, Family Businesses are in dire need of improved succession planning. For instance:

- Only 30% of family businesses survive into the second generation.
- As few as 10 - 12% are still viable into the third generation.
- A dismal 3% of all family businesses operate into the fourth generation or beyond.

The HR Coach Research Institute has been working in conjunction with members of International Network to analyse the influence of pressure due to succession planning, on business strategy with business owners. Overall, 65% of business owners identify internal succession planning as a significant issue for their organisation. This is further reflected by their dissatisfaction with the efficiency of their management teams. Roughly 85% of business owners identify internal succession planning as an issue for their business moving forward.

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Succession Planning Issues for Business

Issue	All	Low Performing	High Performing
Internal Succession Planning is an issue	65%	79%	30%
Efficiency of the Management Team is an issue	65%	79%	30%
Quality of the Strategic Plan is an issue	42%	51%	6%

Unfortunately, this challenge is not only an issue for low performing organisations. High performers also struggle with internal succession planning and the efficiency of their management teams.

Subpar results from high performing organisations further emphasise the weight of the issue regarding succession planning. Although there may be a high satisfaction rating for the strategy component of the business today, the plan for the future of the business and the development of the capacity of managers to execute is lacking.

Therefore, it can be assumed that succession planning is frequently being poorly executed in most organisations. Bridging the gap between future strategy and today's current business reality is an issue that needs to be addressed, and more practical solutions are required. The purpose of this white paper is to take a closer look at the process of succession planning and the steps that need to be taken in order to improve its effectiveness.

What is Succession Planning? Two key components

Business Succession – the transition of business ownership

Internal Management Succession – the transition of internal management

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A Shift from Traditional Views of Succession Planning

Succession planning is often associated with preparing managers to be “job ready” for a promotion as a part of good business practices. The development of people to fulfill roles and “future proofing” the organisation with the talent necessary for the future is certainly an investment.

For example: the CEO holds a key role. An organisation may groom 3 people for the role internally for the future as a resource bank to choose from. This being said, greater numbers of roles will require increasingly fast pools of talent for succession. A middle management team of 30 individuals may require a pool of 90 people to fill the gaps in talent after their departure. In an ideal situation, a larger organisation would have hundreds of people ready and waiting for line management positions as part of a fluid funnel of management development. However, businesses statistically maintain a ratio of 1:3 for management development planning. The ratio should increase in the favour of replacements to ensure a larger source of qualified candidates to step up and become leaders within the establishment.

We refer to this type of succession as **Internal Management Succession**. Put simply it is all about building **Capability and Capacity**. Internal succession for the business sector incorporates not just the capability of individuals, but also includes the capability and sustainability of the business itself. It links management systems, its methods of business, and its people to maximise the organisation’s capacity.

What Triggers Business Succession?

With Business Succession a broader perspective is required. Business succession is when the entire ownership structure of the organisation may need to change or shift to meet the needs of the future. Where the primary owner is the CEO or Chair (or both), a lot is at stake to ensure the decision making process is correct.

Business succession takes into account a blend of the subjective needs of the individual and their perception of value, as well as the objective needs of the business and maximising the value of the asset.

The need for Business Succession can be triggered by many factors. They can be categorised simply into Push and Pull Factors.



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PUSH FACTORS EXAMPLES

Motivations: Have to Change Bridge Builders of Necessity

Aging Population

The age of business owners is certainly a major contributor to succession planning needed in the market currently. Where a significant number of business owners investing solely in their business, managing a healthy exit is important as this may be their primary retirement fund.

Next Generation reluctance to continue

The next generation of family businesses, especially third generations, are more reluctant to take on the family business. With alternative career paths, access to education and opportunities, as well as new technologies and industries are a draw card for children not taking a part in the family business.

Fatigue and Conflict

Fatigue and conflict of owners or of management teams may negatively impact business performance. Before the decline in the overall business performance, some business owners decide to shift the business ownership structure to release them from the business.

Businesses in a competitive market

Succession planning can be used in markets with growing competition and the need to gain competitive advantage for an existing player. The way business used to be done will be challenged with a more aggressive market place. Methods to lock clients in and lock competitors out, as well as increasing market share are the primary goals. Building a healthy and robust business in this space will increase the value of the business for a sale in the future by a competitor could be likely. This is a high investment strategy on behalf of the owners.

Businesses affected by Technology or Sunset Industries

Few industries have not been affected by the impact of technology. It has changed the way we do business. It affects industries and regions. Some industries will not survive. The identification of future survival is a trigger for succession planning. When it is a matter of survival, it is a risk management strategy that is required.

Minimise Risk

Being in business is always risky. External or internal events may require a business to consider an exit in the safest way possible. Issues with risk, reputation, access to cash or cashflow or an external event can all impact the health of the business and the business owner. This too is a risk management strategy and generally a short term approach is required.

PULL FACTORS EXAMPLES

Motivations: Want to change Bridge Builders of Opportunity

Entrepreneurs

With success being realised, maintaining and improving a business is not always a primary motivator for an entrepreneur. These owners are likely to look for an exit to enable them to move on to the next challenge. Doing it properly is of importance, as destroying something they have built is not something they want to do.

Owners looking for Return on Investment

Owners focused on building and selling assets look for maximising their return. Succession planning enables them to strategically position their business as an asset and extract the greatest value from their investment.

Businesses looking to Grow

Succession is not only triggered by an exit. When an organisation has an opportunity to grow, building capability and capacity is of primary importance to sustain growth long term.

To build a business to the next stage takes careful planning, investment and courage. As businesses mature, the owner's capability and strengths are stretched. If the owner is to maintain the leadership role, often the skills in leadership also need to change with the needs of the business and its management team.

Building management capability and management taking an ownership stake are examples of how some organisations build their business succession planning. Others may merge with or buy out a competitor or take on an investor, angel funding or venture capital to purchase management expertise in order to shift the organisation into another level of performance.

Maximising an Opportunity

Technology or an emerging market opportunity places some businesses in an unprecedented situation where they can maximise or seize a market opportunity.

This situation requires innovation, open thinking and a pioneering spirit to reinvest and shift the business to meet the market opportunity.

Innovation for most businesses is a high risk activity, so protecting the core business and building new strategies takes careful cashflow management and focus.

In summary, succession planning for businesses can be influenced by many different scenarios and outcomes. Most often, human elements, not simple economic outcome, drives the end result.

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Business Outcomes from Succession Planning

Business succession has many outcomes. These outcomes vary for owners and senior managers depending on whether they decide to follow a strategy of **Stepping Up**, **Stepping Back** or **Stepping Out**.

Stepping Up

- Upsizing the business to sell later on
- Owners ramping up their personal development to accelerate the business growth and organisational effectiveness
- Downsizing the business to improve overall performance and profit
- Acquiring or merging with competitors



Stepping Back

- Employing a professional management team and maintaining assets
- Promoting within including equity and profit sharing plans
- Handing the business down to the next generation
- Selling of a percentage of shares in the business



Stepping Out

- Management buy-out
- Selling of the business
- Closure of the business



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Understanding the Missing Stages for Implementation

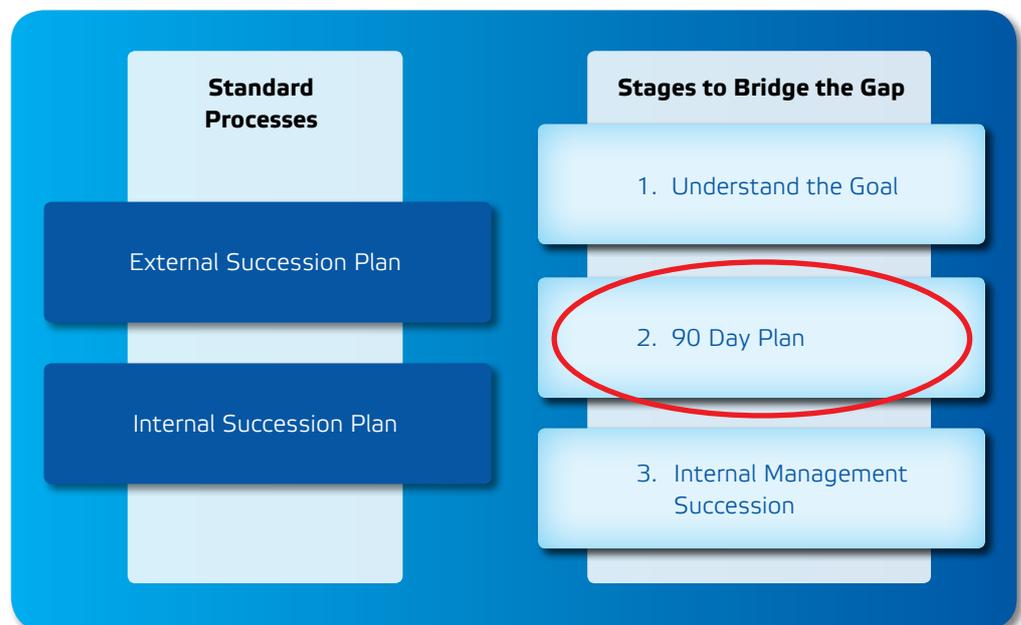
From the research conducted by the HR Coach Research Institute, we can identify that businesses complete their processes using these following strategies:

1. Create a Succession or Exit Strategy
2. Create an Implementation Plan

The weakness observed in the usual practice of succession planning is that the process of managing succession is not necessarily well understood by managers or well linked to desired business objectives.

By understanding these “pressure points” in implementing a succession planning process, there are three stages to consider in order to create a more sustainable result in the long term.

- Stage 1. Understand the Goal
- Stage 2. Create a clear and solid 90 Day Plan
- Stage 3. Implement the Internal Management Succession Plan



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Stage 1 – Understand the Goal

Succession generally is not done very well. With a mass exodus in mature markets of baby boomers forecasted in the next ten years, it is likely that we will witness many owners not realising the value of their business and placing jobs at risk. In order to address this properly, managers must step back and carefully evaluate their options. The issue generally is not what is being built, but why.

Different Businesses – Different Needs

Business succession issues are broad, complex and need to be understood prior to choosing the right model for succession to take place.

Regardless of which model is chosen, the link between business succession and internal succession is critical to its success.

Challenge your Assumptions

Technically, any business model may be developed through building scenarios and creating options for succession. It is simply a matter of process and carefully solving problems, while simultaneously exercising effective decision making.

Within this process the “WHY” is often missed. What are the influencers on a business owner and the business to create a succession plan? Accepting a goal at face value without exploring why it is a goal to begin with is a mistake. Asking “why” will provide important information that will enable managers to understand the push and pull factors influencing the drivers of succession.

The possible outcomes from succession planning can be limitless. From the outset, being realistic and thoughtful regarding the motivations of managers and the consequences of their decisions is critical. Simply saying “be careful what you wish for” can be a word of caution for business owners. It is vital to carefully identify the push and pull factors influencing the situation. This analysis positively impacts the process of identifying the business succession choices to be made, and ensures better business outcomes.

Stage 2 – The 90 Day Plan- the Bridge

Building a Succession Planning Process

Once the strategic choices have been made, maintaining balance with “business as usual” as well maintaining momentum with the strategy moving forward requires a careful balancing act. If succession is to be successful, protecting the value of the existing core business is essential.

Creating a **Business Succession** plan generally takes 90 days in preparation and then from 1 to 3 years to implement. If a quick fix is required, managers will be required to extract too many resources and may put business assets at risk. In some circumstances this is unavoidable. If there is time to plan, it may be a worthwhile strategic investment to start when there is not an immediate pressure on the business or need to change. Most succession plans take a substantial amount of time to implement, therefore, foresight and planning for the future is vital.

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The goal of maintaining the strategic value of the business is important to most. Focus is required to maintain business as usual as well as simultaneously implementing a succession plan. Strong methodology and effective support are key to the success of the plan. Taking time to assess the assumptions made in establishing the goals is a testing process not to be missed.

Due to an ever changing external environment, succession planning, like strategic planning, is evolving as a management process in a business. It is ongoing and not a one time event. The “90 Day Plan” requires rigor in evaluation and thorough development of the internal succession plan. Proper evaluation of the situation and development of a solid succession plan will help eliminate risks and prepare the organisation to adapt to change.

Building an Internal Management Succession Plan

Implementing a proper **Internal Management Succession** system protects the core of the business and the overall value of the assets. Furthermore, these systems make the business more resilient to the influences of common push and pull factors. This vital link between the **Business Succession** and **Internal Succession** ensures alignment and effective implementation.

Managing information and confidentiality while still attempting to remain inclusive during a succession process presents a delicate situation. As with all other considerations in developing a succession plan, asking “who, what, where, when and why” is wise. Who should know, what should be shared, how much information should they know, when should they know it and why they should know it are all important factors to consider in a succession process. There is no one perfect answer as to how things should be done since every business and situation is unique, but maintaining internal confidence and certainty are still important components of building a sustainable asset. Uncertainty can have adverse effects if not managed appropriately. Therefore, managers must carefully evaluate their options and decide who to include in the process and justify why they are present.

Regardless of whether the structural changes require ownership to step up, step back or step out, strong business systems will be required to eventually establish self sustaining business practice.

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Internal Succession Plan Framework

Protecting and growing the value of the businesses assets to maximise value is a central goal of most succession plans. The 90 Day “Bridging the Gap” Plan described above enables managers to focus on the future and maintain momentum as the plan is implemented. The final succession plan implemented should be practical in addressing each key component. Below is a structure linked to the Human Resource Framework HRF101.

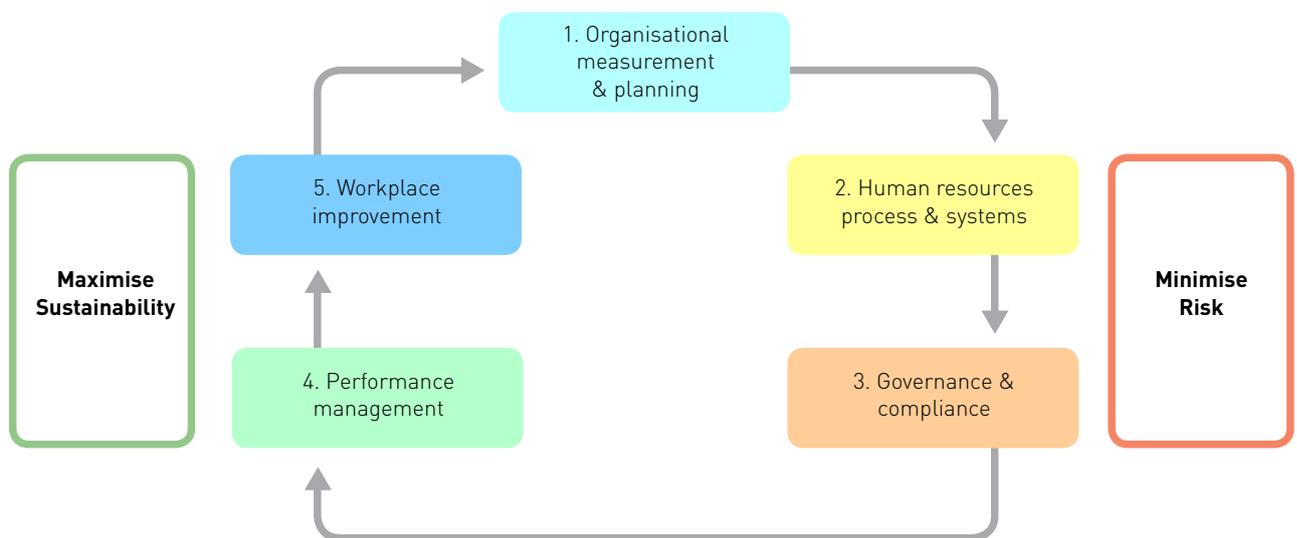


Figure 2 – Model for the Balanced Human Resource Framework©

Stage 3 – Implementing the Internal Management Succession Plan

The internal succession process is continuous and must be sustained until the goal is achieved. Ongoing milestone reviews, re-evaluation and careful tracking of progress will ensure that daily business operations do not completely swallow up time. They will also provide the focus needed for the succession plan to be resourced and implemented. Likewise, realistic timelines, careful and considerate communication and respect for the existing business are all factors that must be considered.

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Internal Succession Planning Checklist

Protecting and growing the value of the business and maximising value is a central goal to virtually all succession plans. Below is a simple checklist that will enable managers to “Bridge the Gap” and track their progress.

Component	Checklist	Notes
Strategy	<ul style="list-style-type: none"> ● Strategy articulated for the business ● Employees and managers measured for ongoing engagement to safeguard the strategy ● Key employees profiled and core skills and management capabilities measured ● Communication plan managed during the process 	
Systems	<ul style="list-style-type: none"> ● Internal systems and workflows articulated ● Clear role definition within the business structure 	
Governance	<ul style="list-style-type: none"> ● Business owner involvement risk strategy ● Governance and Risk Management Plan developed for the business ● Pay structures in line with retention during a change process and protecting business future plans 	
Key Employee Development	<ul style="list-style-type: none"> ● Future Leaders identified ● Future Leaders development programmed and aligned with the future needs of the business 	
Improving value	<ul style="list-style-type: none"> ● Retention strategies of key employees ● Keeping business improvement high on the agenda to maintain a strong and positive culture 	

It is important to recall that the internal succession process is ongoing until the goal is achieved.

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Openness to Outcomes

Depending on the size of the business, the maturity of its internal structure, its industry and market conditions, the **External Succession Plan** can be influenced by many factors. Consequently, it is important to remember these many external influences that impact business outcomes.

The plan is ultimately within the owner's control. If precautions are not taken, outcomes may be completely different to the intent. Their plans and actions should match the future needs of the business. The needs and importance of the succession plan must also be communicated upfront so that owners clearly understand not only what they want, but why they want it. It is also vital that they build multiple strategies, not just one.

The very nature of business is dynamic. Any additional planning needs to respectfulness of how the business operates, and that it matches the needs of the current reality. Working towards a common future and vision rather than tightly managed short-term projects enables a balance to be maintained and activities to be "self managed". (A word of warning - micro managing timelines can restrict plans.)

The Bridge to Tomorrow

90 Day Plans are designed to Bridge the Gap in Succession Planning. The Bridge when built effectively connects:

- Current Strategy to the Future State of the Business
- Business Succession to Internal Management Succession
- Strategy to Key Employees
- The Business Owner with realising value and their future legacy

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ABOUT HR COACH INTERNATIONAL

HR Coach International supports an International Network a network of business professionals working with clients to be more strategic and proactive in their people management. With member organisations internationally, it is backed by the HR Coach Research Institute to provide insight and currency in applied methodology.

To find a Network Partner or to find out more about the international network visit www.hrcoachinternational.org

- HR Coach Network Australasia www.hrcoach.com.au
- HR Business Alliance UK www.hrbusinessalliance.co.uk
- HR Business Network Canada www.hrfx.ca

ABOUT THE HR COACH RESEARCH INSTITUTE

The HR Coach Research Institute since 2002, have researched the triggers and constraints of growth on the Business Sector. Its primary focus is the connectivity between the business strategy and its employees. Key research outcomes have included:

- Identification of key behaviour matrix of managers and employees 2002
- Innovation patent for measurement of organisational capability - 2003
- Strategic Action Model – 2004
- Business benchmark series for employer and employee engagement connectivity 2008
- HRF101 – Human Resource Framework for Business – 2010
- Career Monitor Model for Retention - 2013

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