

Life before succession planning

The unpreparedness of our nation's privately owned businesses was highlighted again late last year with the release of quarter three's ASB Succession Planning Monitor. The report observed that fewer than half the respondents were succession ready for an unexpected offer, falling to a 24% state of preparedness for negotiating a minority shareholding with a key employee. This report was consistent with other 2008 surveys which indicated the key reasons for business owners not planning were time, complexity and a lack of desire to think about leaving.

It's this last point that gives rise to a conundrum. Healthier and wealthier the baby boomer generation are no longer happy to have their nose to the operational grindstone right up to the day they exit their business. But neither can they stomach the idea of waking up one Monday morning as an "ex" business owner. They believe they still have a significant amount to contribute to their business, matched by a desire to remain commercially stimulated and connected. Securing a mid week bowl's club membership or joining the North Shore coffee set doesn't overly appeal. Flexibility is key to for them. After all, they've got their second OE to organise.

Is a sense of disillusionment beginning to pervade this business community? Currently, succession planning initiatives are primarily supported by accountants and lawyers. Despite a holistic approach being touted by these professionals it may be more apt to replace "succession" with the word "sale". Planning quickly turns to discussions around likely acquirers, financial valuations and pre sale reviews. One hopes that the fees associated with such transactions don't unduly influence the suggested course of action.

Generational succession is another option open to family owned business owners. However its occurrence is becoming less frequent through a gradual decline in the desire of offspring to commit themselves to a lengthy stint at the helm of the family business.

The third most commonly advanced succession solution is an employee or management buy out. This concept is sound but few business owners have had the foresight or courage to hire people better than themselves and then develop them to be in a position to realistically undertake an MBO. This is particularly the case in smaller companies.

So recognising that a traditional succession planning approach may be needed in time what intermediate solution is going to fulfill these baby boomers? One that allows them to act strategically in a business that still excites them but is void of the people management and other operational headaches?

Precession planning is one solution and it starts with a chat about hats. For a business owner who has routinely, but subconsciously, worn the three hats of employee, director and shareholder for the majority of his or her working life, this can be a revelation. "You mean I can still influence direction without the need to be involved in operations?" Yes you can. "You mean I can maintain client



Simon Telfer
Stimulus Consulting Limited

+64 21 321 901

simon@stimulusnz.com
www.stimulusnz.com

relationships without having to sweat the small stuff?" Yes you can. "And someone else is going to run the business day to day, effectively and profitably?" Yes we can!

Although the owner could refocus in a pure employee role, leaving strategy and governance to others, it is more likely their employee hat will remain on the peg and they will move to being a non executive director (or at least a semi-executive director). Experience shows what a powerful transition this can be within an organisation. The owner gets a new lease of life, working strategically and with a greater degree of flexibility. The engagement of a new general manager or managing director introduces fresh energy and ideas to the company as a whole.

Around this time a more formal board structure often evolves with the owner gaining the added stimulation and new learning experiences from other non executives. The new executive appointment has the added benefit of an exit through MBO in later years being more realistic. Note that challenges around "letting go" may arise and this is when independent directors have a key role to play as do clearly documented delegated authorities.

For successful precession planning consider the following steps:

- Attain absolute clarity on the personal wants and needs of the owner operator
- Allow time for the implications of the transition to be fully thought through
- Assemble a board or a key independent adviser to support the transition and provide ongoing governance
- Define a broad company strategy for the next 3-5 years
- Engage a new GM or MD with the competency to execute that strategy

While the concept of hiring a general manager and taking a less hands on role is not new, now is the time for it to be more actively promoted as an alternative to those owner managers caught in a 'where to now dilemma?'. Put succession on hold and undertake precession planning to maximise the mileage left in those baby boomer tanks.



