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Volume 15 Issue 2

Exit Strategies for Small Business

The Use of Succession to Increase the Value of Your Business

Initiating The Conversation and Building a Mutually Acceptable Accountability Path to Get a Result

This is the second installment of my series on how to design and implement a succession program to exit and transition from your business. In my last newsletter, I discussed a number of issues that can derail a proposed succession. I divided these into two groups; issues that owners need to be sure successors are aware of from the very beginning and issues that owners themselves need to be aware of in the beginning.

To summarize, successors need to be made aware off the true scope of the role of owner including the good and the bad, the generalities and the specifics. And owners need to take responsibility for understanding in a complete way, what it takes to execute a succession process and be fully willing to commit to it once the conversation is initiated. What owners *should never do* is begin initiating conversations without such understanding and commitment. There's no faster way to frustrate and chase away good people.

Initiating the Conversation

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Let's assume that an owner has fulfilled the requirements above. How does he or she initiate the conversation and start the process? (I am going to make an assumption that the owner or owners have fully vetted the succession candidates based upon the candidates past work and by measuring them against the owner role definitions.) My recommendation is to create some written documents that will provide the basis for and structure of the discussion. I have my clients create two of them. One summarizes all the things the owner uncovered related to his or her own role. The second articulates the specific succession execution pathway that will be followed.

You will want to introduce the topic carefully. You don't want to assume anything. Simply state that you have come to a point in life where you need to think about your future beyond owning and running the company and you have identified the person (or persons) as one who could be a potential successor if he or she were interested. Since this will be the first they've heard of this, you will want to give them some time to think. Make sure you communicate that there are no obligations and that if it is not something they are interested in, it is totally acceptable. Let them know if they are interested that you have some material you'd like for them to study as the next step in the process.

Most owners have a pretty good judgment about the people in their organization that at least are open to a discussion about becoming a successor. It is highly likely that the person approached will come back and want to take the next step. That step is for them (the proposed successors) to read the owner role and succession process document. That in turn should lead to many questions on the part of the successors related to both role and process.

Creating the Pathway with Mutual Accountability

I want to discuss with you now more detail how to design a pathway that will take you and your successors from concept to implementation and the importance of mutual accountability in the succession process.

The path to succession is accomplished through sets of steps for each of the parties – the potential successors *and the owners*. I'm emphasizing the 'owner' component because frequently it is the owners who are lax on following through. Typically the steps are sequential with an action required of a potential successor leading to an

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action required by the owner, which then leads to the next action required by the potential successors and so on. These steps come from the pathway that you designed earlier in the process and relate to the two major aspects of succession 1) the growth the successors need to do to be able to manage, lead and own a business, and 2) the delegation and release of control an owner must do to allow succession to take place.

The best way to understand this is to look at an example. Here are some steps that come from a recent client succession engagement I worked on.

- Owner needs to provide potential successors with specific areas where successors need additional training/education in order for the successors to take on additional responsibilities leading to greater management and leadership roles necessary to become the ultimate successors
- Successors to research options for getting necessary training/education and provide specific recommendations to owner for same
- Owner to commit to funding and providing the time off necessary for the mutually agreed upon training
- Successors to take on the necessary training/education
- Owner to create specific changes in roles and responsibilities based upon the successors completing training. These new roles and responsibilities will have specific accomplishment metrics tied to them
- Successors upon the successful completion of the required training/education are put into their new roles/responsibilities

What we see in this pathway is that actions by one party require reciprocal actions from the other party. The mutual actions accomplished in sequence help define the process of the successors developing the skills necessary to become owners and the owners giving the successors more responsibility and letting go of some of their (the owners) roles and responsibilities to allow the succession to happen.

Accountability is achieved when specific time frames are attached for each step to be accomplished. When one party accomplishes a defined task and the other fails to do the next required task, then clearly there is an issue that should be discussed to determine if there truly is the desire to execute the succession process.

Each succession situation is different in terms of exactly what successors and owners need to be doing to fulfill the requirement of successors growing into the ownership/management/leadership role and owners letting go so they can grow into

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these roles. If you don't want to learn this by on the job training, call me at **505.856.2646** or email me at michael@podolny.com and schedule a free initial consultation.

Any succession process should result in personal financial independence for an owner. My *Will My Business Pay For My Retirement*® value-estimating tool at www.business-succession-and-selling.com allows you to compare your business' estimated value against what you will need for financial independence.



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