

Changing Lanes

Transition planning for entrepreneurs and family businesses

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with compliments from



Edward Rosenfeld



Guiding Families and Business. Now to Next.

Teaching Kids to Drive



Believe it or not, driving is one of the more complex tasks a human being ever has to master. It is a rare parent who can teach his or her child to drive without experiencing some anxiety. But given the opportunity, a patient instructor and enough practice, most kids do manage to control their excitement and handle the responsibility well.

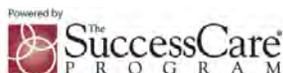
In the early days, they need to learn and master the basic controls. They will benefit from following a well-planned route and a discussion around what they might encounter along the way. They need clear direction and guidelines around how fast they can drive and how far they can go. And above all they need a good instructor who will give them constructive feedback and ample opportunity to practice.

Over time, their confidence and yours increases. With experience they come to understand the environment and road conditions, recognize risky situations before they become problematic, and predict what other drivers are going to do. With experience comes wisdom. With wisdom they become excellent drivers.

The same can be said about preparing a younger generation to take over the leadership of your entrepreneurial or family business. Yes, your successor will at times think he or she knows it all already. Sure, you will be nervous and worried about accidents. But there is no substitute for coaching and practice. Both require time. The result is the experience and wisdom that are necessary to take the business beyond your reign. Of all the steps in a business transition, imparting that wisdom takes the greatest amount of time and consequently is the focus of the first hour in the countdown and this issue of Changing Lanes. 

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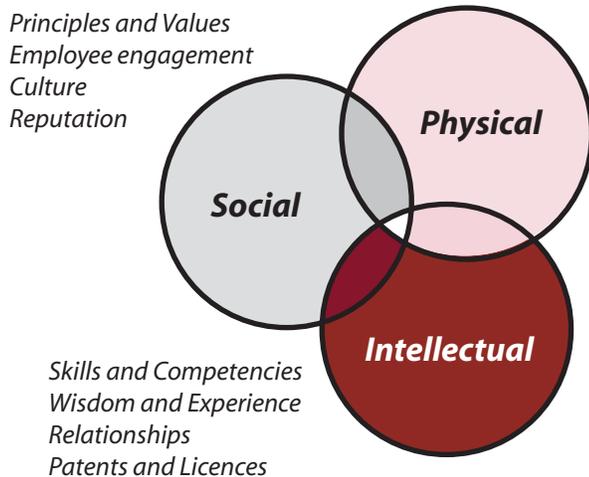
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Protect the Assets

It is widely recognized that an impending transfer of wealth is comprised of both tangible and intangible resources. Consequently, preparing for a business sale or transition is much more than selling or gifting the shares of the company.

The intangible assets that are classed as Social and Intellectual Capital are what gives a business its competitive advantage and are therefore essential to its continuity under new leadership. However, by their very nature, they also require more time to transition.



So a key step in preparing for the sale of a business is to not only identify those assets that need to be enhanced to increase the saleable value, but also those that are in danger of disappearing when the current owner exits.

While all the intangible assets are important, replacing the *wisdom* and *experience* of the current leader is the most critical and the most difficult. It is not a step that can be easily accelerated if racing against the clock. Consequently, it is the first step in our integrated transition planning process.

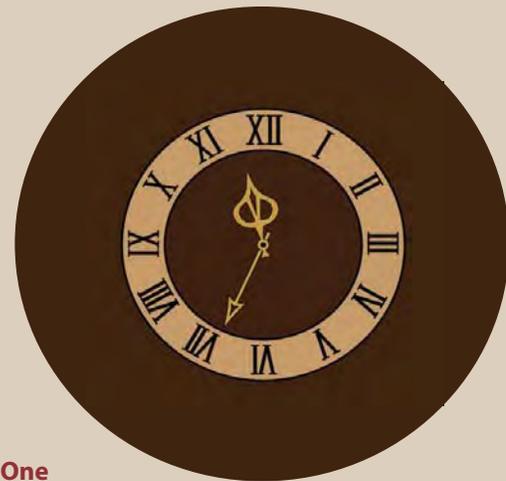
From the *wisdom* and *experience* of others who have made this journey before you comes a series of steps that you can adopt or adapt in preparing for the continuity of your business. "Imparting the Wisdom" (see page 3) will give you the fuel you need for this leg of the journey. 

Beat the Clock

This edition of Changing Lanes is one in a series outlining the steps to ensuring you are able to sell your business under your terms.

Our objective is to prepare you and your business for **both** an internal sale to your family or management team, **and** an external sale to a strategic or financial buyer. As you go through the process, it will eventually become clearer which is the right option for you.

If you want maximum choice around how and when you will sell, don't wait until the eleventh hour to plan. Begin with the step that requires the most time to complete. Begin with the tactics outlined for **Hour One** and then work your way around the clock.



Hour One

Purpose

To transition your knowledge, experience and wisdom to next generation management or family members.

Process

Implement a leadership assessment and development program to groom potential successors and gradually delegate authority and responsibility with clear guidelines and parameters for the leaders-in-training.

Payoff

The business can operate successfully without you and is therefore more valuable to both an internal buyer and an external investor. 

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Imparting the Wisdom

While the energy and enthusiasm of youth is an important asset for business development, it is the wisdom that comes from experience that is critical for taking the business to the next level.

So the role of the exiting leader must be to provide the opportunities for the next generation to gain that experience. Your role is to lay the foundation for how they will manage their responsibilities. Just like when teaching kids to drive, there are four important objectives for you as their instructor:

■ Clarify the route their journey will take them

It is imperative that you first establish a common vision that promotes a “we focus” between the incoming and outgoing leadership. What was needed to get the business to where it is today may not be what is required for the next stage in the business lifecycle. So preparing another generation of leaders should begin with an examination of the needs of the business for today and tomorrow, together with the management skills and attributes that will be required to drive the business forward. Don’t assume that your successor will have the same instincts as you. We recommend including an objective look at your own strengths and weaknesses as well as those of potential successors to identify any gaps that will need to be addressed.

■ Demonstrate how to operate the vehicle

In addition to developing specific policies and procedures, to show your successors how the day-to-day operations are managed, enroll them in a development and mentoring program that will afford them the opportunity to learn strategic thinking, leadership, decision-making and problem-solving skills. For example, they can learn a lot from you when you engage them in the process of developing a strategic plan for the business or invite them to participate in an advisory board. If being a mentor is not a role you can embrace, you could instead assign this role to another member of your management team, set up peer mentoring, or enrol the prospect in a program that specializes in coaching and mentoring.

■ Educate them on the rules of the road

It is very important that you develop an ARA that outlines the purpose and expectations for each stage of the successor development process. This ARA (see sample on page 4) is a document that details the successor’s



Afraid the next generation leader won't measure up?

Initiate a formal successor development plan early in the transition process.

Authority, Responsibility and Accountability. It clearly sets out the chief duties or functions, the level of authority assigned to carry out these functions, and the accountability or measures of effectiveness for each step in the systematic transition of leadership. To evaluate the progress schedule regular check-in meetings and make periodic adjustments as necessary.

■ Ensure they have every opportunity to practice

Wisdom is the ability to relate past experiences to new situations. Garnering this experience requires time and opportunity so it is essential that your prospective successor be given lots of both to practice what they have learned. Cross-training is vital so be sure to include a rotation through each management position that is long enough for the successor to truly understand the role. The opportunity to be seen by employees, customers, suppliers, and lenders as the future lead driver is also important. Your heir apparent needs time and opportunity to build new relationships and gain the respect and support of these key stakeholders. Handing over control while you take vacations or extended leave will also increase both your confidence level and that of your successor.

The more proactive you are with the process, the greater your confidence level will be when it's time to allow your successor to take over the wheel permanently. Remember, the sale of your business will generate more interest if you can show it will retain its intellectual capital beyond your tenure. 

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ARAs

An ARA is a very effective tool to use in grooming your prospective successor.

Designed for use in all of the key roles in the business, it is a document that clearly defines the Authority, Responsibility and Accountability. Collectively, these ARAs link the strategic plan to the more tactical operations, marketing, and financial components of the business plan. Much more can be accomplished in a business when all levels of management are on the same track and roles and responsibilities are clear.

Authority, Responsibility, Accountability		
Role:	OPERATIONS MANAGER (THOMSON SHIPPING)	
Lead:	Andre Reveille	
Support:	Brian, Gary	
Purpose:	To ensure the shipping operations covering all aspects of the logistics of product delivery are met. This includes the in-house customer Penmanship Tool and Die and the customers from outside.	
Authority		
Resources Needed:	Wages	\$ 5,000,000
	Operating Costs	<u>2,300,000</u>
		<u>\$ 7,300,000</u>
Responsibilities		
1. Participate in development of strategic plan.		
2. Have operations plan approved as part of the business plan.		
3. Ensure operating costs perform against industry benchmark.		
4. Ensure customer satisfaction as it relates to on-time delivery.		
5. Manage schedules		
Accountability		
1. Report to CEO at bi-weekly management meetings.		
2. Prepare quarterly activity report to CEO.		
3. Report any significant plan deviations in activity levels or cost overruns to the CEO as soon as known.		
4. Consult with sales manager monthly.		

For your “leaders-in-training,” ARAs are very valuable in communicating the objectives and targets they are expected to meet at each level of their journey. They also quantify the level of authority this group can exercise.

Most importantly, they serve to empower the individuals and at the same time hold them accountable.

If you would like some assistance in developing ARAs for your leadership transition plan, please give us a call. 

The Conative Instincts

We all know people who have the skills and intelligence to do something, yet they just don't do it well. When assessing the skills and competencies required in a candidate for successor, be sure to consider all three parts of the brain.

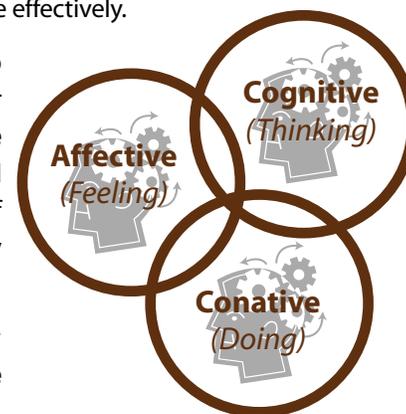
Typically, we begin with the **Cognitive** – does the person have the required competencies. But by themselves, cognitive tests (IQ or skills measurements) are not sufficient because learned behaviours can diminish over time.

Occasionally, we include the **Affective** – using personality assessments – to measure a candidate's fit for the role. However, personality tests are based upon preferences – what you want or like to do – and as we know, attitudes can definitely change.

The third dimension is the one most often overlooked, yet the one assessment that will match the instincts of the person – instincts that never change – to the instincts required to fulfill the role effectively.

From employee to manager to successor to CEO, **Conative** assessments are used to predict the level of productivity and efficiency you can expect.

For information on how to conduct a **Conative** assessment simply give us a call. 



Three Parts of the Brain
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