

Face Succession Issues Sooner Rather Than Later

04/11/05

How do I insure continuity and succession throughout my company – as people grow and move on to other interests, as I expand the business and create more opportunity, and as I think about the next generation who will take over and run this business when I am ready to move on?

This week's question comes to us anonymously from the owner of a construction company in Brookfield, CT. This company works on major institutional, governmental and private construction projects throughout the metropolitan area and the northeast, and is one of the top construction firms in Fairfield County.

Attending to succession planning and continuity planning is not the norm. Take a look at the Fortune 500. We've had headlines all week, regarding CEOs who refused to turn over the reins, or groom potential successors.

Most of us, as business owners, ignore the subject for too long. We are often unclear about exactly what we want. We hate the idea of giving up control of the business we've identified with for so long. We like wielding power and influence, and don't give that up easily, even when it would be better for the business, and ourselves, if we did. We are not sure anyone will do as good a job, and we fear the jeopardy someone else could create for

our company. We ignore warning signs, and are too busy with day-to-day business issues. If we address the subject at all, we tend to take the easy way out, by saying, "I'll take care of it tomorrow."

Here are some considerations, to help you address this timely topic. Just why is this subject so important, and why do we need to, as responsible business owners, learn how to take on this subject and master it? What are some questions we should be asking ourselves, to get on the right track? What are some actions to quickly take to get moving in the right direction?

Key people leave or join organizations all the time. As people come and go, the company's clients can suffer from lack of continuity. Profits are interrupted as mistakes increase, or as people focus on the politics of change, instead of output. Gaps in knowledge, performance and perspective can have long-lasting implications. Changing the direction of a company mid-stream because someone new comes in, can disrupt the entire business. Promoting someone who is unqualified can lead to failure – for the individual and the business – all of which lands back on your desk. You have to decide if you're willing to jeopardize the equity you have built up over the years, by refusing to prepare for the inevitable.

Succession and Continuity Planning should be part of every organization. They are the outward manifestation of how a business nurtures and develops its human capital. Think what a luxury it would be to have a pool of well-trained, involved and capable people, ready to step up at every level of the organization.

Challenge yourself to answer the following questions. If the answers disturb you, then write out the answer you'd like to have, and starting working towards it.

- What happens if I, or other key employees, don't come to work tomorrow?
- Can the company still function well
- Will it thrive or suffer
- Will people know what to do
- What happens to performance and productivity if an outsider enters the firm?
- Will they be properly introduced and accepted by the rest of the team, with minimum disruption to the flow of the business
- Will the company continue to thrive with competent people in place at every level?
- What will having competent people at every level contribute to the success of the business
- How might my ties to family members influence

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my ability to make the best decision on successors to key positions?

- If family members are to be included, what is the training program that will insure they are well prepared for the work they will be expected to do?
- What is my long-term vision for the company?
- Who in the firm is best suited, most prepared and most able to implement or support that vision?
- How broad is my toolkit of rewards, motivators, and other ways to bind key employees closer to the company?
- Remember last week I wrote about motivational drivers for different types of people – referring to that that will help inform solutions here, as well
- What would succession planning and continuity planning do to enhance my company's reputation as an exciting, talent-rich environment in which to work
- When I leave, will I get paid enough?

Why do most owners leave so much on the table when they exit? Often we dilute value of the company by focusing on tax minimization, rather than profit optimization. Lower profit = lower sale price. Whether you turn over the company to your children,

your employees, or someone outside, you should think of the transaction as a sale, and be prepared to conduct it in a business-like fashion.

When it comes to key employees, you need to think about how you will keep their interest focused on the success of your business. Outright gifts of business ownership can transfer tax-free, in small increments (\$10,000 to a child), and you get a one-time tax free transfer transaction upon your death. Double your tax options, if your spouse also owns a portion of your company stock portfolio and wants to give it up. And remember, you have to set it up now, while you are alive and kicking.

Define and publish your standard requirements for internal promotions of current employees. One of my rules for my employees is, don't come to me asking for a promotion, or job change of any kind, unless you have your replacement already lined up and trained. Expect employees to show some initiative and learn new job skills. Talk with each employee as to his or her personal goals. Reflect on how that matches with, or diverges from the company's long term goals. Talk about the opportunities that growth of the business enables. Challenge employees to prepare for future opportunities. Reward them by considering them when openings come up.

Lay the organization out on paper at its current size, and at twice the size. Look for the holes. Define how many people are ready to step up one to two levels. Identify what additional training they might need to be ready for the next level. Figure out what positions have no obvious incumbent, and where you will go to find those candidates.

Looking for a good book? Effective Succession Planning: Ensuring Leadership Continuity and Building Talent from Within by William J. Rothwell. It has a textbook price, and a lot of good advice.

Business owners regularly turn to Ask Andi and Strategy Leaders for advice on how to grow profitable, successful companies. They find what they need time after time. Specific advice is available at www.AskAndiBlog.com. Ask Andi is also published weekly in the Westchester and Fairfield County Business Journals and Hudson Valley Business. Written by Strategy Leaders President, Andi Gray, the Ask Andi column is a rich source of advice for owners of established, privately held businesses.

*If you are a business owner and you have a question or would like to discuss some aspect of your business, call **1.877.238.3535** or send an email to AskAndi@StrategyLeaders.com.*