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### Succession planning is not just for the Apples of the world

BY SHERI F. SCHULTZ

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Succession planning is vital to the future of your company, whether you own a large public company or a small closely held family business. Yet, it often goes unaddressed by business owners.



SCHULTZ

Apple CEO Steve Jobs is case in point, as he recently announced that he would be taking another medical leave of absence. Apple investors are worried as to the seriousness of the leave and are asking the company to develop a leadership succession plan.

A recent study by The Korn/Ferry Institute showed that 84 percent of Fortune 1000 company board of directors believe that the importance of succession planning has increased over the past five years, although less than 50 percent of large companies have a formal plan in place, according to a survey by one business intelligence firm in North Carolina.

As baby boomers are approaching retirement, a formal succession plan is critical to ensuring that ownership of a company passes smoothly when the owner leaves and critical to preserving the stability of the business. Many business owners assume that the market will be ripe with willing buyers when they are ready to retire. Unfortunately, a buyer's market is expected to ensue as baby boomers retire en masse. The oversupply of sellers will likely depress pricing multiples and allow buyers to be more selective when evaluating acquisition candidates.

Instead, owners may need to groom a second generation of leaders by developing talent internally and promoting from within. This will provide a company with various options when a successor is needed.

Some reports indicate that less than a third of family-owned businesses are successfully transitioned to second-generation management and less than 30 percent of those businesses are successfully transferred to the third generation. In many cases, entrepreneurs automatically assume that their children have the ability and desire to carry on the torch. Other parents just

cannot let go, and their ongoing involvement undercuts their children's ability to manage the business.

Family business owners should realistically assess their heirs' skill sets as well as their personal and professional goals. Although some parents find it difficult to admit, it may be wiser to either sell the business to a third party or an unrelated employee they have groomed.

Succession planning shouldn't be put off — but unfortunately it often is.

A recent example of this is a sole practitioner physician who passed away at an early age in the middle of the night. His spouse frantically tried to find physicians to cover but was unable to transition the business and therefore had nothing to sell. If this physician had a succession plan in place, he would've been able to receive a sizeable amount of money for his spouse.

A successful example of succession planning is a client who started thinking of the future early, even though four of his five children worked in the business for many years. He concluded that none of the children were appropriate candidates to take over the helm and further, that it would create turmoil for the remaining children who were not chosen as the leader. Therefore, he actively searched for a company to purchase his business. Although the search took over a year, the company now is running smoothly and three of his children are employed by the current owners.

These examples point to the need for business owners to spend the time to adequately address their succession planning needs.

**Sheri F. Schultz** is a partner in the business accounting and consulting firm **Fiske & Company** in Plantation. She specializes in business valuation and litigation support.