

Family Business Succession

Red Zone or Mid Field Strategy?

By Dan Maloney CPA CFP CM&AA

Be Aware of Family Values

Many succession plans evolve, not through an intentional thought process, but through the functioning of the family's value system. The values are generally unwritten, so there are no clear rules to follow. Talking about succession planning is difficult. Because it takes an awareness of, and commitment to, personal long-term goals, both for the current executive leaders and for potential successors, fruitful discussions are often put on the back burner. To begin the process of properly developing and articulating long term goals, the entrepreneur should address three fundamental questions: **What Do I Have?; What Do I Want?; and How Do I Get There?**

In the early days of the business, entrepreneurs are primarily focused on launching their business. The farthest thing from their mind is succession and letting go. The dream of building a successful business is exhilarating. Along with that dream often comes the dream of having the children accept an invitation to join the business. If one can isolate and focus on the goal of having the children join the business, the family values of providing a great education must be considered. The type of education provided, be it arts, science, business specific or general business administration, must be addressed and, to address the process, the parent must begin with the hoped-for results.

Statistics indicate that more than half of family businesses do not survive and pass into the second generation. Taken at face value, it may appear that there is a high percentage of failure in family enterprises. That's not necessarily true. What the statistics may overlook, and do not adequately measure, is the possibility that many businesses are sold, not based on business failure, but based on the outcome of proactive family business and financial planning.

Great Kids or Great Executives

In the family business area, family planning, financial planning and strategic business planning are closely intertwined. Succession planning is a major component of business planning and, since the successor usually comes from the family, family planning must always be factored in. The entrepreneur parent may want the potential successor to be trained in business administration and, at the same time, may want them skilled in the trade or specialty area of the business. They also want their children to have meaningful lives in line with their children's personal desires and dreams. This leads to a crucial question. **Do the parents want to raise heirs or do they want to raise well-rounded great kids?** This presents a dilemma. If they focus on raising heirs trained in the particulars of the family business, they may be educating a successor who lacks the general leadership training essential for long-term survival. The prospects of having the child join the business may increase, but the prospects for long-term business health may suffer. On the other hand, if they focus on raising well-rounded great kids, the kids may become effective leaders. However, the future leaders may also become more independent and follow a path that leads outside the family business.

Train Elsewhere?

Many advisors suggest that potential successors should be required to work outside the family business for a number of years to be considered for family business leadership positions. This can be a great way for the children to mature, learn different business strategies and experience various leadership styles. Again, there's always the risk that they may enjoy the outside business world more than the particular family business. If the outside employment provides needed experience and discipline, the downside shouldn't be a major worry.

Now is the Future

It's never too late to begin the process. However, whenever possible, succession planning should begin early since it can be rife with the dynamics of family issues, in particular, the educational path. Since education is a life-long endeavor, succession planning will be part of the business strategic planning process for many years as both the business and the family mature. The fundamental questions that should continually be addressed are:

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

The questions may look easy. The answers can be quite difficult when family, business and financial planning issues overlap. When addressing the educational aspects of "How Do I Get There?", ask the young adults what they want to be when they grow up. Be prepared to accept the unacceptable.

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