

Management Succession Planning

When we speak of “business succession planning” for private companies, some people think only of tax and estate planning, while others may only consider a transition in the share ownership of a business. While those are each important elements of succession planning, on their own they do not cover everything that needs to be included in an effective succession plan.

The tax plans or estate plans can quickly become meaningless if nobody is able to run the business. The same goes for the potential sale of a business; if only the owner can run the business, then the business is essentially worthless to any other potential owner. As a result, we believe it is important to encourage our clients to consider management succession as they prepare for a critical time of transition in their business.

All businesses lose leadership talent over time, whether it's through retirement, promotion, a change in ownership, death, prolonged illness, or simple attrition. In many of these cases, the reason for the change is a surprise to those in charge, and this can become a major hurdle for the company when a key leadership position needs to be filled quickly. A well thought out management succession plan can ensure that the transfer of leadership responsibilities occurs smoothly under most circumstances. By the same token, a strong management succession plan can make a private company much more valuable and saleable, because the potential purchaser has more confidence that the business can run well even without the hands-on involvement of the previous owner.

Here are a few things to consider when preparing your own management succession plan:

1. Write out a formal job description for each of the key positions in the company. You first need to have clarity on what skills and abilities are required for a particular role within the business.
2. Review the pool of available talent within your business, and identify individuals with the skills and attributes necessary to grow into the leadership roles above them.
3. Document the gap in knowledge and skills from where the potential successor is today, to where he or she needs to be at the time they step into the new role.

4. Make a plan for how you can bridge those gaps in knowledge and skills. For some, bridging this gap may mean they need to take an accounting course, while others might simply need to job shadow their current manager for a period of time.
5. Communicate that plan to the people within your business, your lawyer, your accountant, your banker, and any other professional advisors that might be able to provide valuable feedback.

Preparing a management succession plan can have a number of advantages for a private company, including the following:

- **Business continuity.** When there is a management succession plan in place, the business will continue to function at a high level even in the sudden loss of a key leader. People will quickly fill the gaps because they are prepared.
- **Staff retention.** Simply knowing that they are being groomed for a leadership position will likely incentivize your best people to stay with the business. Also, knowing that their company has a documented plan for the future will boost workforce morale.
- **Finance.** All businesses require cash to be constantly flowing in order to survive. Suppliers and bankers – among others – will have more confidence in a customer that they know has a strong management succession plan in place. We have even seen cases where a business was afforded looser credit terms and more financing because of their management succession plan was strong. Conversely, an aging business owner will undoubtedly come under more and more financial pressure from their suppliers and bankers when there is no succession plan in place.
- **Valuation.** Where a strong succession plan exists, potential buyers may be willing to pay a premium for any given business based on the assurance of seamless business continuity.

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Management succession planning is ultimately a process, not an event. Unfortunately, this process may sometimes feel painful for private company owners, as it can be another issue that forces them to confront their own retirement or mortality. But painful or not, all businesses will have to deal with management continuity eventually, and the best way to deal with this is to be prepared.

Example of Leadership Succession Template			
Business Skills Required at Transition Date	(A) Successor's Current Skill (1 – 10)	(B) Required Skill Ranking at (1 – 10)	(B) – (A) Gap to be Filled by Successor
Managing people			
Communication skills			
Team building			
Time management			
Negotiation skills			
Personnel management			
Marketing / selling skills			
Analytical skills			
Planning skills			
Financial skills			
Networking skills			
Other			

For more information, please speak with your BMO financial professional.



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