

Indispensable Business Planning: The Succession Journey

By Mike Hogan, CEO, Hogan Land Services

A solid business succession plan is a process, not a result. It's a journey that must incorporate the transfer of trust, respect and goodwill that's been built over the years with employees, clients and vendors. It also means not putting off the refinement of business practices that help stabilize business experiences, productivity or finances.

If your business has passed the startup stage and survived the shifting economy, it's time to think about the next generation. Failure to plan for an organized business succession—family run or otherwise—can result in both financial losses and, potentially, the loss of the business itself.

Commitment is the key to the success of any plan. As founder and leader of an organization, no matter the size or number of years in business, it's critical you ask and answer a few key questions.

Questions to ask when thinking about succession

- What are my long-term financial and lifestyle needs?
- What are my resulting goals?
- What can the company's current assets offer me?
- How long do I plan on remaining active in the business and in what capacity?
- If I don't identify a successor, what will be the ultimate outcome of the business?
- If I retired today, what would be available to me financially?
- What actions need to take place to successfully achieve my goals between now and when I step aside?
- Who do I involve now to pull off my plan? What do I want from them?
- How long does this process take? Is it time to start?

Steps in the journey

No matter what stage of business you're in, you need to think about how your organization will be taken care of in your absence (planned or unplanned). It's the right thing to do. Personally, I'm a long way from retirement, and yet I want to make sure my organization lives on past my tenure. I've employed a professional consultant to help us achieve this objective. We're following these steps:

Design a plan and build an adviser team. Develop a strong and positive work environment. Include your accountant, attorney, insurance agent, financial planner, business consultant and trusted fellow business owners.

Announce a plan that takes into consideration all aspects and phases of your business. Share the plan with everyone involved. Clear communication gives key management people and/or family successors a very real understanding of the business' path to the future. It also helps others see the role they play and lets them begin setting future goals and objectives for themselves.

Implement the plan and make necessary adjustments as you go. It's never too soon to prepare a succession plan. If you're expecting your business to continue into the future without compromising your own retirement needs, this is the most important step.

The transfer of authority and responsibility

As a founder, your job is to begin the process of letting go long before the letting go actually takes place. You do this by emphasizing strategic thinking and planning with a focus on results, not tactics. Take time now to get involved. Identify what you need your company to produce for you and your employees in the long term. Every day, continue to delegate authority and responsibility to your successors while spot checking for methods and key results.

Invest time, money and energy to develop your most willing and able family members, key employees and management team members. Identifying potential leaders and allowing them to exercise authority and control will be vital to the success of the transition. Select the right candidates for their strong managerial abilities and leadership potential. Willingness by itself is not enough. Empower a broad range of people in the selection process to simplify and enhance your options.

Refine your internal systems and procedures to reflect the strengths and values that have made the company profitable. Get rid of red tape and ineffective procedures by asking your key employees and potential successors to identify the existing procedures that don't serve the company well. Asking for their opinion is a gesture of trust and a sign of change to come. Throughout this process, make sure the chain of communication and decision making is clear to all.

Build your ideal job description, refine your work pace and pinpoint your ideal work schedule, then gradually step aside. Prepare the business' finances and transfer the assets as dictated by what's best for you. For this step, always use qualified legal and financial advisers. Once you're certain financial areas are covered and others can do the job, begin to modify your schedule. Make sure the reports and reporting methods are in place for maintaining controls, and establish regular spot checks, formal meetings and informal "stop ins." Over time, reduce the hours you spend at work.

Have the business evaluated and valued by a qualified professional. Use your accountant, attorney and financial team to refine the right financial proposal. Work with family members and those chosen to continue running the business to adjust the financial proposal to meet the needs of the successors. Set a schedule of payments and other financial obligations according to your plan.

Finally, begin the financial transition. Establish monthly benchmarks, remain active in managing the finances until they're stable and arrange for a long-term schedule of spot checks (tapering off over time).

You've invested your time, energy and emotions into building a successful business. Make sure the next proprietors are ready and willing to do the same.

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