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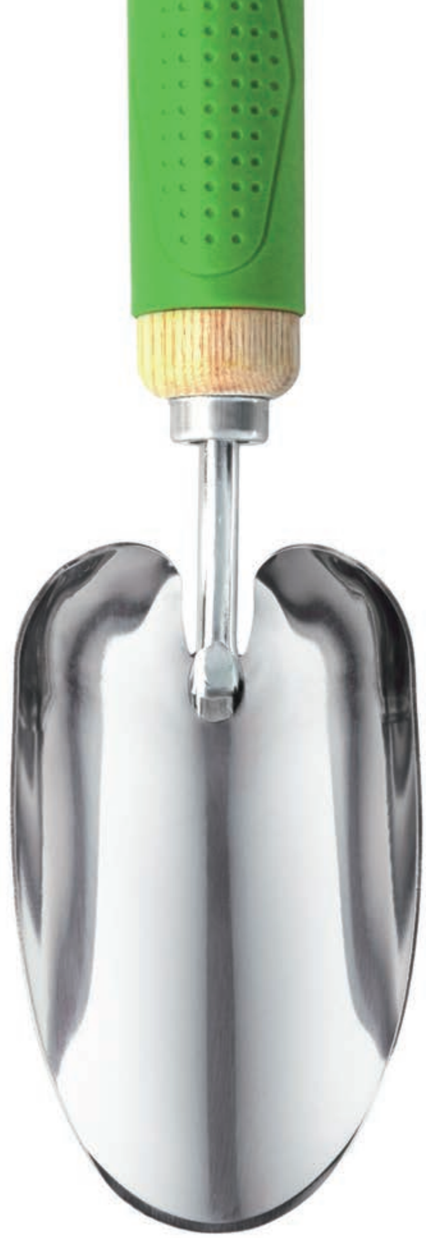
Business succession planning
Cultivating enduring value



Volume 6
Cementing a legacy

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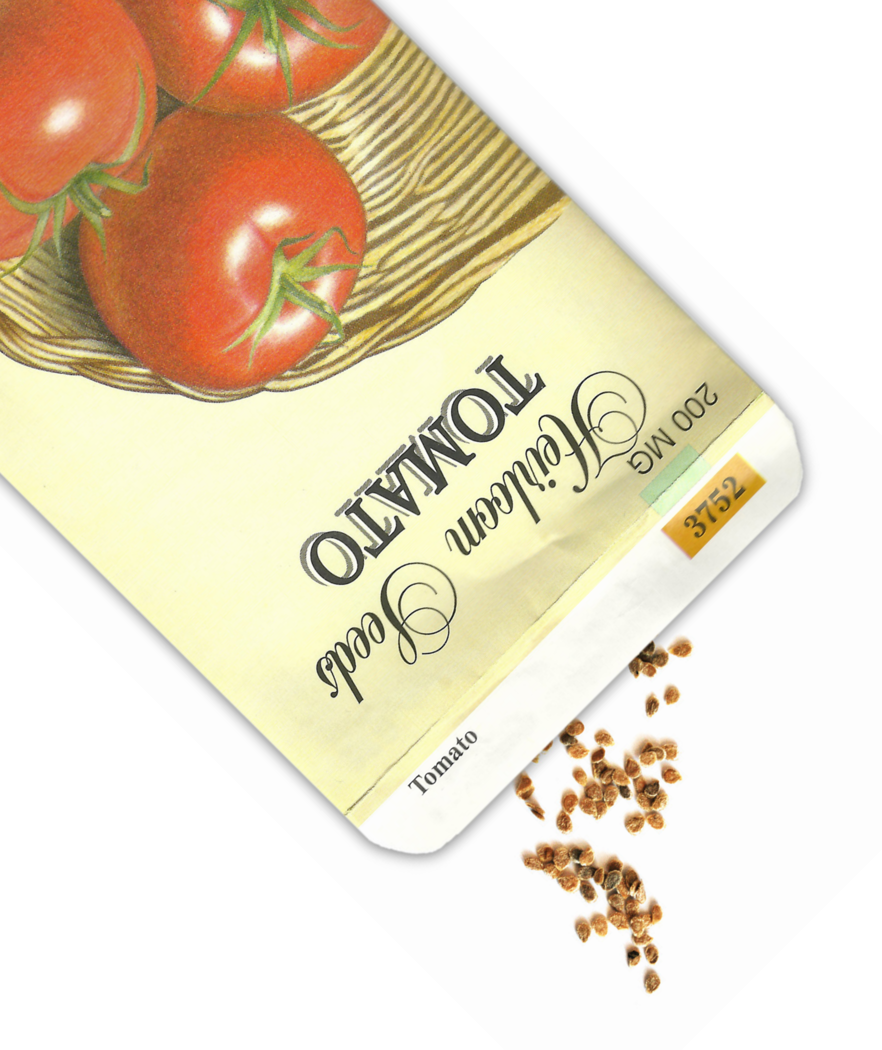
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Where calculus meets emotion

A lot of effort goes into every part of succession planning. None of it would be necessary if business lifespans and human lifespans aligned perfectly. The whole point of succession is to determine how one of those processes will continue after it disengages from the other. All of which is a clinical-sounding way to express a deeply personal thought: Business succession planning is about what persists of your effort, your stamp, your principles, and your hard work after you are no longer there to continue to shape it.

That's why legacy is such a multifaceted concept to address. What is a legacy? Is it the continuing operation of your business? It can be. Your personal wealth? Your family's wealth? The brand image and reputation you've built? The lifestyles and careers of your children or other successors? Yes to all.

There is no formula a business owner can use to address the emotional side of succession. But there are strategies and leading practices an owner can use to confirm that his or her legacy isn't left to chance.

This capstone entry to the Business Succession Planning series relates what some recognized authorities have shared about legacy. It explores real-world examples of how business leaders have carried those principles into action, and closes with a conversation between practitioners who have first-hand experience helping closely held businesses take on these very challenges.

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Thoughts on legacy

This series has emphasized the theme that business succession planning isn't merely about naming the next top leader in an organization. Typically, the conversation has gone on to examine other aspects — technical considerations like tax planning, valuation, and entity structure. But in broadening the discussion from a simplistic "next boss" view to a more nuanced one, a closely held business should not focus solely on the technical.

Family business advisor Leslie Dashew, co-author of *The Keys to Family Business Success,*[1] has identified seven dimensions of succession, each of which takes place on a higher level than raw tactics:

- Succession of leadership
- Succession of management
- Succession of authority
- Succession of values
- Succession of knowledge
- Succession of relationships
- Succession of ownership

Succession, Dashew advises, is "not just about ownership or equity... It is also a succession of knowledge, relationships, and authority."

[1] Leslie Dashew, Sam Lane, Joe Paul, Darrell Beck, and William Roberts, *The Keys to Family Business Success,* Aspen Family Business Group, 2011.

A visit with a veteran

Deloitte Tax LLP partner Tom Plaut, who specializes in succession planning services, has worked with Leslie Dashew over the years. Leslie is a family business advisor and co-author of *The Keys to Family Business Success.* Recently the two connected to explore the meaning of business legacy and how it relates to the broader themes of succession planning. What follows is an edited version of their conversation.

Tom Plaut: Leslie, you've written a lot about the seven dimensions of succession planning in a family business. I'd be interested in getting your commentary around what those seven dimensions are and specifically, which of those dimensions apply to legacy?

Leslie Dashew: Typically when people think about succession they think about succession of leadership or management — and, for estate planning purposes, transition of ownership. But what we found is that many times the succession that is successful has to address four other areas as well. One is succession of authority. In closely held businesses, we find that one of the challenges is the inability of an owner to let go of control.

The challenge is that the owner thinks, "This is my baby! I know it better than anyone else," and it's hard to let go. So many times they'll appoint somebody to be president and vice president with the anticipation that they will succeed them, but not let them make any significant decisions.

One of the reasons someone may not trust the next generation of leadership is because they don't trust their values. A classic one that we see now is when a younger generation wants balance in life, but they've seen the older generation be workaholics. The older generation may say the young ones just don't work hard enough to keep the business alive.

The next dimension that contributes to this issue is a succession of knowledge. I often hear leaders say the next generation doesn't know enough: "I've built the business, I've learned every aspect of the business, and they need to know all of that and if they haven't created it they can't know it well enough."

I also hear leaders say, "I have a number of key employees who have been like family to me; they're really essential to this business, and I want to make sure they're taken care of and that they're retained." Often the other side is a younger generation who say, "Dad has held on to people way too long."

TP: You gave the example of the younger generation seeking a different work/life balance than the older generation. How do business owners align values between generations?

LD: Let me divide it in several categories. There are values that characterize the families that stay positively connected over multiple generations and there are values which may be inherent in the business that have been critical success factors. Are we talking about succession of a business that has been an entrepreneurial venture? Or are we talking about one that's passed from one generation to another already? The most important piece here is to create a container for dialogue or multiple containers for dialogue around values and vision.

One of the reasons someone may not trust the next generation of leadership is because they don't trust their values.

Let me start with vision. If a business leader is thinking about the future of his or her business and has a vision of wanting this business to continue to be owned by the family, the first challenge is for that person to engage the family in thinking about what it means to be a family-owned business. In my practice I find that if there's a shared vision for the future of a business, then there's a much greater probability that family can continue to own the business.

The second part is: Do they have shared values for the future of this business? Those values may include things such as how we treat employees, what is our role in the community, what are our goals about continuous improvement? How do we view the use of cash, of capital, in the business? Do we look at it as an opportunity to take out money to make the family wealthy? Or do we want to continue to build the business?

TP: Leslie, I believe that you would definitely need to include the key stakeholders in order to formulate a shared vision. Do you agree with that?

LD: Absolutely. If you've been leading a business and you have taken most of the responsibility on your own shoulders, a lot of times it's difficult to engage other people in sharing that responsibility. That's one of the variables that is critical to the success of the succession. If the younger generation doesn't feel that they can have an imprint on that vision, and they don't have the energy or passion for the vision, they're not likely to make it successful.

TP: If I think about the most successful transitions of business that I have been involved with, two key elements present in all were inclusion and communication. Throughout the succession process, the key stakeholders were given a voice and a role in the process. They were able to express their views of the business, their future role, and their personal and professional goals.

LD: One of our colleagues recently said: "If you think about what is magical about a leader, they're able to take energy and create mass." That is, they take their energy, their vision, their passion, and make a business out of it. If the next generation doesn't have that kind of excitement, enthusiasm and energy, then that mass is likely to decrease rather than increase. I've seen many people who don't take their hand off the baton while they're trying to pass it.

TP: I like that analogy — not being able to take your hand off the baton. What are the best ways senior generation family business leaders can deal with the challenge of letting go?

LD: In my experience, somebody who has been a dynamic, engaged leader can't just let go and leave without having something to go to. And if they have had an active, engaged life, they can't just sit at home and read or watch television or play golf. In my experience they have to have something that's compelling that they go to. So the first piece is for leaders to begin to transition their energy long before they plan to let go of the authority. That may mean beginning to cultivate other interests. This is terribly difficult for entrepreneurs in particular, because they're typically consumed by their businesses.

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One of the most successful transitions I ever saw was a client who had started a construction business from scratch and built it to a value of $60 million. By the time he finally sold the business and transitioned it to new leadership, he had started helping a non-profit build its new building. He was on its board, but he had that technical expertise and they really wanted that help. So he was able to take his knowledge, passion, and energy and place it somewhere else.

The second piece is to have the confidence that the next generation will have the supervision — if you will, the oversight — to know they're doing the right thing. So one of the best possible strategies is to make sure that there is an independent board of directors who will provide the kind of oversight and guidance that the departing leader can trust.

When that board is in place, and often the departing leader is on it for a period of time, then there's a sense that, "Okay, I have my nose in and my fingers out, and I can keep an eye on what's going on."

Tom, what have you seen in your experience on this issue of "letting go?"

TP: I believe that the inability of some business owners to transition decision making is one of the key reasons why succession plans fail. There has to be a level of trust that the next leader will make good decisions. There has to be an acknowledgement that the next leader will make some mistakes and will likely make decisions that his or her predecessor would disagree with. And there has to be an attractive alternative present for how the current leader will spend his or her time in retirement. All of these also invariably deal with the challenge of facing one's own mortality.

Leslie, when is the best time for a business owner to define and articulate a legacy?

LD: Legacy has many different connotations. Entrepreneurs are busy building something that is not there, so they typically are not thinking about their legacy. They're thinking about what they're creating surviving, building it. So for an entrepreneur that developmental stage begins later than it does for some other people. And at that point they begin to think about this asset base that they've created.

But for other people it becomes something broader, and that's what we might call a spiritual legacy or a set of values. One of the traditions that I've seen has been very helpful is something that comes from the Jewish religion called an ethical will. An ethical will is a letter or something that's written that goes into another document, typically a financial will. And it says: Here are the lessons I've learned during my life that have been helpful to me that I would like to pass on to my children or to generations afterwards. When elders are beginning to think about legacy, these messages are really helpful to document. And that's something that business people can do when they're flying from one place to another and they're sitting at 30,000 feet and being reflective. They can begin to write down what those lessons are.

TP: I think that concept has a lot of appeal in a broader context than just business owners and succession planning. I'd be interested in reading one or seeing one.

LD: What's different if you're passing a business on, if you're the second generation or third or fourth, is that the legacy has been started already and handed to you. So you have a different perspective on passing on this legacy, and that thought process starts earlier than for an entrepreneur. If I'm in my family business and I'm second- or third-generation, I'm thinking about what constitutes the legacy I've received. It may be a way of doing business. It may be set of values. I find that that reflection process starts earlier in the life cycle of an individual, a family, and a business if we're transitioning a business that's existed for prior generations.

TP: Sometimes, Leslie, selling a business is the right answer. I have worked with several clients who have had a short-term focus on driving business value for a desired sale. In this instance, the business owner's legacy is not the survival of the business, but rather the survival of the business asset in monetized form.

TP: What does a sustained legacy look like for a multi-generational business?

LD: A legacy includes the tangible and intangible assets that we inherit. The legacy can be the business itself, it can be a tradition, or a set of traditions. Some of them may have to do with one's position in the community. And in some families there's a conscious dialogue that says, "Let's stop and look at the legacy we want to pass on, and what elements of our legacy we don't want to pass on."

When we look at second to third or third to fourth generations, we're looking at how a business can take this asset base, enhance it, and make it relevant to future generations. For example, if your family created the dialing telephone, that's no longer relevant today. But to be in communications would be relevant. One of the challenges when you have a mature business is whether you evolve and respond to the marketplace or you just die because you're no longer relevant.

TP: I agree. Business strategy or strategic vision is definitely a key element in the succession process. We have witnessed the decline of many businesses, both public and closely held, brought about in many instances by technological advancements.

Is business legacy planning an evolving discipline?

LD: Absolutely. When we started in this business about 25 or 30 years ago, we were at a demographic time in the 1980s when people who'd come back from World War II and started businesses were getting ready to retire. We had the largest transition of businesses in this country ever, and at that point we didn't have a knowledge base about what makes for effective succession. Over the last 25 years we have created that knowledge base.

Our understanding of how these transitions happen is evolving. Now we're at the next generation — many of the people who were doing those transitions then, the baby boomers, are now getting ready to retire. They have a whole different way of thinking about these transitions and succession. They're not thinking about legacy as a purely financial or business matter, but they're thinking more about the opportunities they want to provide for future generations.

TP: Does the dynamic change when a business has been in existence long enough that there are two or three generations?

LD: I think the dialogue changes. When a business is first-generation, there's more of a focus on the person who created it rather than a family or a system. It's less of an institution, and more a matter of "Do I want to follow in dad's footsteps or mom's footsteps?" rather than "Do we want to preserve this legacy?" As you get to a third or fourth generation, you begin to reflect more on what are the elements of the legacy.

There's some research that's been done at Emory University that shows kids who have heard about their family history are emotionally more resilient than those that have not. They can cope with all kinds of life crises because they have a context that provides them a sense of security.

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They've heard that the family has had its ups and downs — that the family has done really well at times and then has gone through life crises — that it lost assets or was in danger, then came out of that and did better again. Those kids have a context for saying, "We may have good times or we may have bad times, that doesn't mean that we're destroyed." It means that life has cycles and that we can come out of them. So one of the benefits of families sharing a legacy of history and of a transition of family assets is that they have a foundation that can help them understand their opportunities.

Telling these stories is an intangible asset that can be as valuable as the tangible asset of the business. In my own family, my dad never thought in terms of a family business; he was a serial entrepreneur. But when he hit his 60s he started a tradition where he would bring his siblings and their families together with our family at the holidays. Every year we would get together with our cousins and aunts and uncles. And this went on for the rest of his life, and we have continued that tradition in our family so that my children and my cousins' children and soon grandchildren are coming together and getting to know each other — learning from our shared experience, our shared values and how can we provide mutual support.

TP: Are there any special thoughts we need to include if we're talking about non-family businesses that still fall within this closely held category? How does the transfer of values and vision impact a work environment where people's relationships are only professional?

LD: I think for a business founder who is thinking about the transition of his or her legacy when there isn't family involved, the challenge is: "How do I continue to have this sense of relevance if my sense of identity is tied up with my business life?" For many people who have created a business and are considering transitioning out of it and selling it, they really have to think about that — what about that asset, what about that transition can they take pride in and feel good about, and what about it is a loss?

One aspect of that is to give successors the opportunity to practice making strategic decisions about the business before they're gone. Because if you can transition the experience of learning to be a leader to the next generation of leaders, even if they're not in the family, and they have had practice under your tutelage, you are increasing the odds that they will be successful in leading this business that you built without your being there. And that's a gift.

The second thing is to really think about where you take the creative energies and drive that you have and channel it somewhere else. Part of the process of successful transition for an entrepreneur is to think about the fact that that business may not be part of you now, but the energy and the wisdom that created it is still there and can be productive in other ways.

The third element is to be able to say is there a way for you to maintain connections that are important relationships that have been part of your life up to now without staying engaged in the business. Because one of the pieces that happens as one lets go of a business is a fear of isolation. It's good to able to say, "There's still a role for me in the Chamber of Commerce," or "there's still a role for me in getting together with a group of colleagues in my trade association as a mentor, as an elder. I feel like I'm providing guidance and the use of my leadership abilities."

TP: The first five volumes of our series have gotten very technical at times about subjects that are important to consider, like tax and business entity structures, and finance. But for this final volume, we're talking about emotional, human subjects. How does the hard stuff relate to the soft stuff?

LD: When we talk about legacy we're talking about what we want to transmit. And when we talk about tools like the structure the business and the tax strategies, we're talking about the how. If we go back to the notion of an integrated approach to succession planning, we have to be clear about our vision, where we want to go, and what the quality of that destination is. As individuals, what has importance to us and what has value for us? When you define that, you can structure the succession of assets and succession of other intangible and tangibles to accomplish that.

Conclusion

Legacy is many things to many people. For one business, the term may connote nothing more than a continuation of sustainable operations. For another, it may extend beyond that into community relevance, reputation, or family involvement. Somewhere in the lifespan of each multigenerational business entity, there is a point at which it becomes more than a mechanism for commerce and employment — it becomes an institution. To people in the know, its name comes to encompass not only a value proposition but also a history, a way of relating to people, and the memory of the people who built it.

The emotional task of guiding a team or family through that change may be the crowning achievement of a successful career. Many other steps must precede and coincide with it — including the often technical concerns this series addresses, such as valuation, entity structure, exit strategy, and leadership development. When the leadership of a business masters the nuts and bolts of succession planning, and then reaches beyond that mechanical level to place the entire process in an emotional context, the picture is complete. One generation is ready to let go, another is ready to take up the mantle, and the business continues as a recognizable brand.

If an effective approach to succession involves a confluence of the technical and the emotional, the barriers to it contain the same paired elements. In practical terms, succession can feel like a distant concern alongside the priorities of everyday work. And in emotional terms, succession can simply be hard to accept.

“Even when everyone agrees that succession planning is important and necessary, reasons to delay the process often sidetrack the discussion,” Plaut says. “Running a business takes maximum effort, and long-term planning can take a backseat to short-term issues. And for someone who has poured his or her heart into a life’s work, letting go is understandably difficult. Kicking the can down the road on something as important as succession planning is a sure-fire way to invite unwanted surprises into the business.”

No matter how a business defines legacy, it has a long list of stakeholders who rely on it — inside and outside the business, inside and outside the founder’s family. There are no easy steps in running a business. Doing the work to pass it on intact may be complex, but also offers great potential rewards — for founders and their families, or others who will carry on the business.

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Prior volumes are available for download at www.deloitte.com/us/dges/BusinessSuccessionPlanning.

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