HAUSE FAMILY BUSINESS TRANSITIONS, LP
Identify. Align. Balance.

Be Prepared: Planning for Sudden Death in Business

By Larry D. Hause

The random stabbing death of Todd Bachman, chairman and CEO of Bachman's Inc., during a visit to the Beijing Olympics shocked those who knew him and the venerable Minneapolis-based floral and garden center. Amidst grieving, the family-owned business turned its attention to an issue that inevitably rises when a key executive dies suddenly and unexpectedly: leadership succession.

At some point following a tragedy that befalls a business leader — for some, way too soon — thoughts and actions must focus on business. What needs to be done? Who will do it? When? How? The questions can seem endless and answers unclear. When a well-known person or company is involved, add the stress of public relations.

You probably don't want to think about the possibility of your own sudden death, or that of a key colleague. It's certainly more convenient to consider yourself invincible. However, unexpected tragedies happen. Through careful planning, you can help your business associates and family members cope with unforeseen tragedy on their own. You can protect your hard-earned legacy and, even if nothing tragic happens to you, strengthen your business in the process.

What if?

How would your business respond if you or a key associate died without warning? It's a question you can — and should — ask now. Don't wait too long to answer, or you'll rob colleagues of your experience and wisdom when they need it most.

Contemplating unexpected leadership loss is part of sound transition planning, which every business needs to remain viable. Your annual or strategic plan, which covers many "what ifs," presents an excellent opportunity to address leadership succession.

Consider the following three questions to help determine how your business would respond to unexpected leadership change.

1. What functions do key leaders perform?

If you or a key associate died, would anyone know where to pick up where you or he/she left off? Be sure you keep written job descriptions for all key executives. Many business owners take too much of what they do for granted — so include every detail, however obvious.

Here are examples of key functions business owners perform:

- Set vision, strategies and goals.
- Establish budgets.
- Direct and drive employees.
- Assess risks and opportunities.
- Create new products.

- Find, hire and develop good people.
- Help with customer relations.
- Support other managers.
- Arrange financing.
- Make final decisions on major initiatives.

If you are the primary executive, consider your specific responsibilities under the hats you wear as a manager, owner, and board member. Ask other managers, directors and outside advisers to describe the critical functions they see you do. Then compare notes and consolidate responses. Follow a similar process for other key leaders.

2. Who will perform key functions?

After documenting what key leaders do, determine who would assume those duties, if necessary. Assign key functions to certain positions, not individuals. Transition planning often goes awry when a company tries to replace key leaders with individuals just like them. Usually such people don't exist.

If you are the central person in charge, chances are one person couldn't replace you; several might have to step in. For example, a family member might inherit ownership interest but would not want, or be capable of, your day-to-day management duties. First assign your key functions among ownership, board and management functions. Perhaps a co-owner would personally guarantee bank debt. A fellow director could evaluate how the business will stay competitive. A top manager could hire and evaluate talent. Those functions assigned to management can then be assigned to appropriate management positions.

3. What will owners, directors and managers need to succeed?

Identify what each key leadership group would need to perform the functions allocated to them.

Your heirs could potentially assume control of the business without knowing what owners do. Consider training them now. For example, survivors will certainly have financial concerns so financial planning now can teach future owners how to identify their financial needs. This information will help the business know how to respond. You also would want to address what owners do and how owners will make decisions, resolve differences, collaborate and treat other. "Would-be" owners may be too young or too distrustful — but you could head off issues through education, trusts, wills, shareholder control agreements, or buy-sell agreements.

If you are the founder of your business, you balance what the owners get from the business with what the business needs to compete. This function is best done by your board. Who would take on this role? Who would balance the interests of owners and managers, heading off potential power struggles? Your plan might require a new board with a different mix of directors than who you have now.

Regarding management, now is the time to identify and prepare individuals to assume new responsibilities they could inherit on short notice. Would managers stay put or change roles? Would the company promote from within or hire new talent? What type of personal development should managers the business offer now to ensure individuals succeed without you? If you develop people before the unexpected happens, you can reap the benefits immediately.

Getting started

Planning leadership succession can be time-consuming, but you don't have to complete it overnight. Focus first on high-priority elements, and finish as time and other resources permit. Review succession plans each time you update your company's strategic plan.

You can easily prepare some transition documents today, at least in template form. If an incident happens, the company will have the tools for a smooth transition. Consider drafting:

- Letter of assurance to key customers, vendors, suppliers, distributors.
- Announcement to employees.
- Press release.
- Message to key lending sources outlining how the death will affect business and how key functions will proceed.
- Authorization for successors to perform key functions such as conducting bank transactions.
- List of security codes, computer codes and other instructions for access to privileged accounts and data.
- Description of bonus plans or other types of revenue-sharing among employees that only a key business leader holds.
- Obituary notice.
- Memorial service instructions.
- Plan to recognize the deceased.
- Estate plan (will, trusts, powers of attorney, health care declarations) that support the plan.
- Estate tax plan, projecting the estate tax effect on the business.

Within two weeks of Todd Bachman's death, even before he was laid to rest, Bachman's named his second cousin, Dale Bachman, to succeed him. Dale Bachman has been with the company for more than 35 years, the past 15 as president. Is your company prepared to name a qualified successor as quickly and smoothly?

Larry D. Hause helps leaders of private businesses handle change. He is also a co-author of the book The Balance Point: New Ways Business Owners Can Use Boards *(2008 Famille Press, www.thebalancesystem.com that provides a framework for managing transitions. Additional information on Larry is at www.hausefbt.com.*

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