



Kevin C. Leahy, president/founder of Connecticut Wealth Management (I), and co-founder Denis M. Horrigan emphasize the importance of early planning to ensure a smooth leadership transition.

THOUGHT LEADERSHIP

Succession Planning: Early Preparation Maximizes Outcomes

Budding entrepreneurs face a number of challenges when preparing to bring their dreams to fruition. As they create a business plan, assemble a board of directors and organize finances for a company, there is another critical task to consider: who else will eventually assume the leadership role?

According to Kevin C. Leahy, CPA, CFP®, president/founder of Connecticut Wealth Management, succession planning — the process by which a business owner transfers a business to someone else or some other entity — should begin the moment the company is created. To determine the ultimate goal, entrepreneurs need to ask some questions. Will the company operate in perpetuity? Is the goal to build a business that will sell for the highest price? “Depending on the answer, what happens next could be very different,” Leahy said.

Forward-thinking individuals would be wise to take a long-term view of the company and set up a structure that ensures a successor will be in place when the time comes, said Denis M. Horrigan, CFP®, co-founder, Connecticut Wealth Management. “Planning needs to be done. You can’t just work quarter-to-quarter or year-to-year,” he added.

Family-owned businesses usually expect to pass the reins from one generation to the next. However, any successor must embrace the same passion as the founder and have the ability to actually lead the company. Leahy pointed out that a successful company with many long-time employees might be disheartened if a dispassionate or inadequately prepared family member assumes leadership.

Planning is key

While many entrepreneurs think of succession planning in relation to retirement, other situations, such as disability and untimely death, also require advance preparation. “You should purchase life and disability insurance to ensure that the company has money to continue operations and the family and owners of the company have enough money to live the lives they desire,” Leahy said. “Above and beyond that, it’s important not just to prepare financially, but also to ensure that the proper management team is in place and the company is not reliant on one person.”

Having a Chief Operations Officer in place who could assume a primary leadership role during a search for a permanent CEO would be very beneficial. Leahy reiterated that planning helps minimize the financial repercussions from a catastrophe and keeps the company running and intact.

These principles apply to companies of all sizes, from a ten-person operation to those with hundreds to thousands of employees.

It’s important for the owner to have clarity in how he or she wants to transition the business. Whether that is an internal or external transition, the size of the company may dictate this — an extremely large company may be difficult to transfer to a single family member.

Regardless, the goal is to be able to transfer a company from a point of strength not from a point of weakness when the owner has to sell.

Weigh Internal vs. External Transition

When transitioning a company to a family member does not present the optimal solution, the owner may look to an external source, such as a private equity firm. However, Leahy pointed out that external succession is more likely for a larger organization. Furthermore, small, family-owned businesses create a “family feel” to the company. Owners feel a responsibility to their employees and run the risk of derailing careers if an external firm purchases the company and makes major layoffs. “A much larger organization is probably much more valuable and, in any case, without a founder, it may be nearly impossible to transition internally,” he said.

Again emphasizing the importance of early planning, Leahy reported that options become limited when the owner waits until approaching or surpassing typical retirement age. “We have seen owners plan to sell a business when they are 65 or 70. They think they have someone lined up and have worked out all the details,” he said. “Suddenly the person they thought would buy the business backs away and now they’re back at the drawing table trying to figure out what to do.”

Trust the Experts

Leahy said, “We created the firm with the goal to have a team with experience in working with business owners and succession planning.” He pointed out that this multifaceted process involves psychological and emotional factors. “If you don’t have experience and don’t understand the issues beyond the legal and tax, there’s a good possibility the transaction will not work out. We’re an organization with a deep bench. We are a firm of CPAs and Certified Financial Planners with broad experience, not an organization of one

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or two advisors,” he said. Completely independent, the firm sells no products, has no conflicts of interest and matches clients and planners who make the “best fit.” Furthermore, the firm embraces its fiduciary responsibility, i.e., always acts in the best interest of its clients.

Also, external factors, such as a trade war, changes to unemployment and interest rates, or purchase offers from competitors, illustrate the need to revisit goals regularly. For instance, a son or daughter slated to take over pursues a different career path and is no longer interested in continuing the family legacy. “You need to continue to have those conversations to make sure you stay true to your ultimate business and personal goals,” said Leahy.

As Connecticut Wealth Management has grown personnel, clients and assets, it has reexamined its goals on different occasions. For example, we have had financial planners/financial firms reach out to us to acquire them because they don’t have a succession plan in place, according to Leahy. “We try to reimagine our reason for being on a regular basis. This really helps make us a better company and leads our colleagues in the right direction,” he said.

Succession planning should be done in the context of all aspects of one’s financial figures, but should also present a truly comprehensive and holistic picture that includes business, personal and emotional factors, according to Leahy.

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