



September 30, 2016
Volume 11, Issue 3

XCEO, Inc.
www.xceo.net

Challenges in Succession Planning for the Private Company Board

Written by Mary Pat Kelsey

Article Highlights:

- An important requirement for any board is ensuring there is an uninterrupted flow of talented individuals who will satisfy various critical roles in management which will help fulfill the organization's vision and mission.
- Privately held companies and family-owned businesses may not have that same scrutiny as public companies, but should follow this direction, and take proactive steps that will assist them in the area of board succession.
- Ineffective transitions at the senior leadership level or within the boardroom may reflect poorly in the bottom line and have long-term negative consequences for the organization.

Board Succession Planning is a critical task for both publicly and privately held companies, an important undertaking that for various reasons is unfortunately, often neglected. This is particularly true in privately held companies, specifically family-owned entities. Succession planning, can become especially complex in family-owned businesses as the family grows and ownership transfers to different generations.

No matter what type of board, succession planning at the board and senior leadership levels must be an ongoing process. An important requirement for any board is ensuring there is an uninterrupted flow of talented individuals who will satisfy various critical roles in management which will help fulfill the organization's vision and mission. At the board level, it is critical that it has a process to identify and elect directors with diversity of experiences, skills, backgrounds and thought.

Day-to-day operations must remain functional, and continuity must be maintained in order to prevent a last-minute scramble to identify the next generation of executives with the required leadership skillset. The board too, must always be recruiting so as not to miss an opportunity to strengthen its contribution to the organization via talented directors. The bottom line is that organizations must actively plan for succession, utilizing a thorough process to best identify the skills and experiences and attributes of the best candidates available whether from within or outside the firm.

Private Company Succession Insight

It has been my experience supporting privately-held companies and family-owned businesses in governance and recruiting, that unlike public companies, they generally lack a planned board succession. These organizations are often closely aligned with the founder, and are usually structured with family members serving in key management positions. There are either too few or too many potential candidates when a board

succession is required, and in some cases the business is not prepared for an orderly transition. Unfortunately, this lack of planning may set the scene for a disruptive battle in the boardroom and at times can lead to an unfortunate battle in the courtroom as well.

Public companies operate under the scrutiny of the SEC and the watchful eye of its shareholders. Therefore, it is likely that board succession has been addressed and is part of ongoing corporate governance discussions and practices. Privately held companies and family-owned businesses may not have that same scrutiny as public companies, but should follow this direction, and take proactive steps that will assist them in the area of board succession.

The Importance of Board Succession

A succession planning goal for any organization should be to provide the least amount of disruption to a business as possible and must return the best qualified and experienced candidates for consideration for board vacancies. Succession planning begins by reviewing the company goals, objectives, and mission. The board must then clearly identify and define the skills and expertise required of all individuals on the board.

In order to develop effective succession practices, organizations need to better position themselves by investing in robust leadership development. This internal development is the first step in improving succession planning. Often times, private companies and family-owned businesses will look internally to replace board members which while signaling good health in regard to development, may in fact be limiting.

By developing leadership skills and grooming existing top or mid-level management with the leadership traits deemed necessary for a successful board, good succession practices should and will evolve. Grooming of the individuals begins when they start with the organization and should be ongoing. It is imperative that the organization have strong



"A succession planning goal for any organization should be to provide the least amount of disruption to a business as possible and must return the best qualified and experienced candidates for consideration for board or senior leadership vacancies."

development plans for the senior leadership team, as well as robust processes to keep directors current and up-to-date.

Over time, leadership skills will grow and natural leaders should and will emerge. These internally developed or home grown leaders will become part of the long-range succession planning of the organization. Of course, this evaluation process of potential successors should be an on-going process and reviewed at least once a year. At some point there will be clarity as to who will move into key leadership positions, and which individuals should eventually be invited to join the board. The effective development of future talent is the key for private companies to maintain best practices in regard to board succession.

Succession Planning – Start Now

Great succession planning actually begins before it is necessary and before targeted individuals may be ready. Unfortunately, there is not usually a "magic moment" when the board knows or feels that all parties involved are ready for the tasks at hand. This moment may happen for some boards, but a clearly opportune transition is unlikely for all. Therefore, defined steps must be in place to develop the future members for the board before something occurs that will make a change or transition difficult. Ineffective transitions at the senior leadership level or within the boardroom may reflect poorly in the bottom line and have long-term consequences for the organization.

Flexibility is also key in successful board succession planning. Keeping that in mind, company leadership should also understand that it may be appropriate and necessary to consider candidates from outside the company to tap into appropriate leadership skills required for the continued success of the organization. As part of the succession process, outside candidates should be considered for mid and upper-level management positions. By not considering outside candidates for key management positions, the company may be ignoring key leadership qualities and fresh ideas that will ultimately lead to expanded growth for the organization. Poor leadership development will likely also lead to fewer important board service roles for senior leaders which would be beneficial to the organization.

When it is necessary to consider recruiting an outsider to sit on the board, directors must not only find a candidate with the necessary leadership skills but an individual who is also compatible with the culture of the organization. The process of succession planning is a way to anticipate and reduce the impacts of risks that the organization

may face in emergency succession. Those emergencies can include early retirement, sickness, disability, or death of board members.

The sharing of knowledge by all board members is also a critical step to a successful board succession plan. It sounds simple, but the coaching or mentoring key members of the management team by directors will likely result in a positive influence of their overall performance. Continuing education and communication of ideas for key management in all areas should be considered an ongoing practice for any successful organization.

Throughout a succession process, board members should also consider including the family council in all strategic planning. Having these individuals involved in the recruitment of key leadership before it is situation-critical, may prevent future legal proceedings and courtroom drama.

Once a new director has been asked to join the board, it is important to have steps in place to ensure that the transition for the new director will be smooth. This will be true no matter what the circumstances that led to the change on the board. For example, a retiring CEO of a privately held company or family-owned business may still be a board member. The board should have a clearly defined role for this individual. Without defined roles, new directors may feel intimidated, or handcuffed. It could be crippling for roles not to be clearly defined. Since the board wants to ensure the future growth and success of the organization, it should create an environment that will promote long-term value.

Planning for Succession

It is a wise and prudent business decision to have an emergency plan in place for board succession. Whether it is a private or public company, if an unexpected event occurs, the board must be prepared to function. It is effective leadership to have a detailed and thorough plan in place and not to be caught waiting for something to happen such that the board is reactionary and put in an inconvenient or defensive mode.

Board succession planning must be an ongoing process. It is a process that should be consistently reviewed and revised at least once a year by the board to ensure that the plan is relevant and effective. By properly planning and taking the necessary steps to develop the required skills, a board can ensure that the organization's long-term goals and objectives of the organization should be met or, in the best cases, exceeded.

About the Author



Mary Pat Kelsey

Regional Director, Board
Governance and
Personal Leadership
Development

Mary Pat Kelsey serves as Regional Director, Board Governance and Personal Leadership for XCEO, Inc. Prior to joining XCEO, Ms. Kelsey served in sales, management and marketing positions for leading companies in the Chicago land area. She has worked in various industries, including insurance, professional development and recruitment.

In her previous positions, Ms. Kelsey was instrumental in creating marketing strategies and training programs for insurance agents throughout Illinois and the Midwest. She conducted research on insurance products and developed product information programs used for educating consumers. Ms. Kelsey also led a team that administered employee benefits for top companies throughout the Midwest. She conducted research on insurance products and developed product information programs used for educating consumers. Ms. Kelsey also led a team that administered employee benefits for top companies throughout the Midwest.

As Business Development Manager for a leading professional development and recruitment firm, Ms. Kelsey developed and implemented all sales and marketing plans throughout the states of Illinois and Texas. Ms. Kelsey has worked with upper level executives of Fortune 500 companies in both benefit planning and recruitment for key executives.

Ms. Kelsey earned her BBA with a specialization in Marketing from Loyola University of Chicago.

About Our Organization

At XCEO, Inc., we believe individual leadership is the driving force for inspiring creativity and ultimately maximizing intellectual capacity. We provide individual and corporate development in the principles of *Extreme Personal Leadership*®. We call this *X-Leadership* and it is the touchstone of our company.

In today's globally competitive world, intellectual property is a key indicator of long-term success. Corporations and individuals are seeking knowledge intensive solutions to sustain a competitive advantage. At XCEO, we offer *Professional Mentoring and Personal Leadership Development* programs, as well as *Corporate Governance and Board Leadership Development* programs, for high-aspiration individuals and forward-looking corporations.

Through our Professional Mentoring and Personal Leadership programs, we assist individuals in developing personal career and development plans to achieve senior executive-level positions. We also support corporations that recognize the need for a broad array of development options for their high-potential employees being groomed for senior leadership responsibilities.

As part of XCEO's pursuit of enlightened corporate governance, we have created *the Enlightened Corporate Governance Board Performance Evaluation Program* to support boards and directors in their pursuit of excellence. Through our program, we are leading the movement past compliance, toward principled action which maximizes shareholder value. We have designed a set of eight individual and board evaluation exercises which provide an exceptional opportunity for directors to take their boards to a whole new level of effectiveness.

XCEO is a unique research, development and consulting firm. We are committed to excellence and the pursuit of *Extreme Personal Leadership*®. We specialize in inspiration, and endeavor to inspire highly enlightened executives and high-aspiration individuals to pursue maximum personal achievement. We have a leadership team of highly trained and highly motivated colleagues who are eager to serve our clients. Excellence is our goal. We are located in the heart of Silicon Valley and we stand ready to help our clients achieve extraordinary levels of performance and success.

XCEO, Inc.
2880 Lakeside Drive
Suite 253
Santa Clara, CA 95054

Phone
408.855.0000
Fax
408.855.0004

Chicago Area Office
1415 West 22nd Street
Tower Floor
Oak Brook, IL 60523

Phone
630.684.2222
Fax
630.681.2299

Media Contact
Michelle Ronco
michelle@xceo.net

We're on the Web!

Visit us at:
www.xceo.net

www.boardportalplus.com



© XCEO, Inc. 2016. All rights reserved.

You may re-use this document/publication free of charge in this format for research, private study or internal circulation within an organization. You must re-use it accurately and not use it in a misleading context. The material must be acknowledged as XCEO, Inc. copyright and you must give the title of the source document/publication. Where we have identified any third party copyright material you will need to obtain permission from the copyright holders concerned.

This document/publication is also available at http://www.xceo.net/news/ink_toner.cfm.
For any other use of this material please contact us at info@xceo.net.