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Transition Planning: Holding Ourselves Accountable

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Abstract

NSRA members enjoy the benefits of owning their own enterprises and providing opportunities for themselves, family members, employees, customers and their residential communities. The NSRA Business Performance Report (BPR) provides owners a regular occasion to take stock, and to see how their performance compares to others, and to their past and future goals. The BPR also reminds owners that they are not alone in their successes and challenges in a changing and exciting industry.

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Comments

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Transition Planning: Holding Ourselves Accountable

Carol Wittmeyer, Ed.D.

NSRA members enjoy the benefits of owning their own enterprises and providing opportunities for themselves, family members, employees, customers and their residential communities. The *NSRA Business Performance Report (BPR)* provides owners a regular occasion to take stock, and to see how their performance compares to others, and to their past and future goals. The *BPR* also reminds owners that they are not alone in their successes and challenges in a changing and exciting industry.

Concrete numbers provide the basis for planning, as well as set the stage for owner accountability to reach stated goals. In addition, planning and goal-setting initiatives create a great time to review "goals" that may not be as measurable as financial ones, but are critical to the future of the business.

Such "goals" relate to how well owners are building sustainable businesses that are able to thrive in planned and unplanned transitions. They also involve assessing long-term personal plans and considering business exit plans – because, of course, exits are inevitable.

Yearly, owners should review where they rank in these statistics and what actions may be necessary to make sure their dreams are clarified and can be achieved. To stimulate that review, this article contains three "Owner Transition Progress Reports" that can be completed and compared annually, together with an annual financial analysis.

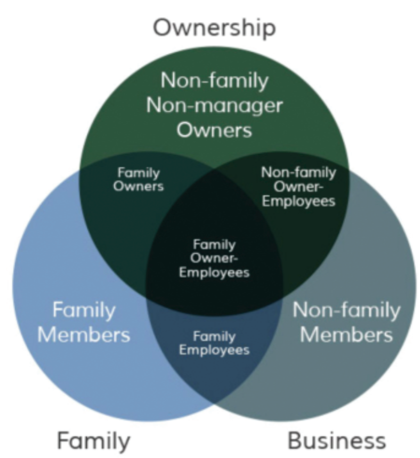
Planned and Unplanned Transitions

Planned transitions often include well-thought-out business strategy, anticipated key personnel changes and exit options or strategies. Unplanned transitions relate to things owners may dread, or perhaps not even be able to anticipate, often relating to untimely deaths of key personnel, natural disasters or loss of key vendors or customers. Planning for such unexpected changes is difficult. Yet it is necessary if owners want their businesses to thrive in both good and bad times. Using a football analogy, team owners would never assume their team could win the Super Bowl without practicing for every play or scenario that could, yet may never, happen.

Carol Wittmeyer, Ed.D.

Planned Transitions

The most-talked-about transition topic in businesses is "succession planning," referring to replacing the current leader. Many owners do not prepare enough for their own eventual exit. While succession is an inevitable transition, many other transitions also take place, such as innovations responding to customer preferences, or employee generational differences playing out in the workplace. In all cases, transitions typically have a ripple effect – that is if the leader is replaced, *probably* ownership will change, management will change, strategy *might* change, and so on. It's important for owners to think through, and plan for, all the ramifications of transitions, to assure that chang-



This Three-Circle Model of the Family Business System was developed by Renato Tagiuri and John Davis at Harvard Business School. First published in Davis's doctoral dissertation, it entered broad circulation in 1978, and was published in 1996 in their classic *Bivalent Attributes of the Family Firm.*

es made are as effective as possible and are understood by everyone they affect.

When is the right time to plan for expected transitions? It can never be too early. If the transition is succession, it's important to sort out what decisions are necessary, well before a decision is implemented. For example, identifying what skill sets are needed is critical, and for future owners, they may be very different – such as internet marketing savviness – than the skills required of current owners. Identifying and meeting with potential successors to understand their interest level, capabilities and leadership development needs is necessary. Succession planning and leadership development (including incentive structures to stay in the business long-term) should be considered for all key jobs.

Owner Transition Progress Reports

Typical Succession Issues

In the following chart, answer "yes" or "no" to each item and jot down notes regarding possible follow-up items and implementation deadlines.

Item	Yes/No	Notes
Owner Succession Issues:		
1) I am planning for my ownership/leadership succession. a) If not, why not? b) If I need to start a plan or make changes, who are my most trusted advisors, with whom I should discuss decisions? c) Who are important stakeholders? Do they all know my plan?		
2) I have a strong and interested successor(s), with whom I check in regularly, and to whom I provide needed support.		
3) I have a strong management team.		
4) I have an estate plan; what will happen to the business (including management, ownership and provisions for taxes) is covered in that plan.		
5) I have an after-work plan including goals for my next life phase.		
Non-owner Succession Issues:		
6) I have a succession and leadership development plan for key management positions.		
7) I have a plan for possible large vendor or customer changes.		
8) Key advisors, employees and family members have helped craft my strategic plans and are aware of them.		
9) I have a plan for customer preference changes (Internet shopping, new color/style developments, etc.).		
10) Other:		

(This analysis invites consideration of another issue: What if the chosen successor does not want to lead the firm, dies or becomes incapacitated? This issue will be addressed in a future article.)

Task Timeframe

The chart at the bottom of the page is a short one; many owners will require more space. But the basic question is simple: As a result of considering planned transitions, what are the most important tasks I must complete this year?

Unplanned Transitions

Given that many business owners do *not* plan for the inevitable owner/leader transitions, it is not a surprise that owners probably do not prepare for unplanned, emergency transitions either.

Emergency planning is vital. A recent study suggested that in 48% of all family business collapses, the failure of the business was precipitated by the founder's death – or in 30% of the cases, the owner's *unexpected* death. Only in relatively few instances (16%), did the business failure follow an orderly transition; in situations where circumstances forced the owner to retire, that figure drops to 6%.

The best way to prepare for unplanned transitions is to identify them and practice for them. Just as athletes practice drills, owners and their employees should practice scenario planning to build their capacity to function under significant pressure. Including employees in scenario planning exercises helps prepare teams that can negotiate the unknown in a unified fashion.

Item Description	Due Date	Responsible Person(s)	Notes

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Owner Unplanned Transition Progress Report

Typical Issues

In the following chart, answer "yes" or "no" to each item and jot down notes regarding possible follow-up items and implementation deadlines.

Item	Yes/No	Notes
1) I have a plan in the event that I become disabled, fall off a cliff to an untimely death, or hit the lottery and stop working.		
2) I have a plan for potential foreseeable disasters (fire, flood, etc.).		
3) I have a plan for key vendor or customer transitions.		
4) Key stakeholders – including family members, trusted advisors *and* employees – know and can implement my plans with or without me.		
5) Other:		

Business Exit/Retirement Plan

Task Timeframe

As a result of considering unplanned transitions, and the possible effects on my business, family and employees, what are the most important tasks I must complete this year? The chart below lists what must be covered.

A Final Fitness Test

Many owners envision their entrepreneurial and self-sufficient enterprises as the greatest legacy they can pass down to their families and/or trusted employees. To aid that passage, there are three practices that create (family) business sustainability:

1. Boards of Directors (formal or informal): Boards assure that owners consider all relevant information in strategic decision making and hold owners accountable to reach stated goals.

2. Strategic Plans: Envisioning what *could* happen helps businesses and families be in shape for the real decisions they will have to make and implement.

3. Family Meetings: Regular discussions and communication help build family unity and minimize conflict. Owners typically feel love for their potential successors, whose spouses and other family members will be affected by succession. Since succession involves more than two people, the potential for conflict is great; minimizing conflict makes for smoother transition.

Implemented together over time, these practices help owners build their business's "bench strength," putting members of the next generation – whether families, employees, advisors or purchasers – into shape that allows all to realize their shared visions and desired legacies.

Concrete numbers provide the basis for planning, as well as set the stage for owner accountability to reach stated goals. In addition, planning and goal-setting initiatives create a great time to review "goals" that may not be as measurable as financial ones, but are critical to the future of the business.

How well are **you** doing on the final fitness test? ■

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