

Preserving Business Value For Your Intended Beneficiaries

By G. Timothy Leighton, JD, CFP® *

Dale Carnegie advised those seeking success to start with the end in mind. Business owners would do well to plan for preserving the value of their business for the time when they are no longer in business.

Succession planning is an investment in the future for the enterprise, its owners, employees and even your customers or clients. Although the owners of a closely held enterprise typically recognize that their respective ownership interests are frequently their biggest and most important assets, as a group, they also typically fail to plan for the orderly transition of ownership. Reaction by partners and/or family members to the untimely departure of an owner leads to unnecessary costs of both time and money.

Business succession planning is neither simple nor cheap. And while engaging in a systematic process to define goals and implementation steps does not guarantee either a perfect plan or its ultimate implementation, the very act of planning usually itself renders many benefits to the enterprise and its leaders. The process involves educating both the present and likely future owners along with some intense interaction among them. This education should lead to better decisions along the way, and should inspire improvements in the costs of capital, whether debt or equity.

Succession planning usually begins with a “SWOT” analysis of both the business and its ownership structure. SWOT involves identification of Strengths, Weaknesses, Opportunities and Threats. The owners would focus on the needs of desires of both present and likely future owners, along with the enterprise itself. It would be important to consider future ownership options and a variety of paths to transition from the present to that future. Those paths involve both financial and non-financial considerations: how to pay during the transition, how to fund the transfer, and how to accommodate both family members and key employees central to the business along with those not involved. In short: where is the business today, where should the business end up, and how will the business get there?

Today’s owners should make sure that the ultimate plan is actually written out and given to all interested parties to review. Those reading it should be invited to comment on how to make it better. What inside the plan is good, and what raises concerns? Also, what is not yet in the plan that should be included? Once the key planners reach agreement on revisions to the first draft, then the business owners should take care to review the plan periodically, perhaps at least once a year, and whenever the business either anticipates or experiences a major change, such as the death or disability of a principal, major financial improvement or decline, or other significant change of circumstance.

There are at least three vitally important groups of participants in the planning process. Most obvious would be the owners. Naturally, the existing owners will be

active in the planning. Also include those targeted as likely successor owners. A second group would involve key people who do not have ownership interests. These would include both family members of the owners as well as key employees, such as managers or those with hard-to-replace talents, all of whom will be affected by a succession. And third, professional advisors should participate, providing both guidance as well as insights into points overlooked or underestimated.

Effective succession planning demands that the participants be true to themselves and their enterprise. They simply must ask themselves the hard questions, and give themselves candid answers, even if they don't necessarily like what they hear. To choose among competing paths for achieving the succession goals, owners may have to make very difficult decisions, which may involve emotional as well as non-personal factors. Trust, patience, compromise and persistence are all elements of the process. Be sensitive to such impediments as selfishness, ego, greed, anxiety and imperial legacies.

Professional advisors who contribute effectively would include the **accountant**, to help work through tax and valuation issues and help focus projections in realistic line with historical data, the **lawyer** to render legal guidance, guide the parties to closure in decision making and draft documents to implement those decisions, the **banker** and/or **investment broker** who will help fund the transition through debt and/or equity instruments, the **insurance agent** who will bring relevant risk management tools to the process to help cover the risks of premature death or disability, the **financial planner** who helps evaluate related issues such as retirement and personal finances, and a **business broker** to assess value maximization along with lining up potential buyers, especially if a relative or key employee is not a likely successor. The various advisors should work well directly with the owners and also with each other. They will each have different perceptions, based largely on their respective training, experience, and biases. The enterprise will benefit from the synergies resulting from their collective ideas and insights. They can and should debate and challenge each other, in order to make the plan more effective.

Future articles will review some of the tools involved in succession planning along with more details on different aspects of the process.

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