TABLE of EXPERTS Series

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Insights into *Succession Planning*

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THE EXPERTS

Justin Craft | President, Nowlin & Associates

Justin Craft is President of Nowlin & Associates, a leading wealth management firm with over 40 years history in the Birmingham area. Recognizing the change in the economic environment in 2008, Justin facilitated the business model change at Nowlin and Associates from a traditional wealth management firm to one that offers educational based introductions to current financial topics. He is a regular on radio talk shows, has hosted over 300 educational workshops and manages the company's training program. Recently he was elected to serve as chair for the nationally recognized Field Advisory Cabinet for Ameritas Financial Corp.

Don Murphy | Managing Member, Barfield Murphy Shank & Smith

Don is a founding member of Barfield, Murphy, Shank & Smith and is the Firm's current Managing Member. Apart from managing the Firm, Don performs audit and accounting, tax planning, and consulting services for clients primarily in construction, manufacturing and distribution, transportation, entertainment and closely-held companies. Outside of his client responsibilities, he is responsible for coordinating all aspects of the Firm including providing vision and leadership for the Firm.

Hanson Slaughter | Managing Director and Senior Client Advisor, 1919 Investment Counsel

Hanson Slaughter is a Managing Director and Senior Client Advisor with 1919 Investment Counsel, LLC ("1919ic"), a wholly owned subsidiary of Stifel Financial Corporation ("Stifel"). With over $10.7 billion of assets under management, 1919ic's comprehensive, multigenerational family office services include investment management, financial planning, advice on estate planning and wealth transfer strategies, tax and philanthropic strategies, risk management, business succession and family governance planning.

Anthony Willoughby | Sharholder, Dominick Feld Hyde

Tony is a native of Birmingham and he has represented business and business owners in all areas of executive and employee compensation and benefits, corporate governance, succession and transaction planning, estate and charitable planning. He also has extensive experience in commercial and residential real estate development, Finance and incentive procurement.

THE DISCUSSION

Q: With the retirement of the baby boomer generation, what are some current trends you are seeing when it comes to succession planning?

Don Murphy: With retirement, there is a lot of transition of business and wealth occurring right now. And if you don't plan, it's going to sneak up on you and you're going to miss out. The opportunities to cash out at the right time with the right amount of money takes some foresight and planning.

Anthony Willoughby: Coming to the end of your career is never an easy process. One of the key issues we advise our clients on is helping them to decide – and more importantly, to accept – the appropriate time to retire. In addition, we try to help our baby boomer clients overcome generational differences so they can identify and groom talented leaders among Gen Xers, Gen Yers and Millennials. This type of proactive planning gives the business the best opportunity for continued success.

Justin Craft: The key to planning for a successful retirement begins with a strategy to monetize or convert an asset into income. Since there is typically not a ready market for closely held businesses, the owner must create one through a well-defined process that has three key components. First, the buy/sell agreement. The seller, or shareholders, must identify who the buyer will be. It could be family, a key employee, third-parties or even a combination. The key outcome of the agreement is that it binds both parties, fixes the price and states conditions that initiate the sale and defines the financial terms of the transaction. The outcome must produce expected results in a time and manner agreed to in the agreement. Then there is the price – or fair-market value – which is best determined by specialists, most often valuation firms or a CPA valuation specialist. Don't make the mistake of thinking you know what your business is worth. There's a big difference between what you think it's worth versus what it's actually worth. Finally, there are conditions or life-events that trigger the sale of the business interest to the buyer. Most buy/sell agreements include provisions for death and retirement, but there are actually 11 triggers that should be reviewed to assess the potential impact on each party as well as the business.

Hanson Slaughter: It's human nature to resist discussions that force you to confront your own mortality. The concept of succession planning is not unlike estate planning, a process which many avoid until there's a trigger – birth, death, illness, retirement, tax reform – which forces a discussion. With specific regard to business succession, it is difficult for executives of any generation to cede control to others. Unlike the retirees of previous generations who adhered to strict retirement rules, baby boomers are working longer than their parents and, in many instances, indicate they have no plan to retire at all. The sheer size of this generation and its 20-year duration means that businesses will have a sustained brain drain for the next 10 to 15 years. Accordingly, business succession will be at the forefront of strategic planning discussions for the foreseeable future.

Q: As a company or individual prepares a succession plan, what are some factors they should be considering or questions they should be asking?

Willoughby: The three major factors are when, who and how. In most situations, the "when" is the most difficult aspect. As advisors it is our job to help business leaders determine the best time in their lives, as well as in the business life cycle of the company, to begin the transition process. There are numerous factors that come into play, including the financial condition of the company, the operational aspects of the company and – when dealing with family-owned businesses – the emotional aspects of a transition plan. The "who" depends largely on the availability of qualified talent willing to accept and capable of filling the leadership role in a business. It is critical to identify early in the process those successor leaders who will give the business the best opportunity to succeed. The "how" depends largely upon whether the succession plan involves the sale of the company to an unrelated third party, the transition of the company to the management and/

or employees, or the transition of the company to family members. Each type of transition entails its own set of opportunities and challenges.

Craft: The first question a business owner should be able to answer is, "Who will run the business in my absence?" Often the business owner thinks in terms of, "What if I'm out of town or not reachable by cell phone?" While those can be real issues, the bigger issue is, "What if a life event occurs that prevents me from executing my daily duties?" When asked this question, some owners point to their business operating agreement. While a buy/sell agreement can be incorporated into a business operating agreement, they typically are more static documents that don't include a valuation strategy, life-event triggers or a funding strategy that details the financing of the buyout. To assess your level of risk to all three, a financial advisor teamed with legal and tax counsel can evaluate the risks, arrange a comprehensive business succession plan document and coordinate a funding strategy to assure that the plan's objectives meet the expectations of all parties.

Slaughter: A strategic plan addresses who the company is, what they do and how they expect to conduct their business going forward. It should include pro-forma financial projections, stress-tested for best and worst case scenarios, an analysis of a company's cost of capital, capital sources, business structure, triggers for liquidity events, competitive analysis, and use of technology. With these precedent tasks in place, the most important aspect of succession planning can start. Who will lead the company into the future? How will future leaders be attracted to the company, trained and retained until it is their turn? This people component of a strategic plan focuses more on why the business exists and how to operate in alignment with the company's mission. It's therefore important to have a mission which guides senior leadership and all employees in their day-to-day decisions. What culture does a company have or want to have? How does a company view its clients and what is its commitment to customer service? What makes the company's employees come to work every day? Is there a common belief among all those who work for the company? While many of these questions seem obvious, it is often most challenging to put the mission on paper. But they are critical questions to ask, analyze and discuss when considering who will assume key leadership roles in the future.

"About 50 percent of businesses that go from first generation to second generation don't make it."

- Don Murphy

Murphy: Do I have family members who are capable of taking over? That's a very serious question. About 50 percent of businesses that go from first generation to second generation don't make it. Are you better off to transition the business to somebody? And then the question is, who? What if you have several kids? When two or three people are in charge, nobody's in charge. So you have to pick the right person. If you pick the wrong person, it could affect the entire family's wealth. So do I sell it and take the proceeds to live on for a while and just pass that on to the next generation? Then the other question is, do I have somebody within the business who can take it on? I could potentially leave it as a family business, but somebody else runs it for them. Larger businesses tend to do that. Those are the things that you need to look at.

Q: What types of companies or professionals should be part of my succession planning process? What questions should I ask as I try to select a service provider?

Craft: Most business owners will benefit from an advisory-team approach to succession planning. This team includes three specialists: tax advisor, attorney, and financial advisor. The tax advisor provides not only the financial roadmap of where the business has been and where it is today, but even more importantly can assess the tax and financial impact of various implementation strategies. As legal counsel on the

team, the attorney is not only a resource for potential planning techniques, they are responsible for the drafting/execution of the documents needed to best assure that outcomes meet expectations. The financial advisor often coordinates the process with the attorney and tax advisor as well as providing funding and implementation strategies in support of the final agreement. For each advisor, their practice should include a specialty in working with closely held business. The financial advisor works with the business owner's current tax and legal advisors, or can recommend firms with an expertise in business succession planning when needed.

Slaughter: Depending on the size of the firm, the team of advisors may include attorneys, accountants, investment and financial advisors, insurance providers, investment banks, industrial psychologists and public relations firms. It is helpful to have one of these professionals quarterbacking the process for efficiency. Business owners should be looking for professionals with expertise in business structure, tax issues, executive compensation programs, financial modeling, strategic planning, communications strategy, human resources management or other transition-related services. While it's not necessary to engage all these professionals, a thoughtful discussion among owners, executives and board members will usually highlight who needs to be at the decision table with you. While some people may endeavor to write their own will or prepare their own taxes, the fiduciary responsibility to your business and employees warrants a more comprehensive approach with appropriate professionals.

Murphy: It's kind of a three-legged stool. You have the client, you have the lawyers and you have the accountants. It takes those three coming together to make a good plan. And the questions you should ask are a lot of the same questions we just talked about. Do I have the people in place to do it? Also, in some instances they might have a great business, but it's almost not sellable? And then, too, is it the right time to sell it? You have a lot of business owners who as soon as they hit hard times, they're ready to sell the business and get out of it. That's not the time to sell it. You want to sell your business at the peak, on the upswing.

"It is absolutely essential to develop a written strategic plan with key constituents of an organization."

- Hanson Slaughter

Willoughby: Succession planning is a team sport that requires a team of advisors familiar with the company and – when family businesses are involved – the family dynamics. Typically the team includes a tax attorney, accountant, insurance advisors and investment advisors. If the succession plan calls for hiring outside the business, then recruiters and leadership psychologist might be needed to determine whether the hire will be the right fit for the business. Each of these advisors will give the business owner the appropriate information and guidance that will position the company in the best possible way to minimize taxes on the transition, maximize the value to the departing owner and his family, and create a processes for the seamless transition with the greatest possibility of success and least disruption for the business. The most important question to ask any potential service provider is, "What is your experience in developing succession plans for businesses?" The development of successful business and executive transition plans involve an in-depth knowledge of the federal tax code, contract law, estate planning and administration, accounting and business finance. Your advisors must also have the appropriate interpersonal skills to clearly communicate the objectives of the succession plan as well as elicit appropriate responses to the myriad of questions that must be asked of business owners and executives.

Q: What are some factors when it comes to succession planning for family-owned businesses?

Slaughter: Succession planning can be a very emotional process, particularly for first-generation entrepreneurs. It is absolutely essential to develop a written strategic plan with key constituents of an organization. An integral part of a strategic plan is the succession plan. The process is quite similar to the development of an estate plan. Business owners and their boards may want to sketch out their thoughts on business succession planning prior to meeting with their team of advisors. A decision tree may be helpful in highlighting the critical areas for discussion. Will the business be operated by family members or outsiders? How will interest and/or capability be measured and performance be managed? Will ownership remain within the family? If so, how will key senior management be retained? Obviously, answers to these questions beget other questions, and every answer requires careful analysis and the agreement of owners, executives and board members. Like an estate plan, a strategic plan is worthless if it resides in the head of only the business owner. It must be written down and those individuals who will be instrumental in effecting the plan should be knowledgeable of their future obligations.

Murphy: A lot of times there is more than one child, and maybe not all of them are in the business. Who is the most capable to run the business? In our society today we usually think the oldest is the most capable, but that's not necessarily the case. Many times we run across that it's one of the younger siblings who is the most capable. And if you don't get the older one out of the way, it's going to hamper the business and keep it down. The other part to that is, siblings don't seem to be as much of the problem as it is the spouses of the siblings. Those things can split a family really fast.

Willoughby: Family-owned businesses provide some of the greatest challenges as well as rewards for succession planners because of the personal nature and family dynamics of the transactions. One of the greatest challenges is determining whether children who might want to succeed in the business have the ability and desire to realistically handle the responsibilities of continuing the successful business. Often this will not be determined until after the transition. Whether the children have the ability to work with the existing management structure of the company and the ability to garner the respect necessary from the employees to lead the company in a positive direction plays an important role in the success of the

transition. Where multiple children are involved, especially when some are not actively participating in the management and operation of the business, determining how to split the ownership between the siblings can be very challenging. It is often said that more than 70 percent of family businesses fail after the first generation. To prevent such a failure, it is often better to transition the business interest to the child or children who actively participate in the business, and then make-up the value of that business interest to the non-active siblings with other assets of your estate. Alternatively, a sale of the business to an outside interest can at least secure the value of the business to the heirs while attempting to preserve the family relationships. The rewards of a successful family business succession plan are more than just the continuation of the business and a comfortable retirement for the patriarch/matriarch. They also have created an organized and thoughtful estate plan, which minimizes taxes, protects assets and ensures an orderly disposition of their assets accumulated over their lifetime.

Craft: There is no ready market for most closely-held businesses, so one has to be created. This is particularly true when someone is a 100-percent owner of the business and has been the primary source of income on which the owner and their family depends. So a well-documented and funded succession plan is essential to assuring that the business will provide for the owner and their family, regardless of the life events the owner may encounter.

Q: What are some traits companies should look for when trying to identify their next generation of leadership?

Murphy: You have a visionary and an integrator. Do I need somebody who is a visionary and can take the company to the next step, or do I just need somebody who is an integrator and can get the work done? You probably need both. You need a visionary because if you're standing still you're backing up in the business world, especially today with technology moving as fast as it does. There's new people and money coming into the market. So you have to have somebody who is a forward-thinking person. Somebody who is a team-builder, an encourager and a leader. But then you also need an integrator, somebody who can put the plan in place. It sometimes takes a team of people to do all that.

Willoughby: Although great leaders come in many different personalities, we see common traits in successful successors. First, surrounding yourself with competent advisors both internally and externally is critical to leadership and success. With the help of tax attorneys, CPAs, insurance advisors and financial advisors, the new leaders will have the greatest opportunity to succeed. Second, adaptability allows a next generation leader to assess the current culture of the business, develop strategies to grow the business in the future, and adapt those strategies to the current culture or begin the process of changing the corporate culture to achieve long-range goals. Third, and probably one of the most important traits of any leader, is work ethic. This is especially true in the implementation of a succession plan. A business succession is not easy and requires lots of hard work, which pays off not only for the outgoing leaders but also the incoming leaders, the employees and the clients.

Craft: To lead a business, the candidate should have a passion for the business. Skills and knowledge are great and certainly necessary, but it's the ability to lead that separates the successful business owner and the less successful. Leadership requires knowledge and understanding of what has made the business successful in the past, as well as the vision and courage to see how the business must adapt to continue its success. But the owner must adopt a pragmatic approach in the identification process, as it's rare to find all these traits in one person. The best answer may be with a team approach. Do the combined talents and experiences of two children, one of which is not in the business today, better position the business for the future? Or, do the best leadership traits reside in a key employee outside the family? Does this key employee not only know the business, but has built relationships with clients, suppliers, and employees that can better assure the business' continued growth and success? In either case, there are specialty firms that can work with your business to build a development plan that can better prepare the next generation.

Slaughter: A company obviously wants to have leaders who are smart in key roles. However, today's "smart" entails much more than being highly intelligent. Tomorrow's leaders must also be able to think outside the box, be politically adept and capable of working with a variety of generations who bring unique strengths – and weaknesses – to an organization. Changes in technology, work culture and the overall business environment require leaders who are dynamic, observant and understand the value of teamwork.

"Determining how to value a departing owner's interest is a critical aspect of any succession plan."

- Anthony Willoughby

Q: What are some of the legal factors or considerations a company should be aware of when crafting a succession plan?

Willoughby: Crafting a successful business succession plan involves the analysis of multiple legal specialties including income taxation, estate planning and taxation, corporate taxation, employment and labor issues, as well as contract law. All these legal issues dramatically impact the corporation, the outgoing leaders and executives, and the incoming leadership team. The succession plan should minimize taxes to the corporation and the individuals involved while securing the outgoing leaders ability to retire comfortably in the process. Estate planning is a critical focal point in the process when advising family businesses because poor planning often results in unnecessary and untimely tax liabilities for the next generation, which burden the business and may ultimately require the sale of the business. From a contractual standpoint, any business succession plan should include provisions that address the death, disability or retirement of an owner, and possibly the divorce or conviction of a crime. In each scenario, proper consideration should be given to whether the ownership interest should be

acquired by the remaining owners, redeemed by the company, or allowed to be sold or distributed to other parties including the estate of a deceased owner. Determining how to value a departing owner's interest is a critical aspect of any succession plan. Whether determined by independent third-party appraisers, formulas written into the contract, or determined by agreement, the valuation technique will determine the purchase price. How and when the purchase price will be paid will depend largely on what the successors can afford.

Craft: First, the buy/sell agreement, like a person's will, must be a legal document that's been properly prepared and designed to provide outcomes that meet expectations to the greatest degree possible. Since there are many nuances and conditions that must be considered, it's best to seek a specialist in building a document that reflects the desired outcomes for both seller and buyer. Once completed, many owners assume that the document is static. Quite the contrary, the second critical factor is the process requires periodic review to assure that it continues to reflect the wishes of all parties, and help assure the the outcomes are what all parties expect. For example, the valuation should be refreshed periodically. The frequency and process is part of the maintenance strategy for your succession plan.

Slaughter: The primary legal considerations associated with a succession plan are likely to revolve around human resources issues, particularly those involving the compensation and retention of key employees. These issues may include employment contracts with non-compete provisions, stock options, stock grants or the issuance of tracking shares. If a succession plan involves a change in the structure of the company, there are a myriad other legal and tax considerations that should be vetted thoroughly with appropriate advisors.

Murphy: The biggest legal factor is to get it down in writing, or at least have the patriarch or matriarch sit down with the family and tell them what their plan is. Unfortunately, a lot of times a succession plan doesn't come out until the death of the patriarch or matriarch, and their heirs have no idea what the plan is. That can create a lot of strife. People start complaining that they should have gotten it instead of somebody else, or that somebody got more than they did. So getting it in writing in a will or document is important. Then sit down with your family members or key business people and go through it with them. Make sure that everybody understands what the plan is. Especially if you have key employees who aren't family members, you need to have employee agreements with them. You need to have non-compete, non-solicitation agreements with them. You need to do the best you can to come up with some gold handcuffs or some deferred-compensation agreements so they are fairly compensated for what they do, but it also ties into the company.

"If you are unsure what your business is worth, your advisory team should have access to appraisal firms."

- Justin Craft

Q: How far out should a company be creating a succession plan?

Craft: The need actually exists from day one, as we have little control over many of the life events that can cause businesses to fail. It can often be included as part of the start-up documents, particularly common with multiple owners and where the capital investments are significant. If not done at the outset or early in the life of the business, it becomes very easy for the owner to make the mistake of saying, "I'm too busy running my business." Over time, many business owners find that the level of control they have over the operation and future of their business has eroded due to circumstances and conditions that most often are out of their control. The only way to regain that lost control is through a planning process that not only helps reduce future uncertainty, but protects their personal wealth from liabilities created by the business. So the earlier that the business owner creates, documents and funds their succession plan, the better they can manage the impact of future uncertainties that can jeopardize their personal and family's financial well-being.

Slaughter: Although it is never too late to start, it is prudent to have contingency plans in place at all times. A contingency plan isn't necessarily a succession plan, but it can be a good starting place of the broader discussions and planning that need to occur before key leadership retires. It's a challenge to run a successful business if your clients don't have some comfort in knowing a succession plan is in place for continued operations. Clients and employees don't like surprises that result in uncertainty or lack of continuity. Since succession plans may evolve and change over time as a comprehensive strategic plan changes, it's important to start discussions early. Furthermore, delayed succession planning can result in hasty decisions, forced by illness, death or other unforeseen factors.

Murphy: It's never too early to start, but at least give us three to five years. A succession plan can change. It has to be fluid, because the market and the economy changes. People change. People come and go. So you really need a long-range plan, but it needs to be something you can revisit each year. It needs to be a dynamic plan, so you can move it as it needs to move.

Willoughby: The best time to create a succession plan is when the organization is created. This is especially true when there are multiple unrelated parties involved. When a business is created, the parties involved are more likely to agree upon and work together in developing a plan. Even though the business may not have significant value, it is important to set the proper parameters and expectations so the owners and executives will have a good framework from the outset. With respect to transitioning leadership teams within an organization, it is advisable to begin grooming future leaders at an early stage. The sooner the company achieves the buy-in of junior leaders, the sooner you can identify potential leaders who are willing and able to take the reins when the senior team is ready to retire. Grooming junior leaders involves more than just tagging the personalities who you think will be the appropriate successors. It involves actively mentoring them in the activities that will be expected

of them when they assume the senior role.

Q: For companies that already have a succession plan, how often should they revisit or update it?

Slaughter: While constant revisions aren't required or advised, succession plans should be relatively simple, clear and flexible enough to accommodate revisions as circumstances change. Such changes may arise from substantial changes in the strategic plan or family dynamics within a family-owned business. Depending on the size of a company, it may be prudent to review succession plans every three to five years.

Murphy: At least annually, or whenever major changes happen. It's like when somebody does their will. You want to create a will when you get married, then you want to update it when you have kids, then again when you have grandkids. Basically whenever you have life changes, you want to go through and update all your plans, including your succession plan, to make sure that it is up-to-date and reflects your current situation.

Willoughby: Once a succession plan is implemented, we highly recommend reviewing the plan on an annual basis along with other financial and legal aspects of the business. This process should be incorporated in the annual meeting of the shareholders and directors prior to the close of the fiscal year. This allows for a thorough review of the legal and financial issues that arose during the year, many of which have a significant impact on the succession plan. The annual meetings should include your advisory team – tax attorney, CPA, and investment advisor – to make sure that succession plan is still appropriate and accomplishes the desired goals. These meetings also provide an opportunity to assess legal, tax, employment and operational issues, many of which require action prior to the close of the business's fiscal year.

Craft: The planning process should include periodic reviews by your advisory team to adjust for changes in the business within your control, changes in your business's markets, changes in the economy, and even changes in regulations, all of which can impact the level of control that the business owner has. Key events that could prompt an out-of-cycle review include changes in ownership, the market, the economy, and regulations. Even if you think that nothing has really changed, the reality is something likely has and you may not be aware of it yet. For that reason, a new valuation should be done at least every three years, or as advised by your team.

Q: What are some of the most difficult challenges that go along with creating a succession plan?

Murphy: People and expectations. You're trying to meet expectations. In a family business, it's where you live. Family dynamics can be hard. The patriarch or matriarch want to keep peace in the family, and it can be super stressful on them. Older sibling might think they should get it, but younger siblings might more capable. So how do you handle that? Those are the hard questions. Those are the questions people lose sleep over. It's not like having a million dollars and just splitting it two ways. You have to figure out the best way to pass on the family wealth.

Willoughby: The most difficult challenge is getting started. Generally, business owners and executives are too busy building the business to focus on retiring. Our most important advice is convincing the owner or executive to begin the succession process before it is too late. Beginning the process when the owner is ready to retire, or worse, at the death or disability, provides very little opportunity for a successful transition. Although the process involves making difficult decisions about uncomfortable scenarios, not planning is a poor option. In many instances, the lack of proper succession planning leads to fire-sales of businesses to competitors, or liquidating sales of assets by the survivors in order to survive. Being a good steward of your business includes the timely development of a succession plan to protect yourself, your family, your heirs and your employees.

Craft: Aligning outcomes with expectations. A well-documented plan that's appropriately communicated and consistently reviewed is essential to a plan's success. And funding. Where will the money come from? This vital component to a well-designed plan is where outcomes most often fail to meet expectations. Funding is most often a combination of scheduled payments and insurance where possible. But leaving it to chance can be a recipe for disaster. Remember, the buy/sell document binds the buyer to buy in a timely fashion prescribed.

Slaughter: The most common challenges relate to loss of control of current leadership, family dynamics within family-owned businesses, nepotism, changes in strategic vision, talent identification and grooming, changes in management style and the impact on corporate culture, managing growth and risk tolerance, ownership changes, and communication strategies with employees and clients.

Q: How can my company change a succession plan that we have already developed?

Willoughby: A solid succession plan is not carved in stone. It should be flexible enough to deal with changes as the business grows and faces new threats and opportunities. Changing an existing succession plan should be considered part of the ongoing process. With the proper annual review of the succession plan in light of the changing financial and operational conditions of the business, occasionally changes will need to be made. As senior owners and executives retire, the succession plan will naturally change. By having a well-designed plan in place and proper ongoing professional advice, the changes should be routine rather than exceptional. The attorney for the business will make the proper revisions to the legal documents, typically the shareholder agreement or buy/sell agreement, employment agreements and benefit/compensation agreements according to the decisions of the shareholders and directors. An important, but often overlooked, aspect of succession planning is communicating not only the process and plan to the parties involved, but also changes to the plan. Surprises at the retirement, death or disability of a senior owner or executive are rarely positive and can often lead to disastrous consequences for everyone involved. Proper and routine communication will avoid surprises.

Craft: Probably one of best places to start is to get a second opinion on not only the plan document, but the valuation of the business. If you are unsure what your business is worth, your advisory team should have access to appraisal firms. Some firms offer a simpler range-of-values report that, while it doesn't replace a formal valuation, can be provided at little or no cost with fairly limited documentation. If you have a buy/sell agreement in place or you believe it's part of your operating agreement, your advisory team members can review those documents and assess what the potential outcomes of the agreement are as it exists today. Once the outcome of your current agreement has been made, compare that outcome to the expectations of all parties to the agreement. The gap between those two should be assessed in terms of assumption of risk created for each party. In addition, a detailed fact-finder can be provided by your financial advisor to confirm that all the material facts and key assumptions have not changed.

Slaughter: Before any changes are made to a succession plan, it is important to have not only a clear understanding of why the change is being made and its impact on the overall strategic plan, but also the support of key leadership within the organization. Succession plans driven by emotion rather than objective strategy will be difficult to implement and may fail. It is critical that business owners discuss changes with board members and management who will be involved in implementing succession plans. If succession plans have already been broadly disseminated to employees and clients, any changes to those plans will require consistent, clear communication and the conviction of leadership that the change is right for the company. Provided your company is not scrapping its entire strategic plan, it makes sense – and is more cost-effective – to engage your team of advisors who assisted in drafting the initial plans. This is very important, as a change to one aspect of a succession plan may impact several other aspects of the overarching strategic plan. It is important to that you explore the impacts of potential revisions with several advisors to ensure changes are viewed from multiple perspectives.

Murphy: If it's just a plan and not a legal written document, then we just change it. If it has legal implications or there is a contract, it can be more difficult. They might have to buy somebody out or pay out a deferred compensation plan, so it can cost some money. But a good attorney can write a plan that can move and change. If you're part of that plan that's not working but you can't or don't change it, you might be about to go down with the ship. It's going to be in the best interest of everybody to make the plan work, even if that means changing it.