Practice Succession – New Blood

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The principle in succession planning is to create a match between the firm’s needs and the aspirations of individual employees.

A good succession programme will give advantage to the firm to retain highly capable employees.

The firm recognises the attention and skill development invested in them for the purpose of career development.

This will remove their needs to seek for other opportunities outside the firm.

“Train people well enough so they can leave,
treat them well enough so they don’t want to… “

- Richard Branson

Human Performance


Zaha Hadid, ZHA
Leonardo DiCapri Actor
Steve Ballmer, Nokia
Satya Nadella, Microsoft
Steve Jobs, Apple
Norman Foster, F&PA
Maddona, Singer
Hijjas Kastu
Meg Whitman, HP
Sabeer Bhatia, Hotmail
Mark Zuckerberg, Facebook
You

Self-efficacy

Controversy on the effect of self-efficacy on performance.

When reward is high, the effect of self-efficacy on performance is positive, whereas when reward is low, the effect of self-efficacy on performance is negative.

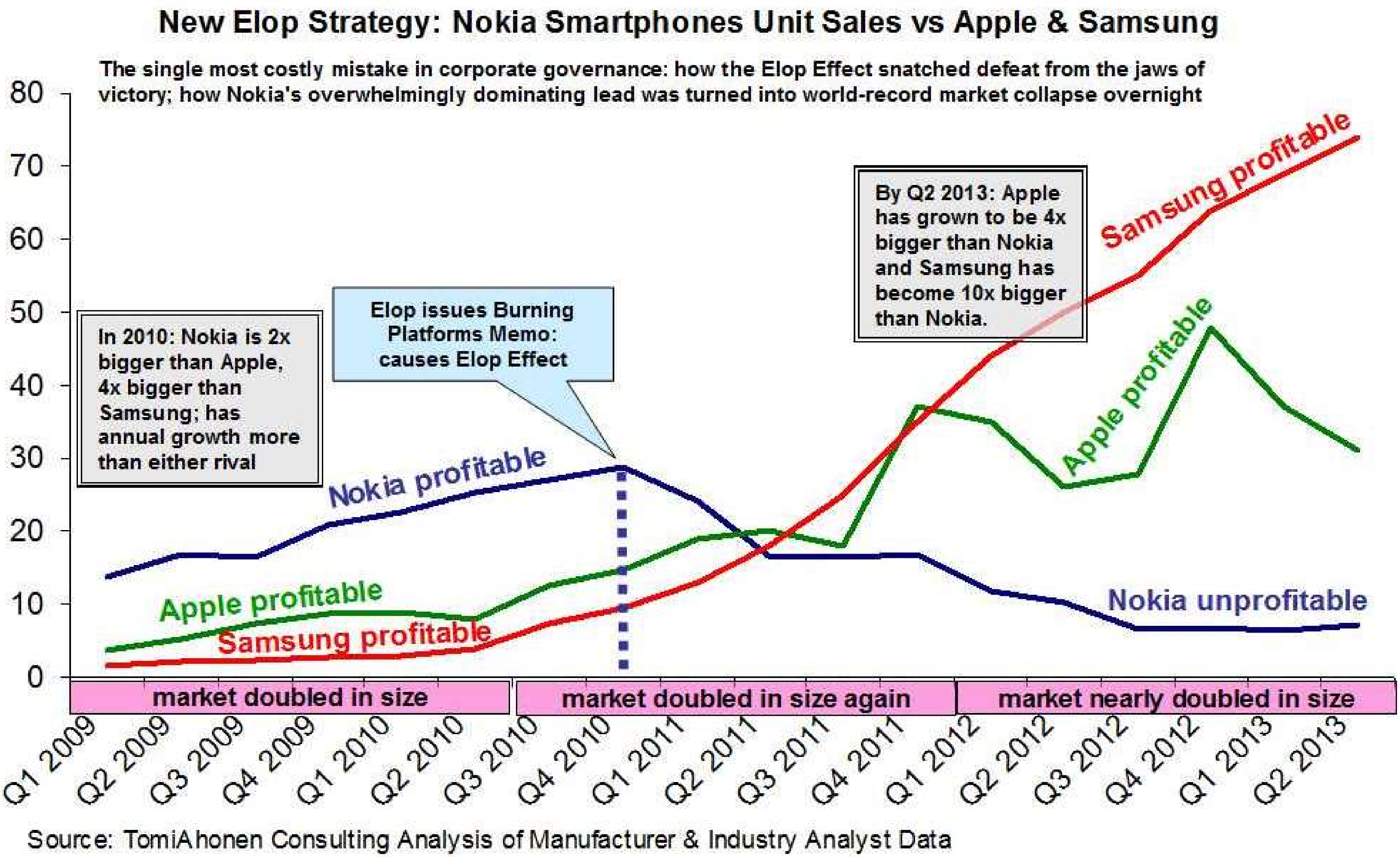
The reward moderates the effect of self-efficacy on performance.

- Keren Stirin Tzur, Yoav Ganzach, Asya Pazy

NOKIA

Why NOKIA failed?

- In a word "arrogance“.
- They didn't believe Apple's iPhone would appeal to the masses - thinking it was a niche product
- By the time they realised (2009) it was too late, they could not develop software fast enough to get close to iOS.



New Elop Strategy: Nokia Smartphones Unit Sales vs Apple & Samsung
The single most costly mistake in corporate governance: how the Elop Effect snatched defeat from the jaws of victory; how Nokia's overwhelmingly dominating lead was turned into world-record market collapse overnight
80
70
60
50
40
30
20
10
0
In 2010: Nokia is 2x bigger than Apple, 4x bigger than Samsung; has annual growth more than either rival
Elop issues Burning Platforms Memo: causes Elop Effect
By Q2 2013: Apple has grown to be 4x bigger than Nokia and Samsung has become 10x bigger than Nokia.
Samsung profitable
Apple profitable
Nokia profitable
Apple profitable
Samsung profitable
Nokia unprofitable
market doubled in size
market doubled in size again
market nearly doubled in size
Q1 2009
Q2 2009
Q3 2009
Q4 2009
Q1 2010
Q2 2010
Q3 2010
Q4 2010
Q1 2011
Q2 2011
Q3 2011
Q4 2011
Q1 2012
Q2 2012
Q3 2012
Q4 2012
Q1 2013
Q2 2013
Source: TomiAhonen Consulting Analysis of Manufacturer & Industry Analyst Data

I have learned that we are standing on a burning platform. And, we have more than one explosion - we have multiple points of scorching heat that are fuelling a blazing fire around us.

There is intense heat coming from our competitors, more rapidly than we ever expected. Apple disrupted the market by redefining the smartphone and attracting developers to a closed, but very powerful ecosystem.

- Stephen Elop, Nokia CEO 2011

We didn’t do anything wrong, but somehow, we lost…

- Steve Ballmer, Nokia CEO , 2016

Lesson learned from NOKIA…

The advantage you have yesterday, will be replaced by the trends of tomorrow. You don’t have to do anything wrong, as long as your competitors catch the wave and do it RIGHT, you can lose out and fail.

Lesson learned from NOKIA…

To change and improve yourself is giving yourself a second chance. To be forced by others to change, is like being discard.

Lesson learned from NOKIA…

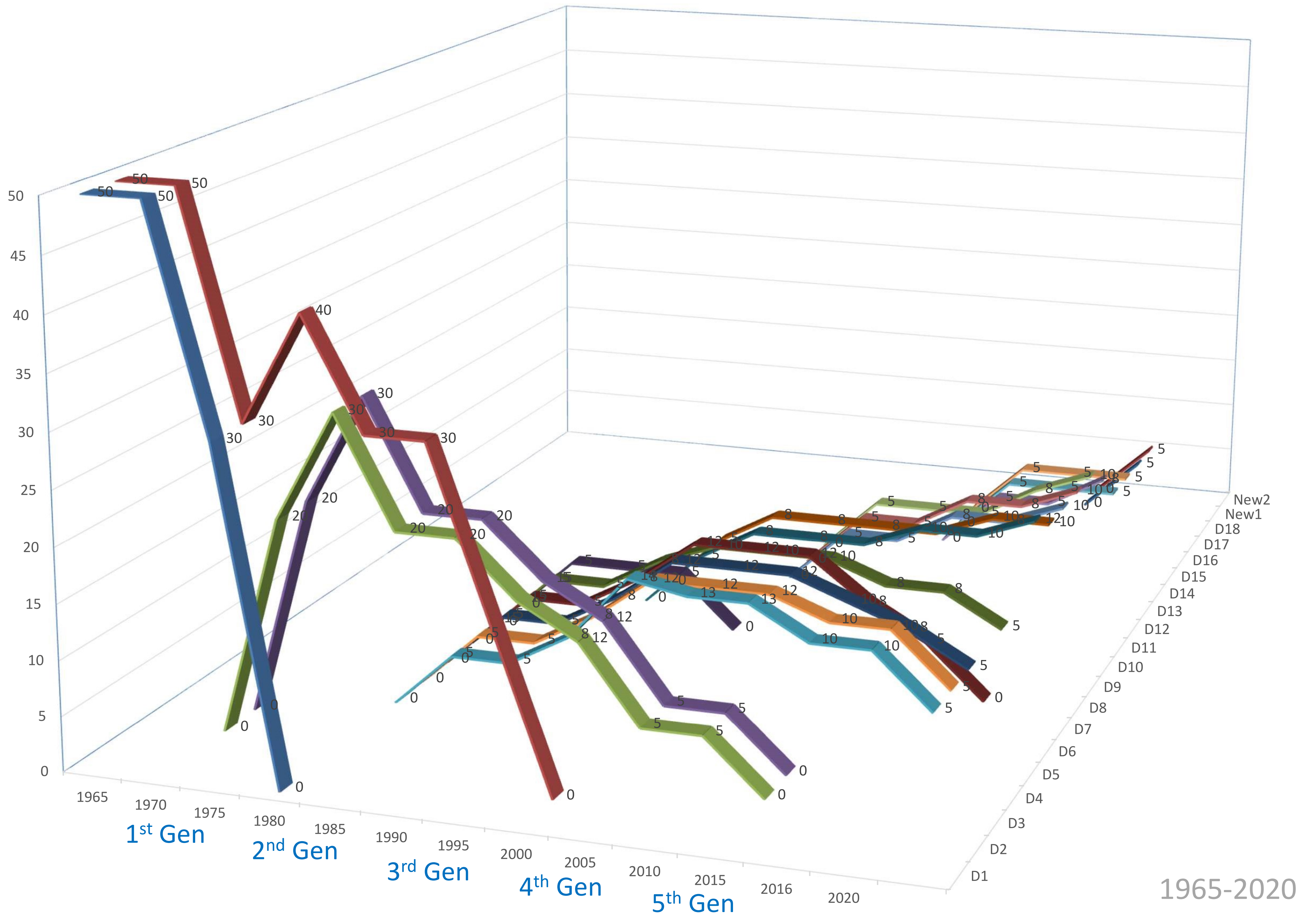
Those who refuse to learn and improve, will definitely one day become redundant and not relevant to the industry. They will learn the lesson in hard and expensive way.

Innovative,
Competitive
to remain
Relevant

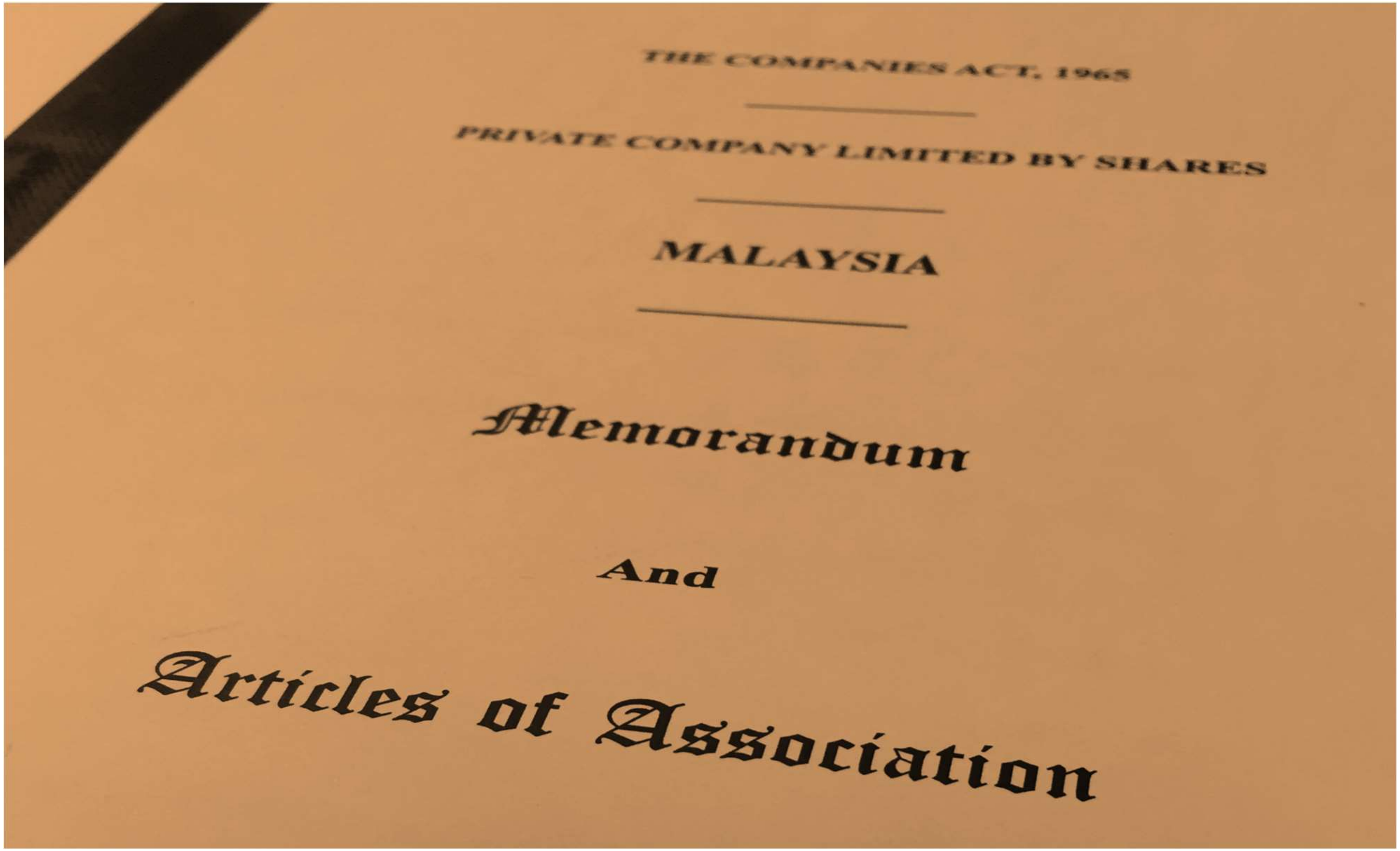
"While we have seen great success, we are hungry to do more. Our industry does not respect tradition, it only respects innovation."

- Satya Nadella, Microsoft

New Blood


1st Gen
2nd Gen
3rd Gen
4th Gen
5th Gen
1965
1970
1975
1980
1985
1990
1995
2000
2005
2010
2015
2016
2020
D1
D2
D3
D4
D5
D6
D7
D8
D9
D10
D11
D12
D13
D14
D15
D16
D17
D18
New1
New2
1965-2020

Keeping on track



- Memorandum and Articles of Association
- Constitution of the Company
- Partnership Agreement

Memorandum of Association – Companies Act 1965

- Name of Company
- Registered Office
- The objects for establishment
- Liability
- Share Capital

Articles of Association

- Specifies the regulations for a company’s operation
- Define the company’s purpose
- Lays out how task are to be accomplished
- Manners for appointing directors
- How financial records will be handled

Items under Articles of Association

- Powers, duties, rights and liabilities of Directors
- Powers, duties, rights and liabilities of members
- Rules for Meetings of the Company
- Borrowing powers of the Company
- Dividends
- Calls on shares
- Forfeiture of shares
- Transfer of shares
- Voting powers of members

Transfer of shares

- Restriction of Transfer
- Notice of Offer for Transfer of Shares
- Fair Value of Shares
- Payment of Purchase

Fair Value of Shares

- Agreed method of computing share value
- Fair valuation method
- Predetermined in Articles of Associations
- Based on Audited Account

The usual issues in getting successors:

Valuation of shares
Transfer process

Approaches to share valuation:

- Assets-based,
- Income-based,
- Cash flow-based,
- Or combination of the above.

1. Asset Based Approach

Firm is estimated as being worth the value of its net assets.
3 common ways of valuating net assets:

i. Book value approach

- Based on historical (sunk) costs and relatively arbitrary depreciation.
- These amounts are unlikely to be relevant to any purchaser.
- The book values of net current assets (other than cash) might also not be relevant as inventory and receivables might require adjustment.

ii. Net realisable value approach

- Net realisable values of the assets less liabilities.
- Amount of what should be left if the assets were sold off.
- However, if the business is successful, *the net realisable value of the* net assets may not be accurate.
- Does not consider intangible assets such as goodwill, future projects, knowhow, brands and customer lists.

Asset Based Approach

iii. Replacement value approach

- The approach tries to determine what it would cost to set up the business if it were being started now.
- The value of a successful business is likely to be lower than its true value.
- Unless an estimate is made for the value of goodwill and other intangible assets, such as brands.
- Estimating the replacement cost of a variety of assets of different ages can be difficult.

2. Income-based Approach (Earnings)

Shares also can be valued on:

- Profits History (Past)
- Incomes and expenses (Present)
- Prospective / Future earnings (Future)

- Buying shares - buying an entitlement to its future earnings, not its past earnings.
- What is a fair representation of future earnings?
- Whether the company operation be in decline?
- If the owner is retiring, will this affects the earning ability?
- Or will profit increase because the owner no longer draws a big salary?

3. Cash flow-based approach:

The dividend valuation model suggests that the market value of a share is supported by the present value of future dividends.

$$P_0 = \frac{D_0(1 + g)}{(r_e - g)}$$

where:

P_0 = ex div share price at Time 0

g = future annual growth rate from time 1 onwards

D_0 = dividend at Time 0

r_e = rate of return required by the equity shareholders.

Three amounts have to be estimated if this approach is to be used: D_0, r_e and g.

D_0

This is the dividend that has either just been paid or is just about to be paid: it is the dividend of now. This amount is easy to identify.

Share Transmission:

- Purchase and sell at shares value price
- New shares issue, capital increase
- Zero in, zero out (irrelevant to share value)

- Contractual profit sharing without share transfer

Find your new blood

Get your competitors to be your partners

Happy sharing...

Thank you…

Ar. Ezumi Harzani Ismail