



Analysis

Coping with the Unexpected in the Management Team

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Biography

Nick Hood is the Senior Business Adviser at the Opus Business Advisory Group (<https://www.opusllp.com>), the largest independent advisory, restructuring and insolvency firm in the UK.

Nick was a licensed Insolvency Practitioner, working in the business rescue market for 25 years. He is a committed internationalist, having created the largest global network of independent business rescue firms and having also worked overseas in Canada, Milan and Bahrain.

In his earlier career and after qualifying as a Chartered Accountant in 1970, Nick held senior executive positions in major companies in the construction, engineering and media sectors, as well as working for a boutique investment bank.

Nick's thought leadership and opinion blogs for Opus can be found at <https://opusllp.com/resources/>.

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Abstract

Businesses of all sizes can be severely disrupted by the unplanned and unexpected loss of a key executive, but particularly so when it's caused by their death or sudden incapacity. For smaller entities the effect can be devastating. In this article, the author looks at what the implications are and how effective management succession planning can mitigate the downsides and avoid the crisis destroying the company altogether.

Introduction

Major businesses may suffer short term reputational damage and at least temporarily, the wrong sort of media attention if a top executive dies in harness or becomes incapacitated. Nevertheless, they have the resources and usually the depth of talent pool to bounce back. For smaller businesses, the impact of the loss will be more far reaching and recovery from the set back more difficult. Not only this, but these tragedies are distressingly commonplace.

When a successfully growing UK furniture industry SME recently fell into Administration little more than two years into its start-up phase and soon after the



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death of one of its three founders, it was the fifth failure seemingly linked to an unexpected fatality dealt with by just one insolvency practitioner in as many years. This chain of tragedies prompts the question about how management teams in smaller businesses can protect themselves if they lose a key executive without warning.

These situations are not just a threat early in a company's existence; they can happen at any stage and be equally damaging. They also aren't only the result of the sad demise of a key executive; they can be triggered by serious illness or a vital individual resigning suddenly.

The issue isn't usually simply their loss, it's when a lack of foresight leaves the company exposed to a wide range of potential perils without any sort of Plan B to help mitigate the risks.



What happens in a management void?

The problems stemming from the unexpected loss of a key member of the management team extend well beyond just the loss of their contribution, skills and knowledge or the pressure it piles onto the remaining senior team members. Things to consider:

- **Damage to staff morale** – The negative impact on the morale of more junior staff can't be ignored, any more than the sense of crisis and even panic such events can trigger. It can be as though the entire workforce needs emotional support and psychological counselling, all at the same time. Dealing with these internal issues will be a distraction to senior management at what is already a hugely difficult time for them.



- **Faltering productivity** – Almost inevitably, productivity will be at risk right across the business and core functions such as customer service can falter. Sometimes it leads to a loss of talent, as ambitious staff question their future career path in the new and uncertain situation.
- **Weakened stakeholder relationships** – Externally, relationships with a range of stakeholders will be affected. Lenders may not be so positive about continuing support, especially where the former executive was providing them with extra collateral by way of a personal guarantee.

Suppliers may tighten their credit limits and terms, especially if their trade insurers downgrade the company's rating as a result of the management change. The increasing use of AI means that insurers can now look beyond the numbers in a business's accounts to wider issues including management resources and capabilities, as well as to do this highly granular risk analysis on their whole portfolio, not just the major risks.

Key customers may look to diversify some or even all of their business away from the company to hedge against the less reliable supply chain component they perceive it has become after the loss of the executive.

- **Social media** – The influence of social media plays an ever-increasing part in the operations of modern businesses. The death or departure of a key executive and its implications will need careful and sensitive handling on relevant social media platforms.





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What to cover in a management succession plan

Succession plans are even more important for smaller businesses than their larger cousins. They may not have the management resources or talent available to promote to fill a crucial gap, nor necessarily the financial strength to overcome the disruption of such events. Recruiting a replacement will always be more difficult for them, so being prepared for this eventuality is vitally important.

- **Starting early** – Recognize the risk right at the start of setting up the business. Succession plans take time to put together, so it's never too soon to begin.
- **Identifying key positions** – Determine critical roles within the business, which will need successors in place quickly to ensure operational stability.
- **Defining core competencies** – Establish the skills, knowledge and abilities required for each key position in the future for use for spotting and developing internal talent, or else to facilitate a prompt external hire where necessary.
- **Identifying and assessing potential successors** – Evaluate employees as the business grows for their potential to fill these core roles. Generally but not always, it will be easier, quicker and safer to promote from within the company than hiring externally.
- **Creating personalized development plans** – Develop tailored development plans for individuals to acquire the necessary skills and experience in identified candidates.



- **Developing a knowledge transfer process** – Implement strategies for capturing and retaining critical knowledge and experience from key executives to facilitate quick and successful transition if and when required.

Taking expert advice

There is a wide range of potentially negative legal and financial repercussions from a surprise loss of a key executive. Examples could include valuing and arranging for the realization of their equity stake, or else their involvement in funding arrangements. They may hold regulatory roles, such as being the company's MLRO (Money Laundering Reporting Officer) or be signatories in other vital operational processes. They might have control of social media accounts or be vital to cyber security at the company.

These issues need to be considered at the outset, for example by putting in place a shareholder agreement with provisions dealing with the disposal of shareholdings and how voting rights will continue to apply while this is done. Taking expert professional advice is essential.

Communication

Stakeholders, including employees, investors, customers, and suppliers, rely on clear and timely information regarding leadership changes. When organizations are transparent about management succession, stakeholders are less likely to speculate or fear instability. This transparency helps to maintain their trust and confidence in the organization's future direction.

Regularly reviewing and updating the plan

Circumstances within businesses change constantly, so the plan needs to be looked at regularly and updated as required. Regularly reviewing and updating a management succession plan is vital for organizational health and longevity. It enables businesses to adapt to change, develop their people, mitigate risks, and maintain confidence among stakeholders. Ultimately, it is a proactive strategy that ensures the organization is prepared for both expected and unexpected leadership transitions.

The upside of good management succession planning

Effective management succession planning is absolutely crucial for SMEs to ensure business continuity and mitigate the many risks triggered by the unexpected loss of key executives. Without proper foresight, they risk operational disruption, financial loss, damage to their viability and even a threat to their survival. Forewarned is forearmed, so that these events don't have to be terminal. By proactively preparing for leadership transitions, companies can secure their future success and maintain a competitive edge.