

ESOP CEO Transition Roadmap



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A Smooth Transition

Businesses are particularly vulnerable when going through a CEO Transition. Customers, vendors, suppliers and employees are anxious regarding possible changes when the new leader takes over.

In an ESOP, this anxiety is often extremely high, particularly amongst the employee-owners. Their job satisfaction, livelihoods and their ESOP accounts (retirements) are tied directly to how well the company operates. And of course, how the company operates has a lot to do with who is leading the company. So, obviously, a transition that creates minimal disruption to operations is ideal for all involved.

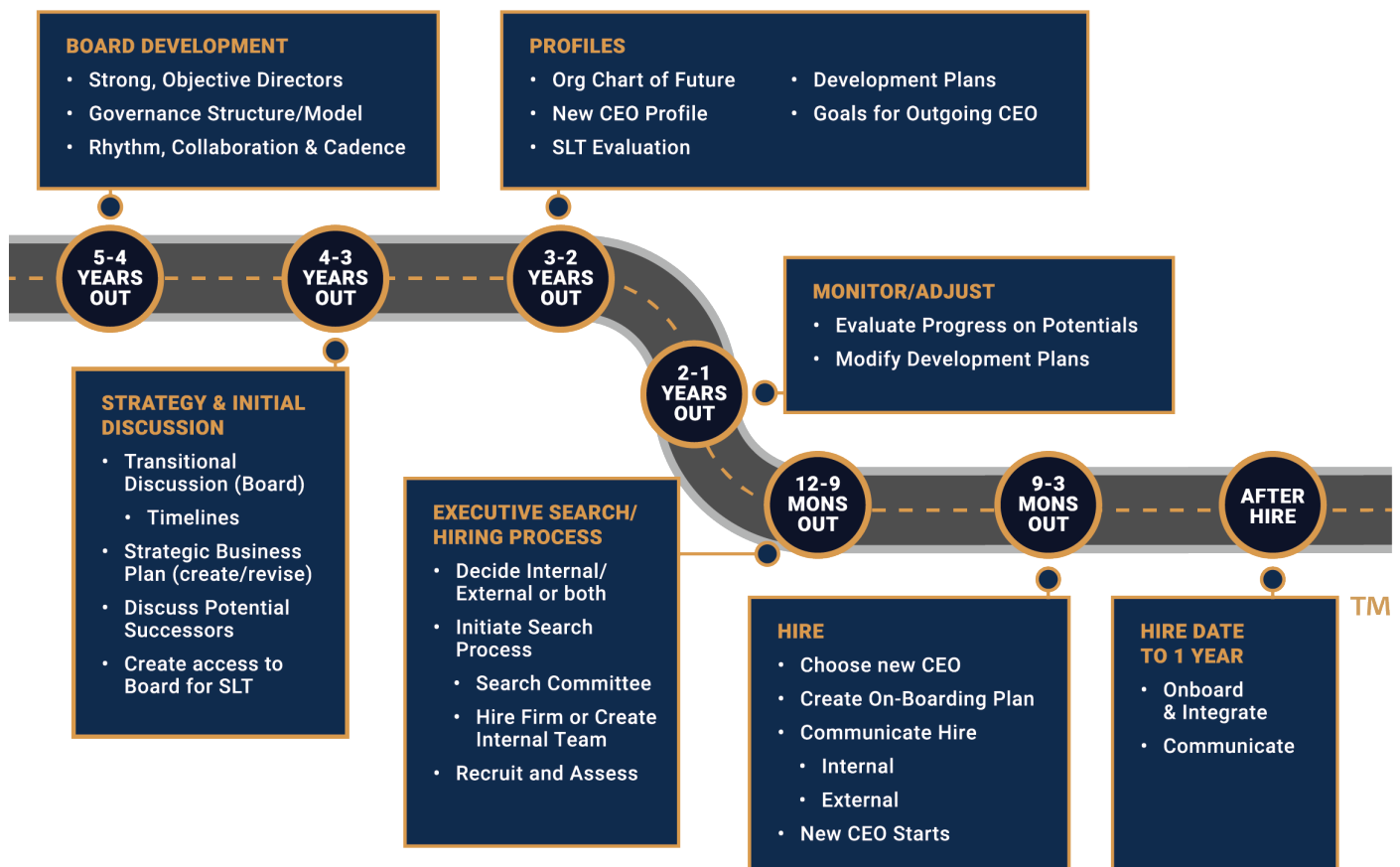
Through our many years of work with ESOPs, we've seen the good, the bad, and sometimes the ugly as it relates to CEO Transitions. Naturally, we've developed some strong opinions as well as case studies on how

(and how not) to conduct these transitions.

The following CEO Transition Roadmap lays out what we believe (and what we have witnessed) to be the ideal manner for creating a seamless transition. Of course, every ESOP, every transitioning CEO, every group of employee-owners, etc. is unique, so the best process for your ESOP may not fit exactly into these timeframes. However, all of these activities will happen in some way shape or form when you transition a CEO. The only question is whether or not you plan and execute them well, or simply do the best you can on the fly.

Our hope is you can take a few key nuggets from this roadmap and apply them to your transition process to make it as smooth and successful as possible.

ESOP CEO Transition Roadmap



5-4 Years from Transition

Board Development

Choosing a CEO and managing a CEO transition is a key responsibility of the Board and thus, a Board driven process. So, to have a successful transition, you must have a strong Board of Directors.

At 5-4 years away from the CEO transition, it is important to make sure you have the right Board of Directors and your governance structure and procedures are tightened. This generally means bringing on qualified independent Directors if there are none currently serving on the Board. The term “Qualified” means these Directors have a significant skill set and track a record in leading other businesses and potentially have ESOP experience as well as experience in your industry or a similar industry. Also, having at least one Board Director who has been through a CEO transition would be an added bonus.

Note: *Leading a CEO transition process with an all internal Board of Directors is particularly difficult. In effect, these employee-owners are saddled*

with choosing their next boss. The conflicts of interest here are really high and despite everyone's good intentions, these transitions are often very disruptive.

Rhythm & Governance

Boards take some time to gel and create a working rhythm, thus the 4-5 year lead time. For the first year to 18 months, let the Board find this rhythm and get accustomed to one another before diving headlong into the transition discussions.

This is also the time to tighten the overall governance structure by clarifying roles and accountabilities between the Board of Directors and Senior Leadership. Board meetings should be focused on high level strategy/ vision, ownership (ESOP) issues, CEO performance/succession and the like. Decisions regarding day-to-day operation of the business are ideally handled at the Senior Leadership level – not in Board meetings.

4-3 Years from Transition

Initial Discussion

At this point, it's time to begin discussing the CEO Transition and conduct some initial planning. However, this should only be done at the Board level. It's not yet time to announce the transition to the rest of the company. Board Directors should work with the current CEO to understand what his/her wishes are for transition in terms of timeframe and potential formats. For example, does he/she plan to stay connected to the company or not? Would the former CEO like to hold a Board seat or stay connected in some other manner?

Needless to say, there is a lot to discuss and decide here, so it's not done in a single Board meeting. It's a discussion over a few months to possibly a couple of years.

Strategy/Vision

This is also the time to build, or update, a strong strategic plan/vision for the business. The Board of Directors will be very helpful in this endeavor, but primary inputs will come from the current CEO and leadership team. This plan will serve as the basis for an organizational chart of the future and, ultimately the profile of the new CEO.

Access

Lastly, it's also important to start giving your leadership team access to the Board of Directors via committees or special initiatives. The Board will ultimately decide if there are internal candidates suitable for the CEO role, so creating this interaction will make these discussions/ decisions easier.

3-2 Years from Transition

CEO Profile

Now is the time to create the new CEO Profile. This is driven by the Board, with assistance from Human Resources. The CEO Profile is developed by first creating an Organizational Chart of the Future. The org chart of the future is derived from the company's strategic plan i.e. what will we look like 5 years from now if we hit our goals?

From here you can determine the accountabilities of the new CEO and the required skills/background it will take to be successful. Remember, this profile will likely be different from the profile of your current CEO as the company has likely grown and changed since he/she has been in the role.

Evaluate Leadership Team

Once the CEO Profile is in place, it's time to evaluate the current leadership team against the profile. Are there candidates internally who possess the necessary skills? If not, is it possible to develop these skills by the time the current CEO leaves the business? Generally,

these evaluations are done with an Industrial Psychology assessment and performance appraisal data gathered during the leader's time with the company.

Development Plans

Once assessed, individual development plans can now be built for leaders being considered for the CEO role. This includes specific training and mentoring tailored to the gaps identified in the assessments.

Goals for Outgoing CEO

Lastly, during this period, the Board will create a specific list of action items for the outgoing CEO. What key things need to be accomplished before he/she leaves the company? Items will vary based upon the situation, but common things include transitioning of client/vendor relationships, specific mentoring/coaching for internal candidates or completion of initiatives already in motion (acquisition, physical move, adding a location).

2-1 Years from Transition

Monitor/Adjust

This is the time to check in on your progress and make any adjustments necessary. How are our internal candidates developing against their plans/

goals? How is the current CEO progressing against his/her goals?

12-9 Months from Transition

Decide

The Board must now decide if the internal candidates have made satisfactory progress to be considered as the new CEO. If one or more internal candidates are deemed qualified, the next decision is whether or not outside candidates will be considered along with the inside candidates.

This is also the time to decide upon an executive search partner or build a recruiting process if outside candidates are to be considered.

9-3 Months from Transition

Recruit/Hire

Conduct a thorough and thoughtful search and/or interviewing process (for internal candidates) and make a hiring decision on your new CEO. Create a final On-Boarding plan for your new CEO, incorporating key areas of assimilation and any formal training necessary for the new CEO.

Communicate the hiring of the new CEO to your employee base and your key customers/clients as well as publishing a press release.

After Hire

Execute your On-Boarding/Assimilation plans to ensure a smooth transition for the new CEO/Company.

NOTE:

The actual start for the "Hire" portion of the process can vary depending on the appropriate overlap of the new CEO with the outgoing CEO. In our experience appropriate overlap periods are between 3 months and 9 months, depending upon a number of factors including the availability of the outgoing CEO, the size of the company, current initiatives in the company and a few other smaller factors.

Have Questions or Need Help With Your ESOP CEO Transition?

Give us a call at **612.375.8900**

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