Planning your successful exit strategy

By Carmen Bianchi

Lately many of the closely held and family businesses at the Entrepreneurial Management Center Business Forum at San Diego State University have come to us saying that the CEO/founder would like to work more "on" the business as opposed to "in" the business. The CEOs would like to extract themselves from the day-to-day operations and would rather concentrate on growing their business and/or are looking to diversify and, perhaps, even merge and/or acquire some other enterprise.

However, one of the biggest dilemmas facing these CEOs/presidents/founders is letting go. How do you let go? A traditional estate or succession plan for a family or closely held business should encompass and be part of the estate plan, the financial plan and the strategic plan. Every closely held and family business company should have an exit strategy.

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It is important to determine whether your company is your legacy and if you want it to perpetuate through the generations. But whose dream is it? If it is only your dream and not your next generation's dream, then your company may become just another statistic. Currently, 92 percent to 87 percent of all companies in the U.S. are family owned or closely held, but by the second generation, this percentage drops to 36 percent, and by the third generation, it drops to 16 percent. "Shirtsleeves to shirtsleeves in three generations" as the saying goes and this could be your legacy!

Do not set up your next generation for failure. Make sure that the successor desires this position and is capable of being a leader. Establish good mentorship and development programs as well as good leadership programs. Successors need to acquire the necessary skills and experience and be comfortable in their role as the leader. Employees and customers rely on the leadership of the company to create a smooth transition that would not be disruptive to their lives.

Make sure that your successor has the same values and standard of excellence as you do and that the vision of the company remains your vision. At the outset of this transition, it is best if regular scheduled meetings occur between the successor and the person who is stepping down.

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Once your successor has been identified, then it is your duty to have the employees, clients, customers and service providers buy in and become comfortable with this person. A timeline, or transitory period, with a set date (perhaps three months) is good so that you can ease your successor into the position.

However, BEWARE: remove yourself from your usual office, move down the hall and step away from the daily operations, and allow your successor to demonstrate his or her capabilities.

If succession is split between two or more siblings and/or family members, agreements should exist between these shareholders that will allow for future changes in the company. Be careful of 50-50 splits with no majority shareholder. Establish sound buy/sell agreements whereby decisions such as the amount of shares to remain in the bloodline in case of divorce and if adopted children are considered bloodline, etc., are determined.

On the demise of one of the shareholders, do the shares go back to the company or to the other family shareholders? These are very important considerations. Who will manage the company? Will there be an outside board of managers? Will minority ownership be allowed among nonfamily key employees or should there be "phantom stock" given to employees?

Finally, consider an ethical will in your succession plan. Ethical wills are multifaceted tools that can be used to transmit not just your intentions but, equally important, your thoughts and feelings on innumerable subjects, some of which may be too difficult or sensitive to express directly while you are alive. But most important of all, the ethical will is a tool that describes the principles and values with which you lived your life. This is a unique way of creating a lasting legacy of your wisdom and insight for having lived a rich and rewarding life; a final lesson to be learned.

If you are thinking of becoming the successor of a family or closely held business, here is some food for thought:

- How do you plan on acquiring the skills necessary to become the leader of the company?
- Get meaningful, full-time outside work experience to create an aura of credibility.
- Look for mentors both inside and outside of the business.
- Seek the presidency of an organization outside of your work.
- Develop or belong to a peer group.
- Identify leadership models to emulate.
- Remember that real authority comes from earning respect, not from power.
- Eventually identify your own management team.
- Be a role model of listening skills, openness and change.