

Next Question...

Advisors Stress the Importance of Succession Planning

By GEORGE O'BRIEN

There are many things that people would prefer not to talk about — such as finances, their own mortality, and the strengths and weaknesses of others. Unfortunately, all of these issues are at the heart of succession planning, which is why many otherwise-practical business owners don't broach this subject until it's too late. Advisors preach that people should start thinking about possible exit strategies before the ink on the first business plan dries, and they suggest that the basic approach is to always ask the question, 'what if...?' and always have an answer. This isn't easy, but it's necessary.

Kevin Vann was clearly distracted by the fact that he couldn't remember who uttered the quote he was about to recite — but then concluded that it simply wasn't worth it to keep searching his memory bank.

It was the point being conveyed that matters.

"Whoever it was said that the 'the sign of a good leader is one who is always working on his succession plan,' said Vann, president of the Springfield-based Vann Group, which has consulted countless individuals and families on these often-complicated matters over the years.

He, like others we spoke with, said that too many business owners don't think about the matter of succession at all — or until it's too late. Which is why those who advise others on such matters are quick and pointed in their emphasis on the other word in

that phrase: planning.

And, quite often, they'll add a third — 'process.'

"Because that's what it is," said Dennis Egan Jr., an attorney with the Springfield-based firm Bacon Wilson, who consults with many of his corporate clients on this subject, which blends elements ranging from state and federal estate-tax provisions to

partner with the Holyoke-based accounting firm Meyers Bros. Kalicka Inc.

Large numbers of Boomers will be retiring soon — some maybe later than they would like due to the financial meltdown of 2008 — and this means turning the business over to someone else. To whom the reins are given, under what circumstances, when,

a few. They include everything from overvaluing or undervaluing a business — with each mistake bringing its own set of unwanted consequences — to miscalculating the abilities of next-generation members to run the show.

One big error, he said, is to forget about that one constant in life and business: change — with regard to technology, competition, the global nature of business, and even the lives of those who may be the next leaders of a business. And this is why whoever it was who uttered that quote said "always."

Minimizing mistakes is the fairly broad assignment facing all those who must tackle succession planning, said Vann, adding quickly that the devil is in the details, and there are many of them.

In this issue, *BusinessWest* takes an in-depth look at the subject of succession planning, with the goal of helping area business owners and managers understand what that person Vann couldn't recall was saying. This is something they need to be thinking about all the time.

Not-so-rapid Succession

Jeff Fialky, another corporate law specialist at Bacon Wilson, also spent some of his time with *BusinessWest* trying to recall a name — only he gave up much more quickly than Vann did, and for the same reason; it was a fact that was quite irrelevant to the discussion.

In Fialky's case, he was trying to remember the name of a keynote speaker at a large convention on succession planning that he attended late last summer. He couldn't summon the name, but what did stick in his mind

"People need to look and say, 'if I'm manufacturing widgets today, am I going to be manufacturing widgets tomorrow? And if I am, are they going to be the same types of widgets and the same type of customers?' So the succession planning needs to be tied in with strategic planning, and that's hard."

sibling rivalry. And it is this mix and the need to contend with it that makes this is a process — and one that business owners ignore or procrastinate with to their own peril, because succession planning is about much more than who will occupy the president's office when the current occupant is gone.

"This is not just about continuity or identifying the best people to step in and how they'll step in," said Egan, "but also about protecting the estate of the principal; it's a two-pronged approach."

And while succession planning has always been a matter of importance for business owners, some current demographic trends, and specifically the aging of the Baby Boomer generation, makes it even more so, said James Barrett, CPA/PFS, MST, a

and for what price, are all matters at the heart of succession planning, said Barrett, and for many, these are subjects that are difficult to broach, let alone resolve.

So oftentimes, business owners need a push, he said, recommending that such individuals designate a professional, or advisor, to break the ice, initiate a dialogue, and also keep the pedal to the metal.

"If that person can bring these matters to the table, that's easier than waiting for the business owner to do it," he said, adding that this is some of the practical advice he imparts to individuals facing such issues.

When asked to recite common mistakes made by those who do think and act on succession planning — or don't, as the case may be — Vann started numbering them, meaning there are quite

was this individual's profession: psychiatrist.

He was there to talk about the emotional issues associated with succession planning, and there are a host of them, said Fialky, adding that succession, and planning for it, involves a long list of subjects that people would simply prefer not to talk about — from their finances to their own mortality to having to cede control of a venture they started and, in many cases, have made their life's work.

And, from a practical standpoint, most business owners are concerned about growing their ventures — and perhaps even survival in this economic climate — and thus don't have much time or energy for succession planning, said Egan.

They have to make the time, he continued, because when it comes to matters involving succession, there is considerable truth to that old saying about how those who fail to plan should plan on failing.

And in this case, failure could come with some dire consequences, ranging from the demise of the business in question because the wrong people were chosen to lead it, to the retiring owner not gaining enough in compensation for a comfortable retirement.

The need for effective planning is reinforced by the fact that there is no real 'guide' to succession planning, said Fialky, and each individual case, while it shares common denominators will all others, is in many ways unique.

"The only real common denominator is planning," he said, adding that is especially true for smaller, closely held businesses which may not put a premium on succession planning the way that Fortune 500 companies do. And this planning boils down to effective preparation for one of four circumstances: "planning for the continuity and/or succession of the business in the case of death, disability, retirement, or permissive sale, where one part-

ner wants to get out. And when we begin the discussions, we're exploring what can happen in each of those circumstances."

This preparation is where the details come in, said Egan, returning to the matter of a two-pronged approach that addresses the continuity of the business moving forward, and also the financial health and well-being of the business owner who is selling or retiring.

In many ways, lawyers and accountants who advise business owners on such matters are problem-solvers, said Fialky and Egan, adding that such problems range from deciding which roles siblings will take in a company to negotiating with family members of a deceased partner who have stock options.

Fair Game

In succession planning, as in life itself, the word *fair* is a relative term, with varying definitions, said Kevin Hines, CPA, MST, CVA, CSEP, another partner with Meyers Bros. Kalicka.

There is a definite place for fairness when it comes to succession, he explained, adding that this is why those who undertake such efforts must adopt what he called a "holistic approach" to the process.

"If someone who has three children gives the business to one child, how is it going to impact the others?" he said, giving an example of such a holistic thought process. "But I've seen other cases where the parents hand over the company to three children — and it can't support three children, and eventually it goes out of business. So sometimes the best advice is to go out and find an outside buyer.

"You have to look at it from all angles," he continued, listing everything from money for retirement to who would be the best successor to whether a business can support all the members of a family. "You have to develop a strategy to come to the best conclusion, while remembering that things are constantly changing."

All this isn't easy, nor can it be done quickly, said Hines, again stressing the need for planning. Which, he continued, requires a team — to include an accountant, a lawyer, perhaps a business advisor, and members of the next generation of ownership, among others — and, equally important, someone to lead that team.

"I've always likened it to a wheel, and someone needs to be the hub and bring these people together around the conference table," he explained. "It doesn't have to be the owner, and usually isn't because that might not be the best person. It could be an accountant or a business advisor; it needs to be someone who knows the business and all the parties. He needs to have a unique perspective and be able to bring people together to find a solution."

Barrett agreed, and said the 'hub' must understand the business and effectively gauge what might be the best course moving forward.

"He might know which sons or daughters are destined to take over and which ones are not," he said. "He or she needs to guide the conversation and help the business owner broach those subjects."

Barrett and Hines said that succession planning, like homebuilding, starts with a solid framework — or, in this case, making some key decisions, such as whether to sell the business to an outside party or someone in the family — and then customizing the plan.

"Once you get that framework, there are then techniques you can use to minimize estate taxes and address other concerns," said Hines. "But it starts with that framework, which amounts to the business owner's goal — where does he want to be, and how does he want to get there?"

When asked when business owners need to begin thinking about succession planning, Barrett offered the subjective phrase "before it's too late."

And by that, he meant that it should be something that the business owner is always cognizant of and working toward — and obviously moreso as his or her time at the helm grows shorter, which it is for all Baby Boomers.

But to the extent possible, business owners have to prepare for the unforeseen, he explained, adding that many ventures have failed because there was no real plan in place for what happens if the owner — or even a key administrator or revenue-generator — is no longer there, for whatever reason.

Thought Process

If business owners and managers start planning early and are diligent in their work, they can avoid some of those common mistakes Vann mentioned. Going over that list, he started with a practice that can doom many if not all aspects of business management: making assumptions.

"And the first assumption I see people make, and I've made it myself, is thinking that everyone is on the same page when it comes to succession — assuming that the people you're going to be doing this succession planning with are connected and buying into the same process that you have.

"For example, if you have a company with several young people coming up the ladder, and you're thinking that you're going to tap that particular talent or that they're on the same page as you when you get ready to retire ... sometimes, they're not thinking the same way you are," he continued. "That's a bad assumption to make, but people do it, and the No. 1 mistake I see people make is making too many assumptions."

To eliminate or minimize such mistakes, Vann continued, business owners should make those individuals who might be tapped to lead the company part of the succession process. And, further, that the business owner has to be specific in the message he or she

is sending out about their future and the future of the company.

“He needs to say, ‘I’m 55, and I want to be out of here in seven years,’ Vann explained. “Many of the mistakes I’ve seen come when people look at it from a generalist point of view and don’t break things down for the people who need to understand things.”

Another common mistake, he said, is a lack of flexibility on the part of the retiring business owner, especially with regard to the value he or she places on the company. By demanding too much, he continued, that business owner can strap the next generation with debt that could suffocate the venture, stifle its

growth, or even hasten its demise.

“You have to be more concerned with *their* cash-flow needs to support your plan than what you want,” he said. “It’s not a question of what you want; you have to be realistic, because those coming up and taking over the business have to be able to financially support that plan.”

Still another common mistake Vann sees is that those doing succession planning don’t look far enough down the road toward what might be the future of their business or sector.

In other words, all parties involved must do *strategic* planning while they’re also doing *succession* planning.

“People need to look and say, ‘if I’m manufacturing widgets today, am I going to be manufacturing widgets tomorrow?’” he explained. “‘And if I am, are they going to be the same types of widgets and the same type of customers?’”

“So the succession planning needs to be tied in with strategic planning,” he continued, “and that’s hard.”

Back to the Future

That’s true of most aspects involved with succession, said Egan, who summed things up by saying that there are myriad issues to be addressed with regard to this aspect of business manage-

ment. But from a practical standpoint, they can be all be grouped under the broad category of ‘*what if...?*’

Prudent business owners must constantly be asking that question, he told *BusinessWest*, but, more importantly, they must be fully prepared to answer it, and with resolutions that are, well, fair (there’s that word again).

And that’s why it’s not important who said “the sign of a good leader is one who is always working on his succession plan,” but that those who need to heed that advice do just that. ♦

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