



Succession Planning

Plan early for a smooth management transition

Where will your company be five years from now? More precisely, who will be running the show, making sure your organization is a vibrant, profitable enterprise where employees love to work?

To answer those questions, start by taking a look at the ages and attitudes of your upper and middle management team. Maybe your people are young enough to stay in their positions for some time to come. Or maybe, as often happens, a select few of your critical leaders will be retiring and replacements will have to step in. Finally, to suggest a third option, maybe it's clear that just about all of your top managers will want to hand over the reins to a new team.

As these reflections suggest, when it comes to long-range planning, companies face a range of possibilities based upon their current position in the management life cycle. Those companies that make a smooth transition, though, usually offer the same advice to others who want to emulate their success: Don't procrastinate.

Key Decisions

Start early to think about where you want your company to be down the road, recommends former Chestnut Group CEO Parker Blatchford, reflecting the thoughts of the owners who recently sold Chestnut Group's spring operations to a private equity firm that also owns MW Industries. The move created the second largest spring company in the United States.

"Planning ahead is paramount," says Blatchford. "Failing to do so means you will react to events, not control them."

In Chestnut Group's case, advance planning began five years before the actual sale, when the former owner of MW made an initial offer. While that foray led nowhere, it did have a beneficial effect in that Blatchford and the other owners started thinking along these lines: What, in fact, do we intend to do down the road, and shouldn't we get started now to make sure our company ends up in good hands?

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"We realized we had to lay out a path," recalls Blatchford, who was looking forward to retirement himself. "And we knew that the best path would be the sale of the entire organization to someone who possessed the will and the resources to carry on the spring manufacturing business in a healthy way." They were also concerned that whoever bought the company would maintain the culture that had been the key to its success. "We were concerned about our employees: You don't hire, train and work side by side with people for years and then turn your back on them."

One more thing: Blatchford and the other owners were not interested in extending financing to facilitate the sale, even though doing so might bring a higher price. "We had been shouldering risk for some 30 years and wanted to bring that to an end," says Blatchford. That meant they needed a buyer with resources substantial enough to swing the purchase alone.

That's quite an array of requirements, but pickiness is not unusual when sellers have invested their life's work in a company, and want to see it survive and thrive. Blatchford and the other owners found just this solution in the form of a private equity firm and its MW Industries operating unit.

Family Matters

Family businesses, too, benefit from getting an early start in planning for succession. Consider the example of Bohne Spring, a Toronto-based springmaker owned by Jeff and Chris Wharin, brothers who represent the third generation of family ownership. (Actually, the brothers represent the fourth generation if you consider their great grandfather's position as an employee at the company in the forties.)

"Back in the late 1980s, we began designing a succession plan that would allow Dad to retire completely, and my brother and I to take on the business," says Chris Wharin, the company's director of administration. The result was a successful buy-out plan that was put into place in 1993 and stretched over seven years.

"Planning ahead was extremely important," recalls Chris. "From Dad's perspective, it allowed time to plan his retirement and develop an exit strategy. And from our point of view, we had the time to prove our capabilities and establish our credibility."

Seek Outside Help

When it comes to designing a workable plan that everyone involved can accept, it's smart to seek outside assistance. This is not a case where relying by the seat of your pants will get the job done.

Here's some good news: There is plenty of help around for those who look.

Consider the wealth of information out there on the Internet, from lists of attorneys and consultants specializing in the field, to the latest news on tax law changes and useful advice. Even if you have an experienced advisor, it's helpful to peruse this information so you know what questions to ask.

1. The Estate Planning Links. No contest: Here's the best portal to Web sites of succession planning information. There are scores of links here – everything from consultants in the field to advice and published stories on taxation.

Point your browser to www.estateplanninglinks.com and review the offerings. Make a point to click on the "Bookstore" link at the lower left. You'll get a great list of books hooked up directly to amazon.com for online ordering. This makes it easy to track down a useful reference on some fine point of succession planning.

2. The Family Firm Institute. This is a great resource for finding consultants who will help with both the psychological and financial aspects of succession planning. You'll find this organization's Web site at www.ffi.org. Click on "Consultants and Speakers" at the left side of the screen for direct access to a useful search engine.

A number of other associations dedicate their work to helping family business owners. "We belong to the Canadian Association of Family Enterprises," says Wharin. "It has been very helpful in terms of guiding us through the process of succession." That association maintains a Web site at www.cafemembers.org/cafefef.

3. The Legal Information Institute. Kudos to Cornell Law School for putting together this site outlining key legislation and recent court decisions. When you're seeking information about a particular legal wrinkle in the estate and succession planning fabric, the place to go is www.law.cornell.edu.

Once at the site, click on the "Law About..." menu at the left side of the screen. Click on "Taxation" in the submenu, and you'll see a link to "Estate and Gift Tax." Now you'll go to a page with great links to federal and state resources, as well as links to the laws that relate to the Federal Estate Tax (the Internal Revenue Code, 26 U.S.C. 2001) and the Federal Gift Tax (26 U.S.C. 2501.)

4. Forbes Estate Planning. Visit www.forbes.com/estate_planning for continually updated news about the field. It includes contributions by business leaders and links to other financial information.

5. Internal Revenue Service. At www.irs.ustreas.gov, click on "Businesses" at the lower left side of the screen, then on "Estate and Gift Taxes." This takes you to a screen with many links to the latest tax law changes in the subject area. The information on this site tends to clarify some of the fine points on such matters as annual exclusions and annual tax rates.

All of these resources and others should help you plan for a smooth business transition. As difficult as it is, succession planning has to be done. We all want to do the right thing in terms of our heirs and employees. Maybe the task is a large one, but the time required can be reduced considerably by leveraging the services of outside experts. ❖