WHO OWNS IT Vs. WHO RUNS IT

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Passing the company to the next generation brings up two questions: who will own the business, and who will run it. Unless both issues are dealt with, the company does not have a true plan of continuation.

Unfortunately, when devising a continuity plan, many owners focus on ownership transfer because it involves tax, legal, and valuation issues which are often complex. The more important issue of management succession can then be ignored or receive only token attention.

In succession planning, who runs the firm is a bigger issue than who owns it.

Assuring competent management is critical because, in its absence, the firm will ultimately go out of business and its value to the next generation owners will be zero. In addition, because most stock transfer plans require future profits to fund the buyout, there must be new management capable of generating profits.

Despite the importance, few owners develop formal management succession plans. There are many reasons why, but the most common are:

- Unwilling to delegate.
- Believes one man is better than a "team."
- Thinks a successor necessarily implies that he can be replaced.
- Has no other activities to fill his time.
- Fears lessening of his importance in the company and community.
- Unwilling to make difficult decisions regarding family members.

For many owners, failure to plan for management transition stems from a combination of these factors.

Transferring management responsibilities is also stressful because it requires changing a routine that may have existed for 20 or 30 years. One way to ease the turmoil is through gradual transition of duties.

"Phasing in" management change lets the heir apparent receive on-the-job training without being thrust instantly into the position of being CEO. In addition, before relinquishing management responsibilities, the existing owner can develop confidence in his successor.

Transferring client, banking, and bonding relationships to the new CEO requires that each of these parties also becomes comfortable with the new management. Employees must transfer their loyalty and allegiance to the new generation of managers for, without their respect, continuation of the business is unlikely.

A successful transition requires more than recognizing the relevant issues. It requires a plan of action. Unless specific responsibilities are assigned, and target dates put next to those tasks, management succession will simply not happen. It is too easy to operate the same as in the past unless a comprehensive plan is drafted and followed.

"Phasing in" the heir-apparent allows him on-the-job training without being prematurely thrust into the CEO position, while the existing owner has time to develop confidence in his successor before stepping down.

Many focus on ownership because it involves issues which are complex.

A detailed plan is the blueprint for management succession, but the key is commitment. Too often management transition never happens because the owner was never really committed to making changes. Unfortunately for some firms, the result of not passing the baton is a business that doesn't survive beyond the first generation.

About the Author *Don Shelly of the Fails Management Institute, Denver CO, consults in the areas of mergers, acquisitions, stock valuation and ownership, and succession planning, for construction companies.*