

# Family Business Succession

## Leadership Training is Key

By Dan Maloney CPA CFP® CM&AA CBI

Family business executives have probably heard a great deal about succession planning and many executives believe they are proactive in addressing succession. But, sometimes the most important issues are left on the back burner and succession planning is often addressed from a less effective direction. Many succession related conversations are approached from an estate planning perspective. Since the entrepreneurial family usually wants to pass the wealth it has built-up over many years to the next generation, and keep it away from the IRS, estate planning is often the key driver of succession planning. However, entrepreneurs should consider another angle for preserving their wealth.

### People Planning Trumps Estate Planning

Although a well thought-out estate plan is crucial to maintaining family ownership through the generations, developing leaders is equally essential to the survival of the business. Leadership and leadership training in family businesses often take a back seat to estate and tax planning. This can be counterproductive. Without leadership, the business may stagnate and lose value, and without value, estate planning becomes less of an issue. Identifying potential successors and providing the opportunities for them to develop into effective leaders is a critical step in the business continuation and succession process, as well as in wealth management.

To plan for a smooth succession, start early and outline the skills the company seeks in a leader. Look carefully at each family member's skills and determine what training may be needed. Don't be discouraged if many of the identified skills are lacking in the potential successors. Most leaders are not born as leaders but develop skills over time through training and experience. Leadership training is fundamental to building the business and generating wealth, and a family business is a great training ground.

### Training Grounds Abound

Make sure the chosen successor candidates know the inner workings of the business. Then begin to look outside the office or plant environment for experiences the business can provide for them. The more the successors have access to the business's customers, suppliers and professional advisors, the better equipped they will be to grow the business. Also involve potential successors in the strategic and long-term business planning processes early on. Learning to think in terms of strengths, weaknesses, opportunities and threats can provide an excellent hands-on foundation for effective leadership. Even if they are silent participants, just being present in such a think tank environment can help to clarify how decisions are made in a business context.

### Eyes and Ears of Volunteers

Encourage potential successors to join community organizations as volunteers or committee members. Arts groups and social service organizations are a great place to start looking for opportunities and they always welcome volunteer manpower. These

“free” opportunities can provide a great risk free environment for young leaders to offer suggestions and engage in planning activities. Meeting peers and observing their behaviors and skills can also be a confidence builder.

Chambers of Commerce often sponsor programs to introduce leadership candidates to the major facets of the community, such as education, the arts, law enforcement, the environment, social services, economic development, and much more. Don't pass up on these exceptional opportunities to groom successor candidates.

### **Retreat to Advance**

If the company has retreats or family council gatherings, invite the potential successors and share the business's vision and plans with them. If the business hasn't developed a retreat format, consider planning a retreat to both educate family members and to allow potential family leaders to interact with management. Even if they are silent observers, this will build excitement and a sense of belonging. If given the opportunity to speak out once they gain enough comfort, the current family leadership may find that it has some untapped potential board members with some great ideas.

It takes more than a bloodline to become an effective leader. It also takes credentials, education, a good work ethic, and determination. Be careful not to put the heir apparent candidates in positions of authority before they have the appropriate experience. This would only serve to harm their long-term chances for success and may cause resentment among non-family managers and employees. Potential successors need to learn the differences in position power and personal power. Leadership training is a key to acquiring personal power and generating respect. So start early and get the potential successors trained and excited to grow and continue the business. Build the business, and then don't forget to review the estate plan.

Three questions to be pondered as business succession issues are explored, and possible answers, are:

- **What Do I Have?**
- **What do I Want?**
- **How Do I Get There?**

If one of the answers to “What Do I Want” is wealth management through planned business growth, then an answer to “How Do I Get There” should be leadership training.

Start training early.

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