

Succession planning now can prevent a multitude of problems down the road

By Pete M. Fretwell for TCAJoB

Mention succession planning, and many business owners rapidly go glassy-eyed. Running a successful enterprise demands enough energy, time and thought; projecting thinking and planning out to a time when they are no longer involved in their business—perhaps even imagining their death—is not a favorite pastime of Type-A pragmatists.

One option to succession planning is for a business owner to simply cancel his insurance, spread some gasoline around the office and flick his Zippo lighter. The net effect could be the same as ignoring succession plans. Realistically, the fire may be less devastating. His expertise survives the fire, but the expertise that built his business may not survive his departure. Lose the expertise, and a business may not survive.

Succession planning for a family business does not have to be as sophisticated as it is for large corporations, which often have entire departments dedicated to the issue. While succession planning for a family business can hold some thorny issues most large corporations don't face, it also provides some immediate benefits to small business owners: there is a plan—and qualified people—in place when somebody else leaves.

"Succession planning focuses on developing people rather than merely naming them as replacements. Its goal is to build deep bench strength throughout the organization so that, whenever a vacancy occurs, the organization has many qualified candidates internally that may be considered for advancement," Dr. William Rothwell, author of several books on succession planning and a professor at Penn State, said.

The Tri-Cities Area Journal of Business asked Rothwell to weigh in on two hypothetical scenarios, noting the most important issues owners need to address. The first scenario consisted of a family-owned corporation with several veteran managers who are not family members. The owner's child is the heir apparent to ownership and top management, but is not yet skilled enough or experienced enough to take over. How does the company plan—short-term and long-term—for succession of ownership and management?

Rothwell honed in on family dynamics as an issue many family-owned businesses tiptoe around.

"The issues here are to decide what is best for the business continuity while avoiding the problems of tax and estate planning that will go with passing on the

beyond the ken of one person. There are estate/legal issues, tax and accounting issues, management issues, and family psychology issues that are all part of this situation, and a team is probably required to deal with the implications properly," he noted.

"Form a team of advisors, similar to a board of directors, consisting of an attorney, an accountant, a management consultant skilled in succession issues and a family psychologist," Rothwell advised. Rothwell cited some daunting issues that demand such careful attention to the planning process.

"Work through the estate issues and tax issues associated with passing on the business or else selling it or leaving it in trust, management issues of short-term and long-term replacement planning, and family psychology issues of handling intrafamily conflict and cross-generational conflicts," he noted.

Another scenario hypothesized a closely-held company, with three original owners still running it, but each having one or more family members involved in the company, and each of the owners having a different timetable for retirement. How can they be lead through succession planning with their divergent personal goals and long-term interests?

"The issue is that proper advising requires knowledge that is usually

estate/legal issues, tax and accounting issues, management issues, and family psychology issues that are all part of this situation, and a team is probably required to deal with the implications properly," he noted.

Rothwell outlined options the three owners need to discuss.

"Walk them individually and jointly through some of the many possibilities: form an employee-owned company, sell all or most of the company holdings to a larger company trust, buy out partners as they decide to give up the business, negotiate a fair price and adjust for inflation as possible, and clarify timetables if members are willing to share them if they know them, liquidate the business and divide up proceeds, sell the business and divide up proceeds, or sell in contract-for-ownership arrangements to spread out payments for ownership of each share," he said.

While Rothwell suggests using specialized expertise for each area of succession planning, there are also commonplace tools to help with some issues.

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A dizzying list of succession planning software is available by Googling "succession planning software." Some software is inexpensive and limited, while some is elaborate and includes personalized consultation, along with a rather serious price tag.

Dr. William Rothwell believes strongly in expertise personalized to the succession planning needs of individual companies and owners. Rothwell is author of several books on succession planning, a business professor at Penn State and a principal in a firm that consults on succession management. How does he feel about the burgeoning business of succession planning software and Web-based succession planning systems?

"Too many practitioners pick the software and assume that it will make their decisions for them. It won't. Technology is like an empty glass. Management must supply the liquid," he noted. In other words, software should only be used as a guide. Good succession planning still demands time, energy and thought. It is not something to boilerplate.

That's not to say using computers to track data isn't desirable, or even necessary.

"Any company with more than 500 people can benefit from automated succession planning," Adam Miller, founder of CornerstoneOnDemand, which provides Web-based management tools ranging from training to succession planning, said. "The cost of an on-demand tool can range from \$20,000 to \$100,000, depending on the size of the organization."

Company complexity also plays a role in how many resources—time, money and people—need to be committed to managing succession plans. Joe Fortino, manager of solution consulting for Cornerstone OnDemand, helped set up succession planning systems for several Washington state companies, all with thousands of employees. But Fortino recently worked with a Texas company whose 450 professional employees needed more planning than some of his clients with 40,000 employees.

"They have engineers and scientists, so you can imagine what they need to capture in career profiles. You can't just name a successor. You have to meet certain criteria to get to the next level, and their criteria are very different from other companies," Fortino noted.



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