

Developing a Succession Plan

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Published Jan. 3, 2012

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Continuing a business beyond one generation of leaders requires planning. Whether through private shares transferred to a senior manager, or a leadership transfer to family members, a succession plan smoothes the way for continued business success.

Don't shy away from succession planning because it looks too far in to the future. Devising a formal plan that outlines who will own and operate the company, once you are not in the day-to-day role, is a critical path decision that has a direct impact on long-term business profitability.

Unfortunately, succession planning is not an exact science. There simply isn't one approach that's right for every situation. However, many business owners will focus on the following five steps.

1. Choose Your Successor

It's difficult to choose a successor for your own job. And, you don't wake up one morning knowing that a particular manager or family member will be suited to picking up where you leave off. Rather, this is an intensive effort that calls for an examination of all employees, who potentially have skill and ability to lead the company. If you have difficulty narrowing the field, you may want to seek the advice of your board of directors or that of a search committee you assemble to help you select a successor. These two approaches can help take some of the emotion out of this decision and can add objectivity to the process. Experts generally estimate that succession planning should begin 15 years before you intend to retire. This way you have time to oversee your successor as he or she learns the business and hones his or her skills.

2. Develop a Formal Training Plan for Your Successor

To develop a successful training program for your successor, identify the critical functions of the company. Then, it's a good idea to have your successor work in each of these areas. Immerse your successor in the business of your company so he or she sees both the depth and breadth of the operation. This may sound simple enough, but there is a certain amount of "letting go" that goes along with teaching your successor by allowing him or her to learn, grow and make mistakes before assuming the helm. By creating a culture that encourages the person to take charge within broad guidelines, you establish space for your successor's style to fit with your broader business goals.

3. Establish a Timetable

Set up a training timetable and a timetable for shifting control of the company. If succession is to be successful, you, your successor and your management team need to know who is in charge of what and

when. Your successor can't succeed if you overrule decisions routinely. Also, a timetable helps motivate your successor to move through his or her training program quickly and successfully, with a clear understanding of what the coming roles and responsibilities are going to be when you move out of day-to-day operations.

4. Prepare Yourself for Retirement

It's also important to outline a plan for your transition from officer and operations manager for the company. Begin your retirement plan early. That retirement plan may encompass recreation, travel, community service or another business venture—whatever is right for you. As your successor takes on more and more responsibilities, spend time planning how you will continue to be energized and involved in other activities away from the business.

5. Install Your Successor

You owe it to your company's future and to yourself to install your successor in your lifetime. Once that's accomplished, you need to be prepared to let your successor carry out the role for which he or she has been trained. Ultimately, your successor's success or failure is up to him or her. You can lay the groundwork, provide the training and establish a culture for your company. From there, the senior management and board of directors are both the support system and checks and balances for the company.

While succession planning is a challenging task, it is worth the reward of watching your business grow and succeed in the next generation. As you work on your succession plan, be sure to seek the assistance of outside advisers such as your accountant, attorney and your investment or insurance professionals, since your succession plan will have far reaching impacts from a tax, investment and legal perspective.