



Strategic Advantage

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Tomorrow Has Already Arrived Succession Planning Takes Center Stage

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Friends & Colleagues:

Albert Einstein said, “**The only reason for time is so that everything doesn’t happen at once.**” To achieve great things, you need time and a plan for time. Once past, time can never be recaptured. However, there are four unique and distinct characteristics or facts regarding time.

- ◆ Fact # 1 “Timing is everything.”
- ◆ Fact # 2 “Time cannot be avoided, delayed or ignored.”
- ◆ Fact # 3 “It is impossible to be a market timer.”
- ◆ Fact # 4 “Time not well-spent cannot be reclaimed.”

For real estate firms, reactive time management is a prescription for falling behind. Thinking yesterday’s successes can be repeated *ad infinitum* is misguided. **Time is that precious commodity that we think is without limits, yet we often lament that we never seem to have enough.**

Success tomorrow can be assured (or at least significantly enhanced) by planning ahead...taking control of your destiny...preparing for a time when you now have the capacity to do so. **Every real estate professional can point to many examples of what happens when the outcome of a**

**Percent Of Current Real Estate Executives
Expected To Retire By 2020**

Title / Level	% Expected To Retire*
President / CEO	58% - 62%
Chief Financial Officer	43% - 48%
Executive Vice President	46% - 51%
Senior Vice President	42% - 45%
Vice President	39% - 43%

*Includes resignation, retirement, permanent disability and death.

Source: CEL & Associates, Inc.

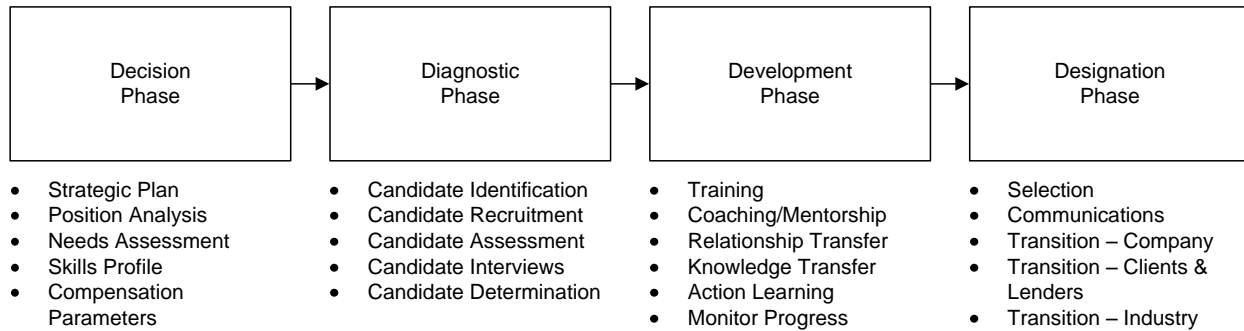
situation is left to the control of others or to circumstances. One of the biggest threats to every real estate organization is the sudden or unexpected loss of a key leader (CEO, Partner, President, Top Producer, etc.). What had seemed an abundance of time, talent and opportunity becomes time compressed and dramatically raises the level of business risk. Failure to plan ahead for the unexpected and the orderly transition of leadership is akin to forgoing insurance because “nothing is going to happen.” In this context, time can become an unforgiving reality.

Over the next decade, 40% – 60% of Baby Boomers currently employed are likely to retire or reduce their full-time workload. However, according to the Society of Human Resources Management, only 6% of U.S. firms operate a formal phased retirement program. As a result, the real estate industry is verging on a sea of “flash” retirements. When those sudden retirements occur, there



is limited time to transfer knowledge, relationships and unique skills. The chart below highlights the four phases of succession planning.

Four Phases Of Succession Planning



Source: CEL & Associates, Inc.

So, if the four facts highlighted above are acknowledged and accepted by real estate Founders, Boards of Directors and others, **why are the term and process of succession planning so difficult to accept?** Why do many Boards, CEOs, Partners and Presidents think succession is for someone else? Why are many real estate organizations “surprised” when a key leader, top producer or future star performer leaves for other opportunities...taking along valuable relationships and knowledge? Why are so many Boards of Directors, Founders, Stakeholders silent when it comes to preparation for and selection of successors?

The answers are simple and often rooted in a complex psychological context...both cumulatively a bit frightening. Succession planning, for many, is perceived as a life- and career-ending passage. It is moving from importance and relevance to a position on the periphery and becoming no longer needed. It is the fear of losing control, handing over the reins and empowering others to make key decisions. This insecurity is, of course, a self-imposed barrier, but real, nonetheless. The third reason for avoiding succession is fear of the unknown.

Succession can be a confusing and conflicting emotional state for competent and talented individuals who have built their careers around earned labels such as “bold, aggressive, winner and leader.” Planning for succession is often relegated to a task that “we need to do,” but “for everyone except me.”

To be successful, in my opinion, succession and succession planning must be shifted from a negative, to-be-avoided experience to a positive, must-get-done experience. We should celebrate and encourage those who have the foresight, leadership and commitment to control their destiny through effective succession planning. **For every day that passes without a succession plan in place, an organization increases the likelihood of future chaos, uncertainty and leadership problems.** As one industry leader remarked, “It is a little late to get insurance when your house is on fire.” That can’t be any clearer.

If you are like those leaders within the real estate industry who recognize that retirement is inevitable, health issues and other matters of personal importance should take precedence, or realize that tragedy can occur unexpectedly, then the following pages are a must read. We all can point to examples of leaders in the prime of their life who have suffered an accident or unexpected illness. How many leaders at age 50, 55 or 60 resign for “personal reasons?” Succession should not have to be a surprise...it should be a celebration of a passage or a baton hand-off. **Every best-in-class real estate firm has a succession plan in place. Every real estate organization that intends to retain its competitive advantage has a plan of succession in place.**

Some Undisputed Facts

Nearly 60% of current CEOs within the real estate industry plan to retire by 2020. Over 30% of real estate firms doing business in 1990 are no longer in business today. By 2020 it is expected that another 30% - 35% of today's real estate firms no longer will exist in their current ownership configuration.

In a recent CEL & Associates, Inc. survey, only 24% of real estate firms have a plan of succession (and around 85% of those plans are only for the Founder or CEO). Of the same number of firms that have a succession plan, 65% of those organizations have not finalized or announced it to their organization. Next to recruiting and retaining talent, planning for the succession of talent is one of the most important priorities within every real estate firm.

Benefits Of Succession Planning

- Assures the long-term viability of the organization.
- Provides confidence to Shareholders and Investors.
- Provides a stable workplace environment that attracts talent.
- Provides for seamless business continuity.
- Reduces risk when the unexpected occurs.
- Provides assurance to lenders of ongoing business activities.
- Builds a pool of outstanding leadership talent.
- Mandates a forward-thinking strategic perspective.
- Reduces potential financial negative impact on the organization.

Source: CEL & Associates, Inc.

Historically, retirement was a stage of life that few could experience and enjoy. Life expectancy in the 1800s was less than 50 years, so for many, retirement was a three-year period between work and death. By the 21st century, advances in medicine, diet, exercise and healthcare dramatically increased a person's life span. The advent of Social Security in 1935, 401(k) plans in the 1980s and pension funds and retirement plans gave the term "retirement" a different meaning. Life expectancy is not 47 but 78 years of age. **Those turning 65 today can expect to live another 15-20 years in retirement.** While the impact of the 2008 – 2009 recession and slow economic recovery postponed retirement for some, one fact remains...retirement is inevitable.

As approximately 50% of current real estate executives consider, plan or begin retirement during the 2011 – 2020 period, the need for succession planning is acute. The key to effective planning is to consider an infinite number of alternatives, acknowledge that the unexpected will occur and accept the fact that succession will happen with or without you. Planning ahead can avoid many future performance and financial problems.

The Cornerstones Of A Vibrant Succession Plan

Boards of Directors and Founders of real estate firms realize that one or more of the following scenarios is likely to occur:

1. Unexpected illness or death that prevents a leader from continuing in the company.
2. Resignation.
3. Replacement due to poor performance.
4. Normal retirement.

No one is immortal. **A competitive edge is achieved when a succession plan is in place.** Figuring out a plan after the sudden loss of a leader is not a good strategy.

The selection of a new CEO, President, CFO, COO or Division Executive must not be based on the business environment today, but rather on tomorrow's likely challenges, needs and opportunities. **The skills needed in the past may not be the expertise or attributes required in the years ahead.** The problem with most succession discussions in real estate firms today is that they are anecdotal and often after the fact. Furthermore, the best decisions for selecting a successor are not likely made by the individual to be succeeded. Selecting the best candidate must consider internal and external options. **Only 35% – 45% of the selected individuals are typically hired from within.** According to

a recent article in *Harvard Business Review*, CEOs give their succession planning process a grade of C+ and their execution of a succession plan a grade of D.

For succession planning to be successful, I believe that real estate companies must have five cornerstone components.

Components of Succession Planning

❖ First Component: Change The Name

Because the process and term “succession planning” implies a perceived negative outcome for the incumbent, I would **change the name to “Succession Development” or “Leadership Development.”** Having a written plan often creates an internal feeling of comfort because a plan is in place and all is well, but does not necessarily serve to “develop” a future leader/successor. How many times have you seen or experienced well-conceived plans *not* turn out the way they were intended? How many times have you seen or experienced the appointment or designation of an heir-apparent go wrong? How many times have you seen or experienced the announcement of “my successor” preclude or prevent the attraction or retention of outstanding talent?

Changing the name to Leadership Development provides a platform and process from which to build or develop future leaders without a pre-determination of the outcome. **Every real estate firm needs two or three potential successors...not just one.**

❖ Second Component: Engage Future Leaders

Effective succession planning should not be a process of “checking the boxes,” but **engaging future leaders in the process of planning and shaping the company’s strategic direction.** Best-in-class real estate firms typically involve multi-generational talent in the creation of long-range strategies and priorities. Enrolling future leaders in the process of creating enterprise value rather than just a process of determining tomorrow’s leader will produce superior immediate and long-term results. Remember, it is important to have an internal pipeline of future leaders rather than needing to go outside for a leader.

Succession Planning Steps

1. Determine the Company’s long-term strategic direction.
2. Identify the qualities, competencies and core values needed for tomorrow’s leaders.
3. Develop a position description.
4. Evaluate potential internal candidates.
5. Determine if outside candidates need to be included.
6. Narrow the prospective list to two to three viable candidates.
7. Establish a leadership development process for all finalists.
8. Monitor performance progress and leadership development.
9. Determine the timing of succession / leadership transition.
10. Select a successor.
11. Communicate that decision.
12. Prepare and implement a transition plan.
13. Facilitate the transition process.
14. Complete the transition.
15. Prepare for the unexpected (return to #1 above).

Source: CEL & Associates, Inc.

❖ Third Component: Measure The Outcome

Measure the outcome rather than the process. Succession planning is not about the progression of time, but it is the beginning of a new journey. Setting the goals and evaluative metrics will provide a scorecard of progress toward the selection of an eventual successor. Effective succession planning is both a quantitative and qualitative process.

❖ Fourth Component: Keep It Simple

Don’t make the process of succession planning complex. Don’t over-analyze, over-evaluate and drag out the process for years. A protracted succession planning process is more an expression of “I don’t want to do it,” than an endorsement of the eventual necessary outcome and subsequent benefits to the firm.

❖ Fifth Component: Utilize A Skilled Facilitator

Use an experienced, independent facilitator to assist you in this process. It is extremely rare to find someone internally who has the time, expertise, experience, knowledge of available options and unbiased perspective to lead the succession planning effort. An independent, no-agenda facilitator can provide the entire organization with the confidence of future certainty and control. Succession planning must be transparent and perceived as fair and in the best interests of the company to be successful.

Closing Comments

Succession planning is not an option...it is a requirement. Whether you are a large organization, mid-sized company or small firm, you need succession planning. Whether you are a public or private firm, a family enterprise or a partnership, you need succession planning. For the top five to seven Executives (CEO, CFO, COO, functional or geographic leaders) you must have a succession plan in place.

Timing is everything. In today's very challenging, complex and ever-changing business environment, those without succession plans are doomed to fall far behind and perhaps fail. What are you and your firm doing to reduce risk and maximize future relevance?

If you'd like to share your comments, insights or ideas with me, please email them to newsletter@celassociates.com.

Regards,



Christopher Lee

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12 Core Questions To Ask During A Succession Planning Process

1. What will the Company look like 5 or 10 years from today?
2. What new opportunities will the Company likely pursue?
3. What will be tomorrow's value proposition?
4. What is the Company seeking to accomplish or achieve?
5. What talents or skills will be needed 5 or 10 years from today?
6. What organizational changes may be needed as a result of succession?
7. What weighted, evaluative criteria will be used to assess potential candidates?
8. Who will be involved in the selection process? What training or assistance will they need before the process begins?
9. Who will lead this process?
10. What is the anticipated timing for transition?
11. Is the Company willing to look outside for prospective candidates?
12. What is the compensation package for the successor?

Source: CEL & Associates, Inc.



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