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FAMILY BUSINESS FORUM

The “Rules” of Succession Planning

By Donald Levitt

The Issue

Family businesses talk a lot about succession planning. But what’s the big deal? Don’t you just select someone from the next generation and make sure they are capable of leading? Well, yes – and no. The best family businesses use succession planning to make a stronger business and a stronger family.

Here are some of the “rules” for effective succession planning – from a professional consultant and from a successful family business.

The Professional

Kevin Carmony is a financial consultant and partner at Butler Capital Advisors in Toledo. He has special knowledge for helping family businesses with succession planning. Here are some of his “rules” for effective succession planning.

1. *Planning together for succession.* “Succession planning works best when the leading generation asks the succeeding generation to give input and to be involved in the succession planning process – rather than just saying ‘This is the way it’s going to be,’” says Carmony.

Of course the leading generation may have greater knowledge and perspective, but input and discussion are critical. “It’s valuable to have regular family meetings, maybe twice each year, so everyone can talk about their own goals and aspirations in a non-threatening forum. This is also a time to talk about the current status and future of the business, and how personal goals can fit with business goals and with the transition. An outside consultant can often help with this discussion and planning process,” notes Carmony.

2. *Structured development.* “Potential successors should be rotated through every aspect of the business. This not only develops the required expertise, but it also helps the successor develop a relationship with and win the respect of the other employees. In this way the employees are ‘on board’ with the transition,” says Carmony.
3. *A gradual – but real – transition.* Effective succession requires the leading generation to gradually transfer *real* leadership and decision-making authority to the successor. “The leading generation should be asking ‘Where do you plan to take the company? What is your vision?’, and being receptive to new ideas,” says Carmony.

This often occurs even while the leading generation is still the majority shareholder. Often the leading generation eventually becomes an advisor or mentor to the successor – on an ‘as needed’ basis. The leading generation leader may also remain on the board of directors so they can participate in major decisions made by the family.

The Business

Beth Holt is co-owner of Holt Roofing – a roofing company that services both residential and commercial markets in Northwest Ohio.

Holt Roofing was founded by Beth’s grandfather Floyd Holt in 1947. Floyd died unexpectedly in 1969, and Beth’s parents Jack and Cynthia – with their five children – moved back to Toledo to take over the business. Because of Beth’s parents’ challenging experience of suddenly and unexpectedly taking over a business, her parents committed to careful succession planning for the next generation.

Ten years ago Beth, her brother Mark, and their parents worked together to create a 15 year “Plan of Action” for succession. During this time of transition the parents have taught and mentored Beth and Mark. In 1996 Beth took over the financial side of the business from her mother – who continues to contribute to the company by attending networking luncheons and community events. Beth’s father Jack still runs the commercial side of the business while her brother Mark runs the residential division. They all stay in-touch with monthly family business meetings where they focus on decisions to be made and give each other feedback.

“Dad takes off every winter, and my parents go on frequent vacations. They let us make the business decisions, and we let them know what we have decided,” says Beth Holt.

Will Beth’s father Jack have difficulty leaving the business at the end of the 15 year plan? “He’ll never leave” says Beth Holt, “and I don’t want him to leave because he’s great to learn from. He says he’ll be fine just watching everybody – and feeling proud to see everybody doing what they do best.”

The Tip

Succession planning is more than just selecting and developing the successor. Having both generations involved in the planning; winning the respect of non-family employees; and transferring real leadership and decision-making authority – these are “rules” which can help family businesses to grow stronger through the succession planning process.

Donald Levitt, president of Levitt Consulting, helps family businesses to succeed as both a business and a family. More information about this month’s topic, and other family business issues, can be found at LevittConsulting.com