

## Why succession planning is critical

The loss of one key person can be bad enough. The loss of three at one time can be devastating.

Just ask US Highland. This past week, the designer and manufacturer of motocross, supermoto and other specialized motorcycles lost president Mats Malmberg, COO Chase Bales and CFO Damian Riddoch, when their plane crashed into a wooded area near Tulsa, Oklahoma.

The market reacted immediately to the July 12 announcement. Shares fell 54 cents, or 44 percent, to 75 cents.

No doubt, the company, which in April named Bengt Andersson its new chairman, will feel the impact. It said it expected to name the executives' replacement the following day--July 13-- but as yet have not.

Such incidents bring home the need for succession planning. Whether due to an accident, unexpected departure or illness, having someone ready to step right in is critical.

Surprisingly, succession planning is often put off. However, this could cause a crisis at a company.

In fact, in a recent survey of CFOs by Robert Half Management Resources, 83 percent of those surveyed said they have not identified a successor for their positions. "It is critical for organizations to recognize that if they lose that CFO they should have at least one or two viable options for immediate succession," says David Nosal, chairman and CEO of executive leadership solutions at Nosal Partners, who placed CFO Jeff Epstein at Oracle and CFO Paul Tufano at Alcatel-Lucent.

"The last thing most entrepreneurial leaders are thinking is 'Who will take over if something happens to me?' adds Ken Luer, a corporate law partner with Ervin Cohen & Jessup. He adds that often the same thing that has driven the company to success--the dominant force of the CEO--leaves a vacuum with no clear successor having the perceived authority and leadership experience to step in and manage the company through its crisis."

The ramifications of not having a seamless CFO succession plan can be significant. In a small, early-stage company, where financial stability is the name of the game and credibility with investors is important, the sudden loss of a CFO can be devastating. The uncertainty may scare off investors, make vendors/suppliers a bit hesitant to do business with you, worry about the sustainability of the company, and of course whether they will get paid. Uncertainty just stirs unrest.

In a large public company, the financial markets will need to understand first why a CFO left (if not by death or incapacitation), and more importantly, the CEO and board's strategy for finding a replacement. The financial markets can view the sudden exit of a CFO as an early sign of instability, lack of performance, or even more significant issues, underscored by the collapse of US Highland's stock price on news of the plane crash.

So, how should companies prepare for a potential sudden departure of a key executive? Boards should have a few contingencies--successors who are "ready now," "ready in one year," or if urgent, "backups" to serve in the interim, explains Janice Ellig, Co-CEO of executive search advisory firm Chadick Ellig.

Paul McDonald, executive director at Robert Half recommends companies identify critical positions

that should never be left vacant and determine which senior-level managers may leave in the next few years because of retirement or other factors. Note which senior or mid-level managers, with professional development, might be qualified to take on those roles.

Also, determine the personal and professional qualities required for success. Look for opportunities for stars to gain visibility and hone functional expertise and decision-making skills. Broaden the pool. People who are next in line for promotions are not necessarily the best leaders. Search for high-potential candidates everywhere, not just up and down the job title chain.

Says Lois Melbourne, CEO of Aquire, a workforce planning firm: "Make it a team effort. Succession planning is not just an HR effort. While the HR department facilitates discussions, it is critical that the executive team, business leaders and others within the organization remain an active part of the succession planning process."