"The secret to getting ahead is getting started", Mark Twain

Insight 9 – Transition Planning

For the next week, the runners kept popping in or out of the running group as their love of the lunchtime diversion and exercise was overcome by other commitments. So Dave and Jim found themselves in the change room on Friday afternoon after a particularly fast-paced outing.

As talk of the day's run wound down, Dave opted to change the subject.

"Hey Jim", he asked, "how's it going with your business continuity plan?"

"You might be surprised, Dave, to hear that I have actually given it some serious thought. That last conversation with Julie was very helpful," Jim replied. "I now have a good idea of what will be in Plan A – the one where I get to choose and mentor my successor. Plan B for what happens if I am prematurely out of the picture seems a little more mechanical to me, so I am not as worried about having the proper insurance in place, etc., as I am about the bigger picture of family succession. Besides, you can help me with that part – the insurance and continuity options - right?"

"For sure," Dave answered. "I'll set up a meeting with our insurance specialist for the three of us. I think, Jim, at the same time, we should expand the discussion to include some key aspects of your Plan A, given that's the one we are cheering for."

"Of course, I would welcome your insight and experience – as I always do," Jim added a bit sarcastically.

Dave responded, "I think we should have a more formal discussion than the type of conversations we have while running, on the whole matter of transitioning your business to the next generation. I'd like to proceed on the hopeful and optimistic assumption that Plan A is the one that is enacted because you have grown gracefully old and want to ensure a positive hand-off to your successor."

"It seems to me," Jim responded, "that by definition, Plan A would be better than Plan B, right?" Jim responded - again with a hint of sarcasm.

Dave came back quickly, "I have a friend who is a multiple-gold-medal Olympian and I recall her once telling me that her Plan A was always to win the gold medal, even when she knew the odds were against her. 'Why train to come in anything other than 1st?', she said. In her mind, if she didn't win gold it was because she wasn't able to execute on Plan A, not because it was an acceptable alternative."

“Well, I guess if that approach is good enough for a world champion, it should be good enough for me!” Jim declared, which only added to Dave’s growing sense that Jim wasn’t being as serious as Dave thought the topic deserved. So, he decided to bring some sobriety into the conversation.

“Jim, to make sure we give this the attention it needs; I’d like to schedule a meeting in my office. Would sometime next week work for you?”

Sensing Dave’s unease with his casual attitude to something Dave obviously felt was important, Jim responded, “Of course, just send me a couple of times that fit your schedule and I will make myself available.”

“Good – will do,” Dave said. “Now I have get ready for a client meeting. You will hear from me later this afternoon.”

A few days later, Dave and Jim were sitting in the Boardroom at Dave’s office to continue their discussion of Jim’s business continuity plan.

“So where do we start?” Jim asked, avoiding their customary small talk to show Dave that he did acknowledge the seriousness of the discussion.

“Well,” Dave replied, in a more light-hearted manner to indicate that, perhaps, he had been too stern in their earlier conversation, “As Mark Twain said, ‘The secret to getting ahead - is getting started’ and if you have already developed some good ideas about your business continuity plan, we are well on our way.”

“Yeah, and I thought about it even more over the weekend,” Jim volunteered. “When you have to actually put pen to paper, some of the choices aren’t as straightforward as you might initially think.”

“To be sure,” Dave agreed, “There is much to consider and some of the choices you have to make will require compromise. Trading off one thing for another may be the best decision overall, but it can also mean cutting back on one thing in favour of another or disappointing some people who were hoping for a decision that benefits them the most personally. But that’s what compromise is.”

“As businessowners, we are always faced with decisions that require choices,” Jim reacted. “Isn’t that what distinguishes leaders from followers?”

“At some level it is,” Dave agreed. “But the decisions you make regarding the succession of your business are generally more far-reaching and weightier than those you make on a daily basis. The consequences of a faulty decision can be disastrous to the business and, in your case, to your family.”

“Now you are starting to scare me,” Jim said, with a contrived look of fear.

“I am not worried about that,” Dave responded. “You didn’t grow your business to where it is today without making tough decisions along the way. But let me ask you a question to illustrate the point in the context of your business continuity plan. If I use the terms ‘succession plan’ and ‘transition plan,’ do you think they mean the same thing or something different?”

“Same thing.”

“And most people would agree with you, which is why those two terms are often used interchangeably. I would argue, however, that while they are based on the same event, they represent two different perspectives.”

“Which are?”

“I define a succession plan as *what happens to the business after the founder is gone,* whereas a transition plan is *what happens to the founder after the business is gone*.

“I am not trying to be cute, and this is not simply a matter of semantics. It is a very real dilemma faced by every entrepreneur exiting their business. How do I leave the business in the best shape possible, while at the same time ensuring I get what I want, need, and deserve from the transition? Obviously, we want both the business and the founder to be financially stable and prepared to meet the future after the transition. In that sense, they have complementary objectives.

“However, they can also have opposing objectives because what is good for one may not be good for the other. For example, think about the use of cash in the business. If the founder insists on getting their money out of the business the day they retire, it may place a huge financial burden on the business and the successor by limiting the ability to invest in the business, open new markets, etc., which may be important for the ongoing viability of the business.

“From the other perspective, if the business pays out the founder ‘as little as possible’ over an extended period, he or she may not be able to enjoy the retirement lifestyle they desire.”

Jim jumped back in. “I hadn’t thought about it that way, but I realized as I was thinking about my eventual transition that I have to look at every decision from two vantage points — as Jim, the CEO of our family business, and also as Jim, the steward of the rest of my life. I think what I have in mind is good for both.”

“Excellent,” Dave congratulated, “and, again, I am not worried about you making prudent financial decisions when the time comes. That said, there is another important dimension of transition planning that we should talk about.”

“Of course, there is,” Jim said with a small chuckle, confident that he and Dave were now on the same wavelength in terms of the gravity of their conversation. “And that is?”

“It is how you will know that it is time for you to leave,” Dave answered. “I doubt it will be a palace revolt or employee insurrection that forces you out. Quite the contrary, I suspect there will be some strong pressure on you not to leave — so how will you know the time is right?”

After pondering Dave’s question for a short time, Jim answered, “I have always thought that a good leader would just know it was time to pass the baton to someone else, but maybe not.

“I wouldn’t want to end up like an old rock star who is playing at small casinos instead of large stadiums because both their ability to hit the high notes and their number of fans are diminishing over time. I’d much rather go out gracefully on top and make room for the next superstar,” Jim said with comedic drama.

Dave laughed before he continued. “You have hit exactly on one of the other key decisions business-owners have to make with respect to their transition – when will you be emotionally willing to exit? I have been through a number of transitions with other business-owner clients and, in my experience, being psychologically prepared is often the key factor that determines the success of the shift from founder to successor.”

“So how have your other clients decided they were emotionally ready to transition the business they have spent their lives building?” Jim asked.

“That’s a great question, Jim, and the answer is that ‘it depends’ on what is important to them. For example, if you are the sort of person who is totalled defined by your business and can’t imagine what else you would do with your time, you are unlikely to be emotionally prepared to exit. On the other hand, if you are personally fulfilled by where the business is and look forward to pursuing some other activity after you train and mentor your successor, then you are on the positive end of the scale.

“People define ‘success’ in their own way, so there is no hard and fast rule as to when you have achieved whatever level of accomplishment you desire. It’s a totally personal feeling.”

“So, it is fair to assume,” Jim reacted, “that I don’t have to decide everything today. I can wait until I am closer to my transition date.”

“True, but you do want to have a plan to give you some direction. Transition planning isn’t an event — it’s a process. So, the more time you give it to unfold, the more likely it will be successful.”

“Then, what should I be thinking about now?” Jim asked.

“Well, as I said earlier, emotional readiness is a huge component; however, we must also acknowledge that financial security begets peace of mind, so ensuring that you have the financial wherewithal to enjoy the lifestyle you desire post-transition is probably a good place to start.

“Will you be able to accumulate sufficient assets outside the business to fund that lifestyle or will you have to liquidate some or all your shares in the company? Will your successor or the company be in a position to ‘buy you out’? These are questions, of course, that I can help you answer in the context of our existing advisor/client relationship. We will just have to better define what exiting the business will look like for you.”

“It all sounds so abrupt and final,” Jim said.

“In the real world, it seldom is abrupt,” Dave responded. “Very few entrepreneurs circle a date on the calendar and at five o’clock on that day, hand in their keys and walk out the door. It is almost always a gradual transition, perhaps to less day-to-day involvement or a change in responsibility, for example, from CEO to Chairman of the Board. Depending on how ready you and your successor are, the process can easily take five to ten years to complete. In fact, given its importance and prolonged nature, your succession plan should have a prominent place in your overall business plan. That’s the way large corporations prepare for the eventual and inevitable transition of leadership.”

“OK, so let’s assume we get the financial part right through the investment program we already have on the go,” Jim said, “what else do I need to consider?”

“I have a strong belief,” Dave stated, “that everyone should have something to retire “to” when they retire “from” their life’s work. That something could be anything that they enjoy doing and gives them personal satisfaction. It could be lots of travel and leisure, more time with family, pursuit of a hobby, writing a book, teaching, volunteering in the community — whatever fills the inevitable void that you will feel when you are no longer running the family business.”

“I’ve always wanted to be a stand-up comedian!” Jim laughed.

“Yeah, we might have to talk about that one,” Dave shot back with a laugh of his own.

“Seriously though, you are going to have to give some thought to what you want your life to be like once you hand the reins of the family business to someone else.”

Jim took another of his customary long moments to reflect before saying, “I thought this was going to be pretty straightforward, but I now see there is a lot to contemplate and plan. Any shortcuts?”

“Well,” Dave answered, “there is a school of thought which suggests that as family enterprises grow, they should seriously consider replacing family leadership with professional management. The argument is that a professional CEO will be more objective and, therefore, able to do what’s right for the company despite any family dynamics.”

“But isn’t that counter-intuitive to the notion of a family business?” Jim asked.

“That’s the other side of the debate,” Dave offered. “Ignoring the family interests and ambitions may be destructive to the family unit. It’s the same reason some business founders avoid or delay any discussion of transition. They simply don’t want to deal with any potential conflict.

“There is also a compromise solution that some companies implement. They make sure there are independent, outside members on their Board of Directors who can employ their business acumen in many areas of the company, including critiquing the CEO’s succession plan and evaluating potential successors. They can also coach or mentor candidates to ensure they would be effective in the leadership role.”

Jim went quiet again for what seemed a long time.

“So, have I given you too much to think about?” Dave asked.

“No, not too much and you have also given me a more organized way to go about it. Now, since you have dashed my hopes, I think my biggest decision will be deciding what I want to be when I transition out of the business besides a stand-up comedian!”

Toolbox

Compare your status quo to the questions below. If one or more “no” answers reveal deficiencies in your approach, know that you aren’t alone and that it’s not too late.

1. Have you defined your personal goals and a vision for the transfer of ownership and management of the company?
2. Have you developed a clear and accepted vision for the future of the business? Is the transition plan written?
3. Do you have an identified successor in place that have they been objectively (with advice from others) assessed in terms of capabilities?
4. Is the primary goal for the business to remain in the family?
5. Will there be sufficient liquidity to avoid the forced sale of the business?
6. If applicable, have you resolved the family issues that often accompany leadership and ownership decisions?
7. Do you think the family can survive the stress of a transition?
8. Is there a detailed contingency plan in case you die or becomes unable to continue working sooner than anticipated?
9. Have you prepared yourself through consultation with peers and professionals?
10. Are you committed to actively managing the implementation of the transition plan?
11. Do you have the appropriate forums for reaching consensus on key issues established (ex. Family Council, Independent Board of Directors, Core team of skilled individuals including outside professionals)
12. Have you assessed your income needs after transition?

A good plan takes time to develop and implement. This is an introduction to the questions you’ll have to ask as you start down that road.

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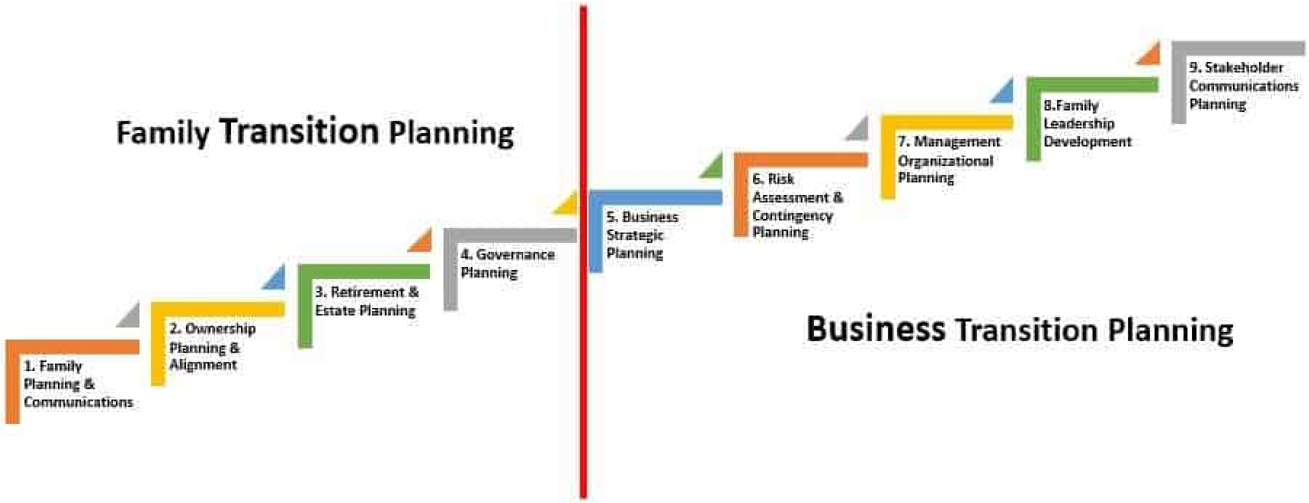
9 Steps to Succession Planning



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