



The Exit Strategies Newsletter

SUCCESSION PLANNING WITHOUT A SUCCESSION

It's a scary thought for most business owners – the idea that the same people upon whom you rely on for the proper running of your business may be the same people that either own your business in the future or leave your company to go to work for the competition. However, in planning for the ultimate succession of your business, these are the scenarios every business owner must play out. So the question is, how much does planning play a role in the succession of your business?

If you are like most owners, the reality is that some of your managers are fit for future leadership, and possibly ownership, while some are not. Moreover, going from an employee to an owner is an interesting and tricky process that can be a challenge even for the most skilled manager. Therefore, we ask in this newsletter: *How can you have 'succession without experiencing succession, or the splintering off of your managers?'*

Succession vs. Succession

Over the course of history a number of powerful unions have had certain states within their union succeed. Wikipedia describes succession of states as:

Succession of states is a theory and practice in international relations regarding the recognition and acceptance of a newly created sovereign state by other states, based on a perceived historical relationship the new state has with a prior state.

Looking down the road as you plan the succession of your business, will your management team create their own sovereign state apart from their historical relationship with you? Perhaps that is how you got into business as an owner-operator - you simply decided not to participate in the tyrannical (or incompetent, or any other adjective that describes your displeasure as a former employee) culture of your former employer. Obviously there is no crystal ball that will help you foresee what will happen to your management team as changes take place. The best most business owners can do is to be aware of all the opportunities that are available to your key managers, encourage them to move in the same direction as your goals and to protect your business interests.

An Independent Mind is a Double-Edged Sword

It is safe to assume that you originally ventured out on your own because you were independent-thinking and wanted to build and create something of your own. As you

look to your management team for future owners, the challenge is to determine who is independent enough to lead your company into the future, but not so independent that they will want to leave and start their own, competing company. To make this even more challenging, add to this the fact that these managers currently, in fact, work for you as employees. Therefore, in theory, if they were “truly” independent thinkers they would most likely have ventured out on their own already. It is then your challenge to determine who you think, given the right opportunity, could thrive as a new leader.

Non-Competes as Part of Your Compensation Packages

In today’s market, a growing number of employers are asking, or requiring, employees to sign non-compete agreements. As a business owner who will one day, possibly even in the near future, be handing your business to a successor, non-compete agreements should be considered vital. These agreements not only protect you from the possibility of your employees working for a direct competitor for a specified period of time after he/she leaves the company, but it also protects your confidential business information. In this transition phase there is a lot that can happen with aligning employees and managers to prepare for a succession. Having non-compete agreements in place with your key employees will give you peace of mind that your business is protected.

Closing Thoughts

So, how much planning will be required for the succession of *your* business? The answer really depends on what you find when you take the time to assess your potential successors and determine how much work needs to be done before your planned exit.

It will be your job to find the delicate balance between the levels of independence that you must rely upon when transferring operational control, and eventually ownership, to the next generation. Starting today gives you the best opportunity for success with your succession planning.

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