

## SUCCESSION PLANNING

A closely held corporation needs a succession plan just as much as any other type of business. Stockholders and executives of a closely held corporation are usually one and the same. When a stockholder dies, the corporation unlike a partnership continues its independent legal existence. The deceased stockholders shares are passed to his/hers estate or heirs. If no plans have been made for the sale of stock or for a management change, the death or retirement of a stock holder could cause a host of problems for the business, the surviving shareholders, and the heirs.

If the surviving shareholders own a majority of the stock, control of the business will not be affected. However, the business may sustain financial losses when the expertise of a key manager is lost. The heirs of a minority stockholder may complicate business affairs since heirs have the right to vote and demand information about the management and finances of the company.

These are just some of the possibilities a business may face if it is stranded without leadership in key functional areas. Consequences are serious, so it is important for any type of business to have a succession plan.

Your decision about who will take over your business when you leave will be one of the most important decisions of your career. It could mean the difference between the collapse of your business or its continuing success after you retire. This is a decision that calls for careful planning. You will need to make decisions about insurance, buy-sell agreement, your will, and other matters that affect how your business will continue.

The family owned business is an increasingly attractive career choice for the children of business owners, even when more than one child joins the business. Consequently, more families than ever intend to pass on the leadership of their business to multiple off spring.

The first step in determining a child's interest in the business is to ASK. Ask if they would be interested in running your business after you retire. You could then plan to leave the majority interest in your company to this child in your will, as suggested by an attorney who handles family business cases. Other tangible assets - such as real estate-could be left to your other children.

If you want to pass on your business to your child, you need to be as objective as possible about his or her abilities to successfully manage the business. If the child seems to lack the competence to run the business, consider hiring a professional manager either permanently or on an interim basis while your child prepares for the top job.

Consider both family members and others as potential successors. Be as objective when you hire and promote relatives as you are when you manage and hire others. Use written job descriptions to guide your thinking when you consider the talents and limitations of possible successors. Give positions and salaries to family members according to the company's needs and your relative's abilities. Try to avoid preferential decisions and salaries that favor relatives over other employees. Performance still needs to be the main criteria for success in your business.

Cultivate your heirs. They can work their way up the company ladder and be promoted on their personal merits and performances.

In a family run business the owner generally "wears" many hats, including those of general manager, chief financial officer and even the janitor. Decision making is centralized through the group of managers. Top management bears most of the responsibility and may have difficulty delegating authority. And because "working Presidents" often link their identity and self-esteem to the business, they find it hard to think of retiring and relinquishing control.

You need time to train your successor, strengthen your management team and operations, you need to start now and have a plan prepared before a crisis hits.

Planning for management changes is an important part of a SUCCESSFUL future for you. It's getting the old boy out. "The Old Boy" of course is the owner or founder of the business and is unwilling to retire because his life is centered on the business. Perpetuating a family business is the ultimate management challenge. You can increase your chances for success if you believe that succession is a process that may take years to complete.

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