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A succession case study

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Three years ago, Malcolm Cooper Jr., second-generation owner of J.K. Adams Company, made a serious assessment of future leadership prospects at his Vermont-based company. Since 1944, the company, which designs and manufactures high-end wooden kitchenware, has been a valued employer and a significant contributor to the vitality of the southern Vermont region.

Cooper's two sons had always been encouraged to pursue their own dreams, and neither of them had joined the family business. Although J.K. Adams had a talented staff, there was no internal candidate capable of leading the company. Cooper and his wife looked at both the business and their personal interests, and how they envisioned the next phase of their lives.

Entrusting stewardship of the family business to an unknown person outside the family was unsettling. The subsequent path to an ownership transition would involve personal, legal, financial and emotional hurdles, as well as an unclear timeline. But the Coopers recognized that one way or another, ownership of the business would someday have to change hands. Despite the challenges, they realized the advantage of controlling the process.

Cooper, who was 60 when the process began, recently reminisced about his feelings at the time. "Inevitably, time will force us to deal with the succession of our management and the transition of our company's ownership," Cooper explains. "I decided to deal with them now, on my time and my terms."

Starting at the end

In planning for these monumental changes, the Coopers elected to start at the end. They identified their ultimate goal: to keep the company as an asset to the community, as a reliable innovator and supplier to its committed customers, and as a continuing employer. They wanted to balance these considerations with a maximum return for the family's nearly 70-year investment.

As capable as he was in sustaining the company, Cooper became convinced that J.K. Adams needed someone with broader experience and a new perspective to accelerate the company's growth, improve its profitability and eventually position it as an attractive investment for a new owner. The company's core was solid, but it needed innovation and accelerated change to realize its full potential.

Through his industry and community contacts and with the support of his advisory board, he considered a few candidates to come in and lead the day-to-day operations. "We thought we knew what we needed and considered only a limited number of people," Cooper recalls. "We made a substantial investment to bring in a chief operating officer. But he left for personal reasons before we could address our longer-term plans."

After this disappointing experience, Cooper realized what he needed was a highly accomplished executive to step into the company as its CEO, a role that he himself would have to relinquish while remaining chairman. The company's big objectives and the challenges of the economy would not allow for another misstep.

"We carefully chose an executive search firm, experienced with positioning companies of our size, that could also understand the critical business issues," Cooper says. He worked with the firm to clearly define the CEO role.

The search firm evaluated more than 200 prospects and provided the company with six finalists. Together J.K. Adams and the search firm selected a new CEO. The executive is in place and, with the support of Cooper, key employees and the company's advisers, he's quickly coming up to speed.

"Our new CEO has been in place for less than three months, but the progress has been stunning as he's working his way into all my responsibilities," Cooper says. "Before he started, and in addition to the CEO job description, I laid out a clear new role for myself that would be supportive [and] provide defined oversight but keep me out of his way on a day-to-day basis. This has made the transition less difficult, but not easy."

Although it's hard to entrust a family business to a non-family member, especially someone chosen from outside the company, Cooper continues to follow the path he thoughtfully laid out, keeping the end in view. "Adding a CEO to our company is a significant cost, but when you consider the ROI, it's a great investment," Cooper says.

Planning for a sale

Cooper's studied decisions about selecting new leadership have positioned his company for an eventual ownership transition. Before the CEO search, J.K. Adams had continually upgraded its management team to address changing opportunities. Because a strong team was in place, Cooper needed only to replace himself.

Great leadership is a company asset that will help attract the best new owner. Warren Buffett has said that when Berkshire Hathaway evaluates potential acquisitions, "We look for first-class businesses accompanied by first-class management."

Over the years, J.K. Adams had been approached several times about a possible sale of the business, but neither the company nor the family was ready. Now that the key succession step has been taken, the family can address a multitude of other essential matters, including:

1. Structuring the ownership of the company, from legal and financial standpoints, to make the most of a transition.

2. Determining the best option for new ownership, or who might best carry forward some of the family's principal objectives. Options include an investment group, a strategic buyer, an Employee Stock Ownership Plan or a key employee.

3. Ensuring that several years of audited financial results are on hand when discussions with potential acquirers begin, to clearly quantify business performance.

4. Completing a formal valuation of the business to determine a fair price. Done sooner rather than later, the valuation would also reveal opportunities for the company to maximize the value before negotiations with prospective buyers begin.

5. Engaging experienced M&A professionals. Laws and regulations, many of which are subject to change, will influence the structure and value of each transaction; the right professionals can help to protect the family and their post-exit assets.

6. Developing an updated family estate plan.

7. Planning how the family will spend the next phase of their lives. What will that next phase look like when their personal identity is no longer wrapped up in the company?

Cooper is consulting with exit planning specialists who have worked with other families on the intricacies of ownership transfer. Having a talented CEO in place allows him to spend more of his time on assessing transition options and opportunities.

Because he is comfortable with his leadership team and the direction of the business, Cooper is also free to spend more time on his many other commitments and personal activities. Having the right leadership team in place will support him in his personal transition.

There are countless matters to consider. "Like so many second-generation owners, in addition to the company itself, I recognize the legacy of a family business," Cooper says. "Looking over my shoulder, I still have my father, Malcolm Cooper Sr. He's been gone for a number of years, but I still feel him assessing every major decision I make. Then looking ahead, I understand too well that an ownership transition will affect far more than my family and our business. This process is very complicated. I'm making the time so I can do the best for our employees, community and customers, as well as my family. To get all this right we can't be rushed, and we won't be cornered into a transaction on someone else's terms."

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