



## ***SAA crisis shows why effective succession planning is crucial for SMEs***



News that national carrier South African Airways has lost eight of 14 board members, including its chairwoman, in a mass resignation shows why an effective succession planning strategy is a crucial part of any company's risk management plans. For smaller businesses in particular, this is even more critical, as without the business may be forced to close down if an effective plan is not implemented.

Almost 70% of all South African workers are currently employed by small businesses with fewer than 50 people, highlighting the importance to the economy of sustaining this segment of the market.

Valerie Hayter, Managing Director at Lireas, the strategic investment company of Hannover Re Group Africa, says she believes succession planning is one of the biggest risks facing entrepreneurs and other investors in these businesses. Failure to address succession planning at an early stage in the development of the business can have dire consequences later on – not just for the business owners, but all stakeholders, including employees. She believes it is vital to give consideration to this topic as soon as possible.

In assessing the ideal successor, the small business owner should bear in mind that the attributes of the person who started the business may be quite different to the person who can take it to the next level.

Hayter elaborates, "Continuing the business successfully may need a person with different qualities and skills from the original founder. Depending on how big the business has grown, a more 'corporate' approach as opposed to an entrepreneurial mindset may now be required. Identifying the right person for this job isn't easy, especially if the owner-manager started the company. Relinquishing control and responsibility for their 'baby' is a real challenge, albeit that the owner manager has already made the decision to exit."

She says the owner-manager also risks not being paid out the full value of their shares if an appropriate succession plan hasn't been put into action. "In extreme cases where no succession has been put in place, the business may not be worth anything. The extent to which succession has been considered and is already in place plays a large role in determining the fair value of the company, as an incoming shareholder would not necessarily pay full value for their shares unless the immediate future of the business was properly secured."

She continues, “Establishing a time horizon to exit the business is the first step in creating a succession plan. Once this is done, the owner-manager can then identify a person within or external to the business who can be groomed to take over. An alternative solution to succession planning may also be to merge two companies together. Provided there is a cultural fit between two organisations, a merger could provide the exiting owner-manager with multiple succession alternatives.”

Hayter notes, however, that a cultural fit is absolutely essential. “Choosing a successor for the business is just like choosing the right person for any job, but here the stakes are usually higher, as the company’s continued success may also depend on choosing the right person. The path of least risk may be to groom someone to take over, rather than selecting a relatively unknown person externally.”

“Succession planning is never an easy subject to discuss between business partners and it requires a fair degree of business maturity. The sooner this discussion takes place - and is actioned - the better it is for the business and all its stakeholders, including shareholders,” she concludes

<http://www.hrfuture.net/news/saa-crisis-shows-why-effective-succession-planning-is-crucial-for-smes.php?Itemid=812>



# Effective. succession planning IS ESSENTIAL FOR SMMES

Succession planning should be a vital part of any company's risk management strategy, yet the reality is that many small businesses often fail to consider its importance. As a result, the business may be forced to close down if an effective plan is not implemented.



**Valerie Hayter**  
Managing director at Lireas

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