Strategic Business Succession:

The Handoff

Leader’s Guide

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To make sure that we're all on the same page, here's how we define "Strategic Business Succession." The words "Business Succession" refer to the transferring of ownership of a business to others – maybe the next generation of a family, an outside buyer, the management team, or all of the organization's employees through an ESOP.

The word "Strategic" indicates that it specifically identifies long-term overall aims and interests, and it also outlines the means of achieving them.

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Here are two key points to remember.

First, regardless of who will receive the "hand-off," the business should be genuinely healthy and ready for the future before ownership changes.

Secondly, keep in mind that the "due diligence" process conducted by the next owner(s) will very likely unveil cosmetic, non-strategic shortcuts that have been taken to make the business look more valuable than it really is, thereby decreasing its value. It's similar to selling your house; new paint and carpet will make it look better, but a good home inspector will uncover less obvious flaws, some of which could significantly reduce value, and perhaps drive the buyer away.

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Our focus is very simple: To help prepare the business for a successful future, thereby enhancing its value, regardless of who owns it.

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Our approach involves guiding owner(s) through four phases.

First, to specifically define the "ideal state" for them personally, and for their business.

Second, to candidly assess the current conditions within the business itself, and in the external environment where it operates.

Third, to identify the gaps between the ideal state, and the current conditions.

Fourth, to develop strategies and action plans that will close the gaps between the current conditions and the "ideal state," and thereby increase the value of the business.

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Title slide for Phase I: Defining the Ideal State

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The purpose of defining the ideal state is three-fold.

It establishes a specific destination before starting the journey.

The owner defines the personal vision for his or her life, AND for the business.

Once the ideal state of the future has been clearly defined, it becomes the focal point of the strategic business succession plan.

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We'll first focus on creating a Personal Vision for the business owner's life.

We should ALL have Personal Visions for our OWN lives.

For the business owner, the Personal Vision has nothing to do with the business, but everything to do with personal dreams, goals, and timetables. It's a very private exercise to be done by the business owner and the people that are most important in his or her life.

The purpose of the Personal Vision is to make certain that the Vision for organization, which is created next, doesn't conflict with the personal dreams of the owner.

Unfortunately, many seemingly successful business owners complain that their personal lives are in disarray, even though the business is thriving by most standards. Somewhere along the way, the demands of their business have pulled them away from the people who mean the most to them in their lives. It's a little ironic, since most business owners start their own companies in order to have MORE control of their lives, not LESS!

Once created, your Personal Vision should be reviewed every year, and revised if necessary, to accommodate changes that may have occurred in your life.

There are no rules regarding what your completed Personal Vision should look like, or how it should be formatted when completed, but it's essential that it be in writing so that it's clear, and can easily be reviewed and updated as necessary. In addition, depending upon the business owner's age or stage of life, it might be appropriate for some owners to look five years out, and others to look as many as 20 years into the future. In fact, some people do both.

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Regardless of the timeframe selected, here are some typical questions that are used by business owners to help them create a Personal Vision.

What will be my day-to-day activities at work, even if they're still the same as today?

What percentage of the business will I own? If the percentage is more or less than my current share, from whom will I acquire those additional shares, or who will be the ideal buyer for the shares I relinquish?

Will any of my children or other family members be involved in the business? If so, will they be qualified? If not, what needs to be done to qualify them? Will they have ownership? If so, how much will they own, and how will they have acquired that ownership?

How will I handle it if one family member wants to be involved in the business, while others don't? What will I do to treat family members equitably, regardless of whether or not they own shares in the business?

How much money will I need to completely retire, recognizing that the amount will vary based on when I decide to stop working?

Will there be a qualified successor in the business, either family or non-family? If so, who will that be?

Will I have completely sold the business? If so, when will that have occurred, and how will that impact the answers to some of the previous questions?

What hobbies or interests outside of work will I begin, or continue to pursue?

Will I be involved with volunteer-type activities? If so, what will those be?

Will I be active in any philanthropic efforts? If so, which ones?

If I have a true passion in life, what is it, and when will I spend more time in that endeavor?

What will be a perfect day for me?

Where will I be living? Will I be living in different locations at certain times of the year? If so, where? What will my residence, or residences, look like, even if I still live where I do today?

How far away will I be living from those who mean the most to me? (PAUSE) After completing the Personal Vision, the business owner, spouse, and children establish a firm date one year later when they plan to review the Personal Vision and make any changes if appropriate.

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If the business has more than one owner, it's important that they share at least the key elements of their Personal Visions with one another, particularly if one of them plans to leave the business, reduce the number of hours worked, or assume a different role in the business. Or, if the owners are more than a few years apart in age, the factors and people to be considered in each owner's personal life can be significantly more complex. For example, one owner might have children at home, while the other is an empty-nester getting close to retirement age. Nonetheless, it's an exercise that can identify issues that need to be addressed much sooner than they might otherwise have emerged on their own.

Now, go to Exercise 1 in your workbook to complete the first draft of your Personal Vision. After we leave this session, we encourage you to meet with those who are closest to you so that you can review, discuss, and finalize your Personal Vision before we reconvene. You will not be asked to share your Personal Vision, but in Phase II you'll be asked to consider your Personal Vision when identifying gaps between the ideal state (your Personal Vision) and the current situation in your life, and in your business.

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Once the Personal Vision is set, it's time to define the ideal state of the business, commonly referred to as the Organizational Vision.

The Organizational Vision should be created by the owner, not by a team of people, since this is the owner's dream for the business, and it should be consistent with the owner's Personal Vision. Others in the organization need to understand it, and may occasionally ask the owner to clarify certain aspects of it, but it still needs to be consistent with the owner's wishes.

In addition, while the Organizational Vision is often shared with customers and the public at large, it's actually meant for internal use to drive the behavior of employees every day by providing them with a crystal-clear explanation of exactly where you want to go as an organization.

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The Organizational Vision is usually written in the future tense………that is, what you want "to be," or "to become."

It identifies a very specific end point, similar to the detailed street address of the beach house where you plan to spend your vacation so that everyone knows the exact destination.

It should be communicated regularly to all employees at every "all hands" meeting so that they can all recite it, AND understand it without prompting.

It must be realistic, and measurable, so that you know exactly when you've arrived at the end point.

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Here's a simple example from the ABC Pest Control Company: "ABC Pest Control will be the first choice for residential pest control services in Miller County." In this case, "first choice" means that homeowners in Miller County would contact ABC before any of their competitors due to ABC's impeccable reputation, even if ABC doesn't ultimately get selected to do the job. To measure the progress they're making toward achieving their Vision, the company has made firm plans to conduct a market survey every two years.

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To again use the example of a vacation, the process of linking your Vision to your plan is extremely important. First, you identify a VERY SPECIFIC END POINT (the Organizational Vision) before you begin, like the beach house at a particular street address. Then you chart a strategic plan to reach your Vision, just like the route you plan to take on your way to the beach house. In your business, and in driving your family to their vacation spot, you don't want people continuously asking, "Where are we going?" or, "Are we almost there?" So, you'll need controls in place to monitor your progress toward achieving your Organizational Vision, much like the GPS system that keeps you on track when traveling to the beach house.

In setting up controls to measure progress, ask yourself, "What measures will we use to track our progress toward the Organizational Vision (things like sales, profit percentage, gross margin, and market share)? What specifically do we expect to accomplish at the end of each year? And who will be responsible for achieving those results and timetables?"

It's now time to complete Exercise 2 in your workbook, creating the Organizational Vision.

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Title Slide for Phase II: Candid Assessment of the Current Situation

By completing the Personal Vision and Organizational Vision, you've answered the question of where you want to be personally, and what you'd like the business to accomplish.

It's now time to take an unbiased, brutally honest look at what's happening right now in three areas: in your personal life, in the business environment where your organization operates, and within your organization itself.

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To assess the current situation, we'll be using four different tools.

"The Ouch Test" deals primarily with your personal life.

The Seven Factor Analysis is designed to objectively examine the realities in the industry and markets where you operate.

"The Ideal Attributes Tool" helps you make strategic choices.

The SWOT Analysis takes a deep dive into your organization's strengths, weaknesses, opportunities, and threats.

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The first exercise is a very brief self-reflection tool called the "Ouch Test," which can be found in your Workbook under Exercise 3. It takes only a few minutes to complete, and your answers will not be shared or discussed. This is strictly for your own use.

So, please take a few minutes to complete Exercise 3 now.

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Now, let's take a look at the second assessment tool, which involves identifying the external, uncontrollable, environmental realities that are affecting your business, either positively or negatively.

If your business operates in different market segments, where you compete with different companies, then it's essential that you analyze each segment separately, and create a different plan for each of those segments. Many smaller organizations participate in only one segment, like ABC Pest Control whose efforts are focused on residential pest control in Miller County. In that situation, there's only one market segment, residential customers. However, if the company decided to provide services to both homeowners AND business customers, there'd be different competitors, and the strengths that they have in the residential market might mean nothing when selling to businesses. Even if ABC company had a 20 percent market share in the residential segment, they might only be capable of capturing 1 percent in the commercial market.

The analysis of environmental factors is too often ignored or done poorly. There's a tendency to "assume away" the business environment as if it will never change, and to jump right into the traditional SWOT analysis (strengths, weaknesses, opportunities, and threats). Remember that it typically takes a lot time to conduct the environmental analysis well, so be sure to give it the attention it deserves if you don't want to get blind-sided in the future by things you didn't anticipate.

The goal here is to identify the future REALITY, good or bad, that will affect your business. These are things that are outside of your control, and will happen regardless of whether or not your business exists.

Don't sugar-coat things! You want unbiased information from reliable sources! To stay objective, some organizations invite an industry expert to visit with their executive team and discuss the future outlook for the industry to make sure there aren't any undetected obstacles, or opportunities, that haven't already appeared on their radar. You can also use industry associations, the public library, internet articles, trade journals, government statistics, or possibly a team of college students who can conduct custom research for your company.

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Here are seven categories to help you conduct a thorough and objective analysis of the factors that will be affecting your future business. Some will have a positive effect on you, some will be negative, and some will be neutral.

General economic conditions --- These could be global, domestic, regional, or local, depending upon your business.

Industry trends --- Try to get objective forecasts for your industry from reliable sources.

Competitive environment --- Will there be new competitors, or new forms of competition, new pricing, or maybe even new substitutes or replacements for your product or service?

Demographic shifts --- For example, are your customers getting younger or older, or speaking different languages? And don't forget that demographics can also have an effect on the employees you recruit, since you might need bilingual people on your staff.

Government regulations --- Are there any changes in government regulations that will positively or negatively affect your business?

Will you have access to the raw materials you need?

Will changes in technology affect your future business and, if so, are you prepared for those changes? (PAUSE) Remember that this analysis should be done for each market segment where you now participate, or plan to enter.

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Here are some best practices that can help you stay ahead of curve.

Be sure to analyze the environmental factors in your marketplace regularly.

You might find it helpful to subscribe to various publications or data bases, or to assign a specific employee the task of regularly tracking key external factors and trends.

Ideally, turn your current strategic planning effort into a perpetual planning process rather than an annual event. Make planning a regular part of what you do every day.

Have contingency plans in the event that there are significant changes in the business environment, like new legislation that could have a major positive or negative impact on your business if it's enacted.

Now, go to Exercise 4 in your workbook to identify the External Environmental Factors impacting your business, and to assess the strengths and weaknesses of your three strongest competitors.

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Now that you've completed Exercise 4, I want to introduce you to perhaps the most impactful "strategic thinking" exercise you've ever experienced. It's called "The Ideal Attributes Tool," and it's designed to OBJECTIVELY analyze existing and new customers or markets to determine how well they fit "ideal attributes" that you've established. You'll find it in your workbook under Exercise 5.

For some organizations, "The Ideal Attributes Tool" has been so eye-opening that it compelled them to drop entire product lines, customers, or market segments, and to re-deploy those efforts and dollars elsewhere --- leading to significant increases in the value of the business, sometimes very quickly.

Because this exercise stimulates some truly strategic discussions regarding the future of the business, we're going to go through it together.

So, please turn to Exercise 5 now. You can then pick a product line, or a market segment (group of "like customers") that you currently serve – maybe one that has been sub-performing, or perhaps one that you think has great upside potential. Together, we'll then use the more sophisticated version of "The Ideal Attributes Tool" to arrive at a score for that product line or market segment.

After you arrive at a score for that product line or market segment, you can then apply the tool to another one which will yield a score, and will allow you to compare one against the other, ranking them according to score.

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Our fourth and final tool in candidly assessing the current business situation is to conduct a thorough and objective SWOT Analysis to identify Strengths, Weaknesses, Opportunities, and Threats.

Here are some important points to remember about conducting a SWOT Analysis.

If your business operates in different market segments, where you compete with different companies, then you'll need to conduct a SWOT analysis for each segment separately, and create a different plan for each of those segments. Many smaller organizations participate in only one segment, like ABC Pest Control whose efforts are focused on residential pest control in Miller County. In that situation, there's only one segment, residential customers. However, if ABC Pest Control decided to provide services to both homeowners AND business customers, there'd be different competitors, and the strengths that ABC has in the residential market might mean nothing when selling to businesses.

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The SWOT Analysis is a very popular tool that's used by many organizations.

Unfortunately, for many of them it's the ONLY analytical exercise that's performed with any frequency, since they tend to ignore many of the external factors affecting the business.

And it's sometimes done either incorrectly or incompletely.

That is, there's a tendency to compile a long list of things that the organization does well, or does poorly, and then do nothing with it until they review and revise the list during next year's SWOT analysis. There should be very specific plans to either leverage a key strength, fix a major weakness, take advantage of a specific opportunity, or prepare the organization to withstand or mitigate an imminent threat that may be looming on the horizon. So here are some tips to help you conduct a meaningful SWOT analysis that will be the basis of an effective strategic plan.

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Strengths are often thought of as marketable differences, competitive advantages, or factors that differentiate you from your competitors --- they're the key reasons why customers buy from you instead of someone else.

Try to limit the number of strengths to no more than the top three.

While you might start with a long list of strengths, deeper evaluation will reveal that many of the items on your list are the RESULTS of some other underlying strength rather than being strengths in and of themselves. For example, if your organization has a great reputation, it's probably the result of some other strength, like the quality of your work compared to competitors. If you consider your employees to be a strength, try to identify exactly what YOUR employees do better than those employed by your competitors, like their responsiveness.

If you truly have one or more strengths that give you an advantage over your competitors, do whatever it takes to maintain that edge in the marketplace!

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Weaknesses are often thought of as competitive disadvantages that give your customers a reason to buy from someone other than you. They're the major obstacles preventing you from reaching your Vision.

As in the case of strengths, try to limit the number of weaknesses on your list to three or fewer.

And be sure to drill down and identify your key underlying weaknesses rather than spending time trying to correct many of the others on your list that are typically symptoms of those true weaknesses.

If an organization isn't regularly monitoring the external environment, a strength can sometimes turn into a weakness very quickly. Consider the telecommunications company that held a premiere position in the industry for many years due to their unique technology, but that technological strength evaporated when a new smartphone application made it obsolete in less than a year. As in the case of strengths, be sure to dig deeply and identify your key underlying weaknesses rather than spending time trying to correct the symptoms of those weaknesses.

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Opportunities are generally things that are available to you outside of your organization, like a new market that might be ripe for your entry. However, there are occasionally some opportunities that are internal, like selling off old equipment to help finance the launch of a new product.

Narrow the list of opportunities to those you can realistically take advantage of, since it's usually very difficult to successfully pursue more than three opportunities during a normal planning horizon.

Threats are factors that are outside of your control, like the price of a key raw material that's used to make your product, or a vendor who could circumvent your company and begin selling directly to your customers.

Note that there is often a tendency to list things as threats which are actually weaknesses. For example, when companies fear losing their employees to competitors, they might view this a threat, but it's almost always a weakness since it occurs because of something within their control that they failed to do, thereby opening the door to competitors who can more easily lure employees away.

While you can't control threats, it's a good practice to have contingency plans ready to mitigate the impact that a threat can have on your business. For example, if a key ingredient in your food product is unavailable or in short supply, it's important to have a substitute available if possible.

Now, go to Exercise 6 in your workbook and determine your organization's key strengths, weaknesses, opportunities, and threats.

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Title Slide for Phase III: Gap Analysis and Make-or-Break Priorities

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In Phase I, you established the “ideal state” of your future life (Personal Vision), and you also described the “ideal state” of the future business (Business Vision). Those targets were identified using Exercise 1 and 2.

Then, in Phase II, using Exercises 3, 4, 5, and 6, you dug deeply into a variety of areas to get a brutally honest assessment of what lies between the current state of your business, and the ideal state that you defined in Phase I.

Now, in Phase III, it’s time to very specifically identify the Make-or-Break Priorities that will become the basis of your plan for Strategic Business Succession, and prepare your organization for “The Hand-Off”.

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Make-or-Break Priorities are called different things by different people. Regardless of what label they’ve been given, they’re often weaknesses that must be fixed, or opportunities that are to be pursued. You might find it helpful if you think of these as Make-or-Break since they deserve the full attention of the organization.

Since Make-or-Break Priorities are just that, MAKE-OR-BREAK, there should be very few of them. That’s why we recommend that no more than three should be identified, since it’s unlikely that more than three can be successfully addressed within a two or three-year timeframe.

They can be either long-term and strategic, or short-term and operational.

You can usually expect that most Make-or-Break Priorities will come from the list of weaknesses, since it can be very difficult to take advantage of opportunities until weaknesses are addressed. After planning becomes a regular process, organizations tend to focus more on opportunities since most weaknesses have been overcome.

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In the case of ABC Pest Control, in order to attain their Organizational Vision, and after considering the future changes in the marketplace along with their own strengths, weaknesses, opportunities, and threats, they concluded that there were two Make-or-Break Priorities: Recruiting, Developing, and Retaining Stellar Employees, and Utilizing Effective Marketing Activities as a Strategy for Growth.

Now it’s time to identify the Make-or-Break Priorities.

Go to Exercise 7 in your Workbook. Here’s where you thoroughly review the results of Exercises 3, 4, 5, and 6. In doing so, assume for a moment that you’re an outside and objective advisor who was hired to assess the information and identify the three most impactful things that should be done to bridge the gap. Take your time, since this is a very important step!

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Title slide for Phase IV: Closing the Gap.

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One of the most critical steps in identifying Make-or-Break Priorities is to also determine how you'll actually know when you've successfully handled each of those priorities.

That is, what outcome will have occurred, and when, to prove that the weakness has been addressed, or the opportunity has been successfully pursued? For example, if Reducing Customer Turnover is a Make-or-Break item for you, then you might set some performance metrics for percentage of customers lost during the first twelve months, the second twelve months, and the third twelve months.

Using the word "expectations" can be very helpful when setting these measures, since it conveys the idea that these truly ARE expected outcomes, not pie-in-the-sky goals or objectives. That said, they need to be realistic in terms of both quantity and timeframe. Meeting the expectation doesn't bring a reward, since that's what employees are already being paid to do; instead, rewards come when the expectations are exceeded.

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Even though the ABC Pest Control Company relies heavily on customer referrals to fuel their growth, they realize they can't depend ONLY on word of mouth. So, they identified "Utilizing Effective Marketing Activities as a Strategy for Growth" as one of their Make-or-Break Priorities to achieve their Vision of being the "first choice" in the market.

They then created the three quantitative expectations: Percentage increase in website visits compared to the prior year (as a measure of how well the market has been informed about their reputation), the percentage of new clients from customer referrals, and the percentage of customers retained from the prior year.

Again, you should be focused on OUTCOMES, not TASKS. The only reason for a task list (action steps) is to accomplish an outcome.

Now, go to Exercise 8 to determine what needs to be measured, and what quantitative expectations will be established to monitor your success in addressing the Make-or-Break Priorities you identified previously in Exercise 7.

It's now time to put teeth into the plan by identifying each major step that must be completed to address the Make-or-Break Priorities and achieve the quantitative, time-related expectations that you've established in Exercise 8.

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Using Exercise 9, meet with your key people and create a list of the strategies and action plans that will be necessary to meet the quantitative, time-related expectations.

Then, assign accountability to qualified and capable employees who will carry-out each action step.

Set due dates, but resist the urge to pick dates that are too aggressive; in fact, it's a good practice to negotiate with people when setting due dates so they truly believe they can meet them.

This process will significantly increase the likelihood that results will be achieved because employees will have agreed to those steps and due dates before they're set.

If more than one person will be working on an Action Item, list only the name of the single person who has the ultimate responsibility and authority to complete the item listed so that there's no question as to which employee is accountable for getting it done.

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To effectively implement a strategic plan, your organization needs the right structure, or organizational chart.

Here are three key factors to keep in mind when creating your organizational chart and determining the skill sets you need.

It has often been said that structure follows strategy, not the reverse. To demonstrate how important it is that structure follows strategy, consider the basketball team who is confronted with two different game situations --- *trailing* by two points with five seconds on the clock and about to throw the ball inbounds for a shot to tie or win the game, versus *leading* by five points with twenty seconds on the clock and about to throw the ball inbounds to run-out the clock. Clearly, the plans are dramatically different in each of those two situations --- perhaps setting-up a quick and uncontested shot in the first case, and running-out the clock in the second case. To execute either of the two plans, the positioning of the players on the court (organization structure) will be significantly different, as will the skill sets needed in each of those positions. It may require putting your best shooters on the floor in the first case, and your best ball-handlers and free-throw shooters in the second case.

The "right" structure in a business organization must be determined by the Vision, and then by the plan that's been created to *achieve* that Vision. While many businesses are willing to change the organizational structure to align with the plan, they fail to fill that structure with the skill sets they need to *implement* the plan.

The most unbiased way to determine what skills will be required in the future is to first assume that you have no current employees. As we go through the next few slides, imagine that you've been called-in as a consultant to create the ideal organizational chart and ideal candidates to fill each high-level management position.

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Here's an effective, and objective, way to create an organizational chart that's in alignment with your strategic plan.

It's much easier to build your new organizational chart if you have some blank 3 x 5 cards or post-it notes so that you can write on them, and then move them around as you think through the process. Also, be sure to have a camera so you can photograph various scenarios for future reference.

Begin by first arranging the cards to show your current organizational chart, but don't go beyond the top-tier jobs --- those who report directly to you. This slide provides an example. Note that this process can be repeated later for the remainder of positions in your organization, but first focus only on those at the top. List only the "function" on each card, **not the title or the name of the person currently holding that position**.

Now, take a close look at the Expectations, Strategies, and Action Plans you established in Exercises 8 and 9 to determine what structure will be necessary to successfully achieve them. Remember that in some cases the organizational structure might actually still be appropriate if the strategy hasn't changed dramatically. For the sake of example, let's assume the organization has been a manufacturer of products for many years, but has now decided that only a portion of the product line will continue to be made in the company's facilities, while the other portion will be made off-shore by other companies, a significant departure from the way production has been handled in the past. In addition, sales efforts will now include the traditional model of calling on distributors, plus the new strategic focus of selling to certain market segments strictly through the internet.

Based on these changes, the company has determined that the following organizational structure will be required, so new 3 x 5 cards should now be arranged in the manner shown in this diagram. Please note that there must be total clarity when creating the organizational chart, with no employee having more than one boss, no overlap, and no duplication. It's also essential that there be a succession plan for key positions, including the leader, to make certain that the organization doesn't become vulnerable if a crucial employee exits for any reason, intentionally or unintentionally.

Now, go to Exercise 10 in your workbook to create an organizational chart using the procedure just described.

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After creating the future organizational chart, it's now time to identify the specific skill sets needed in each of the boxes on the organizational chart, which we'll do in Exercise 11.

Remember this very important rule as you go through Exercise 11: Do NOT think about any of your current employees, including those in leadership positions! It's not until later that you'll be looking at the people you already have on hand to see if any of them fit, and if so, where they fit.

To be totally objective during this step, here are some guidelines. As you begin, focus only on the top-tier positions, since this same procedure can be followed later for the remaining jobs in your organization.

Then, refer to the organizational chart that you've created for the future……the one that will be required to most effectively implement your strategic plan and achieve your Organizational Vision.

Next, list the primary duties and responsibilities of each position - not more than the few key items. This is very similar to the basic information that you list when developing a "want ad" for a new employee.

Finally, determine the profile of the ideal candidate to fill each position - your "wish list" of education, experience, etc. Again, develop this list as if you were preparing a "want ad" to fill a vacancy in your organization.

Here are two more key points to keep in mind regarding your Organizational Chart.

First, Exercise 11 should be completed every time you modify your organizational chart to achieve your plan and vision, since the talent you need might have changed as well.

In addition, be sure to take a close look at the box for the leader of the organization, since the skill sets required for that position are likely to change as well.

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Until this point, you've been told to assume you had no employees, but now it's time to look through your current employees to see which ones will fit immediately, which ones might fit with some development, and which ones will not fit as the organization changes to accomplish your plan.

Remember that our purpose is to assess whether your employees have the skill sets that will be required IN THE FUTURE. Some organizations color-code their charts using green to show employees who are ready to take on more, yellow to identify those who are developing, and red for those whose skill sets are maxed-out. If you decide to use color codes, be sure to keep that chart under lock and key.

Here are a few very important factors to consider when evaluating the competency of any employee, regardless of their position in the organization.

First, some business owners may have had very limited exposure to a stellar performer before starting the business. For example, it's not uncommon to find a business owner who has a Chief Financial Officer who is believed to be a top performer because he or she is the very best financial person that the business owner has ever met. However, a seasoned outsider might immediately recognize that the CFO is simply a great accountant who is better than any other accountant that the business owner has ever been exposed to. In other words, the business owner's frame of reference is limited by his or her previous exposure to "financial" people.

Equally problematic is the fact that, over time, a strong performer can decline to average, or even below average performance. Why? The complexity of the jobs will grow as the company grows, and the company will often outgrow the skill sets of its employees. If the skills and competencies of the employees stand still, so will the company.

The responsibility for employee development lies with two parties. On the one hand, the business owner carries the responsibility to provide training and development so that each employee reaches his or her full potential, and on the other hand, the employee bears the responsibility of continuing to learn and develop in order to operate at a performance level that increases with the growth of the organization. When either party fails to accept this responsibility, or the employee simply doesn't have the capacity to develop any further, the organization's growth will be inhibited. In other words, without focusing the proper attention on employee development, in a growing company a top performer can become average, or even sub-par.

The obvious question is, "Do I have to terminate every employee whose performance doesn't measure-up to expectations?" The answer is that it's always great to keep people who "fit" your culture if you can make it work, but if their full competency and potential has been reached and there's no capacity for improvement, it may be time to move those employees to other less demanding roles that are still within their competency levels. While that typically involves a demotion or, at the very least, no further promotions, it's the right thing to do. It just needs to be done with fairness and dignity. It's surprising how many of those employees are actually grateful to have been relieved of job duties that they already knew they couldn't perform satisfactorily.

If you want to avoid demoting or terminating people later, then you simply have to do a better job of regularly evaluating individual skill sets to avoid putting people in positions where they will likely fail!

It's important to note here that the leader of the business also needs to periodically monitor whether or not he or she is still qualified to run the organization in the future. Remember this……Being the owner does not necessarily qualify you to lead the organization effectively!

Now, go to Exercise 12 in your Workbook to compare the current skill sets of your key employees with the skill sets you need in the future, as determined in Exercise 11. This will reveal the gaps that must be filled, either by developing employees, or by recruiting new talent where necessary.

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In most situations, the solution to filling talent gaps will involve creating individual development plans for each key employee. In doing so, here are a few key points to remember about employee development.

Since employee development is the joint responsibility of the company AND the employee, be sure you have the right people in your organization who are genuinely interested in bettering themselves.

Different people require different types of development. For example, putting all of your sales people in a single room to get identical sales training is usually not the best use of your training dollars, since not everyone has the same training needs. Before you can determine the best developmental program for an employee, you need to assess his or her unique strengths and weaknesses. Then you can find the most appropriate way to approach those unique needs so as to maximize the strengths, and overcome the weaknesses. Mary might be so aggressive on cold calls that she needs some sensitivity training, while Joe could be great at relationship building but is not comfortable with cold calling. Those who can successfully develop new business are much different from those who are adept at servicing customers. As such, they should be trained differently.

Employee development refers not only to enhancing the skills of each employee to do his or her current job, but it also applies to making sure that an employee is ready to take on the additional responsibilities of a promotion. So, resist the urge to promote someone into a new role without making absolutely certain that you're provided the proper training. You don't want to set someone up to fail.

If you do a truly good job of developing employees to their full potential, you can expect some of them to leave the company. Losing a good employee is often unavoidable; that is, if you've developed an employee properly, and the employee outgrows the company, having them leave you is inevitable. When that occurs, you should congratulate yourself for a job well done, since you can look in the mirror and tell yourself that you did what was best for that individual. The employee leaves on good terms, moves to a greater career opportunity, and appreciates what you've done to make that advancement possible. It's tough to say goodbye, but it's the right thing to do, and it actually gives you an opportunity to replace that person with another employee who possesses even greater skill sets!

If, on the other hand, a key employee leaves because you've failed to see or develop the potential that lies within, it should be a wake-up. It's generally too late to make a counter-offer to a strong performer who resigns, but whom you really wish you could have retained. *Develop them, and take care of them; don't take them for granted!*

Employee development is an on-going process, not a one-time event. An ideal way to introduce employee development as a regular activity is to integrate it with performance appraisals. The employee and supervisor meet once or twice each year for the employee's performance appraisal, and together they identify areas where the employee needs to grow, either because of substandard performance, or to prepare the employee for future advancement. Once the employee's developmental needs have been mutually agreed upon, a plan is prepared that will help the employee meet those needs. Not only is this procedure effective, it also gives the employee the feeling that the company truly cares about his or her continued development, as evidenced by the company's willingness to provide the necessary help.

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Even if you do a great job of hiring and developing your employees, there'll be occasions when some won't perform up to your expectations. More than any other problem, today's business owners are burdened by many employees who aren't capable of moving the company forward. Unfortunately, these are often people who've been with the business owner for a long time, maybe even from the very beginning. And, they're often family members! No matter who they are, if they're not capable of moving you forward after you've made a genuine effort to develop them, you need to make a change. If you had a machine that wasn't performing, you'd replace it with a better one as soon as you could. Why, then, would you allow someone to continue performing a function that they're no longer capable of doing effectively? The answer is not a simple one. Nor is it easy to make a change when you may have a close personal relationship (or may be related to) the employee in question. But consider the effect that this situation might be having on others in your organization who resent it, and whose performance might be slipping because of it.

It doesn't mean that the sub-standard performer needs to be terminated. In fact, remember that you're probably the one who promoted them to the current position, so you're partly to blame for the situation. The right thing to do is first look for another position in the organization where this person will be productive, which is likely to be at least one level below his or her current level. Of course, this often means a reduction in salary, but keep in mind that you need to be fair to others in the organization by keeping compensation in alignment.

Make the substandard performer part of the solution. Meet with the employee and discuss their performance. Establish quantifiable objectives (standards of performance) that you expect the employee to meet, and then ask the employee what help they need from you in order to meet those objectives. It's important that you both agree on the objectives, that you establish a reasonable time frame within which those objectives are to be met, and agree on progressively more severe consequences if those objectives aren't attained. Do this while sitting on the same side of the desk, so that the employee knows that you truly want them to succeed, and that you'll provide whatever help is necessary. Surprisingly, many employees respond by meeting the goals, but most often this is only a temporary phenomenon. In the end, the vast majority fall short, are demoted or terminated, or leave on their own very soon after you first meet with them. The bottom line is that you've been fair.

Of course, the best advice is to avoid over-promoting people. Always ask yourself what type of person you'll need in that job when your business grows by 50% to 100%. Then, select the very best candidate available, whether from inside or outside the company. How do you know if an employee has been over-promoted? You can usually tell by the way they accept responsibility, authority, and accountability. If you find you have to keep going back to an employee to make sure something is getting done correctly, or if the employee keeps delegating responsibility back to you, then there's a problem. You hear a lot today about "empowering your employees," but you shouldn't empower them if they're not capable of accepting the empowerment.

No matter how much care is taken to put the right people in place, there'll still be occasions when there's no choice but to remove an employee. This is especially difficult in family businesses where relatives are often still on the job in spite of unacceptable performance.

The longer you tolerate a personnel problem, the harder it is to handle it. It's unfair to other employees if you don't hold all people to the same high standards of performance. If you find that good employees are leaving you, but the mediocre or sub-standard performers are hanging around, then you have a real problem.

If your organization is one that rewards people for longevity rather than performance, it's only a matter of time before you pay the price. While it's great to have employees who are part of your organization for many years, it's more important that they can continue to perform well as their jobs become more complex.

Unfortunately, we often see employees continue to perform poorly, but still receive pay increases. If an employee's performance falls short of the established standards, then no pay increase should be given. Instead, a plan should be created to raise the performance level. If that same employee's performance falls short again, it's time for termination. It's interesting to note that, once employees understand that they'll be held accountable, many of the sub-standard performers *weed themselves out* before having to be terminated. They know the system, and they realize that there will be no more pay raises until they earn them, so they decide that it's time to move on.

If your organization has effectively utilized job descriptions, measurable standards, and performance appraisals conducted once or twice each year, it can significantly simplify the process of weeding-out sub-standard performers. If an employee clearly understands that there are specific, measurable standards that must be met, it will come as no surprise when a performance appraisal indicates a problem since the employee will already be very aware that they're not meeting the standard.

When terminations are necessary, the dignity of the employee must always be considered. Remember that you, or someone in your company, was responsible for hiring the person in question. That error in judgement is partially to blame for the termination that now must take place. After laying out the documented, quantitative evidence of sub-standard performance, as well as the efforts that the company has made to assist the employee in meeting the standards, the conclusion becomes very logical and obvious to the employee. It's then a matter of trying to help the employee decide what career or company might be a good alternative for them to pursue. While you might not be able to provide a good recommendation to that person's next employer, you can certainly offer guidance to the employee.

Now, go to Exercise 13 and follow the directions to create individual development plans for each key person in your organization.

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Even after developing employees so that the business has the necessary skill sets for future growth, there will likely be some situations where you'll need to recruit some new talent.

Determining which people to hire can very challenging. The ideal candidate for the job must have more than just technical skills; attitude is vitally important. No matter how many screening techniques you use, there's no guarantee that you'll hire the right person, but here are some tips that may be helpful.

Interviewing is a skill that can and should be learned through professional training. Taking the time to learn how to interview can pay enormous dividends by reducing the risk of making a poor hiring decision that has to be reversed later. It's a great practice to have applicants interviewed by a number of your employees independently so that they can form their own opinions. To enhance that practice even further, make sure that everyone has undergone some training related to interview techniques.

Many companies rely on personality tests in making hiring decisions. A personality test which is properly administered and interpreted can provide very valuable information regarding a candidate, particularly if those who administer the test can compare the results with a profile of the duties which the candidate would be performing on the job. Check the internet or yellow pages to identify organizations that provide pre-employment testing services, or organizational development consulting.

Another technique that improves the probability that you'll make a good hiring decision is to adopt the "temp-to-hire" strategy, whereby you first bring someone in on a temporary basis so that you can evaluate the candidate on the job before making a hiring decision. While it can be a bit expensive to pay the going rate for temporary employees supplied by an outside company, it usually reduces the likelihood that a poor hiring decision will be made.

It's certainly important to check the references supplied by an applicant. In addition, it's a good idea to do some further investigating on your own. For example, if you see that the applicant has worked at XYZ Company, and you happen to know someone who works there, it may be worthwhile for you to find out what it's like to work with the applicant. Some companies make a practice of calling the applicant at home, unannounced, to find out if he or she has any questions about the job, just to see how the applicant says "hello" when answering the phone. It's important to remember that under no circumstances should you carry your investigation beyond the limits of good judgement, ethics, or personal privacy.

If an applicant has been laid-off, or is the victim of a "reduction in force" at their last place of employment, it could be at least a yellow flag. Of course, there are certainly situations where an entire company is leaving town or shutting down and terminating all of their employees, including some top performers, but just be careful when interviewing an applicant who isn't currently employed.

Assuming you have a strong process for continuing to develop your employees, be sure to make each applicant aware of this great asset, since it could very well differentiate you from a lot of other organizations.

One of the most important things you can do for your employees is to create an environment where they can reach their full potential. It starts with the new employee's first day on the job. Make a big deal about having a new member of your team, and be sure to have an on-boarding process to welcome the employee and to ensure that they have someone who's responsible for making introductions and showing the new employee around --- this can be for a few days, or a few weeks, depending upon the size of the organization and the position held by the new employees.

These are just a few of the "best practices" used by organizations who effectively recruit the talent they need to move forward.

Now, go to Exercise 14 in your workbook as you prepare to recruit the new employees that are needed to fill remaining talent gaps.

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Here's where many succession plans fail. Businesses spend a lot of time and energy to create a good plan, including accountability of expected outcomes, action plans, due dates, and assignment of people who are responsible. Yet, there's no accountability in the review process. If you want to successfully implement a plan, regular review is essential!

Also remember this important ingredient for success: If the leader of the organization doesn't relentlessly drive the process, it won't happen.

That said, if you're the leader of the organization, it doesn't mean that you have to lead the review meetings. In many cases, the review meetings are run more effectively if they're led by an independent, objective, outside facilitator, provided that the organization's leader is always there to show support. I'd welcome the opportunity to lead your review meetings if you'd like.

Regardless of who leads the meetings, the review process requires a lot of discipline.

Meetings should be held according to a regular schedule, like the first Friday of each month from 9:00 until 10:30, with attendance mandatory. You'll need to determine the proper rhythm for your organization, whether it's weekly, monthly, or some other regular interval.

Employees should report progress on the action steps that have been assigned to them, and to ask for help if they've fallen behind for some unusual reason, since you'll want to address those situations early, before they cause major delays in implementation.

As the leader, you owe it to your employees to run the meetings efficiently, and to stay focused, so that everyone sees each meeting as a good use of time.

Now, go to Exercise 15 and prepare a firm twelve-month schedule for planning review meetings.

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Title Slide for Final Thoughts

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In closing, I'd encourage you to think about establishing a personal legacy, assuming you haven't already done so.

Legacies generally involve sharing some combination of your time, your talents, or your treasures.

If you'd like to get a perspective on how to create, or further develop, your personal legacy, we'd like to share the following e-book with you: "Your Next Checkered Flag: The Ultimate Joy Ride." To download your free copy, go to _____________________.

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Thank you for allowing me to work with you as you prepare for "The Hand-Off." Although we've completed the formal part of Strategic Business Succession, I'll continue to make myself available to you whenever the need arises.