Finance New Mexico

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Succession Planning Should Begin Well Before Owner Exits

By Finance New Mexico

Many small-business owners fantasize about what they'll do when they retire, but most are too preoccupied with day-to-day survival to devote the same attention to what will become of the business once they're gone.

Some expect to sell their business or take it public; others assume it'll stay in the family if an heir or relative shows interest and aptitude.

To protect their interests, small-business owners need an exit strategy that includes a well-conceived succession plan that also accounts for unexpected events, such as disability, financial collapse or death.

Investing in a retirement plan and purchasing life and disability insurance can protect against the unpredictable; a succession plan, on the other hand, allows the business to set its course with fresh leadership and specific goals.

Large corporations typically hire consultants to help them navigate leadership transitions. Their suggestions apply just as well to the owners of small businesses.

Involve all interested parties: Depending on the business structure, stakeholders might include a board of directors, partners or family members. The business owner should invite all to participate in developing a profile of the ideal successor — specifically the skills, personal qualities and experience he or she should have. What emerges is an objective blueprint that can be used to evaluate potential candidates.

Look inside first: The best future leader of the company might already be drawing a paycheck there or occupy a top-tier position with lots of responsibility. All potential talent should be measured against the consensus profile, and the owner should identify those who could lead right away if necessary and those who need grooming to be ready for leadership. The owner might begin mentoring a top candidate and test how he or she performs critical duties and responds to real-world challenges. Doing so allows the owner to decide early whether the company needs to conduct an external search.

On-the-job training: No matter where the company finds its next generation of leadership, the new boss needs time to adjust to the role. For a small company, this could involve shadowing the outgoing owner for a specific period, but a larger company might create a team to coach the new leader. A newcomer needs time to make — and recover from — mistakes and misjudgments before the safety net disappears.

All in the family: A son, daughter or other relative might lack the knowledge and commitment to sustain or grow a family-owned company once the original owner retires, which is why family members need to be judged by the same yardstick a business would use with any other potential candidate.

If the former owner expects the business to be a source of retirement income, the new owner needs the drive and passion to keep it profitable.

For this reason, many businesses hire an outside consultant to ensure that succession decisions aren't based on emotional attachments and relationship entanglements.

Whether the business handles succession in-house or hires a pro, the results are better when all stakeholders are engaged in envisioning and shaping the business's future.

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