

SUCCESSION PLANNING

THE KEY TO A SMOOTHER BUSINESS TRANSITION

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INTRODUCTION

Succession planning for businesses is a critical process that involves identifying and developing new leaders who can take over the business when the current leaders and/or shareholders retire, leave the organisation, or are otherwise unable to continue in their role. The process helps to ensure the continuity and success of the business by preparing for leadership and ownership transitions in advance and ensuring a smooth transition of leadership and management responsibilities.

Succession planning is an ongoing process that involves identifying and developing future leaders, preparing them to take on new responsibilities, and developing a plan to transfer knowledge, skills, experience and oftentimes business ownership from the current leaders to the next generation. Succession planning is a crucial component of organisational success and longevity, and it offers numerous benefits to businesses of all sizes and industries. In this document, I provide an overview of succession planning, touching on some of the key considerations, specifically:

1. The importance of succession planning;
2. The benefits of succession planning;
3. Difficulties in executing a succession plan; and
4. A step-by-step guide to developing a comprehensive succession plan.

At Groves & Partners, we regularly act for clients who are undertaking succession planning by providing a range of services including, identifying successors and skill gaps, developing the succession strategy, valuing the underlying business and negotiating terms with key employees. We perform this work by collaborating with our client's existing tax and legal advisors to ensure our clients get the best advice on all aspects of their succession plan.

THE IMPORTANCE OF SUCCESSION PLANNING

Succession planning can be undertaken at any stage of the business life cycle, and it is important for all businesses for the reasons set out below.

Ensuring Business Continuity

Succession planning helps ensure that a business continues to operate effectively, even if key leaders retire, resign, or pass away. A well-designed succession plan provides for the orderly transfer of leadership, responsibility, and authority, reducing the risk of disruptions and preserving the value of the organisation. By having a clear plan in place, businesses can reduce the impact of departures and ensure that critical functions and responsibilities are handed over to capable individuals.

Preserves Business Value

Succession planning helps preserve the value of the business and protects the interests of all stakeholders, including the business owner, employees, customers, and suppliers. By preparing a successor, the business can avoid a drop in productivity, revenue, and profitability that often results from the departure of key employees.

Supports Employee Retention

A well-designed succession plan can also help with employee retention. Employees are more likely to stay with a company that has a clear plan for the future and offers opportunities for growth and development. A succession plan can provide employees with a sense of security and assist in retaining top talent.

Preserves Culture

Succession planning allows the development and maintenance of strong organisational culture due to the enhanced ability to support and promote leaders who embody the ethos of an organisation.

BENEFITS OF SUCCESSION PLANNING

Beyond just a necessity, an effective succession plan has the ability to add value to a business and provide competitive advantages in a variety of different areas of the business which are outlined below.

Enhanced Employee Development

Succession planning provides an opportunity to identify and develop high-potential employees, which can have a positive impact on employee morale, engagement, and retention. When employees see that there is a clear path for advancement and growth within the organisation, they are more likely to feel valued and motivated to stay with the business. This can result in reduced turnover, increased productivity, and a more motivated and engaged workforce.

Improved Quality within Key Leadership Roles

Succession planning helps ensure that key leadership roles are filled by capable individuals who have the skills and experience necessary to lead the organisation into the future. This is particularly important for small businesses which typically rely on the expertise and experience of a few key individuals. By having a succession plan in place, businesses can minimise the risk of losing these critical future leaders and ensure the business has capable successors.

Increased Market Stability and Reputation

A well-designed succession plan can help build confidence and stability in the market, making it easier for a business to attract new customers, investors, and employees. The presence of a succession plan demonstrates that the organisation is committed to its future and that it has a plan in place to ensure its continued success, even if there is a change in leadership. This can enhance the reputation of the organisation and increase its perceived value in the market.

Improved Financial Performance

Succession planning can help improve financial performance by reducing the costs associated with replacing key leaders, such as recruitment and training expenses. Additionally, by having a plan in place to ensure a smooth transition of leadership and responsibility, businesses can minimise disruptions to operations, which can reduce the risk of lost revenue and increased costs.

Increased Valuations and Saleability of the Business

Having a well-planned and executed succession plan in place can optimise the value of a business making it more attractive to potential buyers. This is because a succession plan provides a clear and detailed outline

of the processes and procedures involved in transferring ownership, and how the business will continue to operate into the future. This helps to demonstrate that the business is well-prepared for change and has a solid foundation for continued growth and success.

CHALLENGES IN EXECUTING A SUCCESSION PLAN

Succession planning is a critical aspect of any organisation's long-term strategy, but it's often overlooked or undervalued. Despite the clear benefits of having a solid plan in place for leadership transitions, many executives and organisations struggle with implementing effective succession planning. This can be attributed to a variety of factors, which are discussed below.

Short-term vs. Long-term Focus

One of the major challenges of succession planning is that it is a long-term discipline. Business owners and leaders are typically rewarded based on short-term accomplishments, and the results of succession planning efforts often take years to bear fruit. As a result, it's often difficult for owners and leaders to prioritise and allocate resources to succession planning when they're under pressure to deliver results in the short-term.

Perceptions

Another issue with succession planning is that it can be perceived as destabilising and threatening. Many organisations are hesitant to discuss succession planning for fear of being seen as lacking confidence in their current executives. Similarly, executives may be hesitant to raise the topic of succession planning for fear of signalling their future intentions and being perceived as a threat to their current position. This can create a negative dynamic within an organisation and lead to a lack of progress in succession planning.

Accountability

The accountability for succession planning is also often unclear, with some organisations placing the responsibility with HR and others with business leaders or shareholders. This lack of clarity can result in slow progress and resources being dedicated to succession planning. It's important for organisations to determine who is ultimately responsible for succession planning and to provide clear guidance and resources to ensure its success.

Lack of a Roadmap

Many leaders struggle with the lack of clear processes and methodology around succession planning. They often feel ill-equipped to handle the process, lacking the necessary tools and guidance to succeed. Organisations need to invest in providing clear processes, methodology, and tools to help leaders and executives successfully navigate the succession planning process.

STEP-BY-STEP GUIDE TO DEVELOPING A COMPREHENSIVE SUCCESSION PLAN

A step-by-step guide for business owners on developing a comprehensive and effective succession plan is as follows:

- 1. Identify critical positions** - The first step in developing a succession plan is to identify the critical positions within the organisation that are essential to its success. This can include roles such as CEO, CFO, sales, marketing, and operations.
- 2. Evaluate current employees** - Business owners should assess the current employees within the organisation and determine their potential to take on leadership roles in the future. This can include considering their skills, experience, and personal characteristics that are essential for success in leadership positions.
- 3. Determine the timing of the succession** - The timing of the succession is an important factor to consider, and business owners should assess the readiness of potential successors and determine the right time to implement the succession plan. This can take into account the stability of the business, the readiness of potential successors, and the owner's personal goals and timeline.
- 4. Develop the succession plan** - The next step is to develop the succession plan, including a clear definition of the roles and responsibilities of key personnel, a timeline for the transition of leadership, and a plan for developing the skills and experience of potential successors.
- 5. Offer training and development opportunities** - Business owners should provide training and development opportunities to potential successors, to help them develop the skills and experience they need to take on leadership roles. This can include mentoring, exposure to key business processes and systems, and formal training programs.
- 6. Review and update the plan regularly** - The succession plan should be reviewed and updated regularly to ensure it remains relevant and effective. This can include assessing the readiness of potential successors, reassessing the timing of the succession, and making any necessary changes to the plan.
- 7. Communicate the plan to stakeholders** - Communication is a critical aspect of succession planning, and business owners should communicate the succession plan to all stakeholders, including employees, customers, suppliers, and shareholders. This can help to ensure their understanding and support for the transition of leadership.

By following these steps, business owners can develop a comprehensive and effective succession plan that supports the long-term success and stability of their business.

CASE STUDY

We recently acted for a client who had already identified a successor within their organisation and assisted the client in achieving a successful succession plan.

The Client

Our client was the sole owner and director of a fast-growing building products manufacturer with significant manufacturing and intellectual property assets.

The Objectives

After a long period of running the business and developing new products and markets, the client wanted to take a step back from the day-to-day business operations to spend more time with his family. The client has identified a key staff member to take over the day-to-day operation of the business and required independent advice in relation to the strategy and terms of his succession plan. The key staff member wanted a small minority interest in the business and the client wanted to exit the business completely in the next three years.

The Solution

We assisted the client in the following areas:

- We developed a succession plan which met the owners goals and aspirations for stepping back from the day-to-day business operations and setting the client on track to achieve a successful exit in the next three years.
- We valued the underlying business and company in order to determine a price for the minority equity interest which would be granted to the key staff member.
- We facilitated a meeting for the negotiation of key terms to the succession plan, equity buy-in and shareholders agreement in conjunction with each party's respective tax advisors.
- We documented the succession plan, equity buy-in arrangements and terms of the shareholders agreement and provided advice in relation to the execution of the relevant legal documents to formalise the succession plan.

The Result

With an agreed succession plan in place, and key terms for the equity buy-in and shareholders agreement resolved, the client was ready to step away from the day-to-day business operations. By engaging an independent advisor to facilitate the succession planning and negotiation of the equity buy-in, the project was completed in a matter of weeks. The client saw the following benefits in a short timeframe:

1. Retention of a key staff member required for the continued growth and day-to-day operation of the business;
2. Mitigation of the risks of business continuity;
3. Alignment on the strategic direction of the business;
4. Accountability for the client and key staff member in the future business operations; and
5. Immediate ability to take a step back from the day-to-day management of the business to spend more time with his family.

FIND OUT MORE

For more information, or to discuss the contents of this document in further detail, please contact us at your convenience.



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Wednesday, 15 March 2023

DISCLAIMER

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