

Preparing a Succession Plan

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If you're planning to retire from your small business in the near future, or you simply want to hand over the reins to someone else, it's important to plan carefully for your succession. Planning will help you to protect the value of your business. As the owner-manager of a business, you're likely to have kept close control over most—if not all—major activities, leaving the business dependent on your personality, experience, and decision-making. Therefore, to help ensure a smooth transition, you need a succession plan that will enable you to depart without seriously disrupting operations.

What You Need to Know

What choices about succession do I have?

If you give yourself plenty of time to plan your succession, you can consider these options:

- Selling the business
- Handing over control to a family member
- Grooming an existing management team member to succeed you
- Appointing a professional manager from outside to take over the business

One of the essential factors of succession planning is to allow as much time as possible to think through and decide on the best option. Ideally, the process should be planned over a couple of years rather than be made in a rush a few months before you leave. If you're able to identify a potential successor, the more time you give this person to understand how the business operates and the responsibilities he or she must assume, the better the eventual outcome is apt to be.

What should be included in a succession plan?

The plan describes and clarifies the succession process and should be developed as part of your overall business strategy. It will detail how you'll choose your successor and the role you'll have, if any, after you relinquish control. The plan may outline, for example, how the future leader of your business will manage its operations as well as the structure and responsibilities of the team that will be involved. If you don't sell the business outright, you could think about giving up your role in all day-to-day decisions while still acting as a consultant when the new management believes your advice would be beneficial. Having such a role could be reassuring to your successor in the early stages of taking over control. You might also consider acting as an ambassador for the company,

since it would continue to benefit from your ties to customers or suppliers. There also can be financial benefits to remaining a consultant.

How should I identify a successor?

When you begin preparing your succession plan, describe your functions and responsibilities as well as a list of the skills, interests, and abilities you think your successor should possess. Bear in mind that the future leader of your business may need different skills and attributes from yours, for the business you created may be at a different stage of its life. For example, a strong entrepreneurial drive now may be less important than managerial, financial, and administrative expertise. You can then draw up a list of possible candidates that includes a summary of their experience, qualifications, and career history. This will be far easier, of course, if a potential successor is already a member of management or is a family member. Regardless, be as objective as possible about the list you compile.

What to Do

Share Your Thoughts

It's crucial that, before you put your succession plan on paper, you discuss your intentions and the changes you envision with as many of those who will be affected as possible. By consulting with employees and, where appropriate, family members, you'll reassure them about the steps you're planning to take. Once the plan is complete, put it in writing. This reduces the possibility of any misunderstandings and ensures that everyone involved is clear about the future of the business and where they fit in. Point out the main points of the plan to everyone concerned so that the succession process gets off to the right start.

Prepare a Timetable

A detailed timetable for the transition process is vital. Set target dates for training and consulting with your successor (if appropriate), and set a date of departure, too. That affirms you're serious about departing. To be sure, unexpected events—the resignation of a key staff member, the loss of a major customer, or the sudden appearance of new competitors—can occur, especially if you're planning a lengthy transition period. So remember to build a degree of flexibility into the timetable, and remain flexible yourself.

Seek Outside Advice

Depending on the nature of your business, succession planning could prove complex and difficult if you're uncertain about the steps to take or if you make the wrong decisions. It's worthwhile, then, to seek advice and support from people experienced in succession planning. Business consultants are ideal, while your accountant or legal counsel will be able to identify key aspects of the process you may have overlooked. Others you could turn to include business colleagues and friends who have been through the process themselves, who may well have valuable insights and ideas. Finally, if you have staff members, consider creating a transition team to help you develop your plan and monitor its implementation. They will appreciate being involved, and it may allay the fears they may have about your departure.

Look, Listen, and Choose Carefully

Compiling a list of skills, qualities, and experiences your ideal successor should possess is one thing. Evaluating prospective candidates themselves is quite another. When it comes to meeting a candidate, and then making the all-important choice, there are some other attributes you should consider:

- How committed is he to the business?
- Can she develop it further?
- Does she have the leadership qualities and interpersonal skills needed to motivate others?
- Can he operate independently and in an appropriate manner?

Perhaps the best choice of successor may be obvious, such as a son, daughter, or senior manager who thoroughly understands the business and is committed to its enduring success. If you choose to pass the baton to a family member, allow enough time for him or her to get the training necessary. This could include your explaining some of the finer points about how the business functions, for what's on paper isn't always what's practiced. Making personal introductions to important customers and contacts is also essential, because it helps affirm that whomever you've selected has your blessing. Make sure your family member has the right motivations and aspirations, too. You may not have been in the business only for the money—but is he or she? And remember that the person who follows you should be able to relate well to your employees and not provoke rivalries or ill feelings.

Sometimes it's in your best interests, and your company's, to recruit a successor from outside. A professional manager with appropriate experience may be far better qualified to lead your business than are family members, however close to them you may be.

What to Avoid

You Move On In Response to a Crisis

Don't wait until a crisis erupts before you decide to search for a successor. The kind of crisis that usually precipitates this kind of move is ill health or a sudden change in the market that mandates radical changes in the way a business is run. It's much better to decide on a succession plan while your business is stable and profitable. It affords you the time to choose from a full range of options and to control your own destiny. That surely beats being forced into a hasty decision you later regret.

You Decide In Haste

Keep an open mind about your succession options. You may be anxious to keep your business in the family, but handing it over to a son or daughter could be a big mistake. Do they really want the pressures and responsibilities involved? Do they have what it takes to run a successful business? Would a loyal, long-serving senior manager feel seriously snubbed by your choice? Your best course is to leave as much time as possible to make the right decisions and to give yourself opportunities to consult your employees and business colleagues.

You Fail To Get Independent Advice

Since you have worked hard to develop your business, you're apt to be too close to the situation to make objective decisions and see the best way forward. Independent advice from someone who intimately knows your business and market—and who can look at the issues involved from a distance—will help you identify the pitfalls and decisions to avoid. The same person may also be able to identify the right person to succeed you by making an objective decision about the qualities of the people you have selected as candidates for succession.

You Stay Too Long

You may believe you're indispensable to your business and be tempted to hang on for too long. It's a common temptation, and it's also one of the worst things you can do. Don't delay your decision until it's too late. Once you decide to go... go! Don't keep finding reasons to stick around. And don't interfere in the business unless matters really are spiraling out of control or your successor specifically asks you for help. Letting go can be terribly difficult, but if you plan your succession properly, you should feel confident about your choice.

Where to Learn More

Book:

Rothwell, William J. *Effective Succession Planning: Ensuring Leadership Continuity And Building Talent From Within*. AMACOM, 2005.

Web Sites:

Society for Human Resource Management: www.shrm.org

Succession Planning: Links: www.managementhelp.org/staffing/planning/sccs_pln/sccs_pln.htm