Rev: NR

Succession Management

A White Paper

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1. Abstract

Succession Management is a process developed to help small and midsized companies that have lost a key executive maximize the value of the company after the loss of that person.

A key executive may be the founder, the person who turned the company around when it was in trouble, or one who always seemed to find a way for the company to succeed. Whatever his or her origin or status, this person was a driver of the company who has carried a disproportionate responsibility for success.

For such a company the processes, structure, and keys to success may have existed partially or largely in the mind of the missing person. For those left behind, whether they are owners or other company stakeholders, there will be a time of transition that is critical to the continued success and value of the company.

A tremendous amount of value can be gained or lost during this transition, and many companies are underprepared to deal successfully with the crisis.

This paper discusses a subject company that provides goods and/or services. The principles are general and may be applied to any company.

2. Introduction

Succession Management works best when it is a part of a Succession Plan. Many companies foresee the loss of a key person and plan accordingly. I would imagine that Apple has had a plan in place for some time, annually updated one would hope, to provide structure for the transition required when Steve Jobs leaves the company. Large companies generally have succession plans; small and midsized companies often do not. When things are going well, a company tends to procrastinate such planning and instead focus on driving success. Whether a plan is in place or not, bad things can happen to good companies. One of my business partners refers to the six D's: death, disability, disagreement, divorce, disengagement, and discreditation.

Of the six D's, those that we deal with most frequently are death and divorce, with disagreement and disengagement coming in farther back at third and fourth. If an owner and/or founder dies unexpectedly the beneficiaries of his or her estate may have little knowledge of how the company is operated or its value. If no plan is in place, as it often is not, they are at risk of losing perhaps their entire inheritance, and time is of the essence.

Succession Management can help you maximize the value of a company undergoing a succession transition.

3. Succession Management

A company is valuable because it produces revenue, cash flow, and profit. The ability of a company to remain viable in these three areas depends on many factors, but the three most important and most fragile during a time of transition are: 1) company employees, 2) suppliers and alliance partners, and 3) customers. Succession Management should engage as soon as possible after a succession event occurs to prevent erosion in these three critical areas.

Employees

The employees will be the first to know that changes are coming, and they may tend to assume the worst. The first job of Succession Management is to make the employees a part of the succession process so that they continue to feel a part of the company going forward and are not tempted to move on to other opportunities. This is best accomplished by emphasizing communications, which typically involves the use of over-communication.

The communications should be generated by the person managing the transition, and it should be frequent, open, clear, and consistent. The purpose is to keep everyone focused on success. Everyone in the company will know that changes are coming, and most of them will fear that the changes may fail or that they may succeed but exclude them. The manager should make them feel that they are a part of the company going forward without telling them they are part of the company going forward. Share success stories with them; be honest about the challenges the company is facing, and be clear about the plan to overcome them. It may be appropriate to implement a common incentive plan to reward those who remain loyal to the company through the transition. You will need their support; the manager should make sure they understand that.

Suppliers and Alliance Partners

A successful company works with suppliers and alliance partners that allow it to focus on core strengths. When suppliers and alliance partners hear that a transition is taking place without knowing that a plan for continuance is in place, they may take actions to reduce their risk. These decisions may affect capacity and delivery commitments that will degrade the ability of the company in transition from meeting its customer commitments. The transition leader should meet face-to-face with all key suppliers and alliance partners as soon as possible. Assure them that all transition company commitments will be honored, and that all supplier/alliance commitments are still required. After the initial meeting, talk to them by phone weekly, and update them on positive news by email. When promised deliveries are received, send a personal note of appreciation.

Customers

Meeting customer commitments is critically important to a company's success. The first thing a customer hears about a succession transition should be that it will have no effect on customer commitments. If some negative effect is inevitable, the first thing they should hear and see is the detailed recovery plan for their approval. Once employee and supplier/alliance status has been evaluated, meet with the customer(s) and give them a full and honest status, including risk. If new or different commitments are needed or required, make sure that you have the resources and focus to deliver as promised.

4. The Transition Plan

A company undergoing a succession transition typically does not have employees who are skilled in transition management. Moreover a transition is by definition temporary, so hiring people with the right skills will not make sense for the long term. The Transition Plan outlined below is designed to be implemented by a skilled team of consultants tailored to the specific needs of the company in transition. Since the entire succession transition will be managed as a project, all tasks and responsibilities will be defined.

Initial Assessment – "Is it Worth Saving?"

The primary stakeholders may need the answer to this question quickly. An assessment team consisting of an Executive Management Consultant, a Certified Public Accountant, and/or a partner who is Accredited in Business Valuation (ABV) should be able to complete a basic internal assessment and report to primary stakeholders in one to three days. Under some circumstances additional time may be required to interface with suppliers, alliance partners, and customers to obtain a more definitive report.

The Basic Assessment Report should include the financial and operational status of the company and a preliminary estimate of the market value of the company. Each status should include areas of risk and opportunities. The areas of risk may be further defined with additional assessment. Relatively firm results should be provided concerning the viability of continued operations, including an assessment of the ability of the company to generate revenue, cash flow, and profit as well as an early estimate of the company value when there is time to market the company for sale to the potential universe of buyers and the liquidation value (which could be simply the market value of the assets) if a sale must be made quickly.

The operational assessment will include an organizational review to determine what positions should be recruited and filled to keep the company viable and valuable. The recommendation may include a single replacement for the missing key person, or it may suggest a different organization that would be more effective than a single replacement. A process review will provide an understanding of how the company operates and identify keys to success. A search of the office and files of the missing person will be conducted to look for assets and commitments that are not apparent from other sources.

The market value assessment will be based on historical data from the financial review, market factors, and projections using asset, income, and market approaches. The initial estimates may have wide margins of error that may be reduced based on further research and the investigation of any significant hidden factors.

The financial assessment will include a review of accounts receivable, accounts payable, including aging on both, the balance sheet, liabilities not on the balance sheet, deposits, warranties, law suits, and inventory with aging.

The risks associated with each segment of the report should be discussed and quantified.

Continued Operation

Unless the significant stakeholders decide to pursue a quick liquidation (asset sale), continuing operations become a key priority. The basis for continuing operations management may have one of two objectives:

1) Maximize the value of the company for sale, or
2) Manage the company in preparation for continuing operations with a revised management team.

Option One

In option one, preparing the company for sale, temporary managers will be put in place to manage the company and present it in the best light to potential buyers. The organizational analysis will be finalized so that both the buying and selling team will understand the positions that need to be filled. The Executive Management Consultant will meet with the primary stakeholders and the consultant team to determine whether or not immediate recruitment would increase the value of the company. Any potential recruits would be fully briefed on the risk of accepting employment with a company that is being sold. The risks involved might be offset by a bonus to be paid if the acquiring party decides to terminate employment. The recruitment may also be delayed until after the acquisition.

Option Two

Option two is perhaps the most challenging and most rewarding for a viable company with good prospects. The Executive Management Consultant will organize the succession transition as a project, and he or she will act as the project manager. A complete and thorough process and organizational analysis will be performed with the input and involvement of every stakeholder in the company. Progress, challenges, and successes will be frequently communicated to all involved. This approach promotes ownership and produces far superior results to other approaches, especially concerning unwanted turnover.

Succession Management requires that managers understand how their business works. Although stakeholders may *think* they understand the way their business works, our experience suggests that this is often not the case. An independent process analysis will often reveal that the actual processes being used are either not documented or are not being performed as documented. Because of internal assumptions and politics it is often very difficult to accurately map the total business processes from within. Decisions based on incorrect process assumptions do not have the desired effect, and the resulting issues are frequently blamed on individual job performance which compounds and escalates the problem.

The process analysis will map current processes, analyze them to identify gaps, facilitate consensus on the desired state to support existing markets and customers, and help implement any new processes. Current processes are determined from the process owner viewpoint. This process analysis should define the internal, supplier, and customer process interfaces. Both sides of each interface should be examined separately and compared, with any differences negotiated by the two parties and facilitated by the Manager. Once the current process map is complete and documented, improvements that are aimed at improving operations will be considered with all involved. Any changes that are approved will be made to create the new and future process map. Because a consulting team is facilitating the transition the company team is able to keep meeting customer commitments and generating revenue.

Complete in-person assessments using a six step process will be conducted with each major supplier and/or alliance partner.

Six Step Supplier Alliance Process

1. Confirm Capability
2. Confirm Management Commitment
3. Confirm or Instigate Present and Future Early Involvement
4. Establish Processes to Validate Future Capability
5. Review Processes to Validate Production Processes
6. Review the Gate to Volume Production Process

Early customer commitment meetings will be followed by customer interface process analysis. The Manager will explore the customer process interface in detail to make sure that the internal process meshes with the customer process and produces the desired results.

The Organizational Analysis will use the process map to inform the current and future organizational needs of the company. First the current organization will be mapped with revised or added job descriptions as needed. Existing employees will be evaluated against the job description for their current position as well as other positions for which they may be qualified. The organizational chart will then be revised to fit the new circumstances, including the missing key person. New job descriptions will be generated as needed. A recruiting firm directed by the Manager will find qualified candidates and generate a short list of candidates to be interviewed for the open positions. Qualified internal applicants for all positions will be interviewed and considered. Once the key people are hired, the Executive Management Consultant will facilitate a transfer of responsibilities, phase out all consultants, and end the transition project.

5. Conclusion

Succession Transition Management guides companies through transitions during which an attempt is made to maintain and improve the value of a business after the loss of a key person. When facing a succession situation, it is a given that changes must be made, and the employees will naturally feel anxiety about and resistance toward that change. A focused approach will greatly improve the prospects for success by identifying and addressing the areas that could benefit the most from change and improvement.

Areas of Focus for a Succession

- Process Definition and Improvements
    - Define and document processes
    - Align process with customer focus and long term strategy
    - Eliminate ambiguities
- Organizational Changes
    - Align the organization with strategy, tactics, and processes
- Customer Focus
    - Meet Requirements
    - On-Time Delivery
- Emphasize Communications
    - Visibility of success
    - Consistent messaging
    - Getting the focus needed to make change happen
    - Sharing success stories
- Common rewards and incentive plans when needed

It is important to involve stakeholders in the succession process in order to obtain buy-in and to prevent the loss of valuable people. Effective over-communication should be practiced religiously.

A succession transition requires a period to produce an environment in which a company is reorganized around the loss of a key person. That loss may be addressed in several ways including a single replacement, multiple replacements, or organizational changes without new hiring.

The transition period is stressful for all stakeholders, and there may be a tendency for individuals to act more in their personal interest rather than the company interest. This tendency is a part of human nature and best results are achieved when the transition is managed by an objective third party. If the transition is managed well, there is an excellent opportunity to increase the value of the company.

A Succession Manager must understand the issues being addressed, set the proper objectives, manage the inherent risk, measure progress toward objectives, and adjust course as needed until the objectives are achieved.

Appendices

Appendix A – The Author

Charles W. Doty was born in Oklahoma but has lived in Texas since moving to Dallas in 1969 to help Texas Instruments introduce TI handheld calculators to the consumer market. The first calculator he designed was the TI-2550, ($159.95) and the last was the TI-1000 ($9.95). Other efforts that he participated in at TI include Loran-C Navigators, GPS Surveyors & Navigators, the TI Home Computer, DLP video and printer products, and, during the cold war, stealth cruise missiles. During the 1980's and early 1990's he served on the steering team that led the Texas Instruments Defense Systems & Electronics Group to improve quality through a team-based approach, which resulted in that organization winning the Malcolm Baldrige National Quality Award in 1992. His management specialty became lean strategies as applied to multi-company collaboration, including supply chains and outsourced production.

Since leaving Texas Instruments Charles has been involved with mass transit communications and lighting systems, digital film processors, cell phone RF front-ends and antennas, solar panel production, urban redevelopment, and management consulting. He served as Vice President of Operations at two Austin start-ups, Applied Science Fiction (ASF) and GigaCircuits, and has prepared and given start-up presentations to several tier-one venture capitalist firms in Austin and Silicon Valley.

He is currently President of BlueShift Consulting in Austin, Texas, focusing on Succession Management for companies in a variety of industries. He is a member of the Gerson Lehrman Group Technology Council and the Austin Downtown Rotary Club

Charles has a BS in engineering from Texas Tech University and an MBA from the University of Dallas.

Appendix B – BlueShift Consulting

Succession Management with

BlueShift Consulting helps clients maximize the value of their company during and after a Succession Transition precipitated by the loss of a key person. BlueShift Consulting will provide executive leadership for the transition, organize it as a project, and bring in qualified consultants tailored to the specific situation.

We will provide the support needed to achieve the highest value for a sale or continuing operations.

If you have an interest and need to talk to someone, please contact us to learn how we may be able to contribute to your success. Contact Charles W. Doty at cdoty@BlueShiftConsulting.com or call 512.694.3189.

Appendix C – Energize2Lead

Succession Management - Energize2Lead Profile™

BlueShift Consulting utilizes a unique leadership survey tool to assist in our Succession Management practice. The tool is Academy Leadership's Energize2Lead Profile. The value of this tool is that it allows us to better facilitate succession management by having a deeper understanding of the individual leadership styles of your senior management team. An understanding of styles allows us to facilitate better communications between individuals whose behavior may be affected by the roles they have played in the company and, in the case of a family owned business, their roles in the family. It also assists us in anticipating team dynamics and potential issues when working with your team.

The loss of a key leader creates a stressful environment and is frequently accompanied by heightened emotions. Traditional surveys, such as Myers-Briggs, evaluate personality on a single dimension and consequently fall short on assisting in these situations. However, the Energize2Lead Profile, considers three dimensions including facets of one's instinctive nature, expectations, and dominant preferred styles. This deeper insight helps us to understand how individual leadership styles change with stress and enables us to work and communicate more effectively with your team to facilitate the succession management effort. Another direct benefit to the company is that the results of the profile will help the leadership team to better "know each other" which will contribute to higher team collaboration and effectiveness both during and post transition.

The Energize2Lead Profile has three major advantages over other common profiles in that it delivers (1) a three dimensional profile; (2) a group/team dynamic report; and (3) a software generated, navigational desktop report.

What do the results indicate?

The results of the survey assist us with managing the succession process by providing insight on:

- How employees needs are met in order to "buy into" and understand organizational goals.
- How to manage and execute an effective meeting by understanding the diverse thinking styles of a team.
- The importance of trust in teambuilding. The profile identifies where diversity in styles is needed, and how to manage those opposing energy forces to succeed. The

profile promotes trust through understanding and appreciating these differences and breaking down the trust barrier.

- How leaders describe their leadership philosophy by identifying the most challenging management relationships while providing specific information on how to help them grow.
- How leaders can be more effective in identifying what type of feedback is required in order to make informed decisions.
- What changes in attitudes and leadership styles would be beneficial by discovering how each member of the team is hardwired.
- How leaders recognize what each individual needs to make informed decisions and who is more inclined to delegate and who will struggle with delegation and why.
- Individual strengths and weaknesses are identified so potential issues can be addressed upfront without triggering unnecessary defensive reactions.

In summary, The Energize2Lead Profile is more effective than other surveys at assisting us to understand and work with your team to anticipate and avoid issues while also enabling us to coach your team in ways that will elevate their effectiveness through a deeper group understanding of differences in leadership styles and expectations.

Why is this assessment critical?

The Energize2Lead Profile provides data that supports our addressing individual needs in the transition process and tailoring of specific program elements so that we may most effectively assist you with the succession transition execution while minimizing your cost and maximizing your corporate value.