

Will Your Business Survive Succession?

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In a study by Wharton Business School of 200 privately held companies from 1924 – 1984, only 20% survived at all. This includes the sale of companies to outsiders. It has also been reported that over 70% of family businesses fail in the attempt to pass the business from the first generation to the second. Faced with these odds, what can be done to increase the probability of success in business succession?

Many typical business pitfalls can lead to business failure before, during, or after transferring leadership and/or ownership. Markets and technology change, competitors change the “rules of the game” or copy the company’s competitive advantage, and product/services life cycles mature creating a need for change that is left unmet. In addition to normal threats to survival, privately held companies face unique challenges in succession. They may lack financial capability or staff skills in such things as marketing, finance, or competitive strategy. Others find that a lack of management depth or skills causes it to fail. In family business succession, often the family itself becomes a stumbling block to success. But the primary reason privately held businesses fail to survive business succession appears to be a lack of planning a successful path for the company’s future and leadership transition.

As many business owners in their 50’s and 60’s approach retirement or the desire for more free time to pursue other interests, the time for action is now. My years of assisting privately held businesses with succession has left me with one clear message: **succession is a process, not an event.**

Following is an outline of some key components of this process.

Determine an exit strategy

First, an evaluation of the pros and cons of various exit options must be performed and a selection made of the one that best fits the owner’s objectives: i.e. sell, liquidate, go public, groom a new leader (whether family or non-family). If the owner wants his or her legacy to live on, a commitment to the rest of the process is critical.

Define a success model

Next, competencies you desire in a successor must be identified by clarifying the mission, critical success factors, values, and leadership traits.

Assess the team

The next step is to determine who, if anyone, in the company has the potential to move into the leader role. At American Business Advisors we use our comprehensive Leadership Style Assessment SM to help in this evaluation.

Develop competencies

A skill development track should be established for each person who desires to be considered for the role as the new president. This may include a focus on specific weaknesses such as marketing, sales, finance, or management; or it may include the need to obtain an MBA.

Select a leader

When ready, a search for an appropriate leader should be undertaken. This search should include interested candidates from inside and outside the company.

Prepare a succession plan

Based on the leadership styles of the new and old leaders, a plan should be written to facilitate a smoother transition of leadership responsibilities and authority. This helps each person understand his or her role while passing the baton. It also helps the organization prepare for and accept the new leader.

Establish incentive compensation plan

To accomplish the desired results, an effective financial incentive compensation plan must be designed with the right motivations.

Provide executive coaches

Coaches can come from inside or outside the company. Many successful small and mid-size companies use a combination of both the prior leader and a coach from outside the company to facilitate a successful succession.

Facilitate feedback

Using 360-degree surveys and effective management reports measure outcomes and compare them to actual results. This facilitates ongoing development of the leader and is a very important key to success.

There are no quick fixes. If the owner wants his or her business legacy to live on, approaching succession as a process instead of an event is imperative. It doesn't guarantee success, but it does significantly increase the probability of it.

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