Lesson 19: Succession; it's hiding in your business

By Allon Raiz

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Succession seems like such a grown-up term - something you would hear in the corridors of a large corporate or a family business. But, for all other types of businesses, it is a word that is unfortunately not spoken about more often.

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The typical startup is built by an entrepreneur who commonly has one of three objectives. The first is to build a business to sell and make a handsome profit.

The second is to build a business to run, a business to generate enough income and dividends to make the entrepreneur significantly wealthy while retaining ownership, thereby providing them with a home and a place to express their passion and vision on an ongoing basis.

The third is the family business, a “build-to-hand-down” model in which the entrepreneur’s kids or other family members are groomed over time to take over the business (this normally happens as an outright purchase or a phased sale or handover of shares over a protracted period of time).

In the case of the build-to-sell business, there is little thought about succession mainly because there is no need. It's more about building a replicable system and team that is competent and able to run the business with a new owner. In a build-to-hand-down business, succession is part of the narrative of the business over many years, the end goal itself.

But, in a build-to-run business, there is often little to no thought about succession until it is too late. Early thinking about succession in this type of business is a lesson many entrepreneurs approaching retirement wish they had learned earlier.

The reality for the majority of businesses is that no matter what the objective was when starting out, they are battling to make consistent profits and, as a result, their businesses are not really worth much. With an essentially valueless business, how can you even think about succession when there is nothing worthwhile for a successor to take over?

When you ask a build-to-run entrepreneur about their endgame, they often look at you blankly and try to avoid answering the question. The idea of selling their "baby" is something they don't want to contemplate. Even though they know that inevitably a time will come to sell, it is something they would rather deal with "when the time comes." But when the time does come, there is likely to be nothing to sell and millions of Rands of potential capital will be poured down the drain.

The concept of succession

In an ironic twist, simply introducing the concept of succession to the entrepreneur in a build-to-run business is what actually gives it the highest chance of becoming successful and valuable.

Let me share two stories. The first is about a build-to-run entrepreneur who built a publishing house with two great products, both of which relied entirely on him to keep up to date. When he approached me to invest in his business, I realised that there was no succession in the business. I was not going to run that business, so I proposed that together we find a young entrepreneur to groom to take over the business and sell it to them over time.

In other words, we needed to manufacture the succession. As the idea evolved, he became more anxious about his baby and pulled out of the process. So strong was his inability to let go that he effectively let go of millions of Rands in the process.

The second story is my own build-to-run business journey. In 2014, my business went through a significant leadership and management crisis. As part of solving this crisis, I reached out to many of my fellow entrepreneurs and mentors for advice. One of them asked me, "What is your succession plan?" I was confused because I had come to him for advice on the vacuum of real leadership and management in my business. He then moved from advice mode to telling mode. "You need to see your middle management, not your senior management, as your succession plan. Spend the next ten years building the competence of your middle management. They are your succession plan."

My mentor is an investor, and he went on to say that he never buys or buys into a business that has weak middle management. In his experience, it is the strength of the middle management that determines the value of a business.

"Why not senior management?" I asked.

"Even if your senior management lands up purchasing the business or part of the business from you in a management buyout, they will rely on your middle management to continue delivering results. If you only start thinking about building your middle management at that point, it will take another five to ten years to build properly. By then, you might not have five or ten years, and you certainly won't have the same amount of energy that you have now. Start building your middle management now!"

And that is exactly the lesson I have followed. I have spent a huge amount of my time investing in process and systems to support my middle management, and I continue my journey in hand-picking and pruning them. As a result, the business is performing better than ever, and its value has never been higher.

Before this point, I had never thought about middle management in terms of succession. In fact, I had never thought about succession at all. And, even though I still don't have any inclination to sell my business, I now have that option if I so wish – either to an external party or to my management team.

So, the lesson is simple – Invest in building your middle management now and you will, by default, build your succession plan.

ABOUT ALLON RAIZ

Allon Raiz is the CEO of Raizcorp. In 2008, Raiz was selected as a Young Global Leader by the World Economic Forum, and in 2011 he was appointed for the first time as a member of the Global Agenda Council on Fostering Entrepreneurship. Following a series of entrepreneurship master classes delivered at Oxford University in 2014, 2015 and 2016, Raiz has been recognised as the Entrepreneur-in-Residence at the University of Oxford's Saïd Business School.

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