



2024 International Client Seminar

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Keeping The Gold:

Maintaining a Successful Business When Transitioning from the Boomer to the Net Generation and Generation Z

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Why Is Succession Planning for a Business Important and Essential?

The workforce had been changing even before the pandemic, with workers becoming older and not wanting to retire, and Millennials in the workforce presenting challenges for employers. With the pandemic, employers saw an increasing number of employees retire, sometimes at their desks, and they struggled, and continue to struggle, to find enough workers to meet their needs. This all points to the need for succession planning in order to maintain a business' high standards and retain institutional knowledge. Succession planning of a business also helps to address the issues employers face with the aging and diminishing workforce, as well as the issues faced with those who do not want to retire and those who "retire at their desks."

Reasons for a Business to do Succession Planning

While there are a myriad of reasons for a business to engage in succession planning for its executives and key managers, some of the more important ones are the following.

It Can Help Reduce the Loss of Business in the Event of an Unforeseen Event

We all know that tragedies happen, whether a sudden, unexpected death or illness, or personal problems that develop in the lives of an organization's key people. Executives and key managers are also much more mobile today than in the past, and a business may be faced with the sudden resignation of a key member of the management team. Planning for the succession of key people in the event of an unforeseen event, which may never happen, but could, will prevent a company from having to react hastily in the event of an emergency or sudden departure.

It Can Help an Organization Focus on Its Future

We are all busy and tend to focus on the task at hand on a given day, week or month. Planning for the succession of a business and its key people forces a business to think about its future and where it wants to be in three, five or ten years. It also forces an organization to think about the strengths and weaknesses of its key people, as well as those of the individuals under them who may be possible replacements or successors in the event a company loses a key person, whether suddenly or in the normal course of business.

It Can Help an Organization Energize From Within and Increase Inclusiveness

Planning for the future sends a message to employees that the company is forward thinking, that it is concerned about the future of the business, and that it wants to see the company thrive and continue without any hiccups. This lets employees know that they have a future with it as well, and will increase their morale and motivate them to continue to work hard for the betterment of all. Additionally, since succession planning is not limited to one department or area, it should increase communication among different people in the organization and the exchange of ideas, as well as also increase the feeling of inclusion.

It Will Save the Organization Money

When an unexpected event occurs, such as the sudden loss of an executive or key member of management due to death, illness or resignation, it can cost a company significant money to have to scramble to find a replacement for that person, as it may have to incur the cost of a headhunter, or pay a bonus to lure an individual from another business to join the company, versus having a plan in place to promote from within. It can also cost a company additional money in shoring up relationships and confidence with key customers, clients, shareholders or investors.

Some Benefits of Undertaking Business Succession Planning

The discussion above identifies some of the benefits of a business that undertakes succession planning. Some additional benefits are:

Succession Planning Helps to Preserve Institutional Knowledge

If an organization is faced with suddenly having to replace a key member of its management team, and is forced to go outside of the organization to do so, it not only increases costs, as discussed above, but also brings someone into the organization that may know little to nothing about the business. Engaging in succession planning allows a business to grow from within, develop its existing talent, and preserve and maintain the necessary institutional knowledge, and relationships, should a sudden (or not so sudden) change in leadership become necessary.

Succession Planning Helps with Retention and Recruiting

When employees see that there is the opportunity for advancement and that a company is willing to invest in their development, it increases not only a company's retention levels, but also aids in recruiting new people who want to be a part of that organization.

Succession Planning Helps a Company Focus on Any Weak Areas

In determining who would replace certain individuals in the event of an unexpected event, a business is forced to look at its bench strength and determine where it may have any gaps in its talent pool. It also will lead to a company expending the resources necessary to train and develop the next potential leaders, which aids in retention and recruiting, as well as ultimately preserving institutional knowledge.

What Is Involved with Business Succession Planning?

While some may think that succession planning is really "replacement planning," it is much more than that. Replacement planning focuses on filling a need quickly due to an unforeseen event, whereas succession planning focuses on taking the time and effort to develop future leaders so that when they need to be replaced, whether due to an unforeseen event or a planned retirement, there is no panic or need to replace them quickly, as their successor is already in place. This naturally requires an assessment of the business, its operations, including the company's infrastructure and IT systems, and key personnel, as well as how a sudden loss would potentially affect the business and each of those

components. This is then followed by developing a plan and strategy for protecting the business and its operations, and for maintaining the status quo as if nothing had happened.

The Process of Conducting Business Succession Planning

The process of conducting business succession planning has several components that can vary from business to business. Some of the key ones are the following.

Make Some Initial Determinations

Before diving deep into the succession planning process for a business, a company should determine when it needs or would like to have the process completed and then work backwards to establish deadlines for the completion of the various items discussed below. It is important to remember to provide for contingencies in any succession plan, as even the best laid plans sometimes experience unexpected events.

Perform a SWOT Analysis

As with almost any project in which a business is engaging in long term planning, it typically begins with performing an analysis of the business's Strengths, Weaknesses, Opportunities and Threats ("SWOT").

Identify Potential Successors and a Plan for Their Development

Once an organization has identified its needs, it must analyze the resources and assets it has available internally to meet those needs. Some of those resources and assets may be viable candidates, but they may need some additional training to develop more fully in order to be ready to step into a role should it become necessary on a moment's notice.

To the Extent Necessary, Gain Internal Support for the Succession Plan

A proposed succession plan may not be immediately accepted by all, in part because they may not agree with some of the proposals, and in part because not everyone who needs to ratify the plan may have been involved in developing the plan. Hence, to the extent it is necessary, it is important to have the people affected by the plan accept and support it. This may require individual or team meetings to explain the rationale for the plan, and/or it may take some time for the affected individuals to understand and realize the merits and importance of the plan. Regardless of the reasons, the necessary time and effort should be expended to have affected individuals "buy into" the plan.

Execute the Succession Plan

We have all seen situations where considerable time and money is spent on developing some type of plan, only to have the plan sit on a shelf and not be implemented. Once a succession plan has been developed and accepted, it is important to ensure that it goes into effect. This means preparing the people who one day may or will become the successors to key executives and members of the management team by providing them whatever training and resources they may need to develop

further so that they are ready to step into their next role when called upon.

Regularly Evaluate the Succession Plan

After a succession plan has been developed and put into execution, that does not mean the problem is solved and the task is over. Rather, it needs to be evaluated on a regular basis, as businesses change, needs change, and some of the prospective replacement employees may have left the organization. It is therefore important for the succession plan to be reviewed annually or on a periodic basis to make sure that it is still relevant and meets the current and projected future needs of the business.