



FROM THE DESK OF BOB WILSON

Maximizing Results Through People
A CEO to CEO Quarterly Newsletter

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Succession Planning

Dear Fellow CEO:

I stopped in on an old friend and fellow CEO a couple of weeks ago to say hello and see how things had been going. He's not a client of mine but we've known each other for many years and have had a strong working relationship. He had historically battled a number of health problems several of which required leaves, others which were worked through. As soon as I walked in his office and we shook hands, I knew another battle was in progress. I didn't feel comfortable bringing up his health unless and until he did. He said nothing. The issue was simply not addressed.

As I headed back home, I felt very badly for him. He's a good person, runs a good business and is a respected colleague and friend. My thoughts were first directed towards the hope that this battle, as each of the others, would be concluded with victory.

As I continued my drive, my thoughts continued beyond him to his business. I realized the battle he fought wasn't just his battle. No question, the physical battle is his and his alone. But, the fact is he has neither a family heir in the business nor a strong internal successor to assume command should the battle be lost. So, while the CEO fights on, various stakeholders have significant interest – their livelihoods – in the outcome of a battle they can only watch with concern.

And they are put in a position where they should evaluate options.

For example, if I were a client who was counting on the CEO's future individual performance on an assignment being done for us, what would have been my perspective after that visit? Would I back off my commitments?

What if I were a vendor who had a sizable investment in his inventory through my accounts receivable? Would I continue shipments?

What if I were a distributor of this person's products or services? Would I begin to look for alternative sources? Would I begin to transition into other product lines?

Or, what would I do if I were a prospective employee looking to take on a job within the organization? Would I look for a gracious escape?

Finally, what if I were an existing employee? Would I begin looking for another job, to protect my own security? How would my productivity be affected?

I began to clearly see that when the owner of a business is fighting a health-related battle, that battle can have implications on the health of the entire business. As CEO / owners, we should consider how we can put in place defenses that assure that if our health is in jeopardy, protections are in place to assure that the impact on the business is minimized.

A business has its own identity, regardless of ownership – not only in legal principal, but in reality. As the owner of a small business, we are well served to look at the business not only as an extension of ourselves, but also as an extension of all of the people who work within it. With the livelihoods of so many at risk, our ethical conscience and the legacy we've created or are trying to continue require that consideration. Because we cannot control our health, we owe it to the business to plan for those times when our health might fail us – whether in a drawn out battle or in catastrophic immediacy.

Over the years, I've both watched dozens of businesses transition leadership in good times and bad; and been intimately involved in selecting successors and working to assure their success. This experience allows me to recognize some factors you might consider for those bad times within your own business. This topic is especially important to address where there are no next-generation heirs working in the business – which is true for me as it is for the gentleman above. Because the self confidence of all of the people touching the business can be so negatively impacted during a health crisis, it is critical to develop contingency plans and communicate them where necessary.

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I'd like to tell you I've proactively followed my own advice in the last paragraph, but I'd be lying. The truth is we've gotten close to following my prescription more by happenstance than proactive action.

Here's where we stand at BWA and how we got here.

We have an annual meeting with all of our employees where we discuss our last years' results, upcoming opportunities and anything else that anyone wants to talk about. Last year, one of our consultants asked me specifically, "What is your succession plan? What happens to the business if you get hit by a bus tomorrow?"

This is what I told him.

"We instituted an employee stock award program several years ago (which the questioning consultant has begun to personally reap benefits from) both to establish a value for the business and to allow employees to accumulate ownership positions in the company. This program is the mechanism we will utilize to transfer the business from me to my eventual successor who in all likelihood is sitting in this room. My will is currently written so that if I were to suddenly die, my wife, Dana, would work with our accountants and lawyers to try to sell the business to one of our consultants. Dana and I discuss about every six months how such worst case scenario discussions could unfold so that there is some sort of plan in place to direct a safe transition for the business should I become incapacitated. If no arrangement with a purchasing consultant could be reached (which I believe it would and could), the lawyers and accountants would go to other licensees and finally, the licensor of Predictive Index, Praendex to try and find a willing buyer. It would be our intent for the business to continue as it is but under the leadership of one of the people currently in the business.

"Nothing is truly predictable, but my health is good and I intend to continue to work in and run the business for the foreseeable future. Up to and until the point that I look to begin to transition the business, we intend to leave these loose plans nice and loose. Once I begin to activate a retirement plan or a process to take me there, I will likely make more specific efforts to select a successor and begin to put in place a plan that will transition the business as smoothly as possible. I don't see that happening for at least five years and probably longer.

Do you or does anyone else have any further questions about this I can answer?"

They didn't and that was the end of the discussion.

After my recent experience, was what I said at our meeting the right thing to have said, and if so, was it enough? What specifically should a business owner do to protect his business against his own health emergency?

I'm neither a lawyer nor an expert on the insurance issues involved in business transition. For sound advice in those regards, you need to talk to experts. My answer relates to those steps that could preserve your legacy in your business.

1. Have a formal, written document that states what should happen to your business should you become incapacitated or die.
2. Communicate to the relevant stakeholders who would be impacted by a health crisis in the business that such a document exists and that it will safeguard the future of the business and the people whose livelihoods depend upon it.
3. Where you're not either ready to name a successor or consider retirement, make sure that if the candidate is not chosen, at the least, a mechanism is in place and communicated that establishes how that person would be selected.
4. When you begin to see either your own health falter or can envision your eventual retirement from the business, start the process of selecting a specific successor or testing successor candidates to groom to take your place. Posterity requires it.

No one wants to think about their own demise. One way to face that reality successfully can be to look at it in the context of the legacy we hope to leave. As entrepreneurs, one of the most satisfying aspects of our legacy is our business. I'd suggest you do what you can to preserve that and see that the business you leave is a healthy one.

Thank you for reading.



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