



WELCOME

***To the Advanced CBA Forum
ReadyTalk Webinar Training***

Business Succession

September 19, 2006

11:00 a.m. Eastern Standard Time

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***SBDC...the driving force behind
small business success!***

INTRODUCTION



Dale T. Eesley, Ph.D.

Dr. Eesley received his doctorate from the University of Wisconsin, Madison and is an assistant professor of Entrepreneurship & Strategy at The University of Toledo, where he teaches family business, entrepreneurship and strategic management. His current research centers on entrepreneurial related topics such as coping with surprise, outsourcing, intrapreneurship and human resources. He is also a consultant to entrepreneurial businesses and serves on the board of the Small Business and Entrepreneurship Institute.



Planning for Succession in Small Business



Dr. Dale T. Eesley
University of Toledo

Succession Planning

Planning to leave a business in which you have invested so much is a difficult decision and an arduous process.

Owners may avoid preparing because of:

Laziness

Being “too busy”

Loss of control

Loss of purpose

Lack of Successor

Inadequate Successor

Can't decide on Successor

Fear of Conflict

However, all firms either are passed-on or pass away.
Why not guide the process?



“As far as we can tell, the only thing keeping you alive is the realisation that your son would inherit the business.”

Why Have a Succession Plan?

Financial

- Avoids unnecessary expenses
 - Probate, taxes, etc.
 - Lawsuits
- Establishes financial stake for you and the next generation
- Provides for ongoing funding of business initiatives

Why Have a Succession Plan?

Preserving Family Relationships

- Sets Expectations of the next generation
- Establishes guidelines for participation in management and financial rewards for next generation
- Reduces conflict
- Ameliorates the loss of the prior generation, especially if exit is sudden or unexpected

Why Have a Succession Plan?

Business Continuity

- Allows next generation to focus on business, not succession issues
- Alleviates anxiety of employees regarding job security
- Smooths transition for both suppliers and customers

When Should a Business Plan for Succession?

For the most successful transitions, five years or more is an adequate amount of time.

This allows for:

- Selection of Successor(s)
- Training
- Adjustment
- Stock Transfer

Who is Involved in the Succession Plan?

- CEO
- Spouse
- Family members who are
 - Managers & employees
 - Non-participants
- Key Employees

Who is Involved in the Succession Plan?

CEO must:

- Establish timetable for the transition
- Resolve outstanding issues
- Set governance policies
 - Independent Board
 - Family Meetings
 - Family By-laws
- Select & train successor
- Determine role after retirement

Who is Involved in the Succession Plan?

The Spouse often performs an invaluable role in the transition process. They contribute by:

- Instilling family/business values
- Promoting family cohesiveness
- Being a communication conduit
- Supporting the CEO

Who is Involved in the Succession Plan?

Family members who are:

Managers & employees

- What are their goals?
- What are their capabilities?
- What are their alternatives?

Non-participants

- How will they be affected?
- How can they support those in the business?

Who is Involved in the Succession Plan?

Key Employees are often critical to the ongoing success of a family business. When planning to pass the business on to the next generation, you need to consider:

- What would happen if they left?
- Why have they stayed, what will keep them?
- What are their aspirations in the company?
- What opportunities will they have?
- What relationship will they have with the next generation?

How to Plan for Succession

Timeline

- Selecting New Leadership
- Transition Process
- Reallocating Ownership
- Financial Planning
- Leaving the Business

How to Plan for Succession

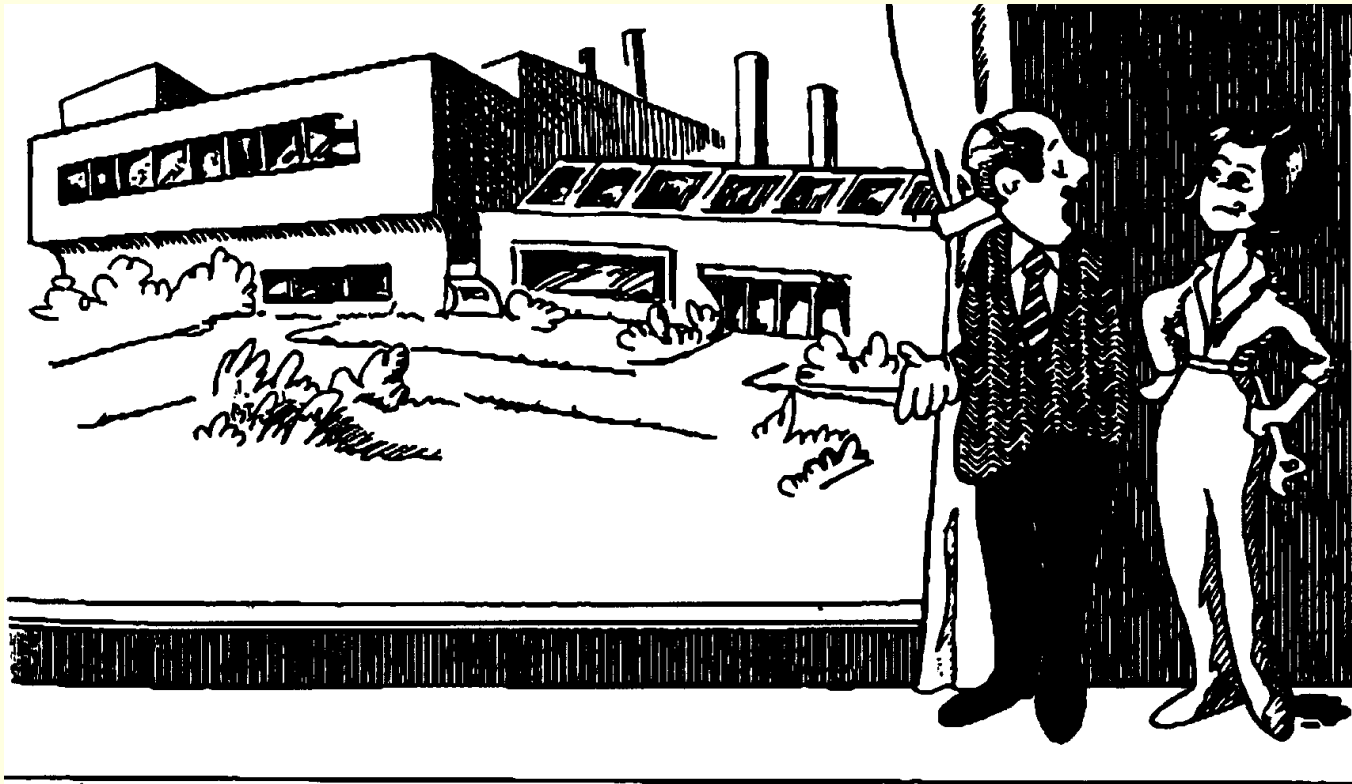
Timeline

- Decide when you want to retire
- Break-down the role / functions you serve in the company
- Determine, what, if any, role you wish to retain in retirement
- Set goals / timetables for turning over all other functions to successor(s)
- Communicate the plan to key parties
- Evaluate progress as time goes by

How to Plan for Succession

Selecting New Leadership

- Establish written policies for advancement within the firm, for example:
 - MBA or five years experience
 - Three years outside employment, including promotion within management
- Allow time for skills to develop and leadership potential to become evident.
- *Do not rely on family hierarchies established in childhood!*



“Someday, Honey, this will all be your brother’s”

How to Plan for Succession

Selecting New Leadership

- Use an independent board of advisors to evaluate and recommend individuals for leadership positions
- If possible, provide alternatives for other family members
- Communicate with all family members how you are making the decision

Making the best decision benefits *all* family members: make sure they understand that.

How to Plan for Succession

Transition Process

- Provide training and work experience to the successor(s)
- Increasingly relinquish key decision making
- Use family councils to review and provide updates on the progress of the transition
- Exit at the time agreed upon

How to Plan for Succession

Reallocating Ownership

Who can own stock?

- Children in management
- All children
- Spouses of children (risk of divorce)
- Extended family (dilution of control)
- Key employees

Keeping control, if not outright ownership, in the hands of those who run the business is key to the survival of multi-generational businesses.

How to Plan for Succession

Reallocating Ownership

- Stock buy-out over time
(Have quarterly board meetings to price the stock)
- Gifting
- Leveraged buy-out (if revenues > debt payments)
- ESOP
- Family Trust
- Inheritance
- Sale to third party

How to Plan for Succession

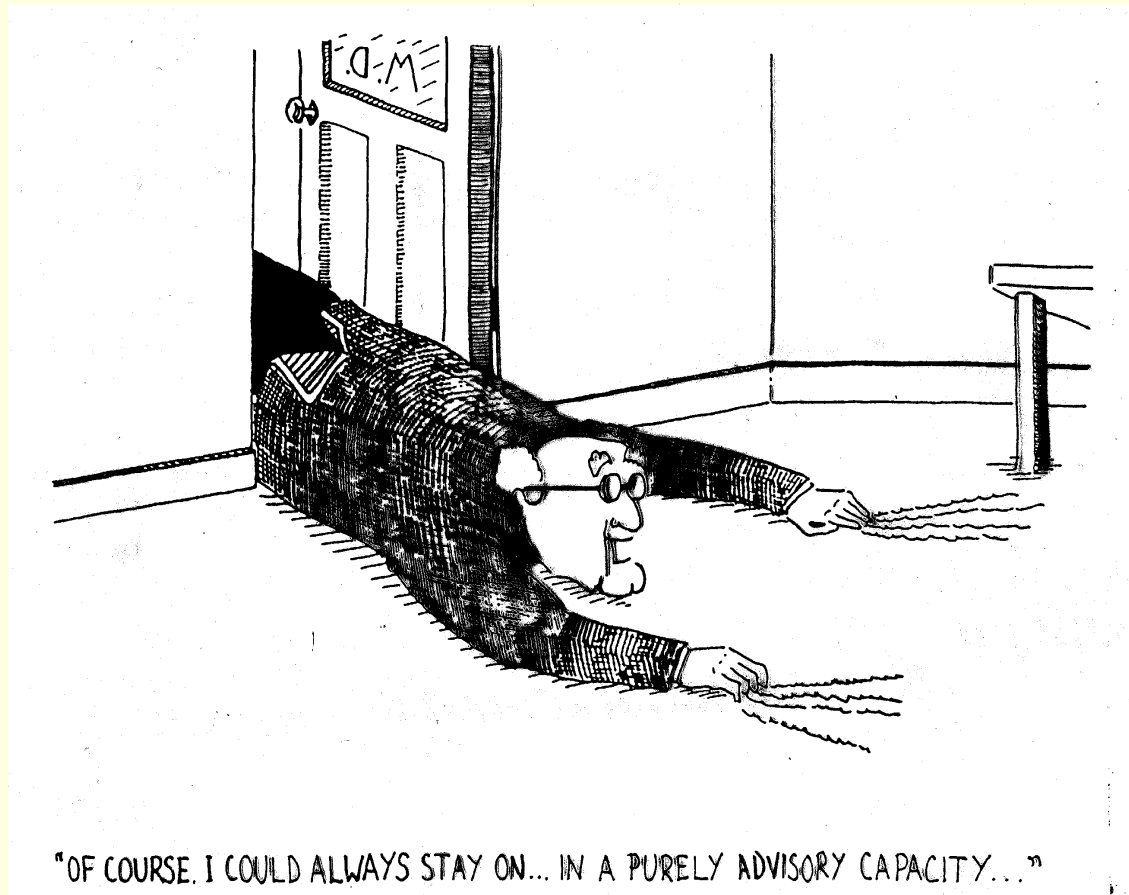
Financial Planning

- Retaining ownership
 - Business Risk
 - Successor dissatisfaction
 - Inadequate Income
 - Tax considerations
- Outright Sale
 - Will this overburden company with debt?
 - Will this cover my retirement?
- Separation of ownership and control

How to Plan for Succession

Leaving the Business

- Prepare mentally to leave
- Don't hover
- Commit to other activities
- Be an “ambassador” for the company
- Support the family



“Of course, I could always stay on....in a purely advisory capacity...”

Succession Plan Summary

- Begin long before you *need* to leave
- Have a plan, preferable written
- Consult with family and key employees and keep them informed
- Select a successor and provide adequate experience and training
- Establish control, if not outright ownership, in the hands of the new management
- Develop a timeline and stick with it
- Plan to retire without relying on continued ownership of the business
- Enjoy your retirement!

**For answers to questions, please
contact:**

Dr. Dale T. Eesley

Asst. Professor, Entrepreneurship & Strategy

University of Toledo

Phone: 419-530-2643

dale.eesley@utoledo.edu