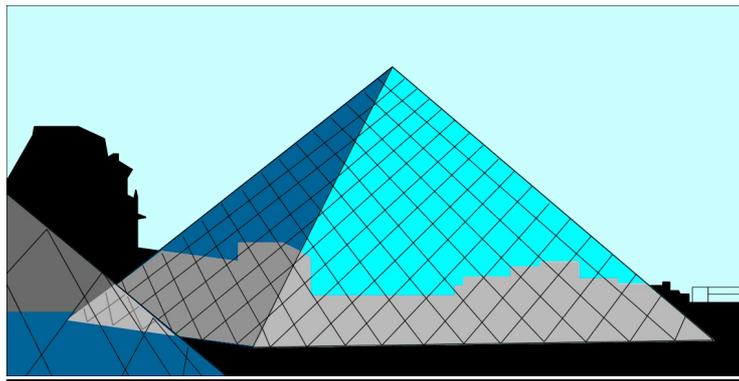
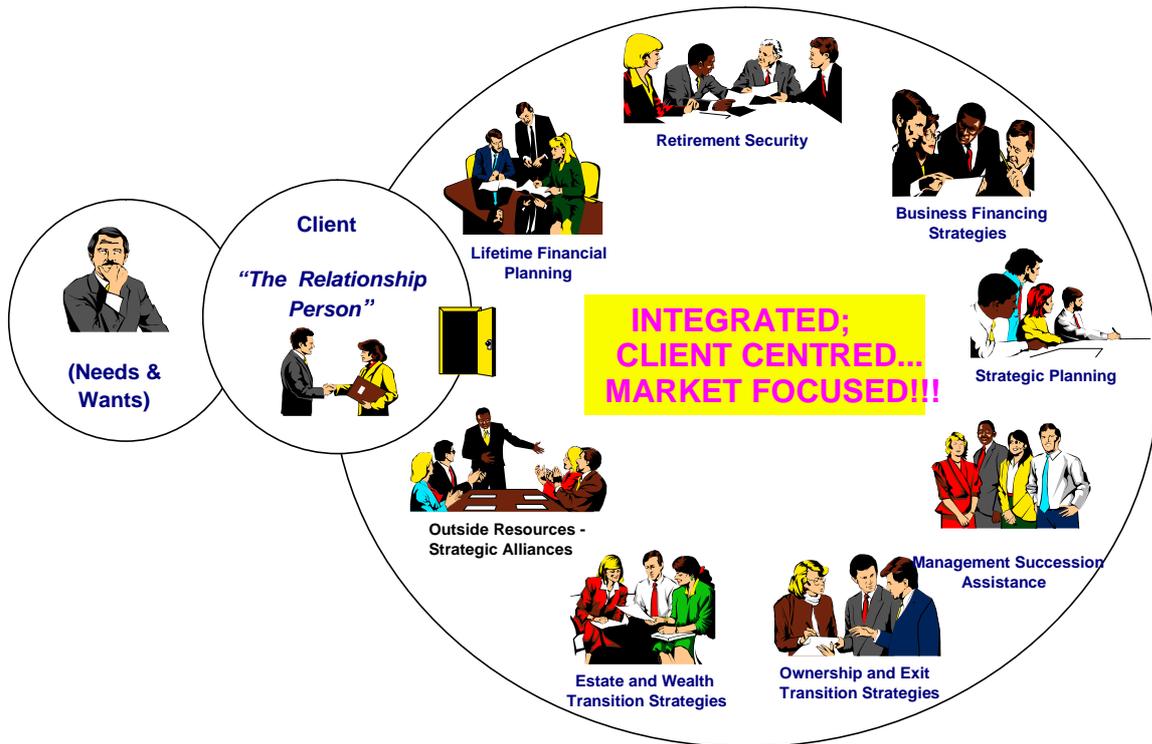


MANAGEMENT SUCCESSION



“Looking after you..... our client”

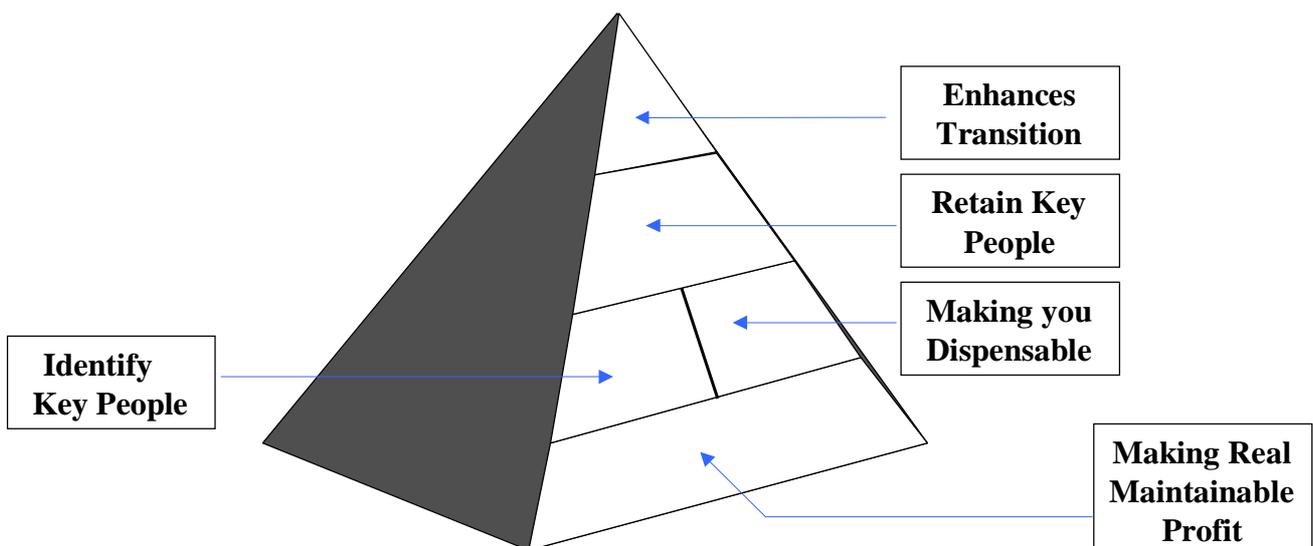


Management Succession

Introduction

Developing management talent within an organisation to replace the retiring owner is essential to the business's long-term survival and viability. Owners must consider the following questions in family business situation:-

- (a) Do family members have the technical, interpersonal, and financial management knowledge necessary to perform in their job assignment?
 - (b) Do non-family member managers and employees professionally respect the family member managers?
 - (c) Do customers, suppliers and bankers for the business believe the family member managers can do an adequate job of replacing the retiring owner?
- Our objective is to assist clients in making sure new managers have all the requisite skills needed to be successful.



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Management Succession Planning

Succession planning involves a complex set of variables: future financial security, the transfer of wealth, tax planning, future business strategies, and how family values affect long-term personal goals. Most of all, it involves consensus building. If our client can't assemble the participants into a team, the odds are they will NOT succeed in achieving an internal succession. In which case, external succession becomes the preferred goal.

Management Succession Planning needs to take the following into consideration....

- ✓ KNOWING WHEN TO START
It's important to distinguish a contingency plan from a succession plan. A contingency plan covers death, disability, or unexpected, usually tragic events. A succession plan covers what happens when people say, "It's time for a change in ownership or management."

- ✓ MOTIVATION
Reluctance often stems from personal needs overshadowing the needs of the business. In which case, any solution must be constantly defined in light of the personal needs it will satisfy for that participant.

- ✓ HOW MUCH TIME IS ON THE SUCCESSION CLOCK
The longer you wait to assemble the players into a team, the more difficult it becomes, and the fewer options you have on how you handle the succession obstacles. Owners should begin assembling participants into a team three to seven years before a transfer of ownership or retirement will occur.

- ✓ BUILDING YOUR TEAM
The four characteristics of an effective team are trust, openness, realization, and interdependence.

- ✓ IDENTIFY HURDLES AND CHALLENGES
There are many hurdles and challenges to overcome; both in the team assembly stage as well as after the team is in place. Successfully negotiating these challenges requires an intense commitment to the succession.

"The final test of greatness in a CEO is how well he chooses a successor and whether he can step aside and let his successor run the company."

Peter Drucker

When Should The Succession Planning Process Begin?

- ✓ Business has demonstrated the ability to generate consistent profits.

- ✓ If the business owner is 50 or more years of age and the head of a profitable business.

Key Points

- ✓ Develop at least 3 scenarios for the business:
 - Children in business
 - Children not in business
 - Sale of business

- ✓ Start providing spouse and children over 18 or 21 with information about the functioning and conditions of the business.

- ✓ Stay open to the evolution of the succession plan.

Common Business Owner Issues During Succession Planning

- ✓ What are the basic steps in succession planning?
- ✓ How to encourage the kids to think positively about succeeding?
- ✓ How to tell when the kids are mature enough to be considered as successors?
- ✓ Who should succeed business owner as CEO?
- ✓ When should business owner retire?
- ✓ What are the leadership options after retirement?
- ✓ When should business owner sell business outside the family?

Elements of a Succession Plan

- ✓ A defined process for choosing successors
- ✓ A personal development plan for the successors (based on the Prevue Assessment)
- ✓ A leadership development plan for the successors with specific training to help the individuals strengthen and improve
- ✓ Ongoing coaching/mentoring to successors
- ✓ Retention and reward strategies for key people
- ✓ The evolving leadership roles of founder and successor at various stages of the transition
- ✓ A plan to communicate the succession decisions to key stakeholders

Rules of Entry

- ✓ Eligibility _____
- ✓ Education _____
- ✓ Outside experience _____
- ✓ Coming and going _____
- ✓ Age limits _____
- ✓ Compensation _____
- ✓ Fit _____
- ✓ Role and relationship _____

Inventory of Skills

- ✓ Skills needed to be a manager in the business
- ✓ Skills of each potential successor
- ✓ Individualized skills development and training program
 - Job descriptions
 - Regular evaluations
 - Develop training schedule

Management Succession Overview

Here are some “thought provokers” for your client as you begin navigating the management succession planning process.

| <i>How healthy is your management succession plan?</i> | Yes | No |
|---|--------------------------|--------------------------|
| 1. Will your key employees (and your work force at large) be threatened in the event of your death? | <input type="checkbox"/> | <input type="checkbox"/> |
| Will they remain with the company? | <input type="checkbox"/> | <input type="checkbox"/> |
| Are incentives in place for them to stay? | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Assuming that one of your children is chosen to succeed you, is the rest of your family aware of your selection? | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Are the lending institutions/key business contacts you deal with aware of your succession plan? | <input type="checkbox"/> | <input type="checkbox"/> |
| Do they have as much faith in your successor as they have in you? | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. What do you want to happen to your business? Continuation, sale, or liquidation? | | |
| 5. What will happen to the business if no prior arrangements are made? | | |
| 6. Is there a training program for successors? | | |
| 7. Who will run the business if it is continued? | | |

Are the qualified persons ready to take over now if the need should sudden?

Assessing Company's Management

In addition to the financial factors, we need to also assess the company's management:

| Consider: | Strong (+) | Weak (-) |
|--|-----------------------|---------------------|
| ✓ Experience: | | |
| Total general business experience | _____ | _____ |
| Industry experience | _____ | _____ |
| Specific business experience | _____ | _____ |
| ✓ Knowledge of the industry: | | |
| The competitive environment | _____ | _____ |
| Cyclicality of the business | _____ | _____ |
| Environmental and regulatory issues | _____ | _____ |
| ✓ Financial process and controls: | | |
| Types and frequency of reports | _____ | _____ |
| Assigned responsibilities | _____ | _____ |
| Use of professional advisors | _____ | _____ |
| ✓ Planning: | | |
| Adequate insurance coverage | _____ | _____ |
| Thorough business plan | _____ | _____ |
| Reasonable financial projections | _____ | _____ |
| Updated continuity / succession plan | _____ | _____ |
| ✓ Management style: | | |
| Leadership skills | _____ | _____ |
| Flexibility | _____ | _____ |
| Risk tolerance | _____ | _____ |
| ✓ Integrity and reputation: | | |
| Conduct of personal financial affairs | _____ | _____ |
| Reputation in the community | _____ | _____ |

Sample Management Selection Plan

(Company Name)

1. Who will be considered?
 - a. All family members.
 - b. If none are qualified, then non-family members will be considered.
2. When will they be considered?
 - a. It will depend on the timing of the organization's needs and the plans of the existing senior management.
3. Who will select the new managers?
 - a. The Board of Directors, with assistance from selected outside advisors.
4. How will the selection be done?
 - a. A formal process of job descriptions, evaluation, skills development and training will be implemented for each family member.
 - b. An informal process of soliciting input from peers, plant managers, customers, suppliers, etc., will be used to complement the formal process.

Family Issues

- You're my only son
- Sibling rivalry
- Old wounds
- Resentful of Dad
- Co-dependency
- No experience outside family business
- Passions are elsewhere
- Financial secrecy
- Take the money and run
- Double standards for performance
- Dinner table communication versus organizational structure
- What else?

Emotional Issues of Succession Planning

- Jealousy, greed, ambition & anxiety, vs. love, hope, enthusiasm, dedication

- Facing the fact that careers and life are finite--loss of power and control

- Fear of the future--what do I do now?

- Family relationships versus business relationships

- Family goals--be happy versus business goals--make a profit

- Lack of shared vision/goals for the business--comfort versus progress

- Problems with brothers and cousins

- The need to be fair--treat all kids equally

- Sibling rivalry-- "inside" kids and "outside" kids

- The in-laws, second marriages...*his or hers*

- The females--can't-do-it syndrome

- Misplaced loyalty--kids toward business; parents toward kids

- Kids' fear of measuring up, resentment of long-term non-family members

- Resentment of long-term, non-family employees

Selection Considerations

To make sure a successor is chosen objectively, a business owner should:

- Prepare a management and ownership succession plan that fairly considers both family members and others as potential successors
- Be as objective when hiring and promoting relatives as when hiring and managing others
- Use written job descriptions to guide thinking when considering the talents and limitations of possible successors to the business owner's job
- Give positions and salaries to family members according to the company's needs and relatives' abilities
- Try to avoid preferential decisions and salaries that favour relatives over other employees - Performance still needs to be the main criteria for success in the business
- Recruit outside talent to share management responsibilities and give them a fair chance for advancement
- Cultivate the heirs. They can work their way up the company ladder and be promoted on their personal merits and performances

Checklist for Succession Planning Factors

| Leadership Factors To Assess | Ranking (Hi, Med, Low) | Descriptions |
|---------------------------------------|---------------------------|--------------|
| CEO/Owner Expectations for Success: | | |
| Planning Skills: | | |
| General Learning Abilities/Aptitude: | | |
| Effectiveness in Getting Things Done: | | |
| Leadership/Decision Making Style: | | |
| Strategic and Vision Oriented: | | |
| People Skills: | | |
| Biases/Blind Spots/Limitations: | | |
| Communication Skills: | | |
| Maturity and Judgment: | | |
| Understanding of the Business: | | |

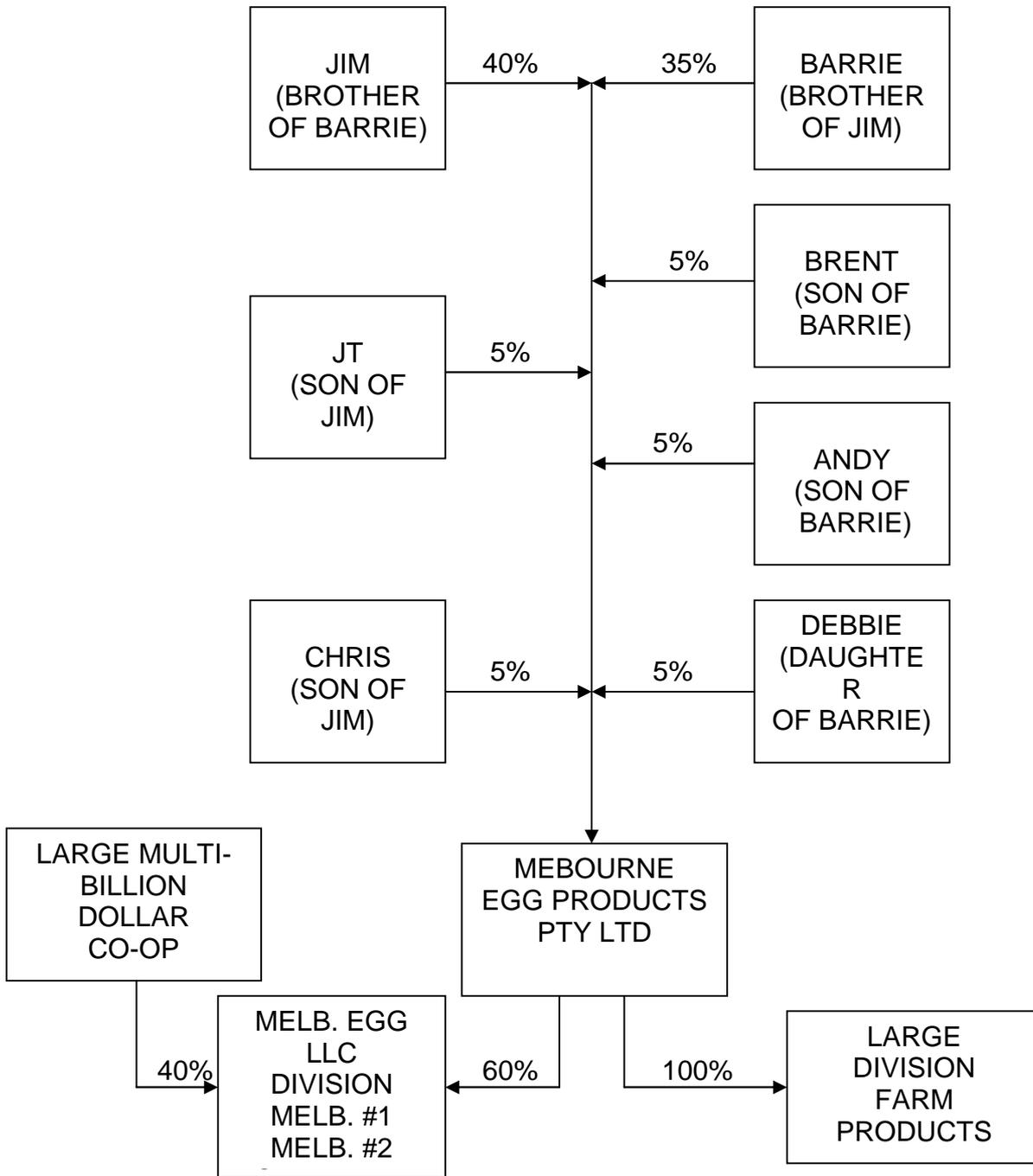
Case Study

Melbourne Egg Products

Melbourne Egg Products (MEP) is an egg producing fourth-generation family business started by great-grandfather Roy in 1909. The Company is currently operated equally by the two (2) third-generation sons, Barrie and Jim, ages 58 and 63 respectively. They have been contemplating an exit strategy for the last five years and each has two sons who are actively involved in the business and are being considered as potential successors.

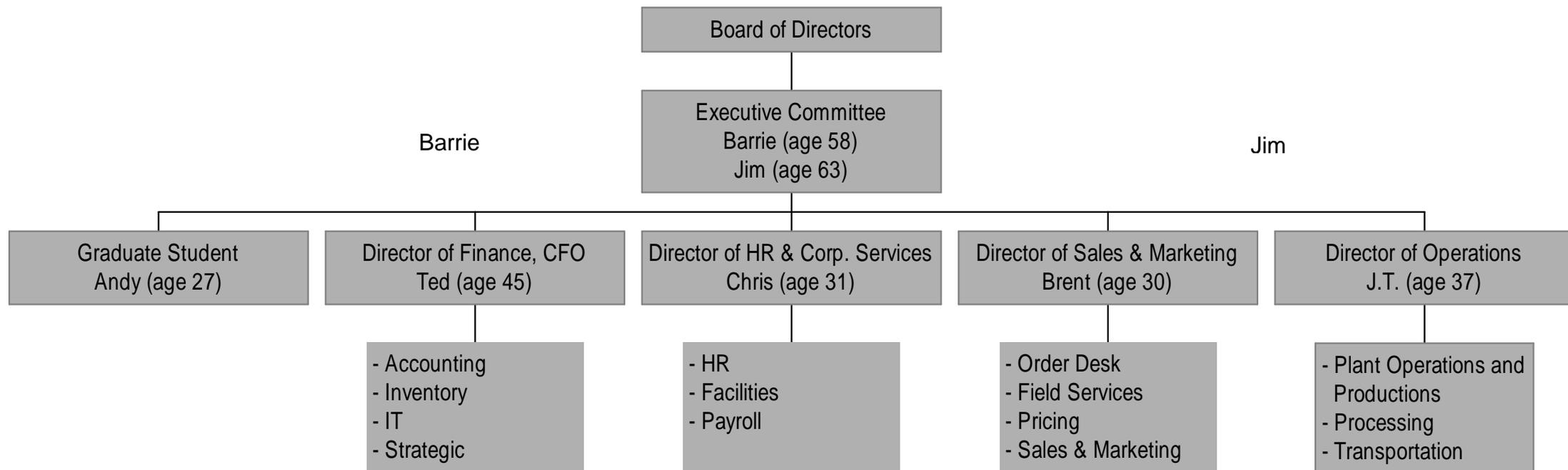
Melbourne Egg Products is a private company and is headquartered in Victoria but operating with multiple plants in Melbourne and Sydney. Annual sales in 1999 were approximately \$175 million and profitability was marginal. There are approximately 600 employees. In addition to the six family members, there are 20 – 25 non-family managers who comprise the MEP Management Team. The most senior level non-family member is Ted, CFO and Director of Finance. Ted, along with the four sons (J.T., Chris, Andy, and Brent), are being considered individually as successors and/or as a successor team. The current thinking of Barrie and Jim is to have the families continue to run and operate the business after they retire, although no mention has been made of specifically transferring more ownership to the fourth generation. Each brother would like to see 50% of ownership always continue for each of the two families.

*Melbourne Egg Products Ownership
Organisation Chart*



Melbourne Egg Products Management

Organisational Chart



Discussion Questions

1. Describe the situation at Melbourne Egg Products (MEP) in terms of ownership transition planning. What exit strategies appear most viable for Barrie and Jim?
2. Describe the situation at MEP in terms of management succession planning.
3. How would you start to navigate a management succession plan at MEP?
4. What are the major pitfalls that may be holding up planning at MEP?
5. What are the overlapping family and business issues facing this family business?
6. What are the key factors that will influence effective succession planning?
7. If this were your engagement, what would you do next?

Successor Team Development & Coach Plan

1. What are the strengths of the Melbourne Egg Products successor team?

2. What are the weaknesses of the team in terms of the company benchmark established, as well as from what you would conclude about the business in terms of its goals, performance, operating practices, etc?

3. How would you rank each of the five reviewed successor candidates on a scale of *high*, *medium*, or *low* in terms of the Leadership Factors listed on page 3-15? (NEED TO AMEND)

4. If you could select any one successor and/or combination of successors, who would they be and why? What positions would you put them in and why? When do you think they will be ready to run the business?

5. Now for the really tough question. Generate a plan/outline detailing how you would develop these individuals for management succession readiness if Barrie and Jim said they would retire in five years.
 - Who would be doing what responsibilities?
 - What areas of development would you target for individuals and/or for the group collectively?
 - How would you hold the group accountable? How would you measure their success?
 - What kind of coaching would you provide to the successor candidates if you were Barrie and Jim?
 - What kind of coaching/navigation would you provide to Barrie and Jim to help them manage the transition?
 - What would you communicate and to whom?
 - What other factors could be important?

Hint: You might refer to page 5-1 to guide your thinking process.

Success Criteria for Owners, CEOs, Boards of Directors

1. Team Oriented Identifies differences in others and capitalises on varied perspectives. Understands personal strengths and limitations. Comfortable selecting and trusting others with tasks and project components.
2. Competent Knowledgeable in areas of expertise. Proven success in managing transitions. Accurately assesses needs, provides viable solutions and interventions, and maintains ongoing support/feedback to achieve closure.
3. Sensitivity Aware of others. Communicates at levels appropriate to listener/client. Able to create an atmosphere of personal worth and dignity.
4. Centred Comfortable with self. Open to ideas of others. Demonstrates low need for maintaining “expert” status. Comfortable with collaboration; enjoys synergy. Self-empowered and accountable.
5. Values Driven Demonstrates motivation to provide a service and to have a positive impact. Willing to make personal sacrifices to achieve desired result. Core values: integrity, respect for authority, personal worth and service.
6. Change Comfortable Demonstrated ability to experience change and attain level of closure. Able to measure progress (and articulate evaluation) throughout process. Personal history of utilising change as foundation for growth and success.
7. Influencing Skill Able to vary influencing style based upon accurate evaluation of situational dynamics. Effective communicator, capable of causing others to accept ideas and take action.
8. Adaptable Demonstrates style versatility based upon situations and individuals. Will seek alternative methods to achieve goals. Balances patience with action orientation.
9. Integrity Will make difficult decisions based upon principle. Proven reputation for honesty and candor. Can be relied upon to keep commitments.

Success Criteria for Owners, CEOs, Boards of Directors

- | | |
|---------------------------|--|
| 10. Innovative/Creativity | Ability to identify solutions or options within the framework of a given set of dynamics and practical limitations. Solution oriented. Able to act intuitively in the absence of factual data. |
| 11. Presentation Skills | Capable of creating a positive initial and sustained impact. Comfortable with communications that are formal and informal; prepared and spontaneous. |
| 12. Decisive | Ability and willingness to render decisions. Decisions rendered appear credible; delivered in manner, which engenders confidence. |
| 13. Judgment | In the absence of data/information will make decisions based on service, integrity and sensitivity to others. Values and seeks input from others in decision-making process. |
| 14. Persistent | Willing to be patient in order to achieve results. Proven ability to use available resources (\$, time, people) to attain goals no matter how limited. Knows when to take a stand and when to give in. |
| 15. Energy/Stamina | Capable of functioning for extended days or long timeframes at a high performance level. Able to "pace" self. |

Key Transition and Empowerment Factors

1. How do we navigate the client relationship when the successor(s) are not showing progress in their development?
2. What happens when business covenants and safeguards are not achieved?
3. How do we address the pay issues for successor(s) as their responsibilities increase?
4. How do we transfer division of responsibilities over time and structure the work accordingly?
5. How do we coach the CEO/founder who is not letting go?
6. How should decision-making occur during a management succession transition?
7. How do we know when key management responsibilities have been effectively transitioned?
8. How do we best monitor the succession process?

Managing the Five Basic Questions of Any Transition

1. What's going to happen, specifically to me?
2. What changes will occur?
3. How will I be affected?
4. What's the opportunity of value for me in these changes?
5. What can I do to help?

Expected By-Products of Succession Transition

- Confusion
- Indecisiveness
- Mistrust
- Breakdown in communications
- Badmouthing/power struggles among siblings
- Errors, mistakes, reduced quality
- Increased conflict, confrontations
- Productivity loss
- Apathy/non-excitement
- Secrecy
- Self-preservation
- What else?

Communication Guidelines During Transition

1. Give your troops clear-cut marching orders
2. Focus on short-range objectives
3. Establish clear priorities
4. Nail down each person's job
5. Sell the "benefits of change" regularly in staff meetings and allow for time, discussion, and differing perspectives
6. Get all resistance/disagreements out in the open – talk about it
7. "Beef –up" communication efforts – one can't over communicate during transition
8. Anticipate and prevent communication problems before they occur

Important Morale Factors During Transition

- Feelings toward supervisor
- Trust of senior management
- Opportunities for advancement
- Job security
- Pay and benefits
- Recognition for good work
- Safe-to-say
- Positive work climate
- Job responsibilities
- Level of authority/involvement in decisions
- Performance evaluation process
- Opportunity for growth, learning, training
- Others?