

The Succession Conundrum: Who Should Take Over the Business?

For founders, owners, or CEOs eyeing a transition out of the business, determining whether you should replace yourself with an experienced outsider or promote talent from within is a big question. Charlene Bergman explains the importance of proactive and thoughtful succession planning and walks through your hiring options when searching for a suitable successor.

Succession planning is a vital piece to any organization's strategic plan, yet CEOs, owners and founders often neglect it, or may address it at a superficial level. The question is—why?

Succession planning tends to conjure up uneasy [thoughts of change, uncertainty, and finality](#) for senior leadership. However, succession planning can be a straightforward process that ultimately helps drive the growth of the business to maximize its value, while setting the stage for retirement—thereby providing peace of mind for you and relevant stakeholders.

In their annual study of CEO's and governance, [Strategy&](#) estimated the cost of global companies getting their CEO appointments wrong at US\$112 billion. Left unchecked, not having a succession plan can leave your organization unprepared and scrambling if the unexpected occurs.

As executive search professionals, one of the most frequent questions we hear when it comes to succession planning for key executives is, “should the successor be groomed internally or recruited externally?” It's an age-old question with no one right answer. Taking a hard look at your company's financial outlook, strategic plans, talent management strategy, corporate culture, generational gaps, and family or leadership dynamics will all help determine the right path.

With that in mind, let's go through some options to determine what approach is best for your organization.

The inside track

Hiring internally has the advantage of leveraging the talent and resources within the company—especially those who may have been brought onboard and developed with succession specifically in mind. Indeed, there is a strong—and understandable—desire to reward your own people with promotions and added responsibility.

This approach endorses an organization's objective to internally develop leadership skills, promote career planning, and a strong commitment to talent development. It also sends a strong signal to your employees that their careers are on the right track.

Implicit with an internal hire is the prospect of maintaining continuity of the firm's culture, strategy, and relationships with employees, customers, and other key stakeholders. Promoting from within also draws on, and keeps, valuable institutional knowledge within the company.

As you can see, this might be the path of least resistance, as all of this is inclined to maintain a level of the status quo and engender predictability within the organization.

However, for these same reasons, it might be good to consider the idea of looking externally. That is, if you're looking to shake things up.

Outside the box

Going outside your company to recruit new leadership tends to be the preferred solution when there is no obvious successor or there's a need for transformation in your organization. In smaller companies, there may be a shortage of eligible candidates. However, even if there is adequate depth of senior management, companies may decide to look outside if their strategy begs for a change in direction, requiring new knowledge and skills, innovation, or even a cultural shift.

An external hire may be seen as the catalyst to tap into new markets, add innovative products or services, or transform the organization.

Conversely, there is a trade-off when going with an external candidate. For starters, you will have to ensure you communicate this decision to your employees—especially to senior leaders or family members who may feel they are up for taking over the helm. [Maintaining relationships is paramount](#) when executing a succession plan. If conversations and assurances aren't happening beforehand, you might well have attrition issues.

The objective approach to succession planning

In the end, CEO succession falls squarely in the category of strategic talent management. The process must be governed by an organized and objective analysis of the alternatives for filling the role. However, it's not always easy to separate subjective views of people, careers, and culture from what's best for the organization.

For example, the incumbent leader may be the most familiar with the internal candidates but may also be the most prone to subjective distractions. For these reasons, it's normally best to confer the responsibility on a selection committee with broad skills and different (and objective) perspectives.

It is also very helpful to include people with a knowledge of the market for external candidates and an ability to assess their qualifications against the needs of the company. If there is sufficient expertise, some organizations can tap their [board or advisory committee](#). In other instances, an executive search firm can be engaged to add this acumen.

Ultimately, in choosing between internal and external candidates, the *process* itself helps to ensure the best result. Even where an internal hire appears most compelling at the outset, a robust selection process should consider all reasonable alternatives and examine the pros and cons of looking externally. At the very least, the broader scan for talent will leave the selection committee with greater comfort that their hiring decision was well informed. This is especially critical where the process is subject to scrutiny, for example for a publicly traded or public-interest organization. All of this speaks to the need for adequate resources in managing numerous candidates throughout the process, both internal and external.

Fairness and transparency are also the hallmarks of a good succession process. Organizations are more likely to retain internal talent—even if not selected for the position—if the internal candidates feel they were adequately informed and treated fairly during the selection process. For instance, for those internal candidates who don't get selected, it may be a good idea to support them with a robust career development plan that will put them on path to future advancement.

Remember, the perception of fairness (or lack thereof) is quick to permeate through the organization following completion of the hiring process.

Succession is a leadership imperative

Determining who will lead after you've left the company is one of the most important people decisions an organization must make. Though it's often envisioned as a well-orchestrated handoff, there are contingencies and life events that can create an urgency around succession and highlight the importance of being well prepared in advance. This applies to internal grooming of candidates, but it also underlines the need to be ready for a thorough external recruitment and selection process whenever the situation arises.

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Our Contributors

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