<u>Planning a Successful Succession</u>

What would happen to your business if you got hit by a bus? Smaller companies may not have many managers with the skills and expertise to assume leadership roles at a moment's notice. That's why a solid succession plan is critical.

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By Louise Witt

Q: I own a small business that I'd like to pass along to my children when they're older. I know it's important for corporations to have succession plans, but how does a small business owner go about creating one?

A: Succession plans are essential for any business. Six hours after McDonald's CEO Jim Cantalupo suddenly died of an apparent heart attack last month, the fast-food giant's board of directors named his handpicked successor, Charlie Bell. By promoting Bell so quickly, the directors were able to give employees, franchise owners, vendors and investors a sense of continuity in the Big Mac purveyor's leadership.

Believe it or not, it may be even more important for a small business to have a succession plan than it is for a large company. Smaller companies may have fewer managers with the skills and expertise to assume leadership roles at a moment's notice. Bill Bliss, president of Bliss & Associates Inc., a consultancy in Wayne, N.J., asks business owners to envision how their death would affect their companies, their employees, and their families. "I ask them what would happen if they were hit by a bus," he says. If something unexpectedly happens to you and you haven't designated a successor, your company's very survival may be in jeopardy. A succession plan also takes into consideration your eventual retirement. An effective succession plan names an immediate successor if you die or are disabled and sets up a process for your children or a chosen manager to assume control of your company years from now.

To ensure an orderly transition, make a succession plan an integral part of your overall business plan. The first step is to determine what type of a manager you will need to lead your company in five or 10 years. Chances are that your company will be much different in the future, so you may need to find a leader who has different skills, talents, and experiences than you do. A seasoned executive may be required to grow the company. "This process takes courage on the owner's part," says Bill Mendez, a SCORE business counselor in Santa Fe, N.M. and a retired human resources manager.

If you don't have someone in your company ready to assume control of your business, then you'll have to hire someone. The sooner you do this the better. That's because it'll give you time to train that person. Your board of directors, or the other stakeholders in your company, may be able to help you find the right successor. They probably know managers in similar businesses. Or you could hire an executive recruiter to find the right manager. Even if you don't want to hire someone immediately, Mendez says it's a good idea to form a relationship with an executive recruiter and tell her what qualities you are looking for in your successor. In case you suddenly die or are disabled, your directors can call the recruiter and check out her candidates.

Naming a successor can be more complicated with family-owned businesses, says Fredda Herz Brown, founder and managing partner of Metropolitan Group, a Cresskill, N.J.-based consulting company that works with family-owned and closely held businesses. Brown says you should start thinking about your succession plan eight to 10 years before you plan to retire. That way you can begin training and grooming your children for leadership roles in your company.

If you want your children to take over your business in the future, your succession plan will have to spell out not only who will be your immediate successor, but also your subsequent ones. You may want your successor to mentor your children for a period until they're ready to assume leadership roles. This should all be spelled out in your succession plan, so there are no surprises.

A sensible succession plan should take into consideration that those employees, or family members, who are passed over may leave the company. If you don't want to lose those employees, you should create incentives for them to stay. That may mean giving them more responsibilities or more compensation.

Once you have a succession plan, write it down and share it with those who may have the responsible for carrying it out one day: directors, stakeholders, or family members. You also want to make sure that your employees, vendors, and other business partners know that you have a succession plan in place. That way, if something happens to you, everyone can be confident that your company will survive.

Brown advises people to keep the plan locked in a safe and read it within 24 hours after the owner's death or disability. "People appreciate details as soon as possible," she says.

In the meantime, you can take steps to ensure a smooth transition. To prepare for the loss of a key executive, build in redundancies. That way if you or one of your top managers dies or is disabled, someone else at the company is prepared to take on those responsibilities. Encourage your employees to learn other jobs. Brown also encourages her clients to go through a "fire drill" to make sure they know how to execute the succession plan

Remember, a succession plan is way to ensure that all your hard work lives on.

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