Finding the right successor for your business

Putting a succession plan in place helps ensure the future stability of your business when you step aside or if unforeseen events happen.

Succession plans should be made well in advance if they are to be executed properly, and legal battles are to be avoided. Further benefits of a succession plan include a smooth transfer of ownership and leadership and job security for your staff members.

Decide on your successor

Deciding who will take over from you can be a difficult decision. Start by drawing up a list of people who could lead the business. At this point include all the possible candidates, whether they're likely to take over or not.

Then, look at each person on the list and consider to what extent he or she has shown:

- A passion for the business.
- Business management skills, including financial and human resources management.
- Leadership skills.
- Strong relationships with other employees, customers and suppliers.

If one or more people haven't yet had the chance to demonstrate certain skills, give them a task that involves those skills. For example, this could include introducing a new product line or opening a new store.

After evaluating each person's qualities, you may have a clear idea of who your preferred successor is, or you might have a shortlist of two or three people.

Analyzing a shortlist

If the latter is the case, consider whether they could lead the business together as a team. If this isn't a possibility, take more time to decide who's the best candidate. Observe each person while they're working to gain extra insights into their:

- Personality.
- Skills.
- Ability to deal with difficult situations.

If you're having trouble making the final decision, ask for outside help. A person outside the family who knows your business well, and whom you trust, is likely to give objective opinions based on evidence rather than emotion.

Train your successor

Once you've identified your successor, it's important to train them thoroughly because they won't have all the necessary skills, expertise, and experience to take over the leadership of the business.

Start by asking your successor to work in each area of your business for a certain period, so that they know exactly what's involved with its:

- Financial management.
- Sales and marketing.
- Customer services and other operations.

Create a detailed training plan

Develop a detailed training plan that will give your successor access to all the information they need to run the business on a day-to-day basis. Pass on as much of your expertise as possible.

A lot of your expertise will be learned from experience and won't be written down, so you might not even be aware of many aspects of it until you begin to mentor your successor.

It can sometimes be difficult to give your successor the space to lead, make mistakes, and learn from those mistakes, but it's essential if their training is to be effective. Be aware that your successor's leadership style will be at least a little different from your own.

Help your successor to develop skills in areas where they may be weak. Everyone has individual strengths and weaknesses so consider if your successor may need help in an area from another person after you've stepped aside.

Decide on your future position

What role in the business, if any, will you have after you've retired?

- Will you still be involved to some extent? If so, in what capacity will this be?
- Will it be as an adviser or as a part-time or temporary staff member during busy periods?
- What effect is your presence likely to have on your successor and the other staff?

It's important to address all these questions in advance and include them in your succession plan.

Determine when you'll step aside

It's a wise idea to fix a date when you'll transfer the day-to-day running of the business to your successor. For example, this could be on one of your future birthdays. According to SCORE, a non-profit organization that provides advice to small businesses, a succession plan should be started fifteen years before this date.

Setting a date gives you time to prepare for retirement, your successor time to prepare to take over, and your other staff time to anticipate a change in leadership.

As the date approaches, it's appropriate to gradually become less involved in the business's management as your successor gradually takes over the leadership role.

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Plan an exit strategy

It's important to plan your exit strategy from the business considering all the tax, investment, and legal implications of transferring ownership. For example, the transfer of ownership may be subject to the gift tax if your successor buys the business for less than its 'fair market value.'

Seek the advice of your accountant, lawyer and other advisers, such as business valuation experts and investment professionals.

Find out how you'll transfer ownership of your business. The most straightforward type of business for transferring ownership is a sole proprietorship because you have the sole right to sell it to whomever you want.

If your business is a partnership or a limited liability company, other rules will apply. In these cases, ensure you base your exit strategy on expert advice.

Effective succession planning gives you the reassurance that your business will be in good hands after you've retired. However, it's rarely an easy task. Begin your succession plans as early as possible and seek as much advice as you need to make the transition as smooth as possible.