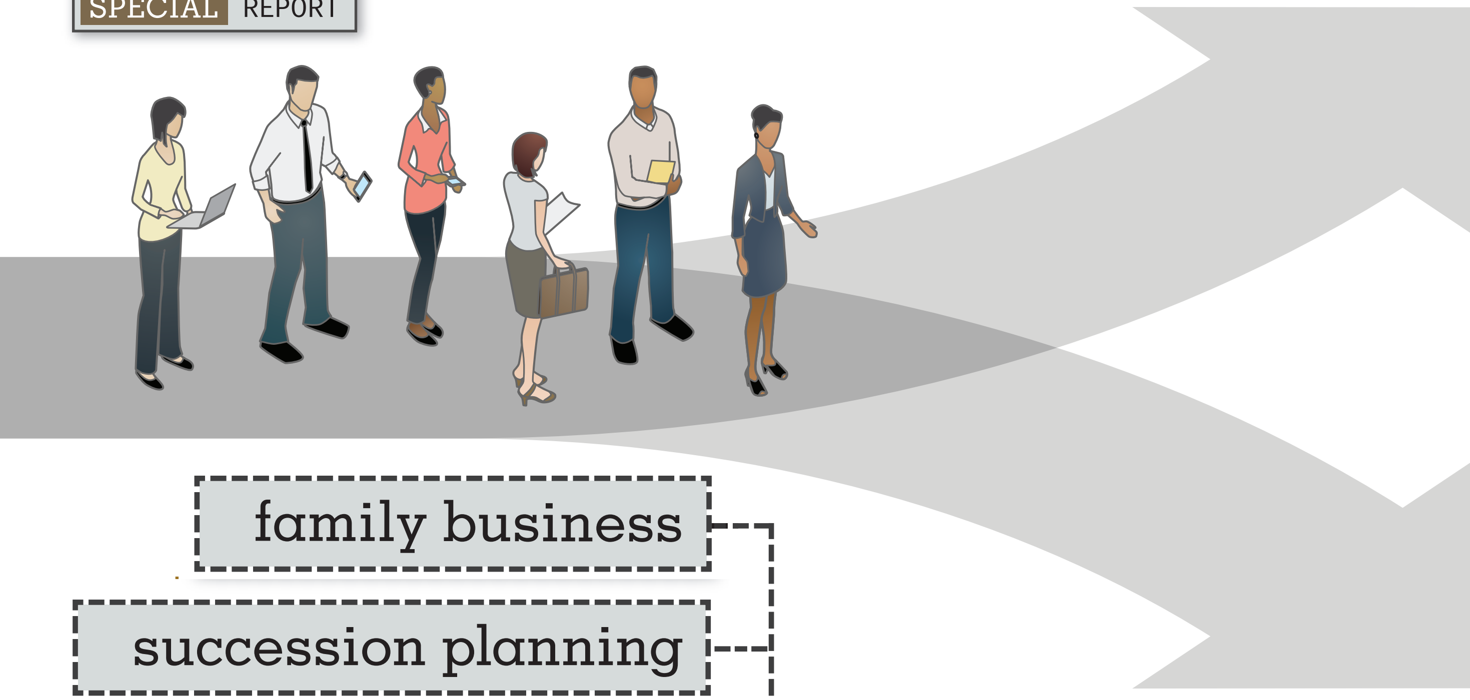
SPECIAL REPORT



family business

succession planning

A DIFFERENT TAKE

BY HOWARD COLEMAN

According to a recent study by MCA Associates, 60% of family-owned businesses do not have a full and active succession plan—and about 50% haven't even thought about a choice of successor. These owners are in danger of having worked all their lives creating, building, and running a business only to have it fall into limbo when the time comes for their retirement or upon their untimely death or disablement.

Succession is a once-in-a-lifetime event, often fraught with emotional and financial issues that are stressful to not only the family, but also the family business, which is a good reason to look at succession planning as a process rather than a singular event.

There are many reasons companies don't have (or fail at) a succession plan—including a fear of discussing the future beyond the lifetimes of the owners, a fear of letting go and/or loss of meaningful life, difficulty in making hard choices, feelings of entitlement among potential successors, and even spousal influences.

Adding to the confusion are the many choices available when it comes time for the current management team to hang up the reins: sell to an outsider or employee, hire someone from the outside to run the business, retain family ownership and management control, or do nothing or minimal due diligence and leave chaos behind.

When owners do get around to creating a succession plan, the initial conversation almost always turns to the financial considerations. And while these are surely not unimportant issues, the problem is that many owners shy away from the sometimes-difficult issues related to who the successor(s) will be. They fool themselves into believing that choosing the right successor is a slam dunk, particularly if it is someone in the family. They lose sight of the fact that the definition of succession planning is really made up of two distinct parts—a science and an art:

- A transfer of assets to a successor or successors (the science)
- A transfer of control to those best suited to exercise it (the art)

THE FOUR PHASES OF A SUCCESSION PLAN

Most succession plan advisors agree that if plans are made early enough, the four phases to a successful succession plan are:

1. Initiation: Children, or others, begin to learn about the business and make decisions about coming into it.

2. Education: Potential successors are trained and a path to growth and responsibility is provided.

3. Selection: The successor(s) and the company's leader(s) in the next generation are chosen.

4. Transition: The timely, orderly, and final transfer of control to a successor is begun, which may also include the role, if any, of the current owner.

The selection phase is the most important—and sometimes may not be as obvious as one thinks, which is why I choose to redefine the definition of succession planning as "a purposeful initiative focused on leadership talent," regardless of whether the transition is to a family member or outside management or just to build bench strength.

The critical competency in this selection phase is leadership competency, so one can't ignore the three factors of knowledge, skills, and personal attributes (KSPs). The combination of these three factors offers clarity about the core competencies that should exist in an individual (a potential successor) and identifies the gaps that may exist:

- **Knowledge:** the sum of an individual's experiences and what he or she knows as it relates to the business, across sales, operations, finance, IT, etc.
- **Skills:** how a person can apply what he or she knows in a productive way
- **Personal attributes:** leadership and behavioral styles, emotional intelligence, attitudes—i.e., the personal skills required of leadership

Personal attributes can be a limiting factor. Where knowledge and skills can be learned or taught, personal attributes are effectively who we are.

As part of the selection phase, benchmark the specific criteria, such as those that follow, and the degree to which one must possess these attributes:

- Motivation, drive, and competitiveness—e.g., drive to succeed, innovation, and out-of-the-box thinking
- Results and goal orientation (as opposed to just performing tasks)
- Interpersonal skills
- Communication and persuasiveness (the ability to influence others is a major personal attribute)
- Emotional intelligence—i.e., the ability to facilitate high levels of collaboration and productivity

DON'T GO IT ALONE

When it comes to succession planning, there is no reason to go it alone. Obtain a family business analysis by working with a consultant, an advisor, etc., knowledgeable about succession planning, who understands the emotions and broader implications of change involved and who can help facilitate the succession planning and implementation issues.

Additionally, use one of the many assessment tools that exist in the marketplace today that can help evaluate succession candidates' skills, aptitudes, and behavioral traits as well as work-related leadership characteristics and how they will "click" at the top of the organization—even if, for now, it is from a personal development point of view.

After all, succession planning and choosing the right successor is really about job suitability—isn't it? ■

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Transitioning from CEO to retiree: Three steps to take now

Today's 50-something CEOs tend to have vague dreams of more fishing, traveling, or sailing when they retire, but they don't know when that might be so they haven't begun planning for it.

That's a mistake, say a trio of specialists: wealth management advisor Haitham "Hutch" Ashoo, CEO of Pillar Wealth Management (pillarwm.com); Jim Kohles, chairman of RINA accountancy corporation (rina.com); and John Hartog of Hartog & Baer Trust and Estate Law (hartogbaer.com). The trio offer these suggestions and considerations from their respective areas of expertise:

1. Identify specific lifestyle goals for retirement so you can plan for funding them. Each goal will have a dollar amount attached. You (or your advisor) can then determine whether it's feasible and, if so, put together a financial plan.

"But you can't just create a plan and forget it. Monitor its progress regularly and make adjustments to ensure you're staying on course, just like you would if you were sailing or flying," Ashoo said.

2. Don't sell yourself short when selling your business. "If you're banking on money from the sale of your business, know that it's unlikely you'll have investors just waiting with the cash for the chance to buy it when you're ready to sell," Kohles said.

Buyers are more likely to offer to pay over time from the company's future earnings—which leaves the retired CEO with no control over the business and utterly reliant on the new owners to maintain its profitability. A good alternative is to establish an S corporation combined with an employee stock ownership plan (ESOP), Kohles advised.

3. What do you want your kids' inheritance to say? If you have children, this decision can change their lives for the better—or worse.

"How your assets are disposed of should reflect your values. A lot of people prefer to think in terms of taxes at the expense of values, but I advise against that," noted Hartog, adding that, for children, incentive trusts can encourage, or discourage, certain behaviors. "If you're concerned your adult child won't be productive if he or she has a lot of money, set up a trust that will make distributions equal to what the child earns himself or herself. Or, if you want to be supportive of a child who's doing something socially responsible, like teaching in an impoverished area, you can set it up to pay twice his or her salary."

There are many creative ways to establish trusts, Hartog added. Plan about five years out and change the trust as life events dictate. *—tED*