# How to Prepare a Successor

***Passing the baton effectively to ensure continuity and continued profitability.***

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# Passing the Baton

Bob's story was like that of many successful business owners. After graduation, he worked for several companies in a variety of positions, but was never satisfied in his jobs. Ultimately, he started working for himself and grew his business over the next years, adding more and more people, and becoming more and more profitable.

Of course, growth came with its share of challenges - new competition, swings in the economy, and changing technology. Nevertheless, Bob worked hard at overcoming them and weathered the shifting winds of business. There's a certain satisfaction in prevailing over adversity.

As his children grew up, Bob imagined that he would someday pass his company on to his son. So after his son, John, finished college, Bob put him to work so he could begin learning the business. For the first several years, he had his son work in production, learning how the company's products were made. John seemed to have a natural talent for the work and enjoyed it as well.

After Bob felt his son had a good grasp of production, he continued to groom him by moving him into each of the departments within the company. Over the ensuing years, John worked in service, sales, and administration. Bob felt John was well-prepared to take over the company.

When Bob was ready to retire, he worked with his exit planner, CPA, financial advisor and attorney to value his company and structure the buyout by his son. He wanted to get a fair value for his business, but didn't want to burden his son with payments he couldn't afford. Once everything was in place, Bob retired and John took over.

At first, everything was great and the business continued to run smoothly. But then, to Bob's surprise, his Director of Production quit. The best Bob could piece together was that the director and John has a falling out. John said that he and the director had a difference of opinion and that John had to "put his foot down". Bob was disappointed, but John had a plan to fill the leadership void, so he supported his son's decision.

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The next challenge came when John decided to raise prices across the board.  He felt their products were superior to the competition and they warranted higher prices.  But instead of seeing a steady climb in revenues and profits, the company saw a decline in both.  In response to the unexpected results, John began running promotions and discounts.  Although revenues started to rebound, profits continued to erode.

In an effort to grow the company and establish it as a leader in the marketplace, John decided to introduce a new product line - one that was somewhat related to their core business but definitely different.  It required the acquisition of some new equipment, additional employees, and the creation of new marketing materials.  Unfortunately, the results were mediocre and cost the company a fair amount of money.

The consequence of all these changes was a drop in profitability and a drop in cash flow.  No matter what John tried, results remained poor.  As a result, John couldn't continue to make the payments to his father.

After about two and a half years, Bob had no choice but to come out of retirement, take back the company and go back to running it.  Although he eventually sold it to an outside party, its value was significantly less than it was when Bob first retired.

This scenario could have been avoided had his son, John, been effectively groomed to lead the company. Although John had mastered the mechanics of the business, his leadership skills, strategic thinking and business judgement hadn't been developed. Additionally, he wasn't the best communicator and hadn't learned how to influence people.

Since his judgment hadn't been developed, John took unnecessary risks and consequently jeopardized the company.  Because his strategic thinking hadn't been developed he, reacted to the symptoms he saw, rather than identifying the underlying problems, which caused him to choose courses of action that created additional problems.

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# The Realities about Succession

There are many reasons a business owner decides to sell his or her company to a family member or key employee. It may be to ensure the continuation of the business that took so much time and effort to build.  It may be to leave a legacy or to ensure the financial future of a son or daughter.  It may be to reward a loyal key employee and ensure the continued employment of the people who work for the company.  Or it may be that an outside buyer could not be found for the company.  Regardless of the motivation for selling a business to that family member or key employee, there are two realities that must be considered.

The first reality is that in almost every case, the successor will not have the cash to pay you for the value of the company in a lump sum.  Therefore, payments are made over time from future cash flow and profits.

The second reality is that the company's ability to service that debt relies on the successor effectively leading the company.  Generally, the successor has a firm grasp of the business - in other words, they know how to deliver the products and services of the business.  But that business knowledge by itself is insufficient to ensure success.

There are additional critical competencies that a successor must master in order to succeed. Unfortunately, in the majority of succession cases, those competencies aren't developed and the business suffers as a result. This reality is evidenced by an astonishing statistic.

***Studies show that 70% of all successions fail!***

***The main reason for these failures was that the successor was poorly prepared to take the reins of the company.***

***This guide offers insights and suggestions to maximize the likelihood of success.***

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# Essential Successor Competencies

There are 35 traits, competencies, and behaviors that are essential for a successor's effectiveness. These 35 competencies are distributed among 4 domains: **Character Traits**, **Interpersonal Competencies**, **Strategy and Buy-In**, and **Judgment and Decision Making**.

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# Essential Successor Competencies

**CHARACTER TRAITS**

A leader's character plays a large role in bringing out the best in people.  Character is established by clarifying and honing the values and behaviors that matter, and then acting in a manner consistent with those values and behaviors.  These are the character traits that impact effectiveness as a leader:

- **INTEGRITY:** Acts in a consistent, principled manner and demonstrates high standards of ethics and fairness.  Follows through on commitments and takes responsibility for performance.
- **EMPATHY:** Empathizes with the feelings, needs and concerns of others.  Is able to define, understand, and react to the concerns and needs that underlie people's emotional responses and reactions.
- **ATTITUDE:** Maintains a positive attitude regardless of circumstances or challenges.
- **EMOTIONAL CONTROL:** Maintains a professional and respectful attitude when handling adverse or stressful situations.
- **FLEXIBILITY AND ADAPTABILITY:** Displays flexibility toward organizational change.  Adapts rapidly in response to changing conditions and unexpected difficulties. Is willing to compromise.
- **SELF-CONFIDENCE:** Demonstrates an appropriate level of confidence.  Is not overly confident.
- **SERVICE MOTIVATION:** Actions and decisions reflect a spirit of service.  Responds effectively to internal and external customer needs.
- **APPRECIATIVE:** Regularly expresses genuine appreciation for efforts put forth and sacrifices made.
- **RECEPTIVE:** Values what others have to say and treats them like people rather than like things.
- **HUMILITY:** Displays an appropriate level of authority without being arrogant.
- **EXECUTIVE PRESENCE:** Displays poise, authenticity and confidence in difficult situations Commands respect from colleagues.

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# Essential Successor Competencies

**INTERPERSONAL COMPETENCIES**

The manner in which a leader interacts with people also plays a large part in bringing out the best in people. These competencies affect a leader's ability to influence people and they determine the level of response elicited. These are the interpersonal competencies that impact effectiveness as a leader:

- **OPEN COMMUNICATION:** Fosters open communication and dialogue. Seeks to understand others' points of view and values what others have to say.
- **EFFECTIVE COMMUNICATION:** Communicates clearly and effectively to ensure messages are well-received and clear, choosing words carefully to avoid misunderstandings and ambiguities.
- **TEAMWORK AND COLLABORATION:** Develops and sustains collaborative working relationships to achieve organizational goals.
- **CONFLICT RESOLUTION:** Uncovers and resolves conflicts and disagreements in a positive and constructive manner. Helps people to reach agreement.
- **AUTONOMY:** Allows people the freedom to accomplish tasks as they fit. Doesn't micromanage.
- **DELEGATION:** Develops others by assigning responsibilities and allowing appropriate autonomy.
- **COACHING AND MENTORING:** Helps others improve performance through coaching and mentoring.
- **PROFESSIONAL GROWTH:** Provides opportunities for others to grow professionally.

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# Essential Successor Competencies

**STRATEGY AND BUY-IN**

An effective leader must be a good strategist and have the ability to gain buy-in for his or her ideas, strategies, and plans. By learning think strategically and becoming influential within the organization, a leader becomes more successful. These are the strategic competencies that impact effectiveness as a leader:

- **INFLUENCE:** Creates support and buy-in for ideas and strategies in order to achieve desired results.
- **INSPIRATIONAL VISION:** Has the ability to develop a vision of the future that is unique and strategic. Has the ability to help others understand the organization's direction and inspires them to take action.
- **STRATEGIC THINKING:** Understands the difference among strategies, tactics, and goals. Identifies, creates and leverages ideas for long-term success, consistent with the organization's vision and goals.
- **PRESENTATION SKILLS:** Has the ability to present information effectively to a group of people.
- **EXTERNAL AWARENESS:** Stays up to date on the economic, political and social trends that affect the organization. Maintains awareness of the competition.
- **CREATIVITY AND INNOVATION:** Approaches challenges and problems in original ways, developing and applying innovative solutions. Encourages creative thinking and innovation, while appropriately allowing mistakes.
- **PROBLEM IDENTIFICATION:** Knows how to identify a problem, and distinguishes between problems and symptoms.
- **STORY-TELLING:** Has the ability to make a point by using stories to paint a picture and evoke emotion.

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# Essential Successor Competencies

**JUDGMENT AND DECISION MAKING**

An effective leader must have sound judgment and make good decisions. These are gained through experience, making mistakes, and getting outside perspective. These are the judgment and decision-making competencies that impact effectiveness as a leader:

- **JUDGMENT:** Displays sound judgment after evaluating all available information and options.
- **DECISION MAKING:** Is able to make well thought out decisions in the face of uncertainty. Avoids making impulsive decisions.
- **BUSINESS SAVVY:** Has a good business mind and thinks broadly.
- **BIG PICTURE THINKING:** Considers the impact of decisions on all aspects of the business.
- **RISK AND REWARD:** Balances risk and reward, avoiding unnecessary risks or risks that are too great.
- **PERSPECTIVE:** Seeks outside perspective and opinion before making important decisions.
- **FORESIGHT:** Foresees all possible outcomes in order to make the best decision.
- **MISTAKES:** Learns from mistakes and improves judgment in order to avoid repeating them.

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# Behaviors to Stop

There are certain behaviors a successor may exhibit that can be tolerated while he or she is an employee, but if continued, will act to undermine their success as they move into the role of Owner.

**A. Stop managing.**

A successor is generally accomplished at "getting the job done". But managing work flow is not leading. To be successful as an owner, a successor must stop managing and learn to lead in order to inspire people and to get the work done through others.

**B. Stop focusing on tactics.**

As a manager, the focus is on making things happen. But, in order to lead a company, an owner must learn to think strategically in order to address problems and opportunities.

**C. Stop thinking like an employee.**

Successors generally have spent their entire career as an employee. But owners and employees think differently about business. For example, owners are proactive, while employees are generally reactive. Owners think strategically, but employees usually think tactically. And owners set the culture, while employees follow the culture.

**D. Stop relying on the owner for their blessing.**

A successful successor must develop a reasonably good level of self-confidence in order to succeed. They must develop to a point where they no longer need to look to the owner for approval.

**E. Stop feelings of entitlement.**

In order for a successor to be an effective leader, they must release any feelings of entitlement and earn their position as leader in the eyes of the company. They achieve that by earning the trust and respect of those around him or her.

**F. Stop being reactive.**

Managers and employees tend to be reactive. They respond to events around them. Owners and leaders on the other hand, must learn to be proactive in order to minimize risk and maximize potential.

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## Behaviors to Develop

There are certain behaviors a successor must start and/or develop in order to effectively lead an organization into the future.

**A. Develop foresight.**

Successful owners nurture the ability to envision a better, bigger and/or more profitable future for the company. They anticipate changes in the market and proactively prepare their company to respond to them.

**B. Develop the ability to distinguish between problems and symptoms.**

Successful owners take the time to understand an underlying problem and don't simply react to the symptoms that the problem creates. Once the problem is identified, they develop a sound strategy to address it and inspire the company to execute it.

**C. Develop the ability to persuade and get buy-in for ideas.**

Commanding people to do something achieves compliance. But commitment and compliance are very different and produce very different results. A leader who masters the art of persuasion always gets better results.

**D. Develop executive presence.**

An effective leader has the ability to project mature self-confidence, a sense of being able to take control of difficult situations, and the ability to make tough decisions. Having a solid executive presence instills confidence, builds trust and earns respect.

**E. Develop the ability to earn trust and respect.**

People respond more strongly to a leader they trust and respect. Trust is earned through having integrity in one's actions and by living one's values. Respect is earned by showing respect to and valuing others. An effective leader has integrity and shows respect for others.

**F. Develop external awareness.**

A successful owner must be aware of circumstances outside of the company. He or she must become aware of trends in the industry, the marketplace, and the competition.

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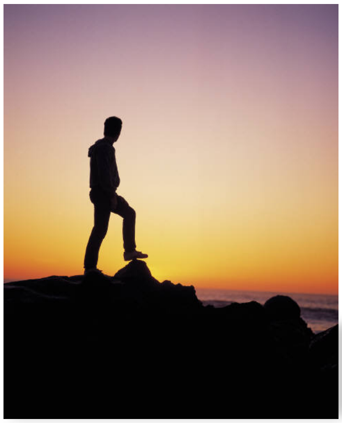
# Minimize Owner Dependence



Even if a successor has developed strong leadership competencies and has stopped any behaviors that would undermine their success, they are doomed to fail if he or she is still dependent on the owner. Here are strategies that can be used to reduce/eliminate a successor's dependence on the owner.

**A. Let the successor make decisions and possibly fail.**

If a successor's decision-making abilities aren't developed, they'll tend to have poor judgment, a flawed thought process, and will be unable to recover from a failure. Start allowing the successor to make decisions and make mistakes so they can correct their thinking, improve their judgment, and boost their self-confidence.

**B. Share mistakes and the lessons learned.**

In order to develop a successor's judgment and thinking, it's important for the owner to impart his or her wisdom by sharing past mistakes and lessons learned over the years. Not all the lessons learned are self-evident, so by sharing stories, it will keep the successor from making those same mistakes.

**C. Reinforce the importance of culture.**

A good deal of a company's success relies on its culture. Culture is made up of the values and behaviors an organization is known for. A strong, positive culture will cause a strategy to be executed more effectively and will produces better results. A successful successor appreciates the existing culture and will work to strengthen it rather than to change or undermine it.

**D. Develop a successor's vision for the future.**

Keeping things running smoothly is the job of a manager. A leader, on the other hand, needs to be able to take the company into the future. The only way to accomplish that is by envisioning a company different than the one that exists today. Help the successor to start thinking about the future of the company and envisioning a bigger, more profitable future.

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# Implementation

Developing a successor is a serious undertaking. The process is developmental and occurs over time. There is no such thing as "leadership training". You can't give someone a book on leadership or send them to a leadership workshop and expect them to become a better leader and a successful owner.

Additionally, each successor has their own unique set of strengths and weaknesses. Some are natural leaders, others aren't. Some easily step into the role of owner, others don't. Some have good business judgment, while others still need to develop it. And some successors are ready to take the reins right now, while others need coaching and mentoring.

The truth is that's it's nearly impossible for an owner to develop his or her own successor. It's difficult because of interpersonal dynamics, blind spots, lack of objectivity, time constraints, and skill set. In order to effectively develop someone, it is essential to bring in outside expertise. The risk of handing your company over to a poorly prepared successor is too great to leave their development unfinished.

***Here are the three cornerstones of effective successor development:***

1. **ASSESSMENT:** An objective leadership assessment is required to determine their specific strengths and weaknesses. (People are notoriously poor at self-assessment.)

2. **COACHING:** Provide 6-12 months of one-on-one executive coaching to improve the successor's leadership effectiveness. An executive coach offers outside perspective and an unbiased sounding board. Utilizing the expertise of an experienced executive coach is the perfect solution for grooming a successor to take the reins and succeed0.

3. **MENTORING:** Provide 1-3 years of mentoring by the owner to develop their judgment and decision-making skills.

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## About Eliciting Excellence

Eliciting Excellence, headquartered in Portland, OR, USA, is passionate about developing successors and preparing them to successfully run a company. Our nationwide team of experienced executive coaches is committed to helping leaders and companies bring out the best in people and improve the bottom line.

Let us help you prepare your successor to be an effective leader and a successful owner. We offer leadership assessments and executive coaching - all designed to help successors succeed and owners get paid. In addition, we work with owners to strategize on how they can best mentor their successor. Please call us to discuss your specific situation.

**ELICITING EXCELLENCE**

*"Helping successors succeed*
*and owners get paid"* ™

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