Avoid this common succession planning mistake!

Dale R. Vlasek | Tuesday, December 20, 2016

Usually the intentions for succession planning and organizational development strategies are good. The top two reasons are that the executive or owner is ready to step aside or to take care of their good, key people in the long term. All good intentions, but…

I recently learned how a simple mistake can actually hurt you and your business. The good news is that you can avoid making this mistake.

I had the opportunity to speak with a few good, key people and discovered that they left their previous companies because of failed succession planning efforts. The problem is common – the executives or owners wanted to let those people know that they cared and they were attempting to create an opportunity for them to have an ownership position. However, the problem arose when the initial plans they shared changed!

In these examples, the companies announced they were attempting to set up an ESOP, and even went into detailed discussions with their key people. Then, for many reasons, the companies' plans changed dramatically, which left their key employees very disappointed because they had the end result of partial ownership set in their minds. This bothered them to the point of finding another job. One of the employees in this example had 17 years with their company, while another had 12 years. And now they're both gone!

Both companies suffered even though their intentions were good. I decided to speak with ESOP attorney Dale Vlasek of McDonald Hopkins, who specializes in helping business owners create these types of succession planning solutions, to find out his thoughts.

Here is what Dale had to say:

> "Many business owners expect to work forever, but try as we might, none of us are going to live forever. It is incumbent then on a business owner to prepare a succession plan. This is particularly true where there is no obvious successor like the next generation of the family. But even where there is, it is best to put a strategy in place to facilitate that succession with the least disruption to the business.
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> Employee Stock Ownership Plans (ESOPs) are a technique that deserves a careful review. They are not right in all situations, but where they are they work extremely well.
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> ESOPs are complex. There are a number of players involved, such as financial advisors, lenders, independent appraisers, and legal counsel.

There are a number of legal, personnel, and financial aspects that must be addressed, such as the owner's estate plan, intra-family dynamics, relationship with and between key executives, and the short- and long-term financial impact on the company.

Any one of these aspects can create delays or reasons not to pursue an ESOP. Of course, there will be executives at the company who will need to be consulted or who will be necessary information providers as the ESOP transaction is in planning and at implementation stages.

Care must be taken to avoid creating unrealistic expectations and premature revelations.

Nonetheless, business owners owe it to themselves to at least examine ESOPs and the advantages available to the selling shareholders, the company, and the employees.

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Have a plan for sharing your succession plan

You may have all of the best intentions by sharing your plans early on with key employees, but you also run the risk of disappointing them to the point they run away. The safer bet is to curb the enthusiasm and not share the plan until it is finalized.

Steven J. Krisfalusy is a serial entrepreneur who has decades of expertise in O.D. and People Development in a vast array of Industries, especially the small- to mid-range markets. Currently the Managing Partner / Sr. Consultant of the Beringer Group LLC. A Management / Human Capital Consulting / Staffing Consulting firm in the Midwest.

Dale R. Vlasek