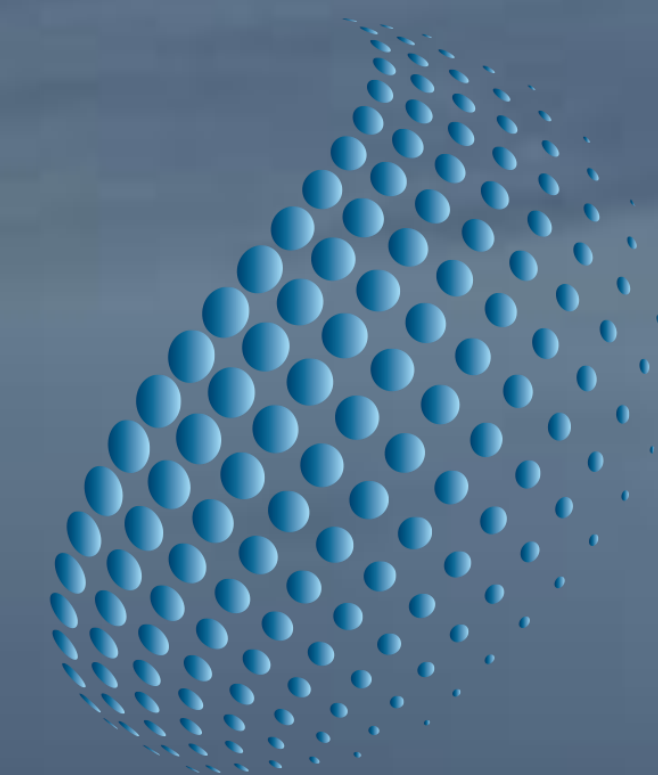


# The Value of Succession Planning

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The CEO role is crucial in every company. The CEO is the “Cultural Executive Officer” . There is often a systematic way the board performs CEO succession planning over time. Below I outline three common roadmaps.

We invest in companies where the CEO treats the company as its own. We favor companies where the CEO has a long tenure in the company, either as founder, or with years of experience in the company prior to becoming the CEO. We believe CEOs that share the company’s beliefs and strategic DNA create higher value for shareholders, rather than CEOs that treat the position as a next career advancement or highly paid job.

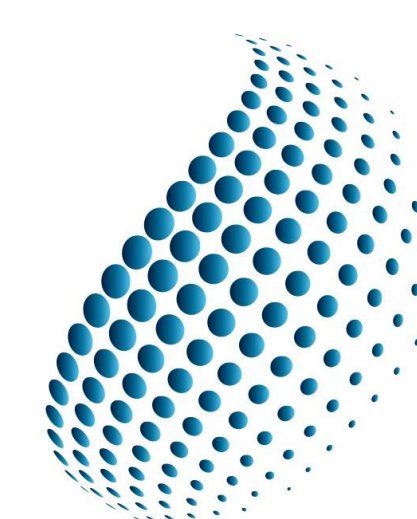
### The “forever-CEO”

Some CEOs are the company DNA. These CEOs are often founders or co-founders of the company, and have been with the company since the early beginning. Imagine Steve Jobs in Apple or Warren Buffett in Berkshire Hathaway. The board of these companies give the CEO full autonomy, and the CEO runs the company as he or she wants to. These CEOs treat the company as their own, and often have large ownership stakes. When investing in companies like this, the CEO is a key part of the investment analysis. These CEOs often have a very characteristic leadership style. We own several companies with “forever-CEOs”. Examples from our funds are Mark Leonard in Constellation Software and Gerteric Lindquist in Nibe.

The downside of investing in a company with this CEO strategy, is that a large share of the perceived value creation of the company is linked to the CEO. If the CEO suddenly quits, or otherwise leaves the company, it will in many cases be difficult to immediately replace him or her. It is important to evaluate succession risk in these companies, and evaluate whether the corporate culture may change under a new CEO.

### The internal candidate

Some companies always recruit internally for the CEO position. The board of these companies have a detailed succession plan for the CEO role, with several internal candidates lined up. This recruitment strategy enables the board to recruit a CEO that understands the company’s existing culture, norms, and strategy. It de-risks the process of changing CEO, and gives shareholders more of what has been.



Generally, these companies will not change strategic direction or experience any material changes to execution after the new CEO is in place. In these companies the CEO is merely an excellent executor of the company's strategic DNA, which is set by the board and maintained over time. If a CEO in such a company decides to leave, the board will have several excellent candidates to fill the role, and shareholders know what to expect. Most of our companies in our fund pursue the internal candidate strategy. Examples from our funds are Niklas Stenberg in Addtech and Per Waldermarsson in Lifco.

### External recruitments

Some companies recruit externally when they hire a new CEO. An external candidate brings something new to the table, as he or she has limited knowledge of the company's existing organizational culture and internal company DNA. An external candidate also has limited ownership to the execution of the company's existing strategy. External CEOs will in most cases carve out a new strategic business direction when joining a new company, reflecting their own leadership skills and strengths. External recruitment thus ensures that the company's strategy and business development over time is reviewed with new perspectives, and constantly challenged.

The downside of such a strategy is that the company risks changing strategic direction too often. We own few companies that exclusively recruit external CEOs.

### Conclusion

If you take time to study the history of a company's CEOs, you will often find a distinct pattern of how the board undertakes its succession planning. Very few companies tend to switch between external recruitment, internal recruitment or having several dominant "forever CEOs".

The companies in our funds have succeeded, often over decades, by pursuing the "forever-CEO" and internal candidate recruitment strategies. These are CEOs that properly understand our companies' cultures and mindsets, and that create long-term value for shareholders.

