

Special Edition

Successor Planning Part 2

Last week, I discussed establishing a successor plan. I described what successor planning tails. I also indicated how difficult the process is and I further stated that 80% of all business enterprises in the United States are family owned, yet 1/3 of company's have no written strategic plans that focus on their future.

I discussed establishing a transnation process and I discussed specific questions that were necessary before you start the process. This week, I want to discuss structuring the shift of power. In my last article, I indicated that endings and beginnings are tough business.

For many owners, succession and the planning it entails is recognizing a major portion of their life is over. Unfortunately, the transfer of power from a first to second, or third generation, seldom happens while the founder is alive and still on the scene. However, regardless of which generation is involved, it's important to understand that the succession transition is one of the most agonizing emotions that owners will deal with in their lifetime.

Choosing a Successor

As part of the process of starting to plan your exit from the business, it's important to understand that you can't limit your upper management decisions to family members. So can produce negative results. You need to evaluate;

- The available "pool" of potential leader strength within your business.
- I highly motivated, non-family members perceive their chances of moving up in the family business impossible – they will leave;
- It's important to recognize that opportunities for advancements should be performance based, not entitlement based.

It's also important to recognize that if you have children in the business, you can not differentiate them male and female. Your decision has to be based on their ability.

For some owners of privately held companies, this is a difficult process because some people still have the mind that there is a difference between a male and a female. It is perceived by some, that women are the weaker sex, but sales are the farthest thing being weaker from the truth. Women, in many instances, are;

- Organized.
- Know how to focus, and;
- In some instances, they have stronger desires then their others because they're out to prove something.

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Successor Planning
Part 2



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June 23, 2009

Early in the development of my successor plan, I had several children in my business. Both of them served a very important function;

- One was a very good administrator.
- He was very good at networking, and;
- The other was very good on the telephone and sales.

The oldest, unfortunately had an entitlement attitude and eventually, it cost him his job. The other one had the desire to take my company to the next level and he had many good ideas, but he was the ultimate entrepreneur and it was decided that he needed to pursue his own dreams, not necessarily his father's dreams.

At the same time, I have a General Manager, who has been with me 14 years. He started off as a sales person, left after 11 years; he needed money and came back, I agreed on a part time basis and is now the Vice President of the company and General Manager. **One of the reasons I chose him to help lead my company going forward is;**

- He's honest.
- He has integrity.
- He is always willing to learn, and;
- Most importantly, he is committed!

My point; in order to start a process, you've got to be able to differentiate parent from employer – if you can't do that, your plan is doomed to failure.

As you go through this process, if you determine that none of your children or employees have the capability or desire to want to take your company and continue its legacy, then you need to look at the alternative of selling to the outside market, and I will address that later in my subsequent issues. **However, currently, I want to focus on transferring the business to family members or employees.**

The first thing, (as an owner), you have to do is look at what you believe your business symbolizes and what you believe your values are. Then you have to plan your successor choices based upon those values. Winning family businesses tend to demonstrate certain traits and qualities. **They include having employees who lead a balanced life. In other words; not all work and no play.** Some of the most successful trucking companies that have transferred from one generation to the next successfully, are companies such as;

- C.R. England, and;
- CRST.

In many instances, these companies can be used as an example of how to do things properly. In reference to children, a child can be extremely financially aggressive, but they may not be psychologically or emotionally stable; they are not necessarily a good leader; a good leader;

1. Communicates regularly.
2. Has a system in place that fosters "playful and serious talk".
3. Agrees on a business purpose and has clearly defined goals, and;
4. Is willing to share power.

Other attributes include;

- Having recognized traditions, which help keep the family connected.
- Having similar values and direction on how the company should grow in the future.

If there is a big difference in moral or ethical values, it makes it very tough to share a common goal and objective such as;

- a) Growing at a slow pace (fast pace is difficult to manage).
- b) Remaining small to medium size.

There are difficulties when a company achieves a certain size; sometimes the owners loose their focus and start having financial problems;

- Having a strong, capable leader.
- An effective board, and;
- Individuals that have a passion for the business, helps to ensure the continuous success of the business – particularly today.

In other words, tend to think beyond getting rich and emphasize the family legacy. For example; I recently sold a company, whose name will remain anonymous, however this was a very successful company;

- The founder was between the ages of 59 – 64 years of age.
- He never started the company to make a lot of money.
- He started the company to make a difference and surrounded himself with people that he believed had the moral and ethical values that he believed in.

The end result was his company became very successful and when he decided that he wanted to sell his business, he recognized that;

- The family members were not capable of taking over the business and perpetuate it.
- He recognized that he had achieved a certain level of success because of the dedicated employees he employed, so;
- He decided to sell, but he did not want to sell to someone that would disband the business so he sought a private equity partner.

This individual spent a lot of time, did a lot of “soul” searching, to make a decision on how the transfer of power and management would take place. In essence, he believed it was in the best interest of, not only his family, but his employees to sell to an outside interest.

Next week, I will discuss successor short falls and how difficult the transfer of ownership is from one generation to the next.

QUOTE OF THE WEEK: “Life is tough. Dying is easy. Living, you have to work at it. Living is an athletic event. Living you have to work through it. Living you have to be tough.”