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Succession planning isn't just for big companies

Brad Cherniak | 11/18/13 7:40 AM ET

Fotolia Succession planning comes down to this: Are more general, innate skills critical to the leadership of your company, or are more situation-specific skills?

Most owners of small to medium-sized businesses and their senior managers give little consideration to succession planning. In fact, it is often considered synonymous with exiting. And while these two phenomena are related and can overlap, they are not the same thing.

Succession planning has many nuances separate and distinct from exit planning that are more critical to strategic planning than most realize, and go well beyond the chief executive or president.

Succession planning comes down to this: Are more general, innate skills critical to the leadership of your company, or are more situation-specific skills?

Core general, innate skills include: self-confidence; poise under pressure; empathy; analytical ability; ability to listen and project strength of character with a human touch; and ability to motivate people and establish and develop relationships.

However, the critical situation-specific skills required vary depending on the stage of development the company is in.

In startup or early stage companies the skills needed include the ability to handle varied and multiple tasks in a resource-constrained environment; strong drive and self-confidence at this stage, as most of the bucks stop with you. If you play hooky on a given day, the world stops for the company.

At the growth stage, a leader needs to be able to build teams, and define and divide responsibilities; have sales and business development skills while the business ramps and the team is still in formation; and an ability to communicate with key stakeholders of widely varying levels of sophistication.

Whereas, running a mature stage company requires an ability to manage teams, incorporate outside professional or technical services into the process, delegate responsibilities and evaluate people and performance; an ability to function as a smaller cog in a larger machine; ability to manage agendas, oversee processes and drive the vision underpinning them, while accepting that the world no longer revolves around you.

Serial entrepreneur, Barry Wood, contends that these two skill sets are not an either/or proposition. The senior team, he says, must have the core, innate skill set as a starting point, then develop the situation-specific skills as required, or be replaced by someone who can, or who has them.

This is where proper corporate governance comes into play. Owner-operated businesses tend to be run by the same person from start to finish. The presumption is they will be able to evolve with the times. But if not, it could hold back the performance of the company, reducing the returns for its owners.

If your company has a board of directors or a formal advisory board, they should regularly be asking the broader question of whether you as the CEO, and each member of your senior team, are the right persons for the task.

This can be tricky if the leader or leaders are also large shareholders. But, in cases where the financial ownership and management of the company are largely separate and distinct, the board has a fiduciary duty to make this assessment.

Not only that, but they are really the only body in the position to do so. Maximizing shareholder value is their primary purpose. Yet, boards seem reluctant to tackle the thorny issue of executive succession proactively.

Succession planning should also be linked to your strategic planning. Entrepreneurs and business managers' energy, creativity and effectiveness often follow an arc pattern. The people that are successes at the moment are great matches with the circumstances — but as things change, they can become intellectually tired and even risk-averse.

The arc may also be caused by changing company circumstances — as it grows and evolves, people can be pulled out of their comfort zones.

In essence, the link between strategic planning and succession planning amounts to co-ordinating the arcs of the business (startup, ramp-up, growth, consolidation, renewed growth, maturity) with those of the people running it.

That is best done by matching of roles and personal objectives with historical personal accomplishments; detailed assessments of senior employees' skills, and analysis of gaps relating to the organization's evolving strategic needs; formal performance assessments of all senior managers, with the president/CEO's performed by the board of directors or a sub-committee of the board; and close monitoring of performance against the agreed-to strategic plan objectives and related key performance metrics.

To be fair, switching out key team members can be risky and should be done carefully.

For Wood, that is best done through formal, written and regularly updated strategic plans, developed by company leadership, discussed with and approved by the board of directors, as well as regular, formal performance reviews are the important foundational elements to link strategic and succession planning.

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