Strategies for Success—Billings Business News

Succession Planning— How to get started—Part 3

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In this third and final article in our series on succession planning for small business, we address additional steps that you need to take to begin the succession planning process.

If your business is family owned, perhaps Mom and Dad have a significant financial input into the business and the kids have contributed some additional capital resources. In a scenario that I am familiar with, Mom and Dad have contributed much of the capital of the firm, however, one of the children is the key production worker in the firm. Sadly, this individual does not have any key man insurance, nor does the company have any business continuation insurance in case of injury or death of the child, the key production worker.

This is the spookiest of circumstances, however, this is much more common than you might imagine. In this scenario, if something of an injurious nature were to happen to the child who is the key production worker, the business would be forced to grind to an immediate HALT because no one has been trained to continue on or operate the business other than the child who is the key production worker. This scenario is more common than you might imagine. The logic that I hear every day is "Oh, that won't happen to us". Well, perhaps not, however, it just might. This is one time that the entire family who is invested in the business needs to have a family meeting and have this discussion before the key production worker becomes injured or dies.

This discussion has to be frank, honest and open. What would happen to the business if the family member who is the key production worker were incapacitated and unable to run the business? Who would step in? Is the individual who might step in qualified, competent and capable of operating the firm the way that you run it? For how long would the replacement individual be either interested in running the business? These are all questions that must be addressed in a family meeting. A business consultant in conjunction with an insurance agent and /or financial planner best facilitates this meeting. The business consultant serves as the "quarterback" for the meeting, with both the financial planner and insurance agent as other key team members who bring specific expertise to the meeting. An attorney may also be required to insure that various legal options are successfully addressed and resolved while the company operation is still running. If the aforementioned scenario sounds like your business, a call to your business consultant and insurance agent is in order—TODAY!

While you are planning to have the family meeting and address the financial needs of the business and the insurance needs of the key production employee, another key factor in succession planning is the development and use of the policy and procedures manual. I find many businesses today that have no documented policies and procedures in place on how the business operates. Things "just happen!" Sadly, "things just happen" works when the one key production individual is always available to answer and address any and all questions which arise.

"Things" grind to an instant halt when the key production individual is incapacitated and no staff member has been trained to serve as the "second in command"!

Excessive and inordinate staff turnover is a key indicator of lack of corporate training and lack of detailed operational procedures. It makes no difference if the business has one or one hundred employees, clear, written documented operational polices and procedures are paramount to running a business. The amount of cost to have a professional business consultant either develop the procedures, or help you develop the procedures is insignificant when compared to the constant turmoil of staff turnover, product rework, product scrap and client ill will caused by continual churn of staff.

To summarize our key points for successful employee succession, consider the following:

1. Identify time to transition—1, 2, 5, 10 years, however start today!
2. Identify who will buy the business—family member, key employee(s), outright sale to stranger/competitor
3. Hold family meeting to discuss business sale
4. Involve business consultant, certified public accountant, financial planner, insurance agent, attorney in initial and subsequent transition planning discussions.
5. Develop, if not all ready completed, a complete and comprehensive policy and procedures manual of all corporate operational procedures

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Pull Quote: "With family businesses, succession planning can be especially complicated because of the relationships and emotions involved. This is why more than 70 percent of family-owned businesses do not survive the transition from founder to second generation". Small Business-Canada.