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3 Steps to Successful Leadership Transition

Manage the moment between a leader's leaving and a leader's arrival

By Roger S. North

A second-generation father passes his business to two sons and a nephew. A first-generation entrepreneur trusts three high-potential (but unrelated) employees. A first-generation father picks a daughter, son, and son-in-law. A father of four daughters, who weren't interested in running the business, taps two sons-in-law. Six second-generation brothers bring a LARGE number of sons and nephews on board!

All of these are leadership transitions my firm worked with over the past several years. Each required a customized approach. My experience with transition shows that—as the title of the recent Lancaster Chamber Excellence Exchange panel on the topic suggests—there is more than one way. In fact, there may be as many ways as there are businesses to be transitioned!

But while practices may vary, there are principles that apply broadly to business leadership transition. The first principle is this: Planning is the key. We've all heard the timeworn but true adage, A failure to plan is a plan for failure. So it is with leadership transition. The second principle follows planning: Execution is essential.

Consider three areas for successful transition planning—a plan for the leader, a plan for the organization, and a plan for the successors.

A plan for the leader—Why would we need a plan for the leader? After all, he's leaving! In our experience, it's not usually that simple.

The first important yet often overlooked plan is one that the leader alone can choose. It includes how he plans for his own future.

In many cases, the business has consumed all available time and energy of the leader for many years. It is not uncommon for a first-generation leader in particular to be completely without outside interests, such as hobbies or involvement in volunteer organizations. Often, his entire life has been focused on the business. This certainly creates a personal challenge for the leader. But in many cases, it also presents an organizational challenge because the leader will often stay beyond the period when he is needed.

Therefore, the organization helps itself when it applies resources to assist the leader in his transition toward the next stage of life. This transition includes planning for how the leader will spend his time, how he will continue to use his gifts to be productive, and what activities will be likely to bring him a sense of fulfillment. It is the time to design a different pathway to success or possibly a pathway "beyond success to significance," as Bob Buford describes in his book *Half Time*, in which he gives guidance to individuals who want to continue to make a contribution after they leave business. It is also a time for family activity that may have been elusive before.

Recently, I talked with a CEO who is about three-quarters of the way into his firm's leadership transition process. He continues to hold the title of CEO and be involved in major organizational decisions. But on a day-to-day basis, the need for him to be present and actively involved in the organization is minimal. He told me about a variety of family and community activities that are filling his schedule. I complimented him on how he is using the "white space" on his schedule to attend to family and community interests that often took a backseat during his active life as a business leader. He smiled and spoke animatedly about the number of family activities he's been able to engage in over the last couple of years and how pleased his wife is that he is spending more time than ever with her.

But when our conversation turned to his role in the business, he broke down and cried. (Yes, strong men do cry.) He confessed that he is now feeling like a "drag" on the business. He talked about the rather large salary that he continues to draw and how he feels unworthy of the paycheck each time he receives it. Of course I assured him of his continuing value to the business and the active mentoring role that he continues carry with the next generation. Again, he agreed with my assessment, but it did little to assuage his own view of his productivity.

That leader will eventually win his own private battle with his personal productivity. He is fortunate. He has many outside interests, a healthy relationship with his wife and extended family, and the time and resources to live out an active and full retirement. However, in the absence of those things, his impact on the business would likely have been significant and very possibly negative.

The second aspect of planning needs to focus on how the leader continues to be involved in the business during the transition. In most cases, the leader who chooses to transition out has not only been heavily invested in leadership of the organization, he's been heavily invested in the work of the organization. This presents a two-fold challenge: as he goes and for a period of time as he stays.

The first challenge, of course, is the challenge of replacing all the passion, energy, creativity, and competence that leader provided the organization over his entire tenure. There is no easy solution here. But the intent of the plans put into place, for the organization and the successor, must be responsive to a need to replace all that the leader provided to the organization.

Commonly, the leadership style applied by the leader is much different from the style that will be applied by the successors. And typically, the leader and the successors coexist for a period of time, often for several years. This presents the second challenge: finding a way for multiple leaders to find their way to the next stage of the business. The leader in transition must look at how he can make the best contribution so the organization will survive the coexistence of two generations of

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leadership for a period of time. There are questions that need to be answered. What meetings will continue to be run by the former leader? What meetings are appropriate to transition to the new leaders? Are there certain meetings, systems, and processes from which the former leader should be removed so the new leaders can make an impact and necessary adjustments? How will differences of style, opinion, and leadership judgments be negotiated between the current generation and the next generation? Certainly not all the challenges encountered during the period of coexistence can be anticipated. But it is healthy to recognize that there will be significant challenges, perhaps even conflicts, that need to be negotiated, while two generations of leadership flex their muscles in the organization.

It behooves every organization to work through a transition with the retiring leader to make sure that his time and resources are well used even as he moves into a different stage of life. Absent that support, the activities of the leader may be inappropriate and visit the business in a negative way. Worse, they can have a negative and resource-draining impact on the successors.

A plan for the organization— Leadership is a function of organizational development. When we talk about leadership transition, we are really talking about transitioning an organization by changing its leader(s). A leader who cares about his organization will not want to transition an organization ill-prepared to receive a new leader. Consequently, prior to initiating a leadership transition, an objective assessment of the systems, processes, strengths, weaknesses, and talents of an organization should be performed.

Several years ago, we were asked to perform an organizational assessment for a large organization that was contemplating a leadership transition. Not only was the organization preparing for a next generation of leadership, but it was also undertaking a large expansion project. The stockholders were interested in knowing two broad things about their organization. First, they were interested in knowing whether their organization had the leadership capacity and talent to move successfully into the future. Second, they were interested in knowing whether the resources of the organization were well deployed for the expansion they were undertaking. As we proceeded through assessment, we discovered that the answers to their questions were largely positive. However, there were other pressing organizational challenges of which the stockholders were unaware. After presenting the results of the assessment, the stockholders agreed to delay portions of the leadership transition in order to go to work on the areas of the organization that were not functioning well. Had this objective assessment not taken place, the leadership transition that is now well underway would undoubtedly have been met by serious roadblocks, if not outright failure.

What are the areas of an organization that should be assessed when preparing the organization for a leadership transition? We believe it is the culture of the organization (the way that employees naturally function) that has the most influence on organizational outcomes. We often like to tell our clients "culture eats strategy for lunch." Any objective assessment of an organization must assess the gaps between the actual culture of the organization and the culture that the leaders determine will help the organization to reach its goals.

In addition, the character of the leadership and management teams must be evaluated. By character, we mean their alignment with the organization's mission, vision, values, and purpose. Too often we find members of the leadership or management teams who are managing in their own way and are out of alignment with the values and purpose of the organization. It is, therefore, essential that an alignment process be undertaken prior to transitioning new leadership into the organization. This is important because the new leadership may bring with it some changes—not so much to the values and purpose, but more so to the approach to enforcing the values and purpose.

The organization's talent should be assessed. We often find that first-generation entrepreneurs overevaluate the ability of their organization to execute its mission. In order to assess the success of the organization's execution, a customer or quality survey may be useful.

Almost all leadership transitions have their challenges. No right-thinking leader would choose to begin an important leadership transition if he knew there were significant gaps in mission alignment, in culture, in talent, or in execution.

Once the assessment has been completed, a plan should be put into place to address the gaps. This is often an excellent opportunity for the outgoing and incoming leaders to work together to address the gaps in organizational performance. As this process takes place, it often reveals great coaching/mentoring opportunity. It is also a wonderful opportunity for the new leader to gain valuable experience in dealing with organizational challenges under the wing of a veteran leader.

A plan for the successor(s)— Choosing a successor can be complicated in some organizations and simple in others. Generally, we are invited to enter organizations where one of three situations exists. First, it is quite common for a successor to already be evident because of his relationship to the prior leader. An obvious situation is a father with only one child in the business.

A second scenario involves a field of successors, such as multiple next-generation family members in the business. This leads to a more sophisticated selection process. Several years ago, we were invited into an organization where a first-generation entrepreneur was preparing to transition toward retirement. There were three family members in the business: a son, a son-in-law, and a daughter. They had functioned quite well in their areas of expertise as they reported to their father. But they were moving toward a time when the father would no longer be there day-to-day, and he was determined to name one leader; he was not interested in leadership by committee. The leadership character, competence, and commitment of the three potential successors needed to be evaluated. It was a wrenching challenge.

The third situation is one in which the current leader isn't sure whether a successor is currently employed in the business. Often an evaluation process of the current talent in the organization needs to take place, accompanied by an evaluation of what it would mean to the organization if new leadership were brought in from the outside. Among the businesses with which we work, it is rare but not out of the question for a new leader to be brought in. While outside leadership can bring new energy and expertise, there is often a well-grounded fear that it may be difficult for an external candidate to relate to the distinct culture of an organization based on the values of the founding family.

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New models of leadership succession are developing. The traditional one leader/CEO model is being challenged by a partnership or leadership team model. It is increasingly common for us to work with organizations that prefer to name a group of leaders (often partners who share ownership and leadership in the business) to lead the organization. Many of our clients have chosen to go this route over the last few years. Obviously, there are advantages and disadvantages.

Several years ago, we worked with a firm where the first-generation entrepreneur was choosing early retirement. His business was a demanding one and had grown quickly. His principal role had been in organizational and business development. He had three outstanding long-term employees whom he had invited into minority ownership. They were all technical experts in their field, were people of great character, and had a strong desire to provide leadership to the organization. However, their collective approach to leadership was a night and day difference from the first-generation entrepreneur. This caused no small amount of worry in the entrepreneur as to whether they could ever pull it off.

In addition, the first-generation entrepreneur was convinced that only a one-leader model could be successful. However, he allowed our firm the flexibility to work with the new trio of leaders to determine what they thought would be the best leadership approach for the future of the organization. Over a period of years, we combined individual coaching with many group meetings that ultimately determined that the three successors were interested and willing to lead the organization as minority partners in a leadership team approach. Since that time, they have successfully guided their organization through many challenges, and by working together and gaining respect for each other's strengths, have a bright future in leading a wonderful organization.

Once new leaders are identified, their individual development demands attention. They must be prepared for situations for which they can never be completely prepared. Organizational leadership presents challenges that cannot be replicated in a classroom or a coaching session. Even so, the organization must design a plan to address the leadership growth needs of the successor. Development plans for the leadership successors should be as different as the leadership successors themselves. But ultimately, their training and mentoring programs need to be matched to the needs of the organization.

Certainly, there is organizational history and competencies that can only be passed on by prior leaders. It is also becoming increasingly common for an outside consultant or coach to augment internal training. The outside advisor brings objectivity as well as experience from many different leadership situations, which is often indispensible in the training of a new leader. In addition, it may be helpful to employ objective evaluative tools for a comprehensive evaluation of the successor's competencies, strengths, and weaknesses.

Leadership transition—there is more than one way, yet planning is essential. So is providing the time and resources necessary to execute these plans.

We all know the statistics. The chances of privately held businesses surviving from one generation to the next go down exponentially as we move through the generations. But America desperately needs well-run, small, privately held businesses. They are clearly the backbone of our economy. The most vulnerable time for any organization is when it is in the midst of a leadership transition. Successful transitions will yield results for years to come—to the business, its customers, and the community.

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