

## Successor Planning Part 4

Over the last several weeks, I've discussed successor planning and how to transfer ownership from one family generation to the next. I discussed;

- How difficult the process is!
- I discussed how to develop internal leadership.
- I discussed the family business and how you must look at your children as employees and not as a family member.
- I discussed the "baby boomer" generation and the process that a baby boomer goes through in relationship to "letting go", and;
- I also discussed if a business is going to stay in the family, and there are multiple children in the business, the process that you must go through to chose a leader.

Today, I'm going to discuss the actual process of how to start "passing the baton". It's important to understand that if you decide it's a major goal to have your child/children carry on the business, you need to measure whether those family members meet your criteria for the next generation leadership.

During this process, you will need to do some selective "pruning". One of the key components will include a knowledge of the business, understanding of the industry and the ability to make decisions.

If you will remember, I stated, earlier, that if you have a family business and you want your children to perpetuate the business, you have to view them as employees; therefore, you have to set measures for consideration. What should those measures be?

1. What are the successor candidate's personal goals?
2. Does he/she know who they are?
3. Will they stand in the way of, or encourage family business leadership?
4. Has the successor learned about the business? Is he/she a quick study? Has the successor practiced good money management in life and work?
5. Do they have outside experiences and has the work within the firm prepared that family member for the special challenges that the business or industry places? Can they learn from the mistakes they make/made?

As you're going through this process, you have to recognize that you need to look at your children as employees and you need to do what's in the best interest of your company.

It's important to recognize that family conflicts can be one of the most difficult and destructive forces in a business. Look at the U-Haul International fiasco. Ultimately, the founder and chief executive officer of his own company was voted out of his company by his children.

# THE AHERN ADVISORY

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Part 4



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After that, you had what was considered one of the worst family tragedies in history.

Assuming that you want to “continue the process” and assuming that you’ve decided to create a plan and transfer the power from one generation to the next, the question becomes:

- How do you make the choice of a successor?
- How do you design the correct successor plan? And;
- How do you set up a criteria for the next generation leadership?

If you are a family business and you’ve chosen your successor, it’s so important that they are properly trained. Giving that successor time to master crucial skills will be the most critical part of the transition process.

In addition to competent and extensive training, giving potential successor’s the opportunity of obtaining experience outside the company, is a valuable competitive edge, one that has been used by many companies to bring their successor’s along. In fact, in one very large family business that I have done work for, it’s mandatory that if the child wants to be in the business; he/she will initially enter the business;

- Then, after working in that business, they must work outside of the company for 2 – 3 years, and;
- Then they are allowed to rejoin the company, if they so desire.

The lesson; they are obtaining exposure to other facets of management styles which is crucial to the development of their management skills.

### TIMING AND TRANSITION

Unfortunately, a transition doesn’t happen over night. Separation and design of a plan is the key to achieving the management transfer. Will it be smooth? – It never is! However, there are many strategies to consider and they require time to evaluate with a competent group of advisors.

One of the most frequent problems an owner of a company has is his/her reluctance to retire because their identity is in the business. In fact, I have had some of my customer’s state that they are never going to retire; they are going to die at their desk. Unfortunately, how does the business continue to operate if there isn’t a successor in effect?

Once an owner has decided that he/she is going to transfer the business, he/she needs to structure the business strategy to the family needs and determine what skills and qualifications the next leader should have and they also have to set into “play” ways to resolve any conflicting needs of the current owners and their successors. The owner must want to be on a firm retirement and departure date – this is one of the most difficult parts of the process, but once that process has begun, then you have to work backwards from this to accomplish their goals and objectives.

To start with; you must provide a basic transition plan or time table to insure continuity of management. Then you need to re-evaluate, periodically, to determine that the goals are being achieved. Above all, you don’t need the plan to sit on a shelf as we all have a tendency to procrastinate. This should be a written document. You need to review it continually, make the necessary changes, and take into account the fact that family’s change, tax laws and retirement goals change.

### OWNERSHIP RULE AFTER SUCCESSION

When a successor takes over the business, he/she is constantly looking over their shoulder and measuring their decisions against what their parents would have done under similar circumstances. It’s almost like chasing a ghost. Successor’s have to find their own identity and not assume the identity of their predecessor’s. Retiring managers should offer their support and offer their encouragement and consultation but they should not be involved in making the decisions for their successors.

In next week’s article, I will continue to discuss the process of how a successor must find their own way and operate the business.

**QUOTE OF THE WEEK:**

**“A good beginning is half the work.”**