

## **Planning for Management Succession**

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The following article is a commentary on the importance of planning for an orderly succession in a co-operative's management team. The purpose is to help co-operative leadership consider their current succession plans and reasons to evaluate their succession policies.

The most important management decision that a co-operative board of directors has to make is the one to determine the successor of the current chief executive officer. This decision can affect the entire organisation both internally and externally. However important the decision is, many co-operatives do not have an appropriate management succession plan. Even when they do, it is often out of date.

Boards often do not plan management succession for two simple reasons. First, it is easy enough to delay planning when the current CEO is performing well and isn't close to retirement. Second, such a plan is viewed as difficult and uncomfortable for both the board and the CEO. The CEO frequently does not want to contemplate a successor. (Thoughts of one's own demise or departure are rarely welcome!) The co-operative board often struggles with its role. It does not want to micromanage the CEO's decisions about subordinates. Yet it has a large stake in future leadership.

### **Positive reasons to plan**

The best way to overcome the natural inertia about management succession planning is to focus on the positive reasons to plan. First, management succession is a critically important board responsibility. The CEO position is the only position that the board alone hires, evaluates, and fires. The CEO is critical to executing the objectives that the board wants achieved. In the absence of the CEO, the momentum and performance of the co-operative may substantially falter.

The board must plan in order to keep the co-operative on course when a CEO transition becomes necessary. Without a plan, precious time and performance may be lost while an emergency plan is created under pressure.

Second, the board must plan because management succession is inevitable. Every CEO will leave at some time. Even more to the point, the moment of transition may not be known with precision. We assume the luxury of a CEO who signals a retirement several years in advance so that succession can be adequately planned.

Unfortunately, accidents, illness, death, or career opportunities elsewhere can make management succession much more immediate. Therefore, a succession plan is critical to handling not just known transition points but unknown ones. With a plan, succession need not become an unmanageable emergency.

Third, the board must plan as a means of managing the broader risks of succession. Given that the succession decision is important and inevitable, the risk may seem obvious, but there is more to consider. Management succession not only affects the internal co-operative organisation, it also affects every external relationship. Key customers, members, regulators, supply chain partners, and, yes, even bankers care about how you plan to handle management succession.



If you have properly arranged for organisational continuity, they will perceive their relationship with your co-operative as much healthier. They will know what to expect when transition comes.

Finally, a well-conceived succession plan can make this uncomfortable, difficult planning process do-able. If the CEO knows that the board has a fair and determined policy to plan succession, then productive dialog about the plan will be possible and far less threatening. In addition, the planning will send the proper signal to other employees, most especially high potential internal candidates, that the organisation will handle CEO transition effectively. For the internal candidates, the presence of a plan may keep them at home rather than have them wonder about their prospects and perhaps needlessly jump to another organisation.

For all these positive reasons — importance, inevitability, risk, and making an uncomfortable, difficult process do-able — a management succession plan is essential. The board need not and should not delay the process.

### **Guiding principles**

Assuming you are convinced about the need to plan management succession, you are probably wondering what principles should guide your planning. Let me suggest six to start.

*Principle 1:* Succession planning springs from the co-operative's strategic plan. Your board cannot know what characteristics are desirable in a future CEO unless there is a strategic plan in place that clearly spells out where the co-operative is headed and how it intends to get there. The succession plan is a natural extension of your strategic plan.

*Principle 2:* Succession planning is not just grooming a CEO. It is grooming an entire management team. To think of succession as only about the CEO position is far too narrow. Your co-operative needs to reach down into the organisation to be sure that several generations of leadership are coming up the ranks. Succession planning should thus address management development more generally and not just focus on the top position.

*Principle 3:* CEO skills and capabilities are different from those of operations managers. Although management development generally is critical to succession planning, recognize that the CEO's job requires more breadth of vision, more external orientation, and is more solitary in decision-making than any other managerial position. Therefore, internal candidates identified in the succession plan must have the breadth of assignments and external experiences to properly prepare them for their possible future role.

*Principle 4:* The current CEO must buy into the process. The board cannot achieve success with succession planning unless the principal participant on the management side is a willing partner. The CEO needs to mentor possible successors. The CEO knows the performance and personal histories of key internal candidates. The current CEO is thus critical to good decision making by the board. The succession plan must treat the current CEO fairly, while allowing the board to fulfil its role.

*Principle 5:* Succession planning should maximize the chances of having strong internal candidates, but should never ignore the option for an outsider. This principle is tricky to follow in practice. Good internal candidates are highly desired. They already know the organisation. They have shown commitment and performance. The transition to an internal candidate minimizes the costs of search, placement, and organisational adjustment. However, an outsider may be needed to fill the CEO



position. The co-operative may need a new direction. Internal candidates may be scarce. The succession plan should specify under what circumstances an outside search will be considered and how it will be conducted.

*Principle 6:* The board of directors must actively participate in and oversee the process. Effective and active participation begins with a board policy statement that a management succession plan will exist and will be periodically reviewed (probably annually). The board should make management development and mentoring part of the current CEO's annual performance criteria and seriously review the CEO's performance against this criterion.

In short, the bottom line is this: Management succession planning is critical to the continuing success of your co-operative. Don't put it off. Don't let it get dated. Succession is important, inevitable, risky, and difficult. Planning is your way to ensure the continuity of your co-operative's future performance.

