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Reasons Successions Fail
By Donald Moore

Successions can fail for any number of reasons. But many of the issues that cause them to fail can be avoided if business owners ask the right questions, honestly and objectively consider all issues, and take the necessary time to make sure a complete plan is in place. These are good issues to consider, no matter where you are in the succession planning process.

Questions business owners should consider as a succession plan takes shape
Sometimes an owner, however unintentionally, can create issues that can cause a succession plan to flounder. You can avoid making your own mistakes by considering some of the potential pitfalls you might face as you move forward on your plan to transfer your business to relatives or employees.

Eight questions to consider as your succession plan takes shape:

1. **Have you been honest with yourself about the business value?** Owners often overestimate what their business is worth. An honest assessment, sometimes by a third party, is necessary in order for the business sale to succeed.
2. **Do you or your business have truly unique intellectual property or experience?** Without that perspective, perhaps, the future in the business is limited.
3. **Are you promoting based on merit or relationship?** Owners who place family members or employees in senior company positions — without considering management experience, skills or ambitions — can unintentionally handicap the future of the business.
4. **Have you already stepped back?** When an owner slows down because of new interests or health reasons a business can quickly lose its competitive edge.
5. **Are you ready to retire tomorrow?** The most successful succession plans take years to develop and establish. Owners who procrastinate in the process make it more difficult on themselves and the successors.
6. **Have you considered the management style of the incoming owner/successor?** The structure and culture of a business are built around its owner. An incoming successor might have very different styles and priorities in critical areas like leadership, decision making and investments. Discussions about the type of “style” you have, in comparison to that of the incoming owner, are critical to a smooth transition.
7. **Do you micro-manage?** An owner who micro-manages weakens the organization and successors. If you won’t let go, the successors can’t step up to learn.
8. **Have you considered the worst-case scenario?** Without making a provision for a sudden incapacitation or death, you are putting the organization and the family at risk.

Is your chosen successor the right person for the job?
If you have started thinking about a succession plan, you have likely identified the family or employees you want to transfer your business to following your retirement. Have you honestly and objectively assessed whether the successors you have identified are ready for the job? By identifying potential issues and working towards solutions now, you increase your chances of success later.

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Questions to ask yourself as you move forward on choosing a successor:

1. **Are the children or employees you have identified as your successors qualified to own and manage a business?** Consider if they have the entrepreneurial spirit, the "business sense," and the necessary experience they need to succeed you. Creating an executive development plan that prioritizes coaching and mentoring programs can give your successors time to develop the skills they need.
2. **If your succession plan involves handing the business down to your children, have you had an honest discussion with them about whether they want it?** Do not assume that your children want the responsibility of owning the business. Talk to them. You don't want to be like a client who once told me: "I thought my children would really want the business and be ready to run it. But they don't really have the fire and I don't know what to do."
3. **Do the family members and/or employees buying the business get along?** It's not necessary they see eye-to-eye on every issue, but it is necessary that they have an open mind and treat each other with respect when discussing issues pertinent to the business.
4. **Do your successors have the respect, confidence and faith of key employees, customers and other stakeholders?** I once had a business owner whose sons' sense of entitlement had destroyed relationships with long-term employees and key customers. My client understood too late how important that trust was to a successful transfer of power.
5. **Do your successors agree on responsibilities, accountability and compensation?** If you are sensing developing "turf wars," or an attitude between your successors of "I don't have to take orders from you," it is time to step in and find a solution. Because these issues can be fraught with emotion, it sometimes helps to have an independent third-party work with your team on talking through these issues before percolating problems boil over.

A complete plan isn't in place
I have seen business owners avoid the succession planning process for any number of reasons. Often, the procrastination is due to the tough emotional decisions involved in the planning for a transition to a new owner, whether that is a valuable employee or family member.
"It was too difficult for me to make choices about who should be the president," one owner told me. "So, I didn't act."

No matter the reason, failure to take the necessary time to think through the succession planning process will simply create more problems and headaches for you and more difficulties for your successors in the future. Ideally, an owner will start working through the details of a strong succession plan at least three years before his or her planned retirement. Sometimes, the process takes even longer.

Common issues that I have encountered with clients who have failed to make sure all the pieces of a plan are in place include:

1. **A lack of a backup plan.** What if your planned transition to successors fail? You might know exactly what family or employees you'd like to take over your business, but any number of things could go wrong before the succession is complete. Having a Plan B gives you options in case of unforeseen complications.
2. **Not including successors in the strategic planning process.** Have you asked your planned successors to be part of setting goals for the future? Successors need to be part of the process when determining how to focus energy and resources of the company. Their input, agreement and understanding of that decision-making process is vital to the continued success of the business after your departure.

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3. **Estate plans done wrong — or not done at all.** Have you consulted with a tax expert? Someone who is well-versed in estate taxes and successions can greatly minimize the tax burden on your successors and loved ones.
4. **Failure to create a "bridge management" structure.** Have you addressed what happens in case you are no longer able to run the business but the successors are not yet ready to take over? A "bridge manager," typically a seasoned executive, can run the business and mentor successors until they are ready to assume control, creating a bridge between your departure and the successor takeover. By having a written agreement to that affect, you can smooth over a transition in case of your premature or unexpected departure from the business.

All of these issues take time and care to resolve. Start planning early so that you and your successors can avoid problems later.

Sale details can sink deals
Sometimes successions that seem to have been proceeding smoothly fail just as the time of sale approaches. Perhaps the successor suddenly balks at the sale price, or maybe financing thought to be in place falls through. Are you sure you have a deal in place with your chosen successors that won't collapse?

Before answering that question, ask yourself:
1. I**s your business attractive to buyers?** If your business (or the related industry) is in decline, if there hasn't been any investment in the company in recent years, or if you customer base is stagnant, then it's likely the valuation of your business has slid downwards since its high point. I know it's hard for owners to be objective about their business. That is why, before settling on an asking price, we advise clients to obtain an outside valuation to determine the company's honest worth.
2. **Are the successors expecting you to be the bank?** Often, when family members or employees are purchasing the business, they assume the owner will act as their "bank" and lend them money toward the purchase by agreeing to a note or mortgage. Our advice: Don't. Too many things to list here can potentially go wrong. At the very most, we recommend clients hold 15 percent of debt or retain 15 percent of stock ownership, with an agreement to sell at a later date.
3. **Has a bank or investor fully committed to financing?** Because you aren't acting as "the bank," all financial arrangements need to be secured for a purchase to proceed. A last-minute financing issue can sink the entire arrangement. Make sure your successors have firm financing in place.

Dedicating the time and energy to working through each of these questions and issues can set the foundation for a successful sale now, and minimize the danger of unforeseen problems that can collapse a planned succession later.

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