Plan for Your Business Succession Rather than Leaving it up to Chance

By Stewart C.W. Weiner

The facts are both compelling and disturbing. Over 90% of businesses in the United States are family-owned or family-controlled, and out of the largest companies in the U.S., approximately 35% are family-owned or controlled. Given our aging population, it would appear that succession planning would be a priority for these businesses; however, the vast majority of businesses do not have a written succession plan, leaving succession, in large part, to chance.

Succession planning is somewhat analogous to estate planning on a business level. With respect to estate planning, if an individual unexpectedly passes away without an estate plan, the laws of intestacy take over. The opportunity for that individual, who worked so hard and for decades to provide, to plan and in some cases to direct decisions regarding the health, safety and welfare of their loved ones, is lost. So too, in many cases, is the failure to plan for business succession. Although there may be certain mechanisms in place to continue the existing business, more often than not, the death or disability of the owner may lead to disorganization, chaos and perhaps the end of the business cycle for that particular business. To avoid this unfortunate result, which may often impact other individuals associated with the business, we encourage business owners, 5-10 years prior to retirement, to begin the process of creating and developing a business succession plan.

The first step in the process is to assemble the succession planning team, which consists of the following: (1) the business advisor; (2) the CPA; (3) the family financial or wealth advisor; (4) the attorney for the business; (5) the insurance agent; and in many cases, (6) an investment banker or valuation specialist. Each team member has a defined role. The business advisor may take the lead on the strategic planning process as this person should have intimate knowledge of the business and the individuals leading and advising the business. The CPA generally is most knowledgeable regarding tax issues that might impact either a sale of the business, a transfer of the business to employees or family or to a third party. The financial or wealth advisor should be the person most knowledgeable about the business owner's personal financial planning. The attorney is typically involved in the structure of either the sale or transfer of ownership and may also be involved in the estate planning component of the process with the owner. The insurance agent may provide guidance in securing or implementing insurance policies to provide protection against certain potential unknown risks or circumstances. Finally, the investment banker or valuation specialist may be critical in assisting the owner to establish a value for the business in a sale or transfer to family, employees or to a third party.

After assembling the team, the owner, considering the current business model in place and his/her personal and family goals and objectives (which may result in a complex discussion and process by itself), must decide the method of succession, whether by gift, transfer or sale. This decision generally requires the establishment of a value for the business, both current value and anticipated future value, at the time the owner is ready for retirement/succession.

The decision of whether to sell the business to its employees or to a third party, or alternatively, to transfer the business to family members, is a particularly complicated decision, involving business, personal and emotional factors. Does the owner have a particular person or a group of individuals capable of succeeding the owner? Are there existing internal rivalries in the business that may become problematic without the owner continuing to play a role? Is the next group of potential leaders capable of managing together? Is there one person who is capable of assuming responsibility for management of the business? Is the owner ready for (or wants) retirement immediately after the plan goes into effect or is a transition period going to be necessary? If so, for how long? Is the owner committed to keeping the business in the family or does the owner want to maximize the value of the business for sale or for estate planning reasons? Each of these questions will need to be thoughtfully and thoroughly examined as part of the planning process.

The method by which business decisions are currently made also play a significant role in this process. And sometimes, as a result of establishing a succession planning process, the creation of a special or alternate process than the norm may provide added value and an opportunity to more objectively shape the succession planning process together with providing an improved structure for the process. In that regard, are the business decisions going to be made by one person, a number of different individuals or is there a formal board in place? Do the decision makers have the requisite technical and managerial skills or will individuals with these skills be added to the team? Are professional advisors going to be used to assist in making decisions or are decisions going to be limited to family members or a select group?

The answers to each of these questions will ultimately determine how long, complex and difficult the succession plan may be. But in the end, the process will be invaluable in providing the owner, and all of those impacted by the decision, with a game plan or roadmap for the future direction of the business. A thoughtful, well-designed succession plan will almost certainly maximize the likelihood for the business to succeed to the next generation of leaders or alternatively establish a reasonable value and sales amount for the business.

If interested and available, we invite you to an interactive discussion of these issues at our next *Breakfast Bites meeting on February 26, 2015 from 8:00am – 9:30am*. If you have any questions or would like more information about this issue, please contact Stewart Weiner at 248.827.1890 or sweiner@maddinhauser.com.

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