



SUCCESSION PLANNING

A Reflection of Compassionate Leadership

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PLANNING FOR CHANGE AT THE TOP

The company is strong financially. The market is stable. There is every reason to believe the company has a bright future. From astute boards and managing partners you should hear rumblings of planning for the next leader in the organization. It's not a plan to overthrow the current CEO, just sound succession planning. While many companies do not think about replacement when all is going well, waiting for a crisis is a reflection of poor leadership, and a lack of strategic planning.

Succession planning should be part of an ongoing process that looks at what leadership and management skills are necessary for the ongoing success of the company as it strives to meet its vision. Just as you develop board members and the skills of your workforce, the leadership needs of the organization should be regularly assessed and plans made for development.

In the same way that fire plans prepare your company for a potential future emergency, a good succession plan should consider what would happen if the CEO were suddenly unable to carry out his or her job. A comprehensive succession plan should consider declining abilities and impending retirement as well as accidental death.

THE NEED FOR SUCCESSION PLANNING

An organization may face the loss of its leader under a variety of circumstances. Sudden accident or illness can leave an organization in shock as it deals with grief as well as planning for a successor. The CEO of Coca Cola, John Acquilla, recently died after a valiant fight against cancer. The Board of Directors hesitated to replace their charismatic leader in spite of his failing health and extended absences. Ultimately the board decided to have the second in command run the company for more than a year, while leaving their beloved leader as the figure head.

Firing the leader, even when it appears to be the best action for the organization, still leaves the board faced with the dilemma of how to make a smooth transition to a new leader. When Al Dunlop was recently fired from Sunbeam Corporation for irreconcilable differences of opinion on how the organization should be run, the Board also had to assess whether other key managers appointed by the outgoing CEO needed to be replaced.

Even a long planned retirement poses a challenge to the leader that is stepping down-groom from within or begin looking outside? Although mentoring an inside replacement over a long period of time has obvious advantages, what if there is no suitable successor inside the company?

WHY LEADERS DON'T LIKE TO PLAN FOR SUCCESSORS

A visionary leader should help his organization be prepared to continue operations in the future by planning to meet upcoming challenges. Given that even the longest CEO tenure will inevitably end, replacement of the current CEO is a universal challenge among businesses. From the perspective of the current leader however, this is in effect anticipating the cessation of his leadership role with the company and planning for his own replacement. Given our human nature to inevitably take actions to secure our own continuity, it is not surprising that most leaders avoid succession planning.

Abraham Zaleznik, professor of leadership at the Harvard Business School, characterizes his advice for leaders into the three C's of leadership: (1) competence; (2) character; (3) compassion. He explains the third C, compassion, as "the commitment to use power for the benefit of others, where greed has no place, and where actions are intended to produce the greatest good for the greatest number."¹ Succession planning could be called the ultimate illustration of compassion by a leader.

Placing the good of the organization above ourselves would necessitate facing the reality of our immortality and leading the company in preparing for that. The benefit to the leader in doing this can be seen as self-serving in that it gives the CEO more control over the succession process, and they will be credited with being visionary and compassionate.

Many CEO's do not have a succession plan for the same reason many of us do not have wills: avoidance of facing our own mortality. In *Planning for the Future*, Jane Applegate suggests that leaders start by admitting they are mortal and need a succession plan. Although it sounds simple, she admits it's not. Owners can go along for years knowing that they should address the issue of succession, but remain unwilling to act. "Then something happens, maybe a friend dies, and it becomes a trigger."² The unending pursuit of an immortal legacy can ultimately destroy the enterprise they have built if a leader resists the eventual need for a successor. Instead, the ideal leader should be designing and animating the succession process--helping to identify, qualify, and analyze the attributes of candidates.

For those leaders that find it difficult to see beyond their status of corporate leader, successful preparation for leaving a leadership role can begin with developing a positive future vision of his life. Once he has arrived at that vision, then he can focus objectively on what is in the company's best interest, with no concern for himself or his future role in the company. If this is not resolved, the company may face a series of conflicts and power plays that divert focus and energy from operations.³

In Senge's terms, leaders may need to "bring [their] mental models to the surface, to explore and talk about them with minimal defensiveness--to help us see the pane of glass, see its impact on our lives, and find ways to re-form the glass by creating new mental models that serve us better in the

world.

HOW A GOOD LEADER (OR SMART BOARD) PLANS FOR A SUCCESSOR

Once a leader is resolved to take action, Applegate suggests putting together a board or committee to help in making decisions. This is especially critical in a family-owned business to provide objectivity in planning. The skills and experience of all potential internal candidates, including children and relatives must be assessed. If the leadership of the organization ultimately decides that management should continue to be headed by a family member, planning in advance will allow time to encourage qualified relatives to get outside experience. “Outside your company they will be treated more objectively, and success will enhance their self-esteem.”⁵ They will also be able to view the family business with fresh perspective and bring back ideas for improving it.

From a larger perspective, a succession plan is one of a company’s best tools for developing and retaining people. A good plan identifies important company players and it pinpoints organizational gaps in work experience and skills⁶. Mark Caruso, President and CEO of Success Associates Inc., feels that having a plan for filling important management positions is particularly critical when there is either high turnover or high growth in your business. The Board of Directors should look on people in these positions as key resources.⁷

The succession plan can be categorized into four general stages. Most Fortune 500 companies are in stages 3 and 4, while most small businesses are not even at stage 1.

- Stage 1: The first stage is the simple replacement plan. This can be defined as a risk management tool- if a place crashes with the chief executive office who will be in charge?
- Stage 2: The second stage takes the same logic, and applies it downward to come up with replacements at even the middle-manager level.
- Stage 3: The third stage goes beyond the organizational chart to evaluate the competencies the organization needs in the people filling their key position
- Stage 4: The fourth stage looks beyond in-house talent to see who is available outside.⁸

HOW TO BEQUEATH STRATEGIC VISION

Selection of the right successor is not just hiring a person: It is establishing a vision for the company.⁹ Organizations are especially susceptible to loss of vision and purpose during periods of

CEO transition, as the leaders who helped shape the vision are replaced by others who may not share the same values and abilities.¹⁰

A study conducted at the Harvard Business School looked at how CEO's at family and non-family firms prepare successors and transfer their strategic vision to help prepare their successors to run the company.¹¹ The study found that the CEO's facilitate the development of their successors in two general ways; directly, via interpersonal relationships, and indirectly, via influencing the tasks performed by successors. Examples of direct development would be those activities we generally think of as "mentoring"- discussing key factors to consider in recurring strategic decisions, cultivating relationships between the successor and important stakeholders, and performing many other actions that help successors learn about the CEO role.

Indirect development would include assigning a potential successor challenging projects while at lower level positions and making opportunities such as executive development seminars available to appropriate internal candidates. The potential drawback of indirect development is the lack of communication regarding important learning opportunities can cause the succession candidate to overlook the lesson in their rush to complete the assignment. Lack of interpersonal communication also limits opportunities for role modeling and dialogs where the successor can discuss potential decisions and strategies with the experienced leader.

Vision is imparted through the application of the leader's insights and values in making operational decisions. Transfer of these insights and values to a successor necessitates a learning process. It requires not only understanding the mechanics of decisions, but the principles that are used in arriving at them. Good succession planning then requires a leader that is selfless enough to take the time to impart this knowledge through discussions of where the company is going, the challenges it faces, and the principles and values it wants to use in achieving that vision.

SPECIAL CONSIDERATIONS FOR FAMILY-OWNED BUSINESSES

For family-owned businesses there is the additional challenge of family dynamics. Deciding who will run the company after Dad or Mom is gone drags up deep emotional issues and forces parents to make painful decisions.¹²

Approximately 90 percent of the businesses in the United States are family owned. Studies show that since World War I, only about a third of family-owned businesses have survived into the second generation, and only 10-15% have made it to the third.¹³ Although owners often spend a lifetime building their businesses, many neglect to plan for eventual transfer to a successor. This failure to adequately plan is a leading contributor to the low survival rate.¹⁴

An interview in the Los Angeles Times with Dr. Craig Aronoff, founder and director of the Family Enterprise Center at Kennesaw State University in Marietta, Ga cites a unique challenge for businesses founded by the CEO.¹⁵ Simply put, people who found businesses sometimes don't want

to retire. A recent study conducted by Aronoff's Center suggests that between a quarter to a third of leaders of family businesses either do not intend to retire at all or plan to remain involved in some capacity in the business throughout their lives. This type of vision only heightens the need for succession planning.

Dr. Aronoff outlines three specific challenges facing family-owned businesses with succession planning. One is financial - how to support the elder generations in retirement. This new burden is on top of the usual capital needed to sustain the ongoing operation of the business. When there is more than one family member in the business, there must be sufficient revenue generated for these families to take money out of the business to support their lifestyles as well. A final financial concern is the need to plan for estate taxes. Without successful succession planning, estate taxes upon the founder's death can be sufficient to put an end to the business. Another challenge is strategic or managerial. What may have worked for the previous generation as a management style may not work for the next. The business environment continues to change with new threats and opportunities. The older generation very likely wants to continue doing what they have been doing. The younger generation will want to do things new ways and there are going to be extreme conflicts about the direction of the business. Communication is the key to sensitive planning across generations.

The final challenge says Dr. Aronoff, is family. All that's happening in the business is probably having intense emotional echoes in the family, particularly if several members are being considered for leadership. The starting place is to understand the goals and objectives of all the members of the family. The founder and spouse need to sit down and ask, "What are our hopes and dreams relative to the business?" Then they need to have a discussion with their children and perhaps any non-family executives about their goals and aspirations. What do they hope the future will look like? To what extent can they envision a future that they are all excited about and what are some ways to get there? Successful succession planning is in effect recognition of the challenges that confront you on the way to your goals and dreams for the business.

Emotional issues are often the biggest obstacles. The financial issues and mechanics of the ownership transition are not usually at the heart of succession controversy. Dealing with issues such as family order versus business order, as in the oldest son not necessarily being the leader of the business, are more often the reason for avoidance in creating a succession plan. Sibling rivalries that have been in place since childhood, or the issues between the father and the second generation, all reflect emotional baggage common in many families that heighten the challenge of succession planning in a family business.¹⁶

Succession planning should ideally start when it's clear the business will be successful, looks as if it is going to continue and will be something you can pass on to your children.¹⁷ What is more important than selecting a successor however, is understanding the process by which one will be selected. There needs to be an understanding about how the family is going to decide what to do with this asset.



SUMMARY

Even though there may be a genetic predisposition for leadership ability, the role models we have in our lives and the opportunities we are afforded certainly influence what we learn and practice as leaders. Understanding the consequences of our actions as leaders and alternatives we can choose from can change our leadership behavior, at least within the limits of our abilities. Although we may not be able to completely alter our personality traits and characteristics that contribute to our leadership style, by virtue of the fact that we can learn and consciously choose alternatives, it is possible to change the course of your leadership through better planning.

The study of leadership in Ben & Jerry's *The Inside Scoop* by Fred Lager illustrates the difficulty in making such a change in leadership "style." The eccentric founder of Ben & Jerry's Ice Cream, Ben Cohen continued "just being Ben," in spite of repeated complaints from the other key managers within the growing firm. He did under pressure make some adjustments to account for the reality of dealing with growth by instituting different forums for employee communication, and in 1994 agreed to recruit his replacement from outside the company.¹⁸ Ultimately, the mark of a good leader is the ability to perpetuate outstanding leadership.¹⁹

RESOURCES FOR SUCCESSION PLANNING

- A good starting point is colleges and universities. Many have family business programs that include training in succession planning.
- The Family Firm Institute of Brookline, MA is a professional membership organization and has a free booklet of consultants, accountants, lawyers and educators. They can be reached at (617) 738-1591 and have a Web site at <http://www.ffi.org>.
- Business Owner Resources provides information and help, including booklets, newsletters and pamphlets on related topics. Their phone no. is (800) 551-0633, and their Web site is <http://members.aol.com/busownres/bor.htm>.
- Arthur Anderson Center for Family Business offers a variety of information, including a newsletter, "Family Business Advisor" and other sources of advice. To contact them you can either call (800) 924-2770 or visit their Web site at <http://www.arthuranderson.com/cfb>.



END NOTES:

- ¹ Zeleznik, Learning Leadership, p. 531.
- ² Applegate, "Planning for the Future," Money, (October 15, 1993), p. 88.
- ³ Sonnenfeld, "When the CEO Can't Let Go," Harvard Business Review, (August 1, 1995), p. 24.
- ⁴ Senge, The Fifth Discipline Fieldbook, p. 236.
- ⁵ Ibid.
- ⁶ Johnson, "Succession Planning: Developing a Strong Bench," HR Magazine, (January 1, 1998).
- ⁷ Ibid.
- ⁸ Rothwell, "Effective Succession Planning", (AMACOM, 1995).
- ⁹ Sonnenfeld, "When the CEO Can't Let Go." Harvard Business Review, (August 1, 1995), p. 24.
- ¹⁰ Brown, Fiegenger, Fine, Prince, "Passing on Strategic Vision: favored modes of successor preparation by CEOs of family and nonfamily firms," Journal of Small Business Management, Volume 34, P. 12
- ¹¹ Ibid
- ¹² Applegate, "Planning for the Future," Money (October 15, 1993), p. 88
- ¹³ Krumm and Associates, Succession Planning, <http://www.gcentral.com/krumm/ssuccessi.htm>.
- ¹⁴ Ibid.
- ¹⁵ Kelly, "Small Business; Family Business Should Plan Now for Succession Later," The Los Angeles Times, (September 24, 1997).
- ¹⁶ Ibid.
- ¹⁷ Schreiber, "A Solid Succession Plan is Vital to Keeping Family Business Afloat," Newsday, (October 12, 1998), p. C10.
- ¹⁸ Laager, Ben & Jerry's : The Inside Scoop (Three Rivers Press, 1994).
- ¹⁹ Sonnenfeld, "When the CEO Can't Let Go," Harvard Business Review, (August 1, 1995), p. 24.