

ENTERPRISE
Family Business

Your succession plan must be as individual as you are

Mike Cohn

If succession planning was simple, there would be software available and you could just fill in the blanks.

But one size never fits all for decisions as critical as the future ownership and management of your business. No wonder it's easy to procrastinate.

It's a big mistake to confuse succession planning with estate planning.

Succession planning is not about what happens when you die. It's about the future of your business and deciding if your family should own, and perhaps manage, it for another generation. Wills and trusts are only a small piece of this strategy.

A good succession plan has four main parts:

1. Business first. First you must decide whether to keep or sell your business.

Is it a good investment for your family, or should you cash out? Who would buy if you decided to sell? If you keep your business, are the right people in place to run it without you? How can you increase the company's value? What are the current capital needs? Will the bank help you grow the business? Who is your competition -- and are your successors prepared for future challenges?

Realistically assessing opportunities and risks will create a solid framework for your successors to act decisively.



2. Who will own the business if you keep it?

Each family will have a different answer. First-generation

companies, for example, usually follow an owner-manager model. Those who work in the business own it; family members not active in the business may receive other assets.

Second-generation companies often are sibling-owned and use a hybrid ownership model, where some family members are active in the business and some are not. In this model, non-active family members usually only participate in big decisions.

Over time, a family might switch to an owner-investor model, where the family learns to be "smart owners."

In this model, ownership could be held in a family trust or other family-controlled entity. The family then can hire non-family members to run the business.

Understanding your options will allow you to think strategically rather than just following a business-as-usual approach.

3. Fire in the belly. The future leaders of your business must be able to adjust to changing needs.

As companies grow, they naturally need a structure that keeps pace with their growth. This evolution doesn't mean you must institute a Dilbert-style bureaucracy. It simply means

sharpening your focus and keeping your entrepreneurial spirit while distributing decision-making and accountability throughout your organization.

Remember that the next CEO might need very different skills than what worked initially.

Does your family have a shared vision of the future? If so, who in the next generation has the passion and competence to make it happen?

If non-family members will run the company, what incentives (stock options, shadow stock, appreciation rights) will help attract and retain top people?

If you don't have the right team in place, do you have the time -- and heart -- to build one?

4. Sustaining family wealth and values. A family business often provides both the family's identity and its financial opportunities.

Should you establish family councils or hold meetings to help family members learn to work collaboratively on important issues?

If you don't share your succession plan, it may never materialize. Remember that the best succession plan begins with a willingness to communicate and share information.

A succession plan also will improve the estate-planning process. Careful planning can significantly reduce estate taxes, which will, in turn, reduce the

financial burden on the family business and help everyone focus on the task at hand: keeping the business viable and preparing the next generation to own and manage it.

No one ever said that maintaining ownership of a family business is easy -- but there are simple ways to increase the odds. When you are confident you have made the right decisions for you and your family, it is easier to let go. When you procrastinate, both time and options slip away.

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