

Executive Exits

Successful Successions

Getting Ready
For The Rest of Your Life

By Steve Epner, CSP

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Preface

I refuse to use the “R” word. There are so many other “R” words that work better. This is a time in my life when I am reinventing myself. It is a time of revision and reinvigoration. I am renewed. I am everything but retired.

This booklet is to help you prepare yourself and your business for the next stage of your life. It is positive. It is all about getting ready and doing it right.

You can find many books on fiscal planning. They will tell you how to invest your money and prepare to maintain an ongoing lifestyle.

Other books will tell you how to sell and/or structure your business for the next generation. They can tell you how to get the right price, how to set up a deal, and how to protect the money. They will help you negotiate and do it right.

This booklet addresses the human side of the required preparation. What are the steps you need to take to prepare yourself and your company for the future? Here, the focus is on issues that many of the other books ignore.

I hope it helps you. Please send me any ideas or suggestions to improve future editions of the book. My email address is sepner@bswc.com.

Steve

Dedication

This book is dedicated to the friends and clients I have met over the years who have always encouraged me to keep moving forward on my life's journey.

Introduction

Why do you need to plan for succession? It is easy to think: “I am too young to worry about retiring.” That single thought occurs in business owners from their 30s to their 70s. Old age is always 15 years ahead of us. We feel like we can, and will, keep going forever.

The truth is that most of us do not want to face the inevitable. We are getting older. We are going to lose our edge and perspective. We are not going to be able to keep up the pace that has made us successful.

Down the road, there will be a transition. It will either be well planned and executed or occur as an emergency. Emergencies usually involve the sudden and unplanned loss of a person through an accident, health problem, or resignation.

Transitions may be triggered by sudden changes in the business environment, commodity price changes, government regulation or marketplace forces. None of us can control if or when the unexpected will happen. As leaders, we must plan for the future as early as possible.

This booklet is all about planning for the next part of your life and that of your business. It includes the few necessary steps to ensure the continuation of everything you have worked for.

Use it as a guide. Pick and choose the parts that are meaningful to your situation. Give a copy to all of your key people, your spouse and especially to each of the kids that are interested in the future of the business.

Good luck with this journey. It may be one of the most exciting and rewarding trips of your life – **so far**.

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Success At Succession

Seven reasons to plan for succession

It is good business

Whether you own the business, are a top executive, a highly regarded manager or a key employee, one of your responsibilities is to the long term success of the company. You know how important it is to prepare for the future. Each of us must make sure the company is protected in case anything happens to us.

We need to make sure we are ready to move up anytime the opportunity presents itself. The best run companies are looking for managers and leaders who are confident enough to train and prepare their successor before they get promoted.

It protects the company

The only way the company can survive a disaster is if management has planned and prepared in advance. Most organizations take time to figure out what would have to be done in case of a fire or natural disaster. How many take the time to be ready for a personnel disaster? As leaders of our companies, we need to recognize the need and more importantly do something about it.

Our companies are tied to the fortunes of our people. That means as part of a good strategic and tactical plan, we must encourage people and give them room to grow. Building depth and experience is in our selfish best interest.

It encourages training and mentoring

The future of every company is in its younger employees. Preparing for succession of the older guys and gals (older only because it takes time to get the experience and develop the management skills) encourages us to better train the up and coming young people who will run the company in the future. Training for advancement is a positive that improves retention of good employees, recruiting new “future executives” and giving our experienced hands a chance to “give back.”

Mentoring is the way we instill the positive values of our companies’ culture, history and mission to the next generation. It means that normal changes do not change who we are, only who is doing what.

It creates continuity

Sudden change causes discontinuity. Often outsiders are brought in who do not understand the methods or capabilities that made the company successful. Good succession planning and execution provides continuity for our customers, suppliers and other business partners. The right program also ensures the transfer of relationships and networks to keep the company strong and growing.

It supports promotion

Promotion from within is not always possible. Many small companies cannot afford sufficient resources to fill all of the opportunities that will become available. It is often worthwhile to increase head count so there is the opportunity to train and prepare our own people to maintain customer sensitive positions.

Outsiders are often needed to shake up the works, but that is another book. Here we are concentrating on keeping the positives and preparing for the future.

It is also true that a reputation for growing people and rewarding them is a factor in being able to hire and keep the best and the brightest. Your reputation in the employment marketplace is as important as your general reputation. Customers know which potential vendors retain well trained employees. They know because they get consistent service.

It allows successful exits

We know that nothing is forever. Everyone will leave their job at some point. It may be planned or all of the sudden. It may be due to the employee or the company. But in one way or another, there will be a change.

Planning for change allows those that are affected to plan for their own future. There are too many executives that are not able to move on with their lives. They are stuck in the past and cannot seem to get ready for the future.

Succession planning does not leave out the planner. When it is done correctly, everyone involved wins. The executive is allowed to change as well. They change with the support of the organization. They are rewarded for supporting the future of the company. They leave behind a positive legacy while going thorough the door to a productive (by their definition) future.

Nothing is forever

Sometimes we hide our own vulnerability from ourselves. We do not want to deal with changes that are potentially painful. Lets face it, many changes in smaller companies (and large

ones too) occur due to sickness, tragic accidents and death. Not a very positive triplet.

There are other reasons as well. At the top of the list are natural moves. People move to other cities for personal reasons all of the time. A spouse may get a better job offer. Elderly parents made need care and cannot move themselves. Better climates attract many and some just move for the heck of it. In each case a transition will be needed.

In some cases, people will change their minds. A promise to work until 70 may not make it past a 65th birthday. Maybe it is a sudden recognition of one's own mortality. As people age, priorities change. Time becomes a valuable commodity and we change plans to take advantage of what is available.

Finally, stuff happens. In some cases, long term employees are dismissed for a wide variety of reasons (not all of them positive). Jealousies, unintentional slights, changes in reporting relationships, and many other causes are blamed for forcing people to make sudden changes. Any of these will disrupt an organization that is not ready.

Depending on the circumstance, there may be little or no time to react. This is where advanced planning proves its worth. By accepting that change will happen, it is possible to be ready for it and without fear, finger pointing or other negative behavior which will make any transition tougher and less successful.

Family Businesses Are Different

While most of succession planning is the same for any type of organization, family owned and operated businesses have special issues. These must be addressed early in the process or they may destroy the operation.

The family business has family in it. That in a nut shell is the difference. The bigger question is what does that mean and what affect does it have?

To begin with, the communication dynamics of most families are not great to begin with. Add in jealousies, divorces, disgruntled spouses, spoiled children, dictatorial parents or grandparents and a host of other non business issues and you begin to get the picture. In this environment, succession planning is tougher than you might imagine.

You will also have the issue of non family key employees. Some who were happy to work for Dad, may not be as excited about working for Junior. Loss of one or more key people could strain the business' ability to continue.

As the owner, it will also be important to be honest with yourself and your children. First, you may not be very good at taking orders from any of them. Second, they may not be capable of running the company. Third, your favorite child (or relative) may not be the best choice and selecting someone else may cause more heartache then you are willing to accept.

Counselors, psychologists and other professions may be needed to help navigate family relationships. Weigh carefully your responsibilities to your family as well as the business.

Here are some of the specifics to be considered:

No matter how much you love them, not all children are capable of operating a business. Too often we have made their lives easy. We wanted them to have everything we didn't. The only problem is that those struggles are what made us who we are. Without the need to work hard, some of them never will.

All children who want to work in the business should be made to work outside the business first. It is important that they have the opportunity to see other points of view. They need to learn there are other ways to do things that can be successful. They need to develop a network of professional contacts that come from other sources.

We need to force our children to succeed on their own. They need to know they can do the work even if their name is not on the door. Working for another company will teach them so many good lessons. Where possible, make sure they get experience in different areas (sales, customer service, accounting, operations, etc.). The more varied the work experience, the better the training.

Keep in touch with their supervisor. Make it very clear that you do not want them to get special handling when discipline is necessary. Future leaders must be responsible and, often held to higher requirements than everyone else.

Where multiple families are involved, the problems increase by the square of the number of families. That means they become real big! For most companies, if there are more than two families, set a rule that no children can come into the business without the unanimous consent of all owners. Since that will rarely happen, you will be safe.

Poorly planned and executed successions may cause the best talent (family and otherwise) to go elsewhere. It is your responsibility to make sure that this does not happen.

When is the best time to start?

It is never too early. That is the easy answer. Now the facts. The time frame depends on many different issues. While it is always best to be ready far in advance, the reality of the situation is most of us wait until the last minute to start on projects that are: difficult, uncomfortable, outside of our comfort zone, or that admit to our own mortality.

Later in this booklet is a planning section to help you understand the time required. Here, we will deal with some of the big picture issues. Three key times are:

- **When you start the business**
- **When you see “children” looking at the business**
- **10 years before a key retirement**

For the family business, where children will be allowed to enter the company, it is never too early to get them started. There are a few rules that are very important up front. These will make sure you have the best potential for success down the road.

First of all, do not make working at the company a penalty. If the kids see the company as jail, they will develop the wrong attitudes to be effective employees or managers.

Do not treat them like the owner’s sons and daughters. This builds resentment in the rest of the employees, removes incentives to work harder (from both employees and children) and makes it difficult (if not impossible) for the kids to really learn the business.

The kids should start at a young age. Bring them in to see what is going on. Let them start out in the warehouse or even

sweeping the floors. When they start, work with them the first few times. Let them see that nothing in the business is beneath you or them. Make sure they see you treat all of the regular employees with great respect no matter what their job.

Introduce the regular personnel and let your kids work for them – for the hour or day that they are there. Let both know that you will be looking for feedback on how the kids do. Help instill pride in their work. At the same time you will be helping them to learn the business from the bottom up. They will meet and learn from everyone in the company.

Praise the kids for a job well done. Make them fix or keep working at jobs they need to get right. Do not let them off easy. There will be jobs they are not capable of doing. It may be because of the physical requirements or the mental requirements. Learn their strengths and weaknesses. This is how you will be able to help them best as they get older. Work to fill in the gaps or teach them how to get the work done through others. Just never let them feel they are too good to do any specific job.

Finally, before a child is ready to enter the business, they must work elsewhere for a minimum of two years. They need to know they can succeed on their own. They also need to know there are other ways to do things besides how Mom and Dad have the company set up. This will pay great dividends later on.

For most businesses, the time to start is as soon as possible. There is an old saying: “life is what happens while you are making other plans.” One part of succession planning is to make sure every key employee has someone to take over their position. It can be for a planned promotion, in case of an emergency or some other unexpected situation.

Those of us at the top of our organizations (and if you are not an executive, this booklet may be for your future, not the present) have a responsibility to be prepared to protect the organization. That means being ready to step in or having others ready to step up.

We all like to believe we have something special that has allowed us to reach our current level. So when to start preparations is related to how long we believe it will take to train a person so they can do our job almost as well as we can do it ourselves. If the time frame is a week, then you probably have nothing to worry about.

More likely, it will take a year or more. One year is possible only if there is an up and coming employee that is just about ready without any outside help. For most people, two years is a reasonable minimum.

From experience, it can take much longer. Most timelines are extended because the first (and often the second) selected successors fail. We are just not good at picking the right people. Few executives have the experience to objectively pick the right person the first time.

Gut feel does not always work. Egos can get in the way. Personal feelings about individuals can affect judgment. Give yourself time to make mistakes – you are only human.

It is almost never too early to start. Planning horizons of 5 to 8 years are good for most situations. Know yourself and your operation. Talk to trusted peers and advisors. Then make a decision and start down the road.

Where should I start?

When we discuss the transition of the senior executives – the owners and presidents of most companies – we must be prepared to consider the risks that a key employee will not want to continue with the company after the exit of that mentor, friend, colleague or just “the guy I like to work with.”

It is important to plan for a ripple effect. Not only must you (the owner) plan for your own succession, but you must plan for the succession of each of your key employees. One or more of them may decide to retire or leave when you do. Others will be waiting to assume more responsibilities. In any case, you must prepare them and the organization for their successors as well as for yours.

The first step is to identify the key employees. A key person is one where:

- 1. If they leave, the company could be in deep doo doo**
- 2. Others consider them a “go to person”**
- 3. They have relationship control over trading partners and business associates**

It is normally easy to recognize these employees. There are people who are always in demand by the rest of the organization. They hold the corporate history and much of the knowledge that has been built up over time. They know how everything works and why. They are respected by the staff, managers and the owners. In short, they keep the operation going.

The second group is made up of persons who usually support the first and second level supervisors. These are the “go to” people who are willing to help everyone. Their focus may be

narrow or broad. When there is a problem or a question, these key people are the ones with an answer.

Finally, look for control of outside relationships. Who are the key members of the team who are tied to your best customers and/or suppliers? In many cases, the transition for these key people may be two fold. First, it will be necessary to get a new face to assume control of the primary relationship and second consider using the opportunity to make a generational transition on both sides.

If you are looking at transition, most of your contemporaries (who are normally your best business partners) are at the same stage in their lives as well. Use the time to develop a relationship with their next generation of leaders. These are the people who normally “clean house” when they take over. Make sure you are firmly established with the new generation before they take over. It is the easiest way to assure your company of a continuing relationship.

How many are enough?

How many successors do you really need? This is a good question to ask? It would be nice in an ideal world to have at least 2 players in every position that can move up. In most companies this is not only unrealistic, it is impossible.

Having one person identified and being readied for each key employee is a good goal. As the size of the organization increases, a second reserve person is usually a good idea. Not everyone is willing to wait as long as it takes to get a promotion. Good people will move out if they do not move up. A second reserve person gives the company backup in case the primary successor leaves.

In very large organization, a 3 deep backup for each key person is not only realistic, but desirable. With larger companies, the additional backup gives you depth that can be used around the organization. These are future leaders who can be promoted and rotated to give them greater background and insights into the workings of the company. It makes them more valuable employees in the short and long run.

How do I identify successors?

The question becomes, who can be trained or just fine tuned to be able to fill the shoes of the key employees? Each key individual should start by selecting at least 2 persons that they believe can grow into their jobs.

Then, top management should meet and review the suggested persons by job. The different perceptions of each individual are often surprising. Consideration of the choices as a group insures that everyone will work together in supporting the newly identified persons in attaining their goals.

For each potential replacement ask if their selection would cause more turnover than others? If yes, who, why and what would be the ramification of such turnover?

Once the key players and their potential replacements are confirmed, it is time to plan for their futures. Start by understanding the skills and capabilities of each person. What is missing? Are there experiences that can be scheduled? What about training? Who do they need to be introduced to?

Then, establish a time frame within which to complete the training activities. How soon should the training be done? Are there any predetermined dates (like a planned retirement) that must be met? How long will the planned activities take? What order should they be accomplished in?

Finally, plan for frequent evaluations. It is important to react quickly if there is any indication the selection is not working. There may be a personality conflict or there just may not be sufficient horse power available. In either case, the company should not waste time, energy or resources trying to fit a square peg in a round hole.

Please use the next 2 pages for each key employee and potential successor. Make as many copies as necessary.

Name

Nick Name

Birth date

Relationship (if any)

Education

School	Grad Date	Degree	Major	Minor

Home phone number

Date they joined the company

Company history

(Rating 1 – top performer 3 – average 5 – just made it)

Position / title	Start date	Rating	Reported to	Salary	Bonus

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Is there any indication they are considering retirement or any change in employment? If yes, what are the time frame, reason and their flexibility as to the proposed date?

What is your overall evaluation of this person and why?

Has this person been a good mentor to others in the business?

Does this person have a designated successor?

How deep is their succession plan?

Who are the potential replacements and how do you rate each?

Building a Plan

Identify the time line for each key employee. Have a target date, but also an “earliest date” and a “drop dead” date. History has taught us that nothing will go smoothly or right on time, so we must plan for contingencies. Still, try to stay ahead of the game. The more buffer space you can build, the more choices you will have when things get tight.

Be realistic in your planning. Work backwards from the worst possible date to see what you might need to do if Uncle Murphy sits on your shoulder. Then start the process as soon as possible. It is never too early.

One of the benefits is to let your best up-and-coming people know that they are valued and being readied for greater responsibility. The best and the brightest will only stay around when they see a future for themselves. If a position ever looks like a dead end job, they will be gone as fast as possible.

For each key employee and their potential replacements, create a development and training plan that you attach to their personnel sheets above. Include a trusted employee to oversee the implementation and execution of the plan for each person. A sample plan document is provided on page 24.

The plan must be built with both the mentor and the mentee (I know that is not a word, but bear with me). Over the selected time frame, it is the responsibility of the mentor to prepare their charge to eventually take over their position.

This can be very intimidating so the mentor must have a high degree of self confidence and self worth to be willing to invest in working themselves out of a job. If the key employee does not have trust in the management of the company, it will be almost impossible to implement the plan successfully.

We know that plans change all of the time, so it will be important that for each plan, a second opportunity within the company is available or possible if the key person decides not to move as scheduled. This is necessary to save talented persons from going to competitors.

In building a plan, work with the mentors and the potential successors to determine which skills and what knowledge need to be enhanced. At the same time, consider trading partner relationships and use the training time to build continuity with the next generation of customers and suppliers.

For each item, write out a plan to fill in the gap. This may include formal outside training. It may be “shadow” time to see how it is currently being done. Self study and practice are also good ways to build new skills.

The only way to make sure the learning is working is to provide opportunities for real action. Over the training period, the selected successor needs to be given more and more responsibility. They need opportunities to test their capabilities.

After each such test, they need to be able to debrief with their mentor. This is the way to hone and perfect their skills.

After you have identified the prospects and established the plan – you must work to make it successful. Any plan can succeed or fail. You need to establish clear requirements of responsibility for it to work. Here are a few ideas that may help you to insure success.

A number of organizations have a rule that a Mentor / executive cannot advance or be promoted until there is at least one strong candidate that can take over his or her duties. This is a very strong incentive, especially in larger organizations.

Smaller companies do not have as many opportunities for advancement or as many levels through which people can move. Their incentives have to be focused on what the individuals want. There is no problem in establishing rewards on an one-on-one basis.

For one employee, it might be a longer vacation. Another may appreciate a monetary award. A third might want an extra perk. You need to know your key people and what will motivate them.

Do not forget to motivate the mentee. Their participation in the program should be reward enough. This puts them on the inside track to move up in the organization, no matter what size it is. Sadly, rewards alone may not be enough. There are many stories of selected persons just kicking back once selected. They start to feel entitled.

There must be follow up from the top. Each participant must be required to spend time with their mentor's boss. In these regular sessions, they defend what they have done and justify their participation in the process. Their job is at stake.

Each candidate must know that success is not guaranteed. You do not want someone who can just get by; you want to build a KEY employee. They are expected to do more.

You are looking for persons who are capable of running the business. People who will: take responsibility; make decisions; and lead. Anything less and they can stay where they were, but not be part of the next management team.

Key Employee Development & Training Plan

Employee name

Date

Mentor

What training and development are needed?

PLAN

Activity	Start Date	Comp Date	Comments

Comments from Mentor on progress

Pulling The Trigger

If you are the one that is leaving, watch your own timing. Once you are committed to making the change, stick to your own timetable. There are few things worse than starting something and never finishing it. You can destroy the moral of the whole organization.

Plus, as people get used to the idea of you leaving, that is the time to do it. Even if you only postpone it, your credibility with the rest of the organization will be diminished. Others who are making plans based on your statements can become disenchanted and leave. At the very least, they will not believe you the next time you announce a major date for anything.

The last word of advice on this topic is do not turn back. There will always be Chicken Littles who will think the sky is falling just because you are not there. Others will disagree with a decision made by the new boss and hope you will override it. Any of these actions will most certainly hurt the credibility and ability to manage of your successor.

One of the best things you can do is to take a long vacation right after turning over the reigns. That will give each of you time to get used to the new environment. Then accept special projects, but stay out of the day-to-day activities of the company for at least 6 months. Your replacement deserves the time to get established in the position.

Of course, if there is a real emergency and your business knowledge, contacts, calm, management capability, or other positive traits are needed, do respond. To the extent possible, do all of your work as a subordinate of the new chief. It may be difficult, but it will improve the transition.

Wrap Up

At this point, it is up to you. We all know that nothing is forever and that includes us. Right now is the time to consider the options, to plan for the future and to begin the execution of that plan.

As a business leader, being surprised by the inevitable is just plain stupid. A lack of foresight in this one area can destroy everything you have built. Do not risk it.

Take charge of the situation just as you have taken charge of your department, group or business. Commit to yourself, your family and your associates. You can make it happen.

The future may be unknown, but only a fool ignores it. Each of us has the experience and vision to see what is coming – at least at the “big picture” level. Do not wait for the emergency to force your hand. Continue to lead. That is what got you to where you are.

Let me leave you with a wish of good luck and success. It is not that hard. Just remember three things:

You can plan
You can prepare
You can leave a legacy