

# A brief perspective of business succession planning for privately-held firms

By: Linda K. Fairburn

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*Benefits of Succession Planning*

**Facing the future.** You own and operate your own business. You are one of those people who enjoy the challenge of being your own boss, the master of your own destiny. Now you are about to take on one of the greatest challenges to face any business owner — the challenge of preparing and choosing new leadership for the business and planning for the transfer of its ownership when you are unable to work due to an accident or death. In short, the challenge of succession planning.

**Could this be you?** Maybe you have reached an age where the word “retirement” magically has ceased being an abstract concept and become something that could actually apply to *you!*

Maybe the death of a friend or family member — or simply driving past the remains of a horrendous traffic accident — has left you wondering what would happen to your business and family if you were suddenly gone.

Maybe your kids are already working with you and questions have arisen about the roles they will play in the future.

Maybe you have been developing a strategic plan for your company and realized that you couldn't plan for the future of the business without a sense of what you and your family wanted in the long term.

Maybe you have just seen your lawyer or financial advisor or insurance agent — any of them could have raised questions like “When do you want to retire?” or “Do you want to sell the business or keep it in the family?” or “How shall we treat the company in your estate plan?” or “Does your spouse want to operate the business when you're gone?” or “What would happen to the business if you died tomorrow?”

If so, then you're not alone. Surveys conducted by Deloitte (2020) and PwC (2019) have reported the following similar results.

- 90% of North American privately held business are family firms and
- 35% of Fortune 500 companies are family controlled
- 40% of the leaders of these firms plan to retire in the next five years
- 60.2 is the mean age of the leader in family-controlled companies
- 82% do not have a formal succession plan

**What is succession planning?** Simply put, succession planning is all the thinking, planning, preparation and activities that take place in anticipation of and before a defined departure date. Sounds easy, right?

In private companies, succession planning is a process that involves personal ownership, familial considerations and organization development. This process can be complicated further if taking into account family members working in the business, multiple shareholders, several businesses, high net worth and the desire to treat heirs equitably in estate planning.

**The Succession Planning Process:** Succession planning means many things to many people. To some, it is an estate planning or financial planning task. To others, it is just a part of the strategic planning process. To still others, it's about ensuring that management and executive leadership positions are filled by qualified people — a training and development task.

In my experience, the most effective succession plans are the ones that have been developed using an integrated, holistic approach. Each part has been undertaken with the whole in mind.

Succession planning is a component of strategic planning yet just having a sense of what you'll do is not a plan. In fact, only 18% of privately held companies have one. There is a perceived lack of urgency to develop a formal exit plan that gets attention only when there is an unexpected accident, injury, illness or death. In the absence of a succession plan any of these situations can become a crises event.

Ask yourself this. If you found out you only had six months to a year to live would you prefer to check off a few things on your bucket list? Or would you rather spend that time selling your business?

The best time to sell your business is when you don't have to. And the best reason to sell your business is when you're retiring. But without some thought and preplanning its doubtful business

owners will be able to sell when they're ready because they don't have an exit strategy and haven't taken the steps necessary to get the full value for their businesses.

**Are you ready?** Succession planning can seem overwhelmingly complex. It necessitates assessing the competencies of all involved parties. It involves personal issues, family issues and business management issues as well as legal, financial and taxation issues — all of which touch upon each other in a variety of ways.

In my experience, the minimum amount of time required to develop a succession plan, or exit strategy, is 2.5 years and much longer if you intend to transfer ownership to second generation children working in the business.

Where to start? Here are a few suggestions.

1. Have a Business Valuation prepared by a professional who sells businesses, is aware of the current marketplace and who can:
  - Become a member of your professional team
  - Lead you through the sales process
  - Recommend structural reorganization to minimize taxes on transition
  - Facilitate long-term strategic planning program
  - Perform a due diligence analysis of your business from a potential buyer's perspective to identify corrective actions
  - Help you set up an advisory board of outside expertise
  - Identify property and/or excessive cash in the business that may disqualify your capital gains exemptions
  - Refresh the valuation annually until you're ready to sell
2. Assess future wealth requirements and the need for restructuring to reduce after-sale taxation that may require share redistribution and take 2 years to crystalize.
3. COVID-19 has provided a unique opportunity for any kind of ownership transition over the next 1 – 2 years where it would be advantageous to have a lower share value.
4. Business owning families must pay special attention to the preparation of their children to step into the ownership circle through education, training, participating in strategic planning and assessment of their capabilities to work together and to fill your shoes. While children may already be working in the business it will take several years in leadership and decision-making roles to create a cohesive family team. In addition, an industrial psychologist can help ensure the child(ren) are cut out to be operating a business.

You can come to succession planning from any number of directions. Whatever the approach, it is a process that every business owner, particularly if the family is involved in the business, has to deal with sooner or later. And better sooner than later. The world is full of businessmen and women who unfortunately neglected to prepare a qualified, experienced successor or failed to put the financial structures in place that would fund their retirement and reduce taxation.

## Bottom Line

Your willingness to confront the inevitable passing of time is in your hands. Effective planning can mean the difference between a smooth transition and chaos for your business and your family. Everyone grows old, but effective planning can allow you to maintain control of your destiny in your "golden" years. The choice is yours to Exit Right.

## About the Author

### Linda K. Fairburn, President of Make Things Happen Limited

Linda offers consulting, training and coaching to support succession planning and leadership change in family businesses. In addition, Linda is an independent Affiliate of Robbinex where she serves as a Managing Director working with a wide variety of privately-held corporations providing the know-how to successfully guide the challenging process of leader transition.

Linda can be reached by email at: [linda@robbinex.com](mailto:linda@robbinex.com)

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...the right time for  
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