

Cashing out without selling out

The human dimensions of exiting a business

Provided by Bob Rhyme

Of all the things an entrepreneur thinks about, exiting the business isn't usually top of the list. Yet without a formal succession or transition plan, a closely held business risks not only its longevity, but also its bottom line. That's because a lot can happen along the way that can trigger a need to hand over the business before an owner may be ready to do so.

In fact, recent data shows that, while 90 percent of the 21 million U.S. businesses are family owned¹, less than a third of these companies succeed into the second generation and an even smaller 15 percent survive into the third². Here's why:

HOPE IS NOT A STRATEGY

In many cases, family owned and closely held business owners don't take the necessary steps to assure a smooth leadership transition, either because they don't clearly identify a successor or because they fail to prepare their company to succeed without them. It's not surprising. Years of hard work, sacrifice and deep personal involvement can make it extremely difficult for a founder to hand over authority and responsibility to a new owner. The problem is, without a clear succession plan, a divide can be created that can jeopardize the future of the company or, in the case of an outside buyer, the deal itself.

One way to greatly improve the successful sale of a business is to strengthen it from the foundation up. This means focusing not just on the technical details of the business, but also on its human dimensions – in other words, the people and processes that can help maximize its value. To help ensure the interests of your key stakeholders are aligned with your business and to make certain you have the right people supporting your efforts, consider the following questions:

- Do any of your key employees have the experience, talent and passion to take the business to the next level? In the best effort to find and develop the next generation of management, business owners will often hire people who make better employees than future owners. But just because a member of the team has been "second in command" or, in the case of a family owned business is related, doesn't mean he or she is the best choice to succeed you.

The right person to fill your shoes is very often the type of

person you may have avoided hiring in the past: an entrepreneurial leader just like you.

- What have you done to groom a possible successor? Broad and deep preparation, both mental and emotional, is necessary for successful leadership. That's why it's important to mentor a possible successor so that he or she learns to share your passion for the business.

- Do you have bench strength among those employees who are not owners? Potential buyers often look beyond the spreadsheets to the quality of the employees behind the numbers. As a result, it pays to have some simple processes and procedures that can help you evaluate the performance of current employees and identify where potential gaps exist in terms of placing future talent.

- Do you have a plan to reward key employees? There are people you would like to take care of in the transition – key non-owner employees whose efforts have made the success of your business possible. Care must be taken, however, to ensure this desire doesn't conflict with the economics of getting the deal done with a buyer. An incentive-based compensation program that is tied to company performance measures can "sweeten" a transition plan by fairly compensating those employees whose contributions mean the most and by encouraging them to remain after the transition.

THE VALUE OF EXPERIENCE

You've spent a lifetime as steward of your business and justifiably, it is probably one of your proudest achievements. Selling or otherwise transferring that business can be one of the most challenging tasks you face. As a result, it's not a process you should go through alone.

At a minimum, this means working with legal, accounting and financial professionals who are experienced in the field of succession planning and who understand the human dimensions of that process. The right advisors can help you assess your own strengths and weaknesses in this area, providing guidance to ensure that, when the time comes, you'll be well positioned to transition your business on your terms – when you want, and how you want.

1 Baylor University Institute for Family Business, 2010 www.baylor.edu/business/entrepreneur/family_business

2 Astrachan, Joseph, Family Business Review, Grant Thornton, Currency, December 2009.