



## **Succession Planning: So much more than a legal exercise**

At the heart of any organization is human capital: engaged and capable people focused on the corporate mission. These are the greatest assets of any enterprise and they serve as the foundation of growth, stability and sustainability. As with any structure, the foundation (in this case people) is the key to building a sustainable infrastructure. Studies indicate however that only 10% of businesses have a formal, well defined succession plan, 38% have an informal and unwritten concept and the remaining 52% have NO succession planning at all. So when we say succession planning; think not of a perfunctory transfer of ownership but moreover a conscious effort and sustained focus on developing leadership skills in your people.

Succession planning is invaluable as it preserves wealth, creates a sustainable infrastructure and preserves your legacy. The more subtle benefits are peace of mind, career pathing of key personnel, preservation of the company's primal knowledge, a more engaged workforce and an immediate uptick in empowerment, professional development and effectiveness. I have worked for many years as a mentor and coach to small businesses. Having worked with second and third generation companies in which a predetermined succession plan was lacking, I can assure you first hand that you do not want to leave your family or successor with an ambiguous or poorly developed succession plan.

Succession planning in today's business environment is particularly fraught with challenges due to:

- The sheer volume: Baby Boomers are preparing to transition trillions of dollars to the next generation
- An increasingly critical shortage of talent
- Previous economic downturns led to culling of talent workers, so internal resources are not as plentiful as in the past

There are three specific but closely aligned portions of a sound succession plan:

- Financial (how will I fund the transition? How do I capitalize on the organization which I've built, who are the key players and how do I transfer equity)
- Legal: what are the key attributes of the sale? How do I protect myself? How do I insure a smooth transference of equity that considers all contingencies and protects my successors?



- Organization & Human Capital: who is the successor(s)? Are they capable? What must I do to transfer the primal knowledge and ready them as leaders? How can I preserve the legacy I built?

Frankly the first two; financial and legal, are much more straight-forward than the human element. There are thousands of proformas, models and precedence for legal and financial instruments to structure the transition. Often times the solutions are a matter of research and careful planning. The organizational and human capital portion is a more fluid situation. This organizational development portion takes a great deal of time and effort and is much more difficult to sustain. Moreover, people are complicated and you must be nimble in administering your succession plan, and be prepared to adjust as needed. Finally, the human element of succession planning takes a great deal of time. It takes years to develop talent and prepare that successor to take your place. What happens if you target someone to be a prominent player in the succession plan, but they end up leaving?

There are several reasons I repeatedly see owners failing to develop a succession plan.

- The owner feels invulnerable, and fails to acknowledge that he/she need to begin in earnest in passing the torch
- Key stakeholders are not engaged in the process
- The owner does not wish to alienate family members and make the tough decisions, leaving it unattended
- The owner understands the importance of succession planning but has not prioritized it, and fails to conduct long term planning, so planning falls victim to the urgent.
- The strategic plan does not embody succession planning
- The owner has the “plan” in their head and has not committed it to writing or shared it with Key personnel

## **How to build a succession plan**

As with any effective plan, it must begin with the end in mind. You must determine the timing of the event itself, not that you necessarily intend to “retire” but you wish to maximize your options to do so. You then must define what that exit looks like. Are you packing your bags and heading to the Caribbean, spending time in an advisory capacity over a 3 or 5 year horizon, or facilitating a buyout over time? Whom do you expect to “carry the torch?” What does “carrying that torch” really look like? What happens if fate steps in and forces a premature succession? Few people plan for such a contingency, but the real possibility exists and in fact I have seen it first-hand several times. Very few entrepreneurs have established a firm “exit date”, leaving it as a nebulous, elusive date. Many see the date appear suddenly on the horizon, through sheer



fate or circumstance. If they are not prepared in advance, their options become quite limited, and often times their “exit” is the casualty as they are forced to delay the date.

Research indicates that clear objectives are critical to establishing effective succession planning. These objectives tend to be core to many or most companies that have well-established practices:

- Identify critical roles required for future leaders
- Benchmark those positions, and conduct a gap analysis
- Identify those with the potential to assume greater responsibility in the organization
- Provide critical development experiences to those that can move into key roles
- Establish recruitment to fill positions which do not have internal resources
- Engage the leadership in supporting the development of high-potential leaders
- Build a data base that can be used to make better staffing decisions for key jobs

Often times these additional objectives may be embedded in the succession process:

- Improve employee commitment and retention
- Career development of existing employees
- More rigorous and focus hiring practices

If you are an owner of an SMB business (\$3-\$15MM in sales annually) and your “retirement” horizon is 10 years or less, succession planning must be toward the top of the list of critical focus areas. Even if you are not approaching retirement, “succession planning” is critical if you wish to continue to improve your company.

What about larger organizations? Succession planning is still critically important and it takes on a broadly based, sustained focus on developing human capital. Although the type and extent of planning will be different, larger enterprises need to have some sort of succession plan. Effective succession planning supports organizational stability and sustainability. There is an awareness to develop a plan to manage the gaps that will arise when individuals in key positions leave or are promoted. The plan will generally include a combination of training and developing existing staff, and external recruitment.



Regardless of the size of the organization, the type of business or geographic scope, the common element in all successful succession planning is a commitment to the betterment of your people. Each person whom you expect to be a long term part of your organization must have a strong career path as well as a professional development plan. Coaching is your most valuable tool, so make sure your rising stars are receiving coaching and mentoring.

### **Fair Questions:**

So I came up with a few “fair questions” which will help define your succession readiness: You will note that the questions become quite specific as we approach our planned or perceived “exit date”

- 1) If you take a protracted vacation, do you still have the REAL need to remain involved in your business daily?
- 2) Is succession planning a specific initiative in your strategic plan?
- 3) Have you identified key personnel to whom the company will be transitioned?
- 4) Have you benchmarked key leadership competencies AND values required for successful leadership in your organization
- 5) Have you identified on an individual basis the leadership gaps of your team?
- 6) Are you focused on INDIVIDUAL developmental plans for those key persons?
- 7) And the big one: Are you really, REALLY ready, emotionally, to let go?

### **Now for the details...**

You have made the commitment and gotten past the emotional ties to the company. Let’s begin the process.

1. **Set the pace.** As the leader, you set the pace. The corporate vision and values, along with a clear future path and strategy must be incorporated into the very fabric of your organization. Your team must be committed to the betterment of their people. The company must embrace human capital and genuinely value their continued success. If this is not authentic, it will be seen as Machiavellian and appear rightfully shallow and self-serving. You must be an authentic leader if you want to set the pace and have people follow.

2. **Benchmark critical roles** required for future leaders.\* the future business climate requires certain skill sets beyond those presently needed. The velocity of change makes this inevitable. Your benchmark must incorporate a K.A.S.H. analysis (knowledge, attitudes, skills and habits) required for success in that particular role. Insure you have identified in particular those leadership skills required. It is important that you get this step right, as everything that follows will only be as valid as your first step. Get your stakeholders engaged in identifying the core attributes of leaders in your organization. Once you are confident you have adequately completed this step move on.
  
3. **Engage leadership** in supporting the development of high-potential leaders. Succession planning must be a fundamental cornerstone of the organization, transparency is better than secret agendas, and career pathing is critical. Your executive team must be integrally involved in the planning if you wish to maximize its impact. There must be a trickle-down effect that permeates the organization. Getting leadership involved in succession planning will lead to a more employee centric organization, a better alignment of values and a genuine regard for your #1 asset.
  
4. **Identify internal candidates** having the potential to assume greater responsibility. It is common to utilize a 9-box grid for this purpose. The 9-box grid is an individual assessment tool that evaluates both an employee's current contribution to the organization and his or her potential level of contribution to the organization. If used correctly it offers insight into those employees having leadership potential. From the 9 grid, you will create a short list of growth personnel.
  
5. **Conduct a gap analysis** matching the growth personnel with the benchmark. Use as many data points you can obtain. This can be done through the formal review process, independent assessments and interviewing, 360 surveys and others tools Your goal is to identify each attribute that is a strengths or weaknesses of the candidates using objective data points.

\* if you need help in this area, there are many firms who conduct competency modeling but you need not go to this expense if you have a qualified consultant assisting with the benchmarking



6. **Identify your best and brightest:** You either have the human capital internally or you need to go and find it. Depending on your culture, industry and market nuances, will dictate whether it is better to recruit external candidates. Given the difficulty in driving change and impacting culture you must decide the best route. No matter how attractive it may look, make sure you are not settling on the easy solution. Your Gap analysis must be rigorous and thorough. At this point you identify or obtain your future leaders.
7. **Invest in Human Capital. \***
  - I. Internal candidates: Develop a personal improvement plan (PIP) for each high potential candidate. Please note this is NOT the PIP you place poor performers on when they are failing. Those PIP's are reactive, last ditch efforts generally borne from a need to protect ourselves from litigation. A high potential PIP should be based on their gap analysis and is intended to be a roadmap to leverage strengths and mitigate weaknesses.
  - II. External candidates: Use the benchmark to identify good fit candidates, using an objective assessment to validate decisions. Use behavioral based interviewing, strong background checks and consensus decision making through the selection process. Using the Gap analysis, create a robust onboarding process combined with a strong PIP.

\* In either case above, a mentor should be assigned and coaching must take place regularly. The PIP should be reviewed regularly and honest two way communications is critical.

**8. Sustain the focus:** So, here is where the true challenge presents itself. Succession planning is vitally important but generally not urgent, thus as busy entrepreneurs we set succession planning aside so we can conduct the more urgent day to day job requirements. If we lack the focus we delay succession planning until indeed it becomes urgent. Now it is too late, so we rush it with fairly predictable results. You must incorporate Succession planning into the corporate strategic plan. It must be done early and often.

Define your company's vision of succession planning, and make it a critical corporate initiative.

To do this you must establish timelines and metrics to which you can hold yourself and your fellow leaders. Human capital (succession planning) must be a strategic focus to be successful. As the leader, who will focus on succession planning if not you?

**This is the reason Succession Planning is  
So much more than a legal exercise**



## About your author



Don Hahn is a franklin covey coach, certified in psychometric assessment tools, a sales trainer and business consultant. Don has worked with hundreds of businesses and thousands of sales professionals in creating change-ready organizations. As a leading talent manager, Don is a member of TTI's elite Chairman's circle and a chosen member of TTI's International Faculty.

Prior to founding Hahn Training in 2000, Don spent over 25 years in Fortune 500 firms, as a successful sales rep, and more recently as an executive sales leader in which he spearheaded channel development, marketing and sales operations for global sales enterprises of up to 1000 people.

Active in the community, Don is past president of the Buffalo Niagara Sales and Marketing Executives (BNSME) a board member of UB's Center for Entrepreneurial Leadership, an active member of The Buffalo Niagara Partnership, and former board member of the Amherst Chamber of commerce. An accomplished author and sought after speaker, Don delivers motivational programs on change management, talent development, sales and leadership.

Don has developed a leadership training program entitled CHAMP, teaching 5 key components of leadership, and oversees a sales and sales management institute in Buffalo NY. He has authored and established The Corporate Mind, a comprehensive Mastermind Group for entrepreneurs and leaders. Additionally, he has published "Keep it in the Fairway," a book and seminar series examining the connection between sales success and golf mastery.

Don lives in Buffalo with his wife of 38 years, Debby. His outside interests are golfing, reading, writing and gardening