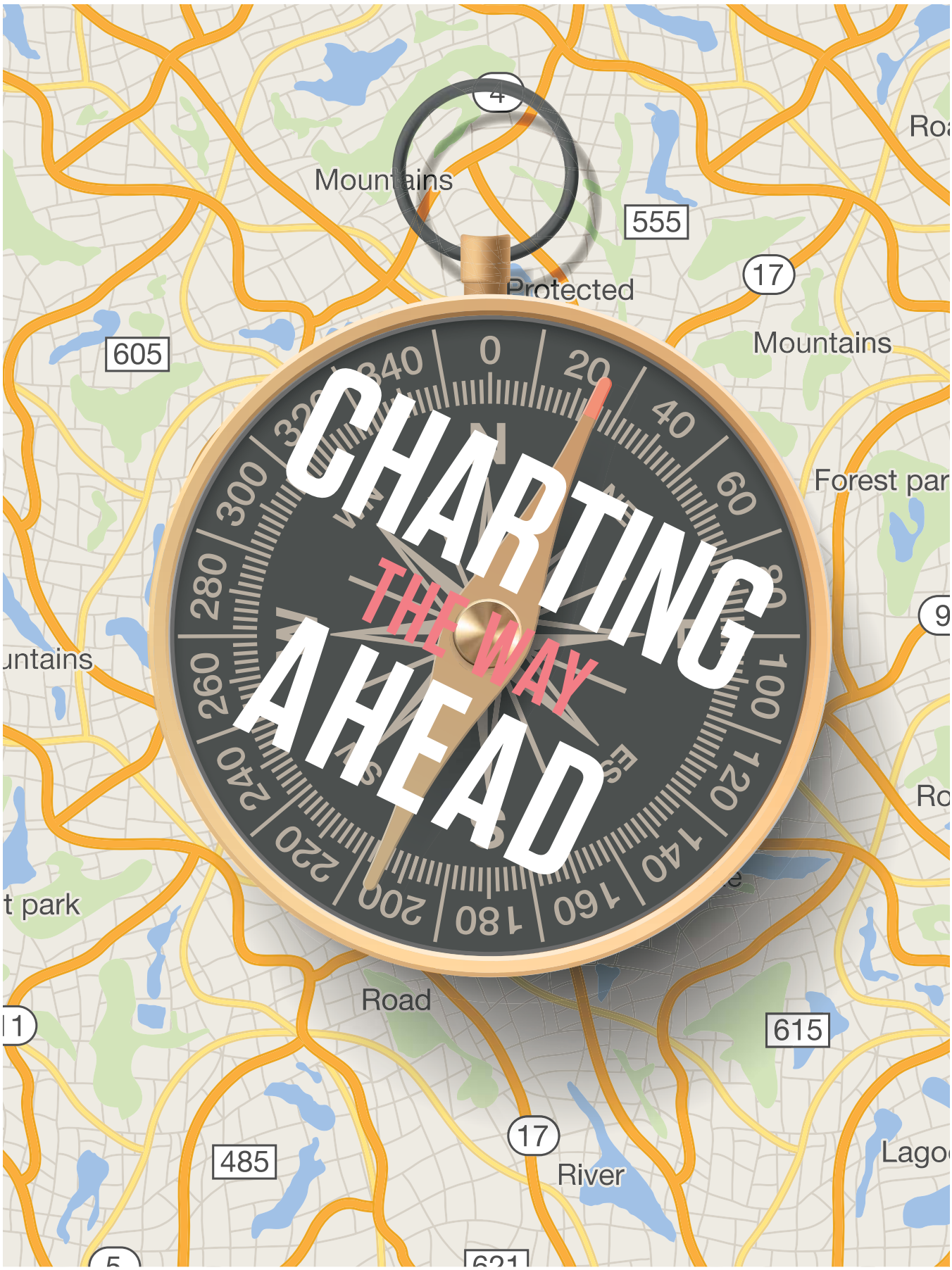
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COMPANY SUCCESSION PLANNING SHOULD NOT BE AN AFTER-THOUGHT. BUILDING A PLAN FOR NEW LEADERSHIP ENSURES SMOOTHER CONTINUITY. **ELIZABETH BLOSFIELD** REPORTS

Timing is everything when it comes to succession planning. This is true whether a company experiences CEO changes every few years, or whether it has had the same CEO since the company's founding decades before. Now is the time to start planning, market players suggest.

"[Succession planning] is a place that doesn't get as much attention as it should. [But] you never want to be without a CEO, so it's best practice to always have a plan," says Greig Schneider, US managing partner at Egon Zehnder, a Boston-based CEO and C-suite executive succession planning advisory firm.

The importance of succession planning is becoming more pressing as timelines for CEO turnover in the US are getting shorter, market players agree. More than 40% of US companies change CEOs after about four years and more than 70% change CEOs in less than seven years, according to recent research from EY.

In real estate, however, many businesses have never experienced a leadership change. "Real estate is such an entrepreneurial business, at least in the modern real estate age. We have a whole crop of companies that were born in the 1970s, 1980s and 1990s that have not yet undergone a succession from an original founder," says Russell Platt, CEO of Forum Partners.

Take a look at the REIT industry, for example. Born in the 1960s, the industry only started gaining momentum in the 1990s when the first REIT achieved $1b in equity market capitalization. Many entrepreneurs who made their start in the business in the past 20 to 30 years are now thinking about retirement and facing first-time issues related to a transfer of leadership.

"The REIT market is a relatively new industry compared to other segments of the real estate sector, and some of these REITs are just now reaching a point where they have to think about succession for the first time," says Robert Lehman, global REIT leader for EY.

Indeed, of 166 REITs examined by Fitch in a recent report, 25 have changed CEOs or announced pending changes in the CEO suite since the beginning of 2013. This March, American Realty Capital Properties announced the hiring of Glenn Rufrano to replace its interim CEO, who stepped in following top-level management resignations last year. Additionally, both Chambers Street Properties and DDR Corp announced their own CEO successors in February.

Although Fitch's report states that annual average CEO turnover in the REIT space is about 7.5%, which is still relatively low compared to the S&P 500's 11% average, it is an increasing topic of discussion in the industry. Lehman says that founding CEOs are often surprised by the number of issues and points of concern that they have to confront once they start exploring the topic for their own company.

When to begin...

One key issue is that a surprising number of companies do not start planning soon enough. "'We wish we had started sooner,' is a phrase that we hear from a lot of companies," according to Schneider.

One reason for this is because succession planning can be a touchy subject. EY's research reveals that many boards feel that it is awkward, and even unnecessary, to begin planning for CEO succession too far in advance.

But Schneider argues that it is never too soon to begin. He cites one example of a company that hired Egon Zehnder to start looking for an internal successor several levels below the CEO and seven years in advance. "From the moment the CEO got the role – he hadn't even fully assumed the role yet – he was already thinking about a succession plan, and I thought that was very smart," he says.

Planning ahead is important, as the succession planning process can take about five years from start to finish, says Joel Press, founder of advisory firm Press Management. One reason for this is because companies are encouraged to develop an interim strategy if a replacement can't be found right away, as well as an emergency plan for unforeseen circumstances, in addition to creating a permanent succession plan.

"Some of the preparation isn't just for things the company is planning for, but also for when something happens that the company is not planning for," Lehman says. "Lots of entities have a long-term plan, but they lack a specific plan about what steps to take if they suddenly have to make a decision tomorrow."

Additionally, companies need to convince clients, vendors, customers and employees within the organization that the successors are as good as, if not better, than the previous leadership they trusted, according to Press. "It's a complex process. The business and financial aspects alone are time consuming enough, and that's only part of it," he says. "Transferring trust is what succession planning really is."

Companies cannot forget about stakeholders, either. "You have to be absolutely explicit about making sure that all of the stakeholders are clearly identified and determine absolute needs versus negotiable needs going forward," Platt says.

Where to begin...

With all of these factors to consider, many companies are left wondering where to begin and how to minimize the time and effort succession planning takes. Although specifics vary case-by-case, building a framework ahead of time is a good place to start, according to Platt. Forum Partners' recent acquisition of a 50% stake in The Dermot Company is one example. The deal was made as part of Dermot's succession plan following the retirement of former-CEO William Dickey.

The immediate acquisition plan took about a year to implement. Outside of that, Dermot spent even more time working internally and with a small group of external advisors to craft its succession plan and anticipate issues before engaging Forum Partners. "We got involved once the broad outlines of the plan were agreed upon internally. We had the opportunity to influence the ultimate outcome, but the broad framework was already in place," explains Platt.

Indeed, Dickey was thinking about a leadership transition long before the acquisition happened. Dermot's current President and CEO

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Steve Benjamin sat at Dickey's right hand for more than a decade as the company rooted itself in New York, and he was chosen by Dickey ahead of time to lead the company in its next stage of growth, Platt explains. "That forward planning was absolutely essential and made our job that much easier," he says.

Market players agree, however, that succession planning is more than simply choosing the next set of leaders. It is about furthering the focus of the organization and growing the culture of its employees. This cultural aspect is important and far more complicated than only choosing the next CEO, Platt says.

He points to the case of Dermot once again. "If it was a question of Bill [Dickey] retiring, collecting his pension and sailing off into the sunset, that would be fairly straightforward. But he has built value within this company for years and is now passing the torch. He wants to realize the reward for what he has done by seeing the next generation going to even greater heights and successes, so that's what makes this kind of thing more complicated," he explains.

Focusing on the company's future goals rather than its past accomplishments is essential to building a successful plan. But many companies struggle with the cultural nuances involved, Schneider says. Without proper data and tools in place to analyze culture and measure performance, particularly within the higher ranks of a company, it can be difficult to understand growth potential or implement development and training techniques, he explains.

"At the top of many companies, there are not even feedback reports or end-of-year reviews, so it's a sad but often true rule that the higher you go in a company, the less real feedback you get," he observes. "It doesn't matter if you know who is best for the company's growth if you're not equipped to do what is needed to get there."

Guided by numbers

Well-rounded data is one way to mitigate potential succession planning failures, Schneider states. Data can be used to conduct performance analysis as well as understand the challenges an organization may face in executing its future growth strategy. This helps CEOs and other top-level management gain a sense of who within the organization has the potential to grow into a leadership role, as well as how long that process will take and what steps are needed to support them, he adds.

"How long it takes really depends on how ready you are. What really stings people is when they don't know how long they have to prepare," Schneider says.

However, taking all of these elements and making them work for a company financially can be complex and burdensome, Press says. The costs that go into building a succession plan can include the use of data and analysis to assess senior talent and develop a system for growing the company, as well as hiring any external advisors to assist with the process. Prices can vary based on the size of the roles being analyzed, the number of employees assessed and the techniques used.

Press notes that succession planning may therefore not be right for every company. "[Succession planning] involves a lot of complex decisions, and you have to be willing to make huge amounts of sacrifices. Some may not want to take the time and effort, or might not feel that the money is worth it," he says.

Others argue that although costs can add up quickly, succession planning is a worthwhile expense to ensure a smooth transition of leadership that will further the growth and value of the company going forward. On this point, Schneider concludes: "To anyone asking, 'What does it cost?' I would say this: Good succession planning can be expensive, but much less than the cost of not doing it." ◘

Elizabeth Blosfield
Reporter, REFM

HOW TO SUCCEED IN SUCCESSION PLANNING

Start planning today: "It's never soon enough to start thinking about a succession plan." **Russell Platt, Forum Partners**

Don't underestimate the time it takes: "It's a five-year process, in my opinion, to create the right environment and finally announce the succession plan once it's ready and you've made all of the right decisions." **Joel Press, Press Management**

Data is key: "Data and assessment is something that every company should be doing regardless of whether they're using it for succession planning. It's not really a succession cost; it's just the cost of running a company properly." **Greig Schneider, Egon Zehnder**

Identify stakeholder needs: "You have to be explicit about making sure that all of the stakeholders are clearly identified...and determine which are absolute needs and which are negotiable going forward." **Russell Platt, Forum Partners**

Hire smarter: "Any hiring opportunity at any level should be thought of in the context of whether it is consistent and advances the succession plan for the business. Even the most junior resource will ultimately play a role in growing the capabilities of an organization." **Russell Platt, Forum Partners**

Think ahead: "You want to bring someone in who has experience in what you want to do with the company in the future, not necessarily what you've done in the past." **Robert Lehman, EY**

Be open-minded: "A willingness of management to benefit from external input in terms of strategy and convenience, and an openness to new ideas...will pay off going forward." **Russell Platt, Forum Partners**

Establish trust: "Transferring trust is what succession planning really is." **Joel Press, Press Management**

Build lasting value: "If a company can develop and execute on a viable succession plan, there are clear opportunities to build dynamic growth and lasting value in an organization over time." **Russell Platt, Forum Partners**

AT THE TOP OF MANY COMPANIES, THERE ARE NOT EVEN END-OF-YEAR REVIEWS, SO IT'S A SAD BUT OFTEN TRUE RULE THAT THE HIGHER YOU GO IN A COMPANY, THE LESS REAL FEEDBACK YOU GET

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