HOUSTON BUSINESS JOURNAL
Strictly Houston. Strictly Business.

Week of October 12-18, 2007

Succession planning — valuable strategy or unnecessary distraction?

BUILDING BUSINESS

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A brilliant entrepreneur builds a privately held company into a powerhouse over a number of years of blood, sweat and tears.

Growth has been financed by a combination of bank financing and internally generated cash flow.

The founder has taken a modest salary and bonuses through the years to enable the growth without bringing in equity investors and has maintained a modest lifestyle.

The company has an important position in a growing market with a significant market share. It's highly regarded by customers and competitors, has a great culture, a solid business strategy and wonderful prospects for growth.

The founder has been at this game for years, and is finally ready to slow down, capitalize on the years of investment in the business, spend time with family, travel, play golf and hunt and fish.

But there is one big problem. The founder has viewed succession planning as an unnecessary distraction. He has resisted having a process and has therefore failed to develop a management team capable of running the business.

Now he can't seem to find a buyer willing to pay full value for the business without him having to sign a five-year employment contract to stay on as CEO.

Sound familiar?

If managed properly, succession can be a strategic asset and actually enhance the value of the company. So, how should the issue of succession be addressed? Here are the steps:

• Confront the issue early.

Addressing the issue of succession early in the evolution of a company can mean the difference between the founder achieving his or her ultimate goals or not. Like many other issues faced by owners of private businesses, the conversation about CEO succession is one that rarely seems convenient.

For succession planning to be of strategic value, the optimum time to begin is when a change in leadership is not imminent. Imminence leads to fast decisions, and speed can be an enemy to effective succession planning. This is an area where methodical planning, training and development are critical to a successful outcome.

• Choose the right people.

Once CEO succession becomes a live conversation, the starting point for developing a successful plan is selecting the right people to participate. Identify the right people for the job with the right education, experience, skills and mindset. Be mindful that birthright alone should not qualify someone for the critical leadership role of CEO. Similarly, longevity with the company by itself should not entitle someone to be included as part of a CEO succession plan. The founder and board must develop clear objectives and subjective criteria for the job, identify those people in the company who have the qualifications, experience, character and commitment to meet those criteria and enroll those candidates in the succession plan.

One important word of warning here — be careful not to create unnecessary competition between candidates for the job. If that occurs, the succession plan can potentially disrupt relationships, create discontinuity and produce more damage than value for the organization.

• Distinguish between management and leadership succession.

An important distinction in developing a strategic succession plan is to distinguish between management succession and leadership succession. In transitioning management responsibility from the founder, it may well serve the interests of the company to explore dividing certain responsibilities among more than one member of the senior management team. The management team needs to be developed over time to run the business and drive the strategic initiatives of the company. This can be accomplished in many ways, so the succession plan should explore different ways of addressing allocation of management responsibilities.

Responsibility for senior leadership, on the other hand, must reside with the CEO. The successor CEO must be a strong leader capable of carrying out the mission and strategies of the company, consistent with the company's values. In selecting candidates for successor CEO, nothing is more important than leadership competence.

• Develop clear training initiatives.

To develop a successor, the CEO and the board should design a leadership development program. The program should incorporate all aspects of leadership, including financial, operational, social and strategic aspects of the business and the organization. CEO candidates who embrace the training program will more likely build competence in these critical areas and provide the better opportunity for the incumbent CEO to exit the business on his own terms.

• Accelerate decisions and implement change.

A difficult challenge facing a founder is to time the transition of responsibility for management and leadership to a successor. To maximize value in an exit, the smart founder will begin to assign accountabilities to the successor at least 12 to 24 months prior to a planned transaction. Why? A buyer needs to have comfort that the new CEO has the skills to effectively run the business and has the support of the team. A demonstrated track record of success on the part of the successor CEO will maximize the value of the business for the founder.

Follow these steps and succession becomes a strategic asset and not an unnecessary distraction.

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