

Management succession at Closely Held Companies

One of the most difficult transitions for closely held companies can be the succession to a new leader. Closely held companies (I'm including all sizes... even Ford Motor had this problem a few years ago) generally have long picked successors... they may or may not be family members but in any event you can be faced with the following dilemma

		Current Manager -- Ready to Retire?	
		No	Yes
Succession Candidate -- ready to Promote?	No	May still have time - if the candidate becomes qualified.	Big Problem!
	Yes	Can lead to problems	Ideal Situation

[An old professor of mine once commented that, "everything in life can be summarized on a 2 x 2 matrix." I don't know if I completely agree with him, but for sure, many of life's dilemmas certainly can be. Nevertheless, I will use one here to facilitate my explanation]

Current Manager "NO". Candidate "NO".

If a Current Manager or Owner is not yet ready to retire and the Proposed Succession Candidate is not yet ready to assume the greater responsibility... an organization may have time to prepare the successor for the planned responsibilities.

CAUTION: There is a possibility that the candidate will never be ready, or may not want the new responsibility. We once assisted a client where the owner assumed that the off spring would want to run the company. It turns out that the succession plan was the father's dream but not the daughter's... and there was a real problem convincing the father that his daughter would never be happy in that role. The daughter knew it was the father's long held dream for her to run the firm and had a real problem "disappointing him". After we facilitated the hard discussion, their mutually exclusive desires became a significant factor in the decision to sell the company. The father accepted the daughter's goals, the company was sold and the daughter pursued her dream to become a successful professional in a totally non related industry.

A very important consideration is if the successor candidate has been properly trained and mentored for the increased responsibility. Being a parent can be different than being a mentor. While the son or daughter may be "perfect and ready" for the new job in the parent's eye... this decision has tremendous

impact on the potential viability of the firm and it may have a detrimental effect on literally hundreds of families. Objectivity about a son/daughter 's readiness to assume added responsibility may be difficult. An outside "third party" can assist by performing an assessment of the potential candidate. The outsider can also assist with more "objective" training and development of the candidate.

Current Manager "YES", Candidate "NO".

A real dilemma can develop if the Current Manager is ready to retire or vacate the responsibility and the potential successor is not ready. The candidate's expectations may be unrealistic about their state of readiness. This can be particularly difficult if the need becomes urgent, e.g. the death or incapacitation of the current manager. An interim manager from the outside may have to be employed to best serve the long term objectives of the entire organization. If properly vetted, the interim manager can serve as an excellent mentor for the potential successor and assist their development and greatly enhance their potential for long term success.

Current Manager "NO", Candidate "YES".

If the candidate is ready for promotion and the incumbent is not ready to "hang it up" just yet, there is the potential that the candidate may become "tired of waiting" and create morale problems or even leave the firm – never to return.

Another client once had his son work for "someone else" for 5 years before welcoming him back to the closely held firm. The father proudly told me, "I want him to make lots of mistakes with other people's money before he is ready to run this company".

Another consideration about this position on the matrix is: the current manager may be a micro manager or may think that "this place cannot run without me!" Charles De Gaulle is quoted as having said, "Graveyards are full of irreplaceable men!" If you are this manager, you may be hiding the fact that the firm may run very well (or even better) without you and you simply don't have anything else to do! Again, a third party mentor can assist in the evaluation of "what is the right time for the transition?"

Current Manager "YES", Candidate "YES".

It is an ideal situation, if this too infrequent condition develops, where the current manager and the candidate are both "ready at the same time". While this situation may actually happen, I've rarely seen it.

Closely held businesses need to have reasonable and executable succession plans in place. The objectivity of a third party can be very helpful in determining the readiness and the willingness of both the current manager and the candidate. The third party can also play a significant role – unconstrained by family "ties" to mentor the candidate and assist in their being better prepared for the new role and responsibility.

As my old friend Eli Goldratt said..... "Never let the important become urgent!" (I think that comment is in itself another 2 x 2 matrix... but we will address that in a separate newsletter).

Transitions are important. Transitions are inevitable. Timing and the preparedness for these transitions are too often not given the proper priority. If you don't have a solid path or plan for succession for your organization, or if you need help to make objective decisions about succession or your potential candidate needs some non-fatherly advice – we can certainly assist you and your organization. Please give us a call.

All the best!

Jim Covington