Good Planning is Key to Successful Ownership Transfer

Last week I stated that to be one of the few family businesses that survive transfer of ownership requires a good understanding of your business and your family plus some very thoughtful succession planning. I promised to give some suggestions on a few basic plans that should be included in the transition process.

My observations lead me to believe that there are four key plans that should make up the transition process. By implementing these plans, you will virtually ensure the successful transfer of your business within the family hierarchy.

A strategic plan for the business will allow each generation an opportunity to chart a course for the firm. Setting business goals as a family will ensure that everyone has a clear picture of the company's future.

The family strategic plan is needed to maintain a healthy, viable business. This plan establishes policies for the family's role in the business. For example, it may include an entry and exit policy that outlines the criteria for working in the business. It should include the creed or mission statement that spells out your family's values and basic policies for the business. The family strategic plan will address other issues that are important to your family. By implementing this plan, you may avoid later conflicts about compensation, sibling rivalry, ownership and management control.

A succession plan will ease the founding or current generation's concerns about transferring the firm. It outlines how succession will occur and how to know when the successor is ready. Many founders do not want to let go of the company because they are afraid the successors are not prepared, or they are afraid to be without a job. Often, heirs sense this reluctance and plan an alternative career. If, however, the heirs see a plan in place that outlines the succession process, they may be more apt to continue in the family business.

An estate plan is critical for the family and the business. Without it, you will pay higher estate taxes than necessary. Taking the time to develop an estate plan ensures that your estate goes primarily to your heirs rather than to taxes.

For business owners who do little planning, the idea of preparing these plans may seem overwhelming. Although it is not easy, the commitment made by all family members during the
planning process is the key ingredient for business continuity and success. The first rule for successfully operating and transferring the family firm is: Share information with all family members, active and nonactive. By doing this, you will eliminate problems that arise when decisions are made and implemented without the knowledge and counsel of all family members.

Thoughtful succession planning is important for all businesses, particularly family-owned businesses. As I observed last week, transferring a family business is difficult and complex. The primary cause for failure, however, is the lack of planning. With the right plans in place, the business, in most cases, will remain healthy.

If you need help in your business planning, contact SCORE, mentors to America’s Small businesses. They provide free, confidential counseling as well as informational seminars.

_________________________
Dean L. Swanson
Southeast Minnesota SCORE
c/o Rochester Area Chamber of Commerce
220 South Broadway, Suite 100
Rochester, MN 55904
*Dean is a volunteer SCORE Counselor.