Small businesses should not overlook succession planning, locals say

BY BRYAN MCKENZIE May 27, 2017

Photo by Katie Brackmann Photography

COURTESY FIRST COLONY WINERY Jeffrey Miller, co-owner of First Colony Winery, incorporated the concept of business succession in the winery's business plan to make sure there was no doubt how the winery would go forward if one of the owners was to die or become disabled.

Sometimes it makes sense to know how it ends before it begins.

A solid business plan not only includes goals and responsibilities for owners and employees; it should provide a map to follow in case of a sale or the fickle finger of fate.

“In a lot of businesses, if something should happen to the owner, they simply don’t know who the successor is going to be. They don’t know who’s going to take over the business, who’s going to take on what responsibilities,” said Jeffrey Miller, of Miller Financial Services, associated with Northwestern Mutual.

Besides being a business and financial consultant with 30 years experience, the Richmond-based Miller is a partner in Albemarle County's First Colony Winery.

"It's hard to draw up a succession plan years before a sale, but you have time to consider other aspects of succession," Miller said. "You want the successor to have a clear understanding of what's expected, and there are advantages to employees knowing what's coming next."

Miller is not alone in recommending a portion of the business plan directing who takes over and how.

"The truth is that many small-business owners have no exit strategy for their businesses in the event of their disability, retirement or death," the U.S. Small Business Administration warns. "A business exit strategy not only means having a plan for the unexpected, including financial hardship, injury, disability and even death, it also means having a plan for the succession or transfer of ownership of your business when it comes time to hang up your hat and retire."

The SBA recommends owners train someone in the business to take it over.

"Often, new management comes from your pool of existing employees," the SBA states on its website. "If you have a larger business, succession planning involves preparing people for management and leadership roles in order to replace you or other managers when the time arises."

A carefully crafted plan keeps businesses in business, Miller said. A succession plan in a sale could include keeping the previous owner on board to ease transitions for customers and employees.

"People inside the business should be prepared for the succession and this means that they need to understand that their relationships with the new boss will be different from that of the old boss," said Gary Ballinger, associate professor of commerce at the University of Virginia's McIntire School of Commerce.

Ballinger said the impact of a leadership change on a business, its operation, profitability and employees is known as a "succession effect," and it's different for everyone.

"It impacts the people in the business differently depending on their view of the outgoing leader, as well as their commitment to the enterprise itself," Ballinger said. "Sometimes, people with close connections to someone central to a business, such as a founder, experience a negative emotional reaction to that loss that's like grieving. And that can affect their motivation to help out the new boss moving forward," he said.

Ballinger's research shows that new leadership can lead to valuable employees leaving the business, if they feel loyal to the previous leader.

"A lot of turnover that takes place in the transition occurs because there is a lack of 'fit' between existing staff and a new leader," he said. "This can be true even if the new leader is someone that already was in the business and is known to everyone."

If the prior leader was not well liked, a new leader can bolster employee efficiency, Ballinger said. When employees identify less with a particular leader and more with the work they are doing, succession tends to go smoother.

"In many ways, it depends on whether an employee says they work for 'Joe' or whether they say they work for [a winery] or even 'I'm in the wine business.' If people personalize their identification to the leader, then they're vulnerable to a succession effect," he said. "If they identify with the work instead, they are less vulnerable."

Research conducted by Ballinger and fellow McIntire School professor Jeremy Marcel showed succession effects can be made worse by appointing interim leaders rather than naming a new boss.

“A business should do all it can to avoid the hiring of an interim chief executive,” he said. “We found that this happened about 15 percent of the time in big public companies. And if that ‘temporary CEO’ holds the job for more than 90 days, performance starts to suffer.”

The longer the temporary leader is temporary, the more employee performance suffers, he said.

“The person in charge needs to be granted full authority. [Performance] can also be negatively impacted by having the prior CEO hanging around the business as either ‘CEO emeritus’ or ‘chairman emeritus,’” Ballinger said.

“This is one reason why succession planning is essential,” he said. “Theory would suggest that gaps in formal leadership of firms do destroy value and may ultimately place the business at long-term risk of failure.”

Miller and his First Colony Winery co-owners, Heather and Bruce Spiess, have taken the advice. They haven’t addressed any potential sale of the business because they have no plans to do so, but they have plans in place should something untoward happen to one of them.

“Bruce and Heather are married. So if something happens to Bruce, his shares should go to Heather,” Miller said.

If something should happen to both of his co-owners, Miller said their shares would go to their son, Austin, who is the vineyard manager.

“I’m less active on a day-to-day basis as they run the operation. But I’m responsible for the fiscal oversight and our banking relationships, because that’s my expertise,” Miller said. “It only makes sense that their share would go to their son, who is involved in the day-to-day work.”

Should something happen to Miller, his wife and estate would receive the monetary value of his share, but the other owners would take control of his portion of the business ownership.

“The way our agreement was structured is different than the way someone else’s might be because the business is different, the people involved are different,” Miller said. “It’s a very specific plan for a specific business.”

Miller said having succession plans spelled out leads to a sense of stability.

“People don’t plan to die or become disabled or for their business not to do well,” he said. “A good plan helps sort out all of the pros and cons and keeps the business viable.”

Bryan McKenzie is a reporter for The Daily Progress. Contact him at (434) 978-7271, bmckenzie@dailyprogress.com or @BK_McKenzie on Twitter.