

# Changing Lanes

*Transition planning for entrepreneurs and family businesses*

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with compliments from



Capital Wealth Management

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## Go Beyond Dreams


Thom Penmaen can well remember the day he made his decision to start his own business. Sophie was a stay-at-home mom and their daughter Cathy was just a few months old the day the staff were all called into Mr. Makin's office. Mr. Makin was very sorry, but he had decided it was time to shut down the plant. Orders had been dwindling steadily and Mr. Makin was getting on in years. He had made the decision to close up shop and retire.

Thom was nervous but excited on the way back home that night to tell Sophie. He had it all worked out by then. He could see what was wrong with Makin Tool and Die and had lots of ideas had anyone bothered to ask him. He would get a loan and buy some of Mr. Makin's equipment and start up his own shop in the garage. Once the loan was paid off, he would get some bigger premises. Sophie could do the books for him and that would help keep expenses down. He knew he could make it work! With \$10,000 and lots of energy and ideas, Penmaenship Tool and Die was born!

And Thom certainly did make it work. Thom was a very typical entrepreneur. He worked hard, was independent, and had high expectations. He followed his instincts, making adjustments on the fly, confident in his ability to achieve his goals. He attributes his success to his relentless pursuit of excellence.

But as his business grew, it also became more complex. In the early days, Thom had the privilege - the freedom and the right - to take the business in whatever direction he saw fit. Today Penmaenship employs 150 people and annual sales are close to \$30 million. Thom has bestowed upon himself a level of responsibility. His decisions ultimately affect a number of other people. He has employees who depend on him for their lifestyle, and a community that benefits from the employment he provides. He also has children who have made Penmaenship Tool and Die their career and want to be sure that the business will always be there.

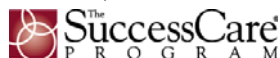
Thom's loyalty to his employees is very obvious and he definitely wants to provide a future for his grandchildren. But does he know how to ensure that his dreams become reality? Does he have a concrete plan to meet his responsibilities?

In this edition of Changing Lanes, we look at the process Thom embraced to ensure his family had the opportunity to contribute to the building of their heritage. 

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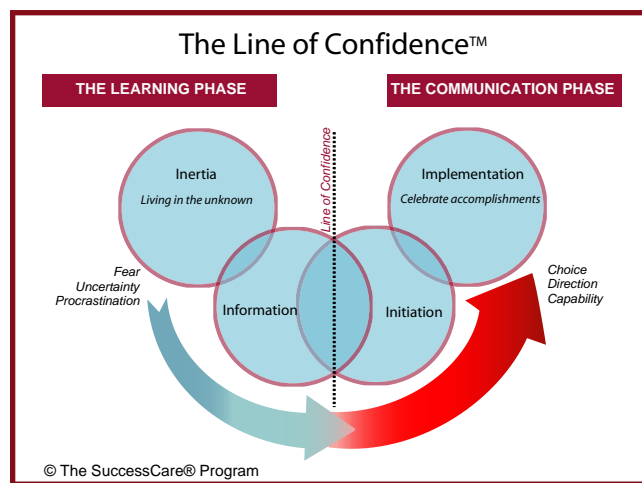
Transition planning for entrepreneurs and family businesses

## Understand the Process

It's not too hard to understand why Thom might hesitate to jump into a transition planning process. While a part of him recognizes that time is running out - he recently turned 65 - there is so much he still has to accomplish. Also, he has some doubts about passing the torch to his family and, never having experienced a transition before, doesn't know there is such an animal as a formal transition planning process. Thom is currently stuck in what we call the **Inertia Stage** of the process.


For Thom to successfully transition his business one day, whether to a family member or someone outside the business, he must not only fully understand the steps in the process but also have enough confidence in his own, and his trusted advisors' ability to implement the transition. Our approach was to take Thom and his family through the **Line of Confidence™** model.

The **Line of Confidence™** diagram represents how every one of us approaches a new task or project. The left side of the model is the **Learning Phase**. In everything we do, before we can act with any confidence, we need to gather the appropriate amount of information (knowledge and ability).



Only when we feel we have enough information (and everybody will need a different amount of information even when the task or project is the same), will we be able to proceed. At this point in time, we have crossed the **Line of Confidence**.

Once across the Line of Confidence, we enter the **Initiation Stage** where we begin to tackle the project while under the guidance of an expert or someone more experienced who can warn us of impending pitfalls. We have entered the **Communication Phase** and are confident enough to involve others who have a stake in the outcome. By using the resources available to us, we not only increase our knowledge and understanding of relevant tactics, but move forward in achieving our goals.

As we gather even more knowledge and experience, we transition into the **Implementation Stage**. In this stage the project or task is well underway, we are clear about where we are going, and have more options available to us. Now we can focus on the more challenging aspects of the assignment. Our goal or objective is within reach! 

### Stuck in the Inertia Stage

*From an initial meeting with Thom, it became clear that he had a number of concerns about the future. Some uncertainty mixed with a fair amount of apprehension was handcuffing Thom and fuelling his procrastination in dealing with his concerns.*

*To begin with, there was considerable uncertainty around the future direction of the business. Thom's plan to expand into Europe and Mexico had been met with opposition from the family. To quote his daughter Diane, "he's 65 years of age and should be slowing down, not adding more to his daily routine." But Thom was excited about the expansion and in a hurry to get the project underway while he still had his health and the energy to see it through.*

*To compound matters, Thom had some doubts about choosing his successor. At this point in time, his son wasn't interested in the business and Thom wasn't sure if his eldest daughter Cathy would make a strong leader. Besides, Cathy's husband, who certainly has a huge influence on Cathy, wasn't at all supportive of an expansion. While Diane's husband Brian was also involved in the business, how could Thom possibly choose a son-in-law over his own daughter?*

*Thom definitely needed help to gain the confidence that a solution could be found.*

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## Moving through the Information Stage

Before Thom would ever have enough confidence to address his concerns or make any decisions around a future transition, there were a number of things that needed to be clarified. In particular, Thom and the key players in his family business needed to be clear about:

- *What a transition plan is and is not.* It's not about getting Thom to retire. Retirement means to take something out of use and for Thom, that's akin to death! Transitioning is about building a bigger future - building something that can sustain and unite his family long after he can.
- *What this bigger future might be.* We call this Thom's house on the hill - the place where he would really like to be. What does Thom envision, is it realistic, and is there buy-in from the rest of the family to help him build that house? To move forward, there needs to be a gathering and sharing of facts to identify what that common interest might be and how it can be reached. If building Thom's house extends beyond his lifetime or his current energy level and abilities, he will need to involve the next generation to realize his dream.
- *How they will reach the bigger future.* It is important that not only are they in agreement about what the house will look like but know exactly what is needed to build it. In other words, they must be willing to go beyond identifying where the business is headed and commit to developing and implementing an appropriate action plan to get there.
- *What might stop them.* Being future-focused is critical to the continuity of their business. The Penmaens need to identify everything that *might* prevent them from reaching their vision and then look at appropriate ways to address these obstacles. They need to be business-focused about identifying roles and responsibilities and assign authority for each role.
- *Basing their decisions on facts.* All too often, we believe that our perceptions are reality - that whatever we think is true, must be true. The Penmaens need to validate the *facts* before moving forward with any decisions.
- *Fears can be managed.* Transitioning a business causes huge change and inevitably change results in some level of conflict. We all tend to see conflict as damaging or chaotic. The Penmaens need some help to see that their fear of change can be managed and the conflict that results can be **positive conflict**. In essence, if managed properly, this conflict can be healthy and beneficial and lead to even greater success!

- *Understand the journey.* Knowing the destination and having a road map to get there are basic elements of any journey. However, feeling good about the journey also requires an understanding of, and confidence in, the method of transportation. Before they can take action, Thom and his family need to understand the steps in the process and feel confident in their guide or coach's ability to get them to their desired destination. ■

### Crossing the Line of Confidence

To bring Thom and his family across The Line of Confidence, we first explored what the business meant to Thom. Through the SuccessChart, we identified Thom's purpose and passion for Penmanship Tool and Die and inventoried key building blocks for the continuity of the business. It was evident that Thom envisioned a bigger future and there were many opportunities ahead. It also became clear that Thom had not actively involved his family in his plans for the future but rather expected that they would not only understand his intentions but fully embrace his goals by osmosis!

So a confidential questionnaire was distributed to gather input from the key "stakeholders" - family members and managers who not only had a connection to the business but had specific insight into the current strengths and weaknesses of the organization. This was followed by an information session with the stakeholders to share Thom's vision and principles for the future and see if the family were connected to the business and, more importantly, interested in staying connected.

With more facts on the table, there was a very positive message from the family. The next step was to look at what needed to be done to enable the transition. Both Thom and the family were able to accept that to build the business into a legacy for the family, the business needed to be run more formally and there needed to be greater communication within each of the three main focus areas: the family area, the ownership area and the day-to-day operations. This included mapping out the actions needed to take the business forward with or without Thom and finding a successor with the right skill sets. Strategies for financial protection for Thom and Sophie and a possible ownership structure beyond their lifetime were discussed. The fact that Thom was already 65 years old made it even more imperative that the family quickly adopt a "we focus" to running the business and implement more direct mentoring and personal development strategies as soon as possible. Already the confidence levels were rising!

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## Moving into the Initiation Stage

Building the House on the Hill is the focus of the Initiation Stage.

If your *house on the hill* is to transition your business to the next generation, developing a sense of stewardship within your family is an underlying tactic of the Initiation Stage. Stewardship is the willingness to take the family business and the surrounding wealth, use it during your lifetime to do good things, and pass it on to the next generation healthier and stronger than when you got it.

Secondly, ensuring that the business has a strong foundation of trust (a “we” focus) and leadership is critical. This is an ongoing strategy.

The main focus of the Initiation Stage is to build the pillars of the house. These SuccessPrinciples™ incorporate:

**Direction:** *creating the opportunity for the business to grow and ensuring it happens.*

**Roles:** *matching the right people to the right roles, implementing a mentoring and personal development program, and distributing the authority, responsibility and accountability accordingly.*

**Ground rules:** *establishing processes that enable the business to survive without the current leader, setting fair compensation policies, growing and protecting the financial, human, intellectual and civic capital, and ensuring open, honest communication.*

**Measures:** *the transition process will undoubtedly present hurdles and alligators that threaten to throw the process off track. It is important to periodically evaluate, regroup when necessary, and celebrate both major and minor milestones along the way.*

Building the house on the hill, or moving through the Initiation Stage, can be fairly complex so it is important to engage a professional to advise you and keep the process on track.

As business transition specialists, our focus is ensuring you have a choice around how and when you will exit, while keeping the family connected. Our role is to facilitate the process and help you get to where you want to be. 🚀



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