

Succession Planning

Business Owners Need to Plan to Die Tomorrow!

By Mike DuBose

Harvard's School of Business recommends that successful business leaders anticipate threats by conducting a "risk audit" and plan accordingly. Some know this as SWOT Analysis (Strengths, Weaknesses, Opportunities, and Threats). One threat is no succession planning – or not making orderly company exit plans for the owner and key employees. Many owners invest years of blood and sweat into their business, only to unexpectedly become disabled or die -- then the business fails. Other entrepreneurs do not plan their company's infrastructure for their retirement and when they leave, there is a leadership vacuum. Let's examine some true business disasters:

1. One of three partners in a successful business dies without warning. His wife inherits his interest and makes life miserable for the remaining partners and employees.
2. A business owner dies and the children have to sell the successful business to pay estate taxes of 46%.
3. A swimming pool business owner retires after thirty years of solid success and turns over the company reins to his inexperienced sons. One year later the business closes.
4. An owner of a 30-year old, successful technology firm dies and his inexperienced spouse assumed the role of CEO. The business goes into chaos and nearly fails, but is eventually sold.

You have heard about good companies going down the tubes because nobody planned for tragedy! Ask most business owners in the path of Hurricane Katrina and nearly all will say, "I wish I had ...!" My grandmother always said, "Hope for the best, but prepare for the worst!" How does a business owner prepare to pass away or become disabled? The following recommendations are a part of our strategic business plan in taking our companies from *good to great*:

Step 1: Tell yourself you are not invincible and tragedy can strike you, your business, or family without warning! Steven Fink in *Crisis Management* said, "Business owners need to follow the Scout motto – *Be prepared!*"

Step 2: Think years down the road – beyond yourself! Ensure your philosophies, values, success, and ethics continue in the company after you are gone.

Step 3: Secure a competent lawyer and accountant who specialize in probate, estate, legal shelters, and small business tax law. We use the best -- Frank Thomas, CPA and Alex Weatherly, JD.

Step 4: Only employ outstanding people and create a Leadership Team of your trusted, competent employees and meet monthly. Coach and mentor them, treat them well, share profits, and slowly turn over the operations of the business to them, while maintaining control. Create a clear succession plan where the company can function without you. Build your business around the team and not your ego! My leadership team allowed me to travel to Hawaii recently for two weeks without any worry because I knew the companies were in good hands!

Step 5: Develop employment contracts to protect company assets, practices, customers, human resources, and trade secrets.

Step 6: Be cautious about turning over your business to family members unless you are certain they have the experience, knowledge, passion, and desire to run the business.

Step 7: Seek annual medical exams by Internists. Dr. Surb Guram is one of the best! Many diseases are preventable and are treated with early diagnosis. Visit www.livingto100.com and take the calculator to see how you are doing!

Step 8: Document clear succession plans via a Company Shareholder's Agreement. My 20-page agreement includes details such as:

- stock ownership
- debt limits
- attorney and accountant roles to protect the company, employees, and stockholders (family)
- procedures to keep stockholders informed
- employee and stockholder profit sharing, rights, and powers
- selling of company assets and stock
- officer elections and terminations
- dispute resolution

I solicited my officers' and family's input so we were all in agreement with the irrevocable document including checks and balances, unless officers and stockholders unanimously agree to amend it. The Agreement creates clarity, security, protection, and procedures for my family and the company's leadership if I become disabled or die. Officers and family members signed it!

STEP 9: Professionally appraise business stock and personal assets by certified professionals and distribute assets to children now under the Gift Tax Exemption (up to \$1 million) while you are alive to legally avoid estate taxes. Consider placing 49% of new corporate stock in your children's names before you begin activities.

STEP 10: Ensure that your will is updated and includes a Bypass Trust to legally shelter assets with details recommended by the right estate attorney and accountant.

STEP 11: Review and update your life, business, and disability insurance policies to ensure that your company and family will have the funds to survive.

Planning your future exit **now** will save headaches, chaos, and losses down the road, while enhancing the success of your business. It took years to make your business successful. **Keep it that way!**

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