

Leadership Succession: Does Your Company Have a Plan?



By Paula Santonocito

If your company is a privately held business and you don't have a formal succession plan you're not alone. Research conducted by the Canadian Financial Executives Research Foundation (CFERF) for business advisory firm Grant Thornton finds only 40 percent of Canadian companies have a clear plan in place—which means a majority does not.

HR and other business leaders recognize the importance of strategic talent management, and routinely focus on recruiting, hiring, developing, and retaining top talent. Yet, long-range planning typically doesn't include the company's most important job: the top position.

Facing the Future

The reasons for lack of planning include emotional attachment on the part of leadership, says John Harris, national leader of Privately Held Business for Grant Thornton and a specialist in succession planning.

Company presidents are reluctant to share goals and objectives with various stakeholders and keep their cards close to their chest, he explains. They are also focused on the day-to-business instead of long-term vision.

Nevertheless, Harris tells *HR Insider* that succession planning is critical to a company's ongoing success, and it's necessary to have a plan in place.

So how does a company create and then implement a succession plan?

"It's important to first establish what your goals and objectives are; establish the value of your company; identify who the potential successors are or could be; and then structure a plan and execute," Harris says.

And the earlier the better. The biggest mistake companies make is they don't start early enough, according to Harris. Often an event will trigger succession planning. Instead, it should be a methodical process. "In a lot of ways, succession planning should start at the very beginning," Harris says.

But why invest the time in what could turn out to be extremely long-range planning,

especially if the business is running smoothly now? Because life happens. Or, as Harris puts it, someone can get hit by the infamous bus.

Finding a Leader

Grant Thornton recommends identifying multiple possible successors. "When identifying leaders, you're not going to know if it's going to be the right fit," Harris says.

And even if a person is a good fit now, his or her goals and objectives may change.

When identifying potential successors, Harris recommends looking for well-rounded individuals. A candidate should have an appropriate educational background and understand the industry, he says. The person should also be a people person who can help form culture and motivate people to succeed. Finally, a candidate needs to be a leader, with the ability to really get everyone on the same team.

With these criteria in mind, it's important to establish whether you are able to cultivate talent within the organization or if you have to look outside. Harris tells *HR Insider* that, in privately held businesses, over 30 percent of the time a family member will ultimately take over leadership.

However, he points out that this assumption can present problems. The right skill set should still be in place, and skills development may be required. In addition, there can be emotional discomfort when one family member gets the top job, particularly if there are multiple siblings.

To avoid conflict, and a poor leadership choice, Grant Thornton recommends that the succession planning process at a privately run company be the same as one at a publicly run company, where the focus is on leadership capability and not personal and emotional ties or a sense of entitlement.

Likewise, just as a public company's succession plan includes remuneration and related issues, a succession plan for a privately held company should address compensation.

Grant Thornton recommends that an effective compensation plan for the future leader ensure that remuneration is market-based; annual performance reviews are conducted; bonuses are based on objective performance criteria; employment rewards are separated from ownership rewards; and job descriptions or service contracts are in place for all company executives.

Communication and Successful Succession

When it comes to succession planning, communication is essential from the onset.

In a privately held business, the current leader is often the person who started the company. If the owner has been very successful and thinks he or she is still relevant there may be reluctance to disclose goals and objectives. In addition, there may be control issues; an entrepreneur often started the business because he or she didn't want to answer to anyone.

According to Harris, whatever the reason, this potential obstacle must be overcome. And it's not only the succession planning team who should be privy to information. "I think it's important that the goals and objectives are clearly communicated to all stakeholders," Harris says.

Stakeholders are defined as members of the management team, including HR; members of the customer team; suppliers (to ensure trust and comfort); financial planning

professionals; and any appropriate family members.

A common mistake in succession planning is that leaders don't get the right people involved, Harris says.

People also underestimate the time and effort required. Because a leader and the leadership team at a privately held company typically only go through the process once, it can be difficult to know when and where to start.

"Like everything else, you need to have a clear plan in place," Harris says—and, if you can chart it out very early, you will increase the likelihood of a smooth transition.