

Succession – It's More than You Might Think

Bill Hovey – © Linchpin Succession Management_March 2008

Introduction

Succession is a complex beast. Its need arises in just about any circumstance where humans organize together for a common purpose over a sustained period of time and where the leadership of their organization requires change as a result of infirmity, death, or simply the planned (or unplanned) end of tenure.

Succession is influenced by demography and is often coloured by the emotions and agendas of significant individuals.

Succession has been mapped in surveys, and occupies an enormous space in the academic and business literature around the world. Its focus can be narrow – for example, on CEO succession – or broad – such as in the case of talent identification and successor grooming across organizations. It can be intensely personal – as it is in family-owned business.

With the ageing of the Baby Boomers and the decline in the fertility rate in the developed world, succession is as much a matter for privately-owned business as it is for other types of business organizations. Management and leadership “succession” in all types of business is sometimes seen as something independent of the so-called “war for talent”. Yet, in our experience, the two are inextricably linked – in fact, it is almost impossible to have a manageable succession plan if you are losing the war for talent.

This means that there is a significant challenge for owners and managers – especially in businesses where the divestment of ownership is not a viable succession or exit option. And, Baby Boomer business owners are starting to give signals that they may not be as inclined to rush lemming-like to the sale of and exit from their business as many pundits have earlier thought.

Succession – It’s More than You Might Think
Bill Hovey – © Linchpin Succession Management_March 2008

The nurturing of talent, the broadening of exit options, and the need to commence the succession task sooner rather than later are all core issues to be tackled in the succession environment.

But, what is “succession”?

1.1 Background

Business succession is the transfer of the management and/or control of a business.

Family-owned and privately-owned businesses, and professional partnerships will most likely need to address both dimensions (**ownership** and **management**) during their life-cycle. A growing body of Australian researchⁱ outlined in Table 1 shows the rate and reason business owners are intending to withdraw from their businesses and use the sale of their business to fund their retirement:

Table 1: Owners withdrawal rates from their business and funding dependency for retirement

Owners Withdrawal from Business	CPA (2004)	RMIT (2006)	KPMG (2006)	Australian Business Limited (NSW Business Chamber) (2007)
Rate of Exit (%)	40	81	61	58
Years from Survey Date	2-5	10	< 10 years	<2 years – 5 years>
Sale as a Funding Mechanism for Retirement (%)	50	50	Not measured	Not Measured

In the case of owners whose succession and exit will be secured in the form of a sale, there will also be a need to prepare the business for sale and to find a buyer. Each of these can be problematic as suggested in Table 2:

Table 2: Successor Readiness, Preparation for Sale, and Acces to Buyers

Succession Issues	CPA (2004)	RMIT (2006)	KPMG (2006)	Australian Business Limited (NSW Business Chamber) (2007)
Successor Identified	43	46	Not measured	47
Business Currently Ready for	66	51	Not	34

Succession – It’s More than You Might Think
Bill Hovey – © Linchpin Succession Management_March 2008

Exit or Succession (%)			measured	
Confident that there will be a Buyer	70	75	Not measured	Not Measured

Succession is likely to be compromised by the effects of the ageing population and a shrinking labour pool. The significance and extent of the problem of an ageing population and its coincidental impact on business succession is clear when it is understood that at “the world level, the number of older persons [those over 60 years] is expected to exceed the number of children [persons under age 15] for the first time in 2047. In the more developed regions, where population ageing is far advanced, the number of children dropped below that of older persons in 1998.”ⁱⁱ Australia ranks 35th in the world with 18.1% of its population over the age of 60ⁱⁱⁱ, and this is increasing by 3.2% per annum^{iv}.

If leaders and/or buyers are becoming scarcer, then the succession and exit options available to business owners and leaders will be narrowed significantly. This will not happen for those businesses which ‘get it right’.

One potential measure of the impact of *not* ‘getting it right’ is the estimated annual value of business cessations in Australia. In 2000, Bickerdyke *et al* suggested that an illustrative estimate of this value was \$17.6bn (3.7 Per cent of GDP)^v

Business and organizational *succession* is a *global* need. The broad principles of succession management which we use in our daily practice with clients are equally applicable in Australia as elsewhere – a notion supported for example, by Birley et al (2001), Huang (1999), and Stavrou and Winslow (1996)^{vi} who all note the cross-cultural similarity in existing approaches to succession – although there may be a need for cultural ‘tailoring’.

The succession problem and the shrinking talent pool are not limited to any one sector nor to any one type of business. All will be driven by an increasingly urgent need to plan for and manage the succession issues within their businesses. The inference here is that

Succession – It's More than You Might Think

Bill Hovey – © Linchpin Succession Management_March 2008

for those whose succession process is demonstrably *better*, the stronger will be the outcomes.

1.2 Definitions and Contextual Overview

It is important to establish at the outset an understanding of the what is succession. In the broad organizational context, *succession planning* is **not** what might be called *replacement* planning. The core differences have been demonstrated by Kramar, McGraw and Schuler^{vii} who have suggested that **succession planning** is...usually longer term and more developmental. Extensive individual development plans are typically formulated for these candidates...^{viii} However, the nature of succession planning differs with ownership models.

1.3 Succession Planning and Ownership Continuity

Where ownership is to be 'continuous', succession is about the development, retention, growth, and promotion of talent - a process recognised by Rothwell (2001) who noted that succession is "A deliberate and systematic effort by an organization to ensure leadership continuity..."^{ix} The importance of succession as strategy is noted by Cantor (2005): "...succession planning must be part of the overall planning process, one that starts with the strategic plan."^x Succession as a prudential and governance issue will also be explored in the course of the research.

1.4 Succession and Ownership DisContinuityThrough Divestment

In this instance, 'succession' firstly implies an orderly hand-over by a owner-CEO to a successor. Secondly, it suggests an owners' exit from his/her business through total or partial divestment of ownership. Thirdly, it recognizes the passing of the management baton.

Ip and Jacobs (2003) have suggested that succession is "The transfer of a business that results from the owner's wish to retire or leave the business for some other reason. Successful succession results in a continuation of the business, at least in the short term."^{xi} Gersick, Davis, Hampton and Lansberg (1997) have noted that "Succession is

Succession – It’s More than You Might Think

Bill Hovey – © Linchpin Succession Management_March 2008

not one thing but many. It is not a single event that occurs when an old leader retires and passes the torch to a new leader, but a process that is driven by a developmental clock”.^{xii}

2.1 The Interest in Succession by Management Theorists

Henri Fayol (1908) was one of Europe’s earliest leading thinkers on the principles of management and seems to have had succession in mind when he wrote his paper “L’exposé des principes généraux d’administration”.^{xiii} Christensen’s^{xiv} (1953) discussion of succession issues is insightful – especially in relation to the role the CEO should take on as *coach*^{xv} to their potential successor(s). Almost fifty years’ later Freeman (2004), in the specific context of CEO succession, defined the incumbent’s role as one of mentor and coach to a successor, which will result in the increased chances of success by the successor.^{xvi}

The process of ownership succession in family-owned businesses is well documented – especially amongst authors in the USA (for example, the work of Lansberg^{xvii} (1999), Aronoff, McClare and Ward (2003)^{xviii}, Gersick, Davis et al^{xix} (1997)).

There is less known about ownership succession in privately-owned firms or in professional partnerships. Further there is a general lack of contemporary Australian literature on the subject apart from Connolly and Jay (1996)^{xx}, Abbott and Meredith (1984)^{xxi}, Robbins and Wallace (1995)^{xxii}, and Carew (1994)^{xxiii}.

2.2 Succession in a Contemporary Organizational Context

In 2003 Taylor and McGraw found that 44% of respondents said that their organization had a formal succession plan.^{xxiv} In their 2005 Watt and Busine reported that 41% of HR professionals said that their organizations did not have succession plans in place.^{xxv} In either case, there needs to be a greater commitment to succession not just because of changing demographics but because it makes sound business and commercial sense.

Succession – It’s More than You Might Think

Bill Hovey – © Linchpin Succession Management_March 2008

2.3 Succession in its Historical Context

The notion of *succession*, and the need for succession planning, has its historical roots in the circumstance of people coming together in groups. Ip and Jacobs (2003) argue that “built on the idea of change, the roots of business succession planning lie within anthropology and kinship”.^{xxvi} Shakespeare’s *King Lear* serves as a model historical examination of the problems of succession.^{xxvii}

2.4 The Demographic Context

Succession is extremely sensitive to changing demographics. The 2001 *Report on the Effect of the Ageing Population on the Australian Economy*, noted that “the working age population currently grows by 175,000 people a year. But trends already in place will see the working age population increase by just 125,000 for the entire decade of the 2020s, while the first of the baby boomers are already moving into early retirement.”^{xxviii}

The ABS’ *Labour Force Projections (1999)* suggest the annual growth rate of the Australian labour force will be 0.8% between 1998 and 2016 compared with an average annual growth of 1.9% between 1979 and 1998.^{xxix} Further, the annual growth rate is projected to decline from 1.6% in 1998-99 to 0.4% in 2025-16.^{xxx}

Little evidence or discussion has emerged about the diminution of leadership and management ranks in Australia, but in the United States a “sobering picture”^{xxxi} has been painted of expected business and leadership needs in the period 2005 to 2010. “Half of the companies reported that they expect to lose 50% or more of their senior managers, while 15% said they expect to lose 75% or more of their senior managers by the year 2010.”^{xxxii}

Summary

What are we to make of all of this? Clearly, succession is multi-dimensional and multi-sectoral. The contexts and demands of succession are requiring apparently different solutions in a broad range of settings.

Succession – It's More than You Might Think

Bill Hovey – © Linchpin Succession Management_March 2008

The management theorists have provided us with some of the theoretical tools which can be useful in deriving an organizational response and solution for most businesses. These need not be limited in their use to non-privately owned businesses.

With the imminent loss of Baby Boomer talent and skills from many organizations in the next few years, *succession* requires broad and urgent consideration. Its importance needs to be elevated so that it sits alongside *business continuity* and *risk management* as key business disciplines. It needs to be planned and managed within the boundaries of changing demographics and a set of surprising psycho-social shifts in the attitudes of Baby Boomers towards their retirement and their exit from work.

ⁱ See, for example, CPA Australia, 2004, *Small Business Succession and Exits*, Melbourne: CPA Australia; MGI, 2006, *The MGI Family and Private Business Survey*, Melbourne: MGI and RMIT; KPMG and Family Business Australia, 2006, *Survey of Family Business Needs*, Melbourne:KPMG; Australian Business Limited/New South Wales Business Chamber, 2007, *On-Line Survey into Members' Succession Needs*, North Sydney: Australian Business Limited

ⁱⁱ United Nations Department of Economic and Social Affairs, Population Division, 2007, *World Population Ageing*, New York: United Nations, pxxvi

ⁱⁱⁱ *ibid*, p64

^{iv} *ibid*, p63

^v I Bickerdyke, R Lattimore, and A Madge, 2000, "Business Failure and Change; An Australian Perspective", *Productivity Commission Staff Research Paper*, Canberra: AusInfo, pxix

^{vi} Sue Birley, 2001, "Owner-Manager Attitudes to Family and Business Issues: A 16 Country Study", in *Entrepreneurship Theory and Practice*, Vol 26, ; Tung-Chun Huang, 1999, "Who Shall Follow? Factors affecting the adoption of succession plans in Taiwan", in *Long Range Planning*, Volume 32, Issue 6, pp609-616; ET Stavrou, EK Winslow, 1996, "Succession in Entrepreneurial Family Business in the US, Europe and Asia: A Cross Cultural Comparison of Offspring Intentions to Join and take Over the Business", International Council on Small Businesses, (ICSB), Conference Paper

^{vii} Robin Kramer, 1997, Peter McGraw, and Randall S Schuler, *Human Resource Management in Australia*, 3rd ed, South Melbourne: Longman., p222

^{viii} *ibid*

^{ix} William Rothwell, *Effective Succession Planning: Ensuring Leadership Continuity and Building Talent from Within*, 2nd ed, AMACOM: New York, 2001, p6

Succession – It's More than You Might Think

Bill Hovey – © Linchpin Succession Management_March 2008

- ^x Paul Cantor, 2005, "Succession Planning: Often Requested, Rarely Delivered", in *Ivey Business Journal*, Vol 69, Issue 3, p.1
- ^{xi} Barry Ip and Gabriel Jacobs, 2003, "Business Succession Planning: A Review of the Evidence" in *Journal of Small Business and Enterprise Development*, Vol 13, No 3, p327
- ^{xii} Kelin Gersick, John Davis, Marion Hampton, and Ivan Lansberg, 1997 *Generation to Generation: Life Cycles of the Family Business*, Boston: Harvard Business School Press, p193
- ^{xiii} Henri Fayol, "L'exposé des principes généraux d'administration", cited in Daniel A Wren, Arthur G Bedeian, and John D Breeze, 2002, "The foundations of Henri Fayol's administrative theory", *Management Decision*, 40/9, p906-918
- ^{xiv} C Roland Christensen, *Management Succession In Small and Growing Enterprises*, Boston: Harvard University Press, 1953
- ^{xv} *ibid*, p38
- ^{xvi} Kenneth W Freeman, 2004 "The CEO's Real Legacy", in *Harvard Business Review*, November, p6
- ^{xvii} Ivan Lansberg, 1999, *Succeeding Generations – Realizing the dream of families in business*, Boston: Harvard Business School Press
- ^{xviii} Craig Aronoff, Stephen McClure, and John Ward, 2003, *Family Business Succession: The Final Test of Greatness*, 2nd 3ed., Marietta GA: Family Enterprise Publishers
- ^{xix} Gersick, Davis, et al, *op cit*
- ^{xx} Graham Connolly and Christopher Jay, 1996, *The Private World of Family Business*, South Melbourne: FT Pitman Publishing
- ^{xxi} B Abbott and G Meredith, 1984, *Family Business Management in Australia*, Sydney: McGraw Hill
- ^{xxii} B Robbins and D Wallace, 1995, *The Family Business – How to successfully manage a family business*, Melbourne: The Business Library – Information Australia
- ^{xxiii} Edna Carew, 1994, 'Family Business' – *The story of Successful Family Companies in Australia*, Double Bay: Focus Publishing
- ^{xxiv} Tracey Taylor and Peter McGraw, 2004, "Succession management practices in Australian organizations" in *International Journal of Manpower*, Vol 25, No. 8, p747
- ^{xxv} Mark Busine and Bruce Watt, 2005, "Succession Management: Trends and Current Practice", in *Asia Pacific Journal of Human Resources*, 43 (2) p.229
- ^{xxvi} Barry Ip and Gabriel Jacobs, 2003, "Business Succession Planning: A Review of the Evidence" in *Journal of Small Business and Enterprise Development*, Vol 13, No 3, p326
- ^{xxvii} William Shakespeare, (1994) "King Lear", in *The Collins Complete Works of William Shakespeare*, Glasgow: Harper Collins
- ^{xxviii} Access Economics, *Report on the Effects of the Ageing Population on the Australian Economy*, Publications Unit, Commonwealth Department of Health and Aged Care: Canberra, 2001, p3
- ^{xxix} Australian Bureau of Statistics, *Labour Force Projections, 1999-2016*, #6260.0, ABS:Canberra, 1999, p3

Succession – It's More than You Might Think
Bill Hovey – © Linchpin Succession Management_March 2008

^{xxx} *ibid*

^{xxxi} RHR International, 2005, *Filling the Executive Bench: How Companies are Growing Future Leaders*, WoodDale, Illinois: RHR International, p3

^{xxxii} *ibid*