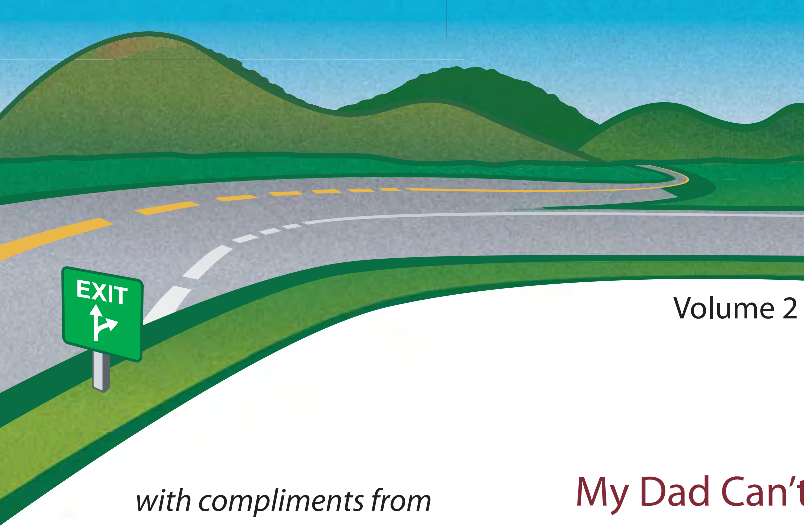

Changing Lanes

Transition planning for entrepreneurs and family businesses

Volume 2 | Issue 3

with compliments from

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FORESIGHT ADVISORS

Guiding Family Business. Now to Next.

Inside....

My Dad Can't Let Go!

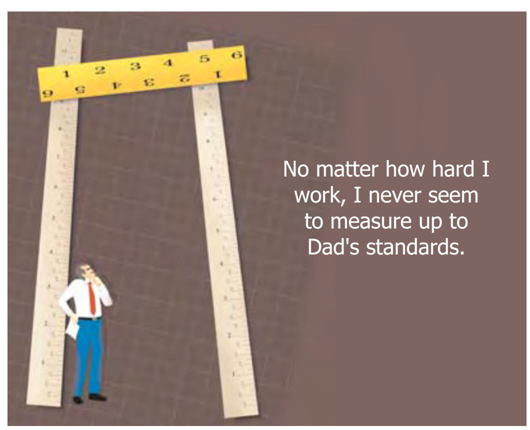
Cathy Penmaen has been involved in the 40 year-old family business for over twenty years and hopes to one day take over from her father. However she feels that Thom, who at 65 is under pressure from his family to retire, isn't grooming her for that role. According to Cathy, Thom is a control freak who has to be in charge of every aspect of the business he has built.

> *"I have the title of VP of Marketing but I really don't have any say in what goes on around here," bemoans Cathy.*

Is Thom really a control freak? Consider this. Penmaenship Tool and Die currently employs 150 people. Could Thom have grown the business to that size without delegating to the people around him? Could Thom now single-handedly manage that many people?

Thom has undoubtedly delegated many day-to-day tasks to his management team. Most likely this responsibility was allocated gradually without a lot of fanfare. Along with delegating the responsibility, Thom probably assigned some accountability – although it might not be clear to those involved just what they are accountable for!

Like most business leaders, Thom doesn't formally assign the authority that can ensure his team are able to meet their responsibility and accountability. If you were to ask Thom why Cathy doesn't have any authority, he would likely be very confused by your question and surprised to hear that Cathy felt that way. Would he understand that, as a result of poor communication, Cathy was not only unequipped to play her role today, but not receiving the motivation to prepare for any future leadership role? More likely he will end up wondering why Cathy doesn't meet his expectations.



In the last issue of Changing Lanes, we looked at how families facing a transition need to be conscious of transferring the intangible assets as well as the tangible ones. Leadership was one of those intangible assets. In this edition, we will review how to ensure that the authority to act goes hand-in-hand with the leadership.

Transition the Authority

Most family businesses facing a transition have a Thom and a Cathy. There is a founder whose whole identity is linked to the business and a Cathy who is chomping at the bit to take over. To enable the business to flourish going forward, families need to look beyond the characteristics of the individuals and the history and relationships that define them. They need to concentrate on bringing structure to how they own and run the business. They need to formalize the process for delegating not only responsibility and accountability, but also the authority.

Below are some key points in understanding the importance of delegating authority and its role in enabling a successful transition to the next generation.

A. Inventory the decision-making

Many families believe that one person makes all the decisions and that no one else has any authority. The first step is to check the facts – actually take inventory of who decides what. Like Thom Penmaen and his family, you might be very surprised at the results. Doing an inventory of what decisions are made and by whom is an essential first step towards understanding what the delegation of authority means in practical terms.

Thom Penmaen has two children involved in the business which generates around $30 million in annual revenue. Cathy is involved in sales while Brian looks after the finances. These "kids" are in their 40s and learned the business under Thom's watchful eye.

During a discussion about their plans for the future of the family business, it was clear that Thom wanted to be in control until such times as he exited the business. He just wasn't comfortable handing over the authority.

Thom was always very good at building client relationships but when we took a closer look at who managed the top 20 clients it became evident that Cathy had taken over much of that responsbility. It was Cathy who made many of the decisions around how much the product would sell for. In fact, Thom was involved in just over half of those client relationships.

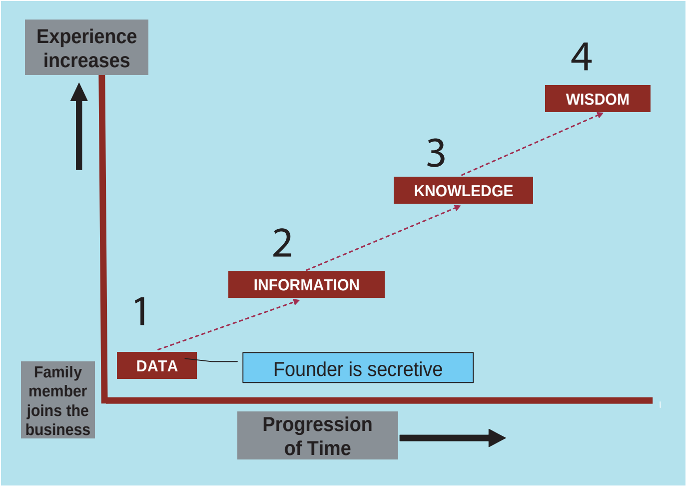
From a similar examination of the purchasing processes, it emerged that Brian determined which suppliers they used and how much inventory they kept on hand. When all was said and done, the kids actually managed almost $12 million of the revenue and related expenses.

Now they are all much clearer that Thom has considerable confidence in the abilities of Cathy and Brian and has already handed over much of the day-to-day control. Thom can now plan for further delegation knowing he is not putting the business at risk.

B. Grow Wisdom

The reluctance by many entrepreneurs to give up control is often the result of their need to ensure their vast experience is at the core of all decision-making. As no one can live forever, holding onto control is not the solution. Instead, entrepreneurs like Thom need to actively seek out ways to impart their life's experiences and wisdom to the next generation leadership and at the same time afford them the opportunity to develop their own.

Source: FFI Conference



To understand the impact of the synergy of Thom's experience and wisdom with Cathy or Brian's energy and enthusiasm, consider the diagram above.

1. Data. When the next generation joins the business, they have facts or data but very little context for making decisions. In the early days, Thom's wisdom and guidance is critical to grooming his successor.

2. Information. With time and the various experiences that come with learning about running a business, greater meaning is attached to the data and it becomes valuable information. The wisdom of the experienced leader is still needed.

3. Knowledge. As time progresses, the information gathers depth or a greater richness and becomes knowledge. Now there can be less reliance on the wisdom of the leader.

4. Wisdom. Wisdom occurs when there is an ability to remember certain experiences and overlay that experience on new situations to make the right decisions. As you can see, wisdom depends not only on the passage of time, but also on the opportunity to garner context and experience.

Continued on Page 3

Transition the Authority *continued*

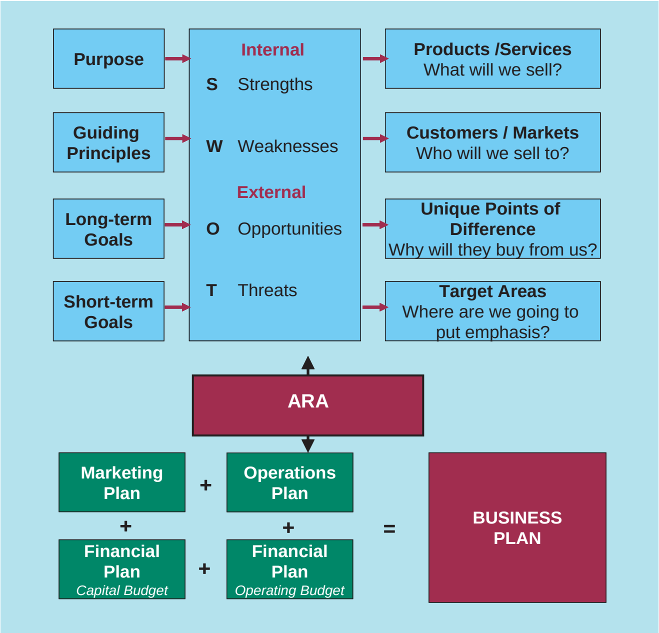
While the objective in the early stages of a transition is to combine the wisdom that heralds from years of experience with the energy and desire to take on challenges that is inherent in youth, business owners must recognize that, as time progresses, they need to afford the younger generation the authority to carry out their responsibilities. This is so crucial to preparing your family business for a successful leadership transition.

C. Motivate.

When people see how their role in the company contributes to the overall vision for the business, and they are given the authority to make decisions to carry out their specific responsibilites, they feel empowered. These are the people who wake up every morning thinking about their role and what they can do to contribute more to the organization's success.

> **If you wish to know what a man is, place him in authority.**
>
> *Yugoslavian Proverb*

An ARA, a document that details the ***Authority, Responsibility and Accountability*** of the key people, is very effective in not only creating that motivation, but also in aligning the roles within the business to ensure that all responsibilities are delegated and there is no overlap. An ARA clearly sets out the



targets that each person needs to meet. It also details the accountability that goes along with that role and quantifies the level of authority that person can exercise.

Collectively, these ARA's link the strategies of the businesss to the tactical ***Operations***, ***Marketing*** and ***Financial*** plans.

More can be accomplished in a business when ownership and management are both on the same track and roles and responsibilites are clear.

Communication is Key

Avoiding the delegation of authority because the current leader feels it will result in a loss of control is absolutely the wrong strategy for a future-focused organization. The key to building a business that can survive under next generation leadership is a gradual change in lanes. And the key to making that shift successful is communication.

ARA's and the overall strategic and tactical plans are one form of communication. A comprehensive Exit Plan is another.

Many entrepreneurs are entirely focused on what will grow the business and they assume that everyone else is on the same page. Like Thom, they fail to signal their intentions and wait until the last possible minute to change lanes. This leaves Cathy and Brian wondering if they will ever get to drive in the fast lane and whether or not they should take a different highway.

Through an Exit Plan, your family business can identify and formalize the process of gradually handing over control. Call your SuccessCare affiliated advisor to get started.

What is a Transition Plan?

In the last edition of Changing Lanes, we looked at the Successor Development Plan and its role in transitioning leadership as part of an Integrated Transition Plan.

Assigning authority along with responsibility and accountability is certainly a component of the Successor Development Plan but it should also be considered in the current leader's Exit Plan.

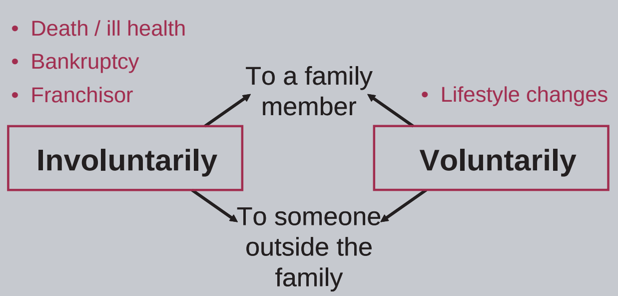
The basis of an Exit Plan is the acceptance of the owner's eventual exit from the business. The objective of an Exit Plan is to ensure that the business is 'sold' voluntarily rather than the family being forced to sell because of death, disability, shareholder disagreements or financial difficulties – in other words, to enable a choice around how and when to sell!

In his book "Letting Go: Preparing Yourself to Relinquish Control of the Family Business" Craig Aronoff warns that:

> *"The single most important factor in the successful transition of a family business to the next generation is the attitude of the person who is sitting in the CEO's chair"*

Preparing an Exit Plan guarantees that the current leader actively considers how his or her vision for the future of the business can be realized without their participation. The plan details the process for preparing for that eventual 'sale' by putting the appropriate systems in place to enable the business to survive beyond the current leadership.

One Day You Will "Sell"



Ensure You Have a Choice

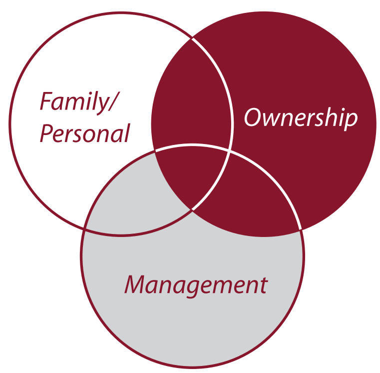
Components of an Exit Plan include:

- A Management Transition Plan to ensure a gradual change of lanes
- ARA's to delegate authority, responsibility and accountability
- A Contingency Plan to provide for the unexpected

If your family business would like some more information or could use some guidance in developing an Exit Plan or ARA's, contact your SuccessCare Affiliated Advisor. Be sure to ask how you can obtain a copy of our audio CD entitled "The Easy Way Out ~ Exit Strategies That Work."

The Integrated Transition Plan

The Lifestyle Plan
The Post Transition Plan
The Communication Plan



The Exit Plan
The Ownership Plan

The Business Plan
The Transition Financing Plan
The Successor Development Plan

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