Succession Planning

Written by Nnennia Ejebe and Charles Boatin

Adenia Partners *is a private capital management firm investing in some of Africa's most promising SMEs. With offices in Accra and Abidjan, the firm is currently investing out of its $125 million Fund III and seeking opportunities in a variety of sectors. Learn more at www.adenia.com or contact us at info@adenia.com*

Contents

Changing of the Guard: Managing Succession in Your Small Business

What makes a company successful? The answer is, of course, many different factors, all of which must come together in the right mix. But arguably the single most important determinant of a company's ultimate success is the quality of its leadership. For SMEs in particular, with often limited access to critical resources, the efforts of the leader (or leaders) can almost singlehandedly be the difference between success and failure. Because changes of management are not as common as in the corporate world, in SMEs the bulk of knowledge, experience and relationships end up concentrated in the hands of long-serving founders, family business owners, or one or two key individual managers. Inevitably though, there will come a time when the leadership of the company must change hands. How this is done can have significant and lasting impact on the fortunes of the company. Unfortunately, all too often it means the decline or even demise of the organization. How can this be avoided? What does it take to execute a successful succession?

Planning

The most important thing is to plan ahead. Leaving succession planning until it is time for the existing manager, leader or founder to retire or move on, is leaving it until too late. Amidst hectic schedules of day-to-day decision-making, serving customers and so on, the question of succession can get pushed to one side in favor of more pressing priorities. Yet so many of the things to consider in succession planning take time to do right;

- Identifying the skills required in a new leader;
- Finding the right individuals with some or all of these skills;
- Grooming them for and eventually easing them into their new role; and
- Allowing and enabling the organization to adapt to the new leadership structure.

In fact, a carefully planned and prepared succession plan can take years. It is of course, important to strike a balance between actually running the business and preparing for a future handover, but in general the more time allowed for transition planning, and the less that this process is rushed, the better. Two years is a good benchmark.

Choose the Best Model for Your Business

Assuming time has been set aside to prepare for the succession, it is important to think about what type of succession is appropriate for the organization. The company may have been built up by the founder, perhaps with the help of family members. Is there someone with longstanding experience waiting in the wings to take over? Or perhaps there is a family member with valuable skills learned from a professional career elsewhere? It may be the case that the best option for new leadership may be completely external, with neither ties to the family or company, yet with experience in the industry. Or maybe it is combination of internal and external leaders as part of a team. Whatever the model, the choice of leadership must match the strategic direction of the company, as well as its values, vision and overarching principles. In the case of family-owned businesses, a clear and common understanding between the family and the actual managers of the business leaders must be established, particularly when these managers will be external. Several discussions may be necessary to agree on a governance structure – including what the working relationship will be, how much input the family, as owners, will have, or how disputes will be resolved.

Developing Leaders

No matter who will step into the shoes of the current company leader, chances are they will not quite yet be ready for their new role, regardless of their past experience or recognized potential. A period of leadership development should precede any succession planning, or, at the very least, be factored in. What is the current skill-set of the identified individuals (or group of individuals)? How does it compare to the skill-set required to run the business? And how can any gaps be closed? A good approach would be to expose the emerging leader to all key facets of the business, in a methodical manner, over several months. There can be multiple approaches to develop the desired experience and skills, from on-the-job learning to external courses.

Role of the Outgoing Leader

A key ingredient of a successful transition will be the guidance and coaching provided by the outgoing leader. This may be easy enough to enable before the changeover has occurred, when the exiting leader is easily accessible. But even the best efforts will not capture all of his/her knowledge and experience, gained over years, before the transition is complete. Therefore the outgoing leader should not be allowed to simply fade away, where possible. Instead every effort should be made to keep them constructively involved, but without overshadowing the new person in charge. It can be a delicate balance, but possible to manage via simply being available for check-ins or updates as needed, or serving in a formal advisory role.

At the same time, the new leadership must be encouraged to create their own space, and establish their own management style. This applies not just to the new person in charge, but also to the rest of their management team. If this team worked under the outgoing leader, they may be used to playing a secondary role with all decisions being taken from the top. Transition will likely change the structure and they may be expected to have more accountability for decision-making. In the months leading up to the changeover, the outgoing leader, should encourage, empower and enable the remaining senior and middle management for the new leadership structure.

Managing Change

As with most companies, values, vision, principles and processes are a fundamental part of the company's DNA, perhaps even offering a defining competitive advantage, which set the business apart as a desired place to work. These aspects of the company should be properly and formally institutionalized, especially where they have historically been embodied in the outgoing leader himself/herself, but perhaps never been articulated explicitly. Properly documentation will allow these key elements to be consistently communicated and internalized, not just by the new leader, but by all employees within the company.

Finally, how the change in leadership itself is communicated can have a big impact on employees. Naturally there will be concern among staff, who will have questions about the future of the company, as well as their individual careers and jobs. A lack of communication can build on this uncertainty and be disruptive to employee confidence, performance, and the ability of the new leader to integrate and form relations with the workforce. On the other hand, clear and open communication about the intended direction the company is moving in, how change will be effected, and what the key milestones around the transition will be, will give employees a clear sense of purpose, provide needed confidence in the change plan, and even secure support within the employee base for the change.

Whether in large companies or small, changes of leadership are always major events, and no easy task. However, following these key guidelines can help ensure that the desired end-result is achieved with a minimum of turbulence and disruption to the organization and the bottom-line.

Thank you for reading!

Adenia Partners *is a private capital management firm investing in some of Africa's most promising SMEs. With offices in Accra and Abidjan, the firm is currently investing out of its $125 million Fund III and seeking opportunities in a variety of sectors. Learn more at www.adenia.com or contact us at info@adenia.com*

Author Profiles

Nnennia Ejebe

Investment Manager at Adenia Partners since 2012, Nnennia has six years' experience as a private equity investment professional and business strategist. She developed her deal skills at Sverica International, a lower middle-market buyout firm based in San Francisco. Nnennia also worked for the International Finance Corporation based in Lagos, Nigeria. She began her career as a management consultant at the Monitor Group (Boston). She earned her Bachelor's degree in chemical engineering from the Massachusetts Institute of Technology and an MBA from Harvard Business School.

n.ejebe@adenia.com

Charles Boatin

Investment Manager at Adenia Partners since 2014. Charles spent over four years at the Boston Consulting Group as a management consultant, developing skills in business strategy development, operations, performance management, organization and industry specific topics from project experience in the US, Europe and Africa. Previously he worked as an engineer at Applied Materials, providing project execution and management and engineering support within the semiconductor industry. He earned his Bachelor's degree in chemical engineering from the Massachusetts Institute of Technology and an MBA from Harvard Business School.

c.boatin@adenia.com