Are You Prepared for Succession?

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Perhaps your business has been in your family for generations. Or maybe you built it from the ground up, with the hopes of one day passing it on to your children. By whatever path you got here, you may now be approaching a crossroads in your life: a milestone that affects your business, your family, your wealth, and your future. The crossroads is the transition of your business to your successor.

Great succession planning empowers you to build a lasting legacy, comprehensively addressing the needs of the business, the owner, and the family.

When you develop a comprehensive business succession plan, one of the key elements to consider is management succession. Business survival and viability rest on sound management decisions and solid leadership. Planning for management's continuity and growth ensures that your business will remain financially healthy and continue its established business culture. A formal management succession plan will develop key successors and enhance a company's long-term performance, value, and transferability.

Often, existing management is similar in age to the business owner. When you retire, your management team may be ready to retire at the same time. A good business strategy includes the continuous discovery and training of the next generation of management.

It takes a strong vision for the future to establish a family business’s long-term prosperity and ensure the family’s financial independence for years to come. Owners who translate that vision into a detailed management succession plan can resolve many uncertainties about their business’s future leadership.

They can also prepare for other important challenges along the way, such as gaining access to capital. Beyond investigating whether your business has a sustainable competitive advantage, dependable cash flow, and solid net worth, financial institutions are beginning to look for a formal succession plan when determining the amount of credit to extend. A formal management succession plan, accompanied by the development of key successors, will go a long way toward demonstrating long-term financial viability to your bank or lender.

Management succession challenges facing family businesses today are quite different from those of nonfamily businesses. Families often want a successor—ideally from within the family—who will not only run the business but also continue to represent the family’s values and community legacy.
Some family members may not own or work in the business but still have considerable influence on its future. Just like an owner of a nonfamily business, a family business owner must strive to meet the different needs of management and ownership as well as satisfy a third stakeholder: the family members themselves.

By definition, management succession is about change. If current management is not performing at its best, this is a good opportunity to enact changes to improve the team. Your management succession plan should address whether the company has the right people in the right positions for their talent. Occasionally the right people need to be redirected to take maximum advantage of their management skills.

A family conversation is a good first step toward navigating the complex process of succession planning. Inviting all stakeholders to engage in this essential conversation together allows everyone to offer his or her input about the final plan.

Thinking about how the company will live without you can be a struggle. But you must face the task of redefining your business’s day-to-day life. Consider the following:

- Is there a written succession plan for your key positions?
- Can your management team execute your strategic plan effectively in your absence?
- Are you preparing your successors to fulfill your role in the business?
- Will your key employees be threatened in the event of your death?
- Does your bank know your successors and understand their future role in the company?
- If something happens tomorrow, can the company continue without you?
- Does the company have the right people in the right position to create a successful succession plan?
- What additional incentives are you offering key management in order to retain them?

It’s important to remember that your situation is unique. Every business owner has a different financial scenario, family circumstances, operations, management, knowledge and education, motivations, and hopes. These differences require you to develop a customized succession plan that fits your goals.