Succession Planning for New Jersey Businesses

Is your company ready for both the unexpected and the inevitable? Succession planning isn't just a concern for family-owned businesses. Having a plan in place for every key executive member of your team is critical. Whether your strategic plan involves keeping the business in the family, selling the company, passing leadership onto identified key executives or a board of directors, or simply retaining continuity in the business if you lose a key team member at any time, having plans and processes in place ensures your company isn't forced to make decisions under duress.

"Without a plan, in the event of something happening, the control of the company and decision-making in the company are left in the air," says John W. Houghton, Chairman, Brooks, Houghton & Company, Inc. (BHC). "If this is a family business in particular, it falls to the professional managers and family members who may be unequipped to take on the decisions to act. And that can be detrimental unless they have the requisite skillsets."

For family-owned businesses, planning takes time and coordination within a family, among key employees or with tax and estate planning, says John E. Ursin, Managing Partner, Schenck, Price, Smith & King [[P (SPSK). "Waiting too long may miss opportunities and may result in the key family members or employees moving on to other opportunities. In New Jersey in particular, monitoring and consideration relating to the high tax structure requires long term planning."

And the earlier you plan the better off you ultimately are, points out Ari Fuchs, Managing Director, The DAK Group. opportunities to maximize value. One of the things that I learned in doing this is that 'time is the enemy of choice.' And what that means, is that the more time you have, the more options you have, the less time you have, and the less planning that you do, the fewer your options ultimately are."

J. Houghton understands this first-hand. He is the second generation of Houghton to run the company, which was founded by his father who passed away very suddenly at 78 years old.

"He believed firmly that he was going to live forever," he notes, "and he always thought that there was going to be time, and there wasn't."

He notes that in his case the transition was relatively seamless because the company had a significantly experienced executive management team, but in many cases he finds that those individuals are either not in place or are not empowered to be able to make decisions legally.

When to Start Succession Planning

Houghton believes company owners should have a succession plan in place by their mid-fifties and Fuchs agrees. While the typical client 15 years ago might have started planning in their mid to late sixties, now Fuchs sees the average age is early fifties. "I think what we've seen is that the world is a much smaller place. There's more competition, there's more innovation, and that's created a lot more risk, which is causing business owners to think about succession planning and exit planning much earlier than they would've otherwise."

When asked about an ideal window to start planning, Ursin says simply, the earlier the better.

"Once a company has success, a timeline of succession planning and other considerations should be a regular topic of discussion. The most important step is to have a complete and experienced group of trusted advisors."

Fuchs notes, "when you start your business, you really should start it with the end in mind. And not everybody obviously does that, but the earlier you start, the more options you have and the more directionally oriented you are. Because even if plans ultimately deviate, when you have a plan, you're moving in a particular direction."

When it comes to evaluating a company's current talent pool to identify employees who can step into leadership roles, Houghton says companies should be practicing this annually.

"Succession planning is not just at the ownership level; it's at the executive management level." At BHC, they evaluate succession plans for each of the key business vertical decision makers. "For each one of those people, I already have plans in place case they leave."

- John W. Houghton, Chairman, Brooks, Houghton & Company, Inc. (BHC)

The closer a company is to either retirement or a sale of the company, the more important it is to be able to identify the roles and responsibilities of the people that will come next. Houghton says that, in the event of a sale, the people that are in place are driving the value of that sale. It's important to ensure that "the reporting structure, financial structure, the outside council and accounting firms — all of that is professionalized and organized in a way that is easily transferable from one individual to another individual, one team to another team, or one set of owners to another set of owners."

Ursin urges that developing C-suite talent should be a primary and continuous effort within a company for growth of the company, contingency and emergency planning, and for succession purposes.

Fuchs agrees, "most businesses that we see tend to have heavy key person risk, and that is a significant detractor of value. If you're looking for a sale or even if you're looking to transfer internally, owner dependency and key person risk is something that we struggle with clients frequently. We have to manage around it."

In addition to having a plan for key employees, Ursin notes it's also a good idea to have a plan on the business continuity side. Think offices, telephones, IT/Data. From storms to security to technology innovation, keeping business flowing smoothly in any situation requires a well laid out plan.

"The best plan is one you never have to use, but an emergency with no plan is not the time to try to create one," says Ursin.

Tips for Successful Succession Planning

For family businesses, Ursin advises it's critical that a succession plan and an estate plan work towards a common identified goal. "The keys are a good team (accounting, legal, insurance, advisory) and periodic review/update."

He also notes early planning and communication separate the winners from the strugglers. "A great plan is not going to work if it is not communicated to the family member or key employee. They may not even be interested, or they may move on to other opportunities because they did not understand their part in the long-term plan."

For Houghton, when it comes to success, he sees that "the process is the process." For example, he has a fourth-generation client that has managed succession three or four times and has succeeded every single time. What makes them so successful at succession?

"They have systems and processes in place, which is the foundation of succession," says Houghton, "and those carry on throughout the generation. The process is the process. The process identifies which family members are high-performing when they are in junior roles. There's a winnowing down of which family members become more senior. And the board decision making is also part of that structure."

Fuchs adds, you want to identify several individuals that could potentially assume a leadership role and invest in training and developments, mentorship, and leadership workshops.

"You never really want to just put your eggs in one basket because that's just risky if you're a business owner," he says.

Ideally, you're thinking about succession planning 10 to 15 years before you must make a move. "So that gives you a sufficient runway to identify talent to potentially bring the next generation into the business, which for many is a very viable alternative," he says.

"The more people that you can identify to be part of that group, the more opportunities you can give them to train and develop to understand the culture, the better off you ultimately are because you never know who will ultimately emerge at what point."

- Ari Fuchs, Managing Director, The DAK Group

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Looking Ahead in NJ

Looking ahead, specifically for New Jersey business owners, Fuchs notes that tax policy is dynamic. “It changes every few years. You sort of look at the macroeconomic picture, interest rates go up, go down. We’re in a market today where there’s somewhat downward pressure on interest rates. I think that’s creating a very fertile sort of M&A environment.”

Currently, according to Houghton, New Jersey is entering a period where the tax benefits of a sale may be more advantageous than they have been in some time. But it depends on the category the business is operating in.

“When an individual is deciding whether to sell their company, they need to take count of what the demand for their goods or services is and where that’s headed over the next six to 12 months.”

Ursin notes that changes in tax law and economic conditions require constant monitoring.

“Is the company and the key owner getting advice on al available tax strategies, incentives, credits, etc. This analysis can substantially change over fairly short timeframes.”

> “Where should the company be located? Where should the majority owner live? These are tax vs. cost vs. workforce vs. quality-of-life issues,” says Ursin.
>
> *- John E. Ursin, Managing Partner, Schenck, Price, Smith & King LLP (SPSK).*

To Fuchs, “the most important thing that business owners should be thinking about is building value in their business, irrespective of whether there’s a sale down the line or there’s a transfer to the next generation,” he says. Businesses can build value by planning early and building flexibility into their strategy that can better protect the value of the business. “Forward planning helps align exit timing, structure, and family goals while reducing future surprises.”

***About* Ari Fuchs**

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