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SUCCESSION PLANNING



Succession planning is very important for business owners, but few really think about it. It is usually an issue left to be done "later" by many families and business owners, as well as a subject that many entrepreneurs and business founders do not want to think about because it means discussing their retirement or their "passing on." Succession planning means not only deciding how the "torch" is passed on to the next manager of the business, but also developing a plan that describes how the family members may or may not succeed or participate in the business. Just as important as planning for an orderly transition following retirement, succession planning also should address how the business will be managed if the founder or owner "is hit by a truck."

Why is succession planning so important? First, the family needs to know who will run the business; will it be one of them? Is one or more of them qualified? And if so, who will it be, and how will they report to the owners of the business, which in many cases will be the other family members? Second, if no one in the family is capable of running the company, who will run it? And will that person need an ownership position to be motivated to operate it in the best interest of the other owners, the family? Next, the employees need to know that if their boss is "hit by a truck," they will still have jobs and who will determine their future.

Clients or customers also will care, as they want the supply of goods and/or services to continue even if the founder is gone. Clients and customers should ask the founder, before electing to do business with a firm, if a succession/disaster plan is in place. If the business has become important to the local community by creating jobs or local services, the community will be pleased to know that those services will continue in spite of the loss of the owner. Equally important is the future of the numerous vendors and their employees who serve the family business and would like to continue their relationship with the firm.

In addition to allowing for a smooth transition of the business in the event of the retirement, death or incapacity of the owner, a succession plan can prevent an economic loss in the value of the business. Without a succession plan, the business may flounder while the family tries to decide "what is best" and "what the founder would have wanted." Without ready access to all of the information that the founder had, mistakes will be made and emotions will run high, all effecting the operations of the business. A leader may ultimately emerge but without the blessing of the founder, the reputation and goodwill of the business often suffers, at least for some time, which will result in a loss of revenue and maybe the failure of the business. If a leader does not emerge, the business may have to be sold, often at a price lower than if a successor had been chosen or appointed by the founder.

A succession plan does not have to be long or complicated. The plan for our firm is only three pages long. It just needs to include what is important to you, your family, and your clients, and to address the unique factors in your firm's management. Since I do not have a family member working in our firm or who is capable of running the business, the management will fall to designated employees. To keep those employees motivated to continue to work for the business and grow the business, each of them will receive an ownership position in the company based on their position and time with the firm. My family will also receive a large share of company ownership through my living trust but will not participate in the day-to-day management of the company. My company's plan spells out everyone's role and, at the same time, satisfies a part of our SEC-required Disaster Recovery Plan.

To help you design and develop your plan, you may choose to hire a consultant who specializes in succession planning, or you may consult your business attorney; I did the latter. Most importantly, do a lot of thinking about who can run the firm if you are not around to do so and how they will be motivated to grow the firm as you would like it to grow. Talk to owners of other firms in your industry to get ideas from them and to see what special concerns they have addressed. If your family situation is

complicated with multi-generations or multiple marriages and stepchildren, you may wish to consult a family business consultant.

You may be able to use a standard form of succession plan, but make sure that you customize it for your family and your business. Don't forget to consider the estate tax. If you have not planned on how to pay the tax, make it part of your planning process so that the business does not have to be sold to pay the tax.

Lastly, once you have the plan in place, make sure that everyone who needs to know about the plan is fully informed . They may not all need to have a copy of the plan, but they may need to know that it exists, understand how it works, and know where to obtain a copy should it be necessary.

The succession planning process does not have to be a long and painful process, and if you change your mind as you age and your company grows, you can change the plan. But do not wait. There is never a "best time," so do it now. By careful succession planning, you can assure that, in the event of a terrible tragedy, your business is not lost along with you.

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