



Family Business Best Practices

Successful Successors Easier Said than Done

Family Business Succession - A Process, Not an Event

By Dan Maloney, CPA CFP
Published: February / March 2008

Most family business executives understand the essential elements of financial planning. It starts with three basic, but vital, questions: **What Do I Have?**; **What Do I Want?**; and **How Do I Get There?** The questions may seem easy; but don't be fooled. The answers are hard. What makes the answers especially difficult is that, while the questions may remain constant, the answers will change over time. Family business *succession* planning adds many extra layers of complication to the already complex family financial planning world. Family size alone, while not a part of everyday business planning, can add emotional trauma. If the family is large, and members are very close, emotions surrounding the transfer of control can run deep. With each potential heir or successor to the CEO role, the matrix of answers to the three questions expands. Each individual potential successor will need to address the three questions. Depending on the ages, educational levels, business backgrounds and personalities of the family members, the answers may not come easy. Reconciling the family's answers with the answers anticipated, or hoped for, by the entrepreneur may be a multi-year process.

Invest Time According to Value Returned

The family business is often the most valuable asset the entrepreneurial family owns, yet succession planning generally takes a back seat to the myriad of operational and management issues faced daily. It takes a back seat because there are no easy answers – and help isn't easy to find. Business books are full of valuable advice, but it's impossible to find the chapter that addresses the entrepreneur's particular combination of business and family situations. So, procrastination sets in, and the succession process drags on. Orchestrating the founder's departure is an emotionally wrought endeavor and can present the greatest challenge to the continuation of the business.

Work Backwards From the Future

To begin the succession planning process, leaders should first decide if continued family ownership makes the most sense, both financially and emotionally, over the long haul. A lengthy series of family dinner table conversations may be needed. Forget about leaving the work behind at the office desk. The dining room table now becomes the business's conference room. Expect the family dinners to become "board meetings". Heirs and successors may be silent "directors" at first, but eventually the fireworks will start. In the first few meetings, siblings may say nothing other than what they believe the driven executive and the other sibs expect to hear. They have enjoyed the

entrepreneurial rewards but may not fully understand the pains and anxieties that are much a part of entrepreneurial life. Or, perhaps they understand entrepreneurship, but don't have the stomach for it. They neither want to disappoint, nor be disappointed.

Listen, Learn and Lead

The entrepreneur must carefully listen to hear each potential successor's words of commitment to continue the business. Expect their decisions to change and emotions to run deep during the succession planning process. Procrastination often takes the place of proactivity at this stage of the business's evolution. The entrepreneur may be elated to learn that the next generation enjoys entrepreneurship, but saddened to hear that the potential successors wish to try their hand elsewhere at their own venture. Maybe the business world is a turn off. The dreams and answers to each participant's "What Do I Want" question are as many as there are potential heirs. It will take both patience and leadership to guide them.

As the heirs speak up, the entrepreneur may also be weighing various options. Perhaps the aging founder is wavering between keeping the business and becoming a philanthropist, or selling the business to enjoy the fruits of his or her labors, or just cashing in and buying a large beach house to have a place to enjoy the grandkids. Emotions will be mixed and run deep.

It's Not Easy – Breaking Up is Hard To Do

Face it. The business is a large part of the entrepreneur's identity, the spouse's identity, and to a large extent, the children's identity. Letting go can present a much harder decision process than the initial process of deciding to launch the business.

The succession plan can clearly state whether the business will be continued, sold or liquidated. It can list individuals having authority to operate the business. Potential buyers can be mentioned. Forms of ownership transfer transactions can be discussed. Estate planning issues should be considered. Cash needs are always paramount. But nothing can happen until the three basic questions are addressed.

Begin asking the three basic and vital questions as soon as possible.

- **What Do I Have?**
- **What Do I Want?**
- **How Do I Get There?**

Expect the answers to change over the years. Don't expect easy answers.

Daniel J. Maloney CPA CFP is the Founder and Principal of Certified Acquisition Associates LLC, a business intermediary firm specializing in sales, mergers & acquisitions of middle market companies. If you have questions about preparing your business for sale, send a note to questions@certifiedacquisitions.com