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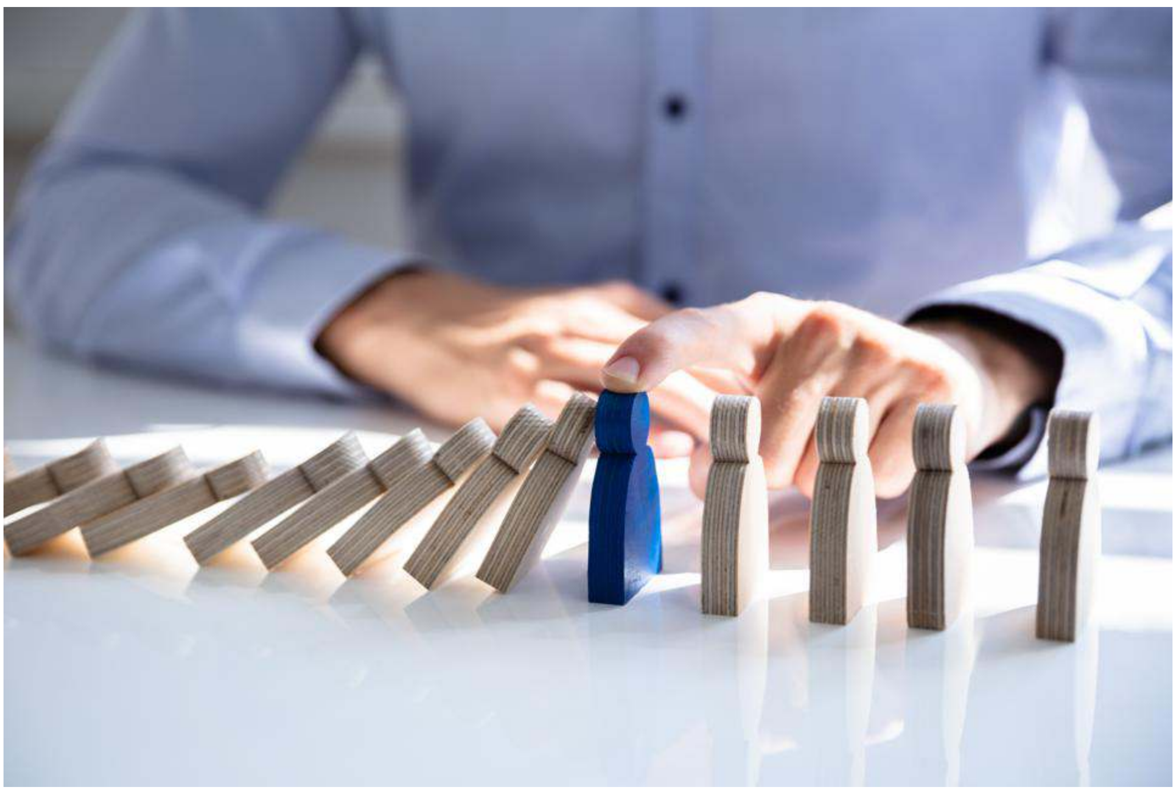
Succession Planning And The Professional Management Of Family Owned Companies

Matthew Erskine Contributor

Wealth Management

I am a trusts and estates attorney writing on estate and tax planning.



Close-up Of A Male Hand Stopping The Persons From Falling On Desk GETTY

Recently, there have been a number of companies where the founders have bought out their private equity investors. Arkadium broke up with its investors by buying them out and the founders of the Israeli spyware company NSO Group bought out its investors in the wake of a news story of the firm's software enabling government to use mobile phones to spy on their owners. This is not a new phenomenon Michael Dell bought back Dell Computers in 2012. Why do these founders, as owner-managers, buy back their business?

Owner-managers think, act and behave differently than an outside investor in the business. These differences are between an owner-manager of the business and a professional manager of a business. Those differences drive both the sale of the business in the first place and the re-purchase of the business in the long run. This same dichotomy between owners-manages and professional managers must be integrated into each succession plan. The professional managers must be integrated into the business because at some point, the founder, or some or all of their family members, will transition their ownership from active management to passive investment. Sometimes, this is a younger member of the Family, or a non-family employee of the business, but that requires time and willingness for the owner to let go. More often, succession plans are missing and the transfer of ownership, and the sudden need for a professional manager is driven by the death or disability of the owner-manager.

Whether it is a gradual integration of professional management over time or the sudden transition to professional management, succession planning has to start with an understanding of the differences between the owner-manager and the professional manager. The perspectives are not mutually exclusive keeping ownership and control of the business for the long term.

The difference between Owner Managers and Professional Managers

First, it is important to understand that the owner-manager's background make him or her very different than an outside professional manager for the business. For better or worse, the owner-manager has "grown up" inside the business, growing as the business grows. There may be a Board of Advisors that brings needed technical skills and perspectives to management, as do those non-family employees in the business. An outside professional, however, has learned their trade either in a classroom or in another (usually larger) company. The professional manager has strengths and weaknesses which an owner-manager can use to his or her benefit if they are aware of them. Here are some of the differences in perspective.

The professional manager is always going to be an employee and will expect to work much like they did at their previous position, and are compensated based on their salary, bonuses and incentives. They will see their role as looking at the big picture and not getting bogged down in the details. To here are five steps to successfully integrate a professional manage into a business:

Record how things work

Any professional manager will feel a desire to "kill the sacred cows" but some of these cows serve a very useful function. As things evolve with the businesses bank, non-management Family and the integration of the new people and operations over time, those habits should be codified and the Professional Manager should be aware of these and other practices so that there is not a lot of meaningless time and energy spent reestablishing a good working relationship with each from the start.

Communication

There should be a start on having more formal and detailed communications between the management and the owners (even though they are the same person) in part because this gives a new Professional Manager some sense of why Family Management, did something, and because it will set the expectation of how and when the professional manager will communicate with the owner-manager and the Family.

Financial Interest

The financial interest of the Professional should be tied in some way to the realization of the owner-manager's financial and transactional goals. Care will need to be taken that such financial incentives do not threaten the control of the business or inhibit getting access to capital later. For example, it may be best, if a share bonus is to be used in a businesses other than a sub S Corporation, to first freeze the value of the company by restructuring into a preferred class with 99% of the value and a common class with 1% of the value, and have the share bonus limited to the common stock.

Community

The professional manager needs to commit to being part of the social and business community. This includes good communications with employees, clarification of changing rolls and teams as new skills and methods are adopted and working hard on the political as well as corporate management of information. The professional manager can't commute from New York City to a job in Denver.

The Board

The advisory board is the owner manager's way of getting the skills, connections and experience that could not have developed while running of the business. The Professional Manager should already have these skills and experience but he or she will be to have oversight and accountability. The Board should change from an Advisory Board to an Executive Board when a professional manager is brought in to provide this oversight and accountability of the professional manager.

Conclusion

The succession planning objectives of keeping leadership firmly in the owner-manager's hands now and preparing for the integration of professional leadership, either immediately or over time, are not mutually exclusive. It will work so long as there is a strategy that achieves their goals either in a sudden leadership change or an incremental leadership change. In each scenario we need a clear understanding of the process by which that strategy will be applied.

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Matthew Erskine

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