

# A Checklist for Family Business Succession Planning

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After spending years or even generations building a successful family business, some of the toughest conversations circle around succession planning. What happens when an owner steps down from the business? Will it be passed down to family members, and is that individual ready to lead? Will it be prepared for sale, and will an owner get the value they want from an exit? What are the benefits of succession planning and are they worthwhile? How do you write a succession plan? The list of questions can make your head spin.

Family-owned businesses in the US generated 64% of the national GDP and created 78% of new jobs in 2018 while employing more than half the country. Family businesses of all sizes are vital to our economy yet in a 2016 PricewaterhouseCoopers survey, only 23% of family businesses had a full succession plan in place.

## **What is the Process of Succession Planning?**

It's difficult to think about a succession planning strategy because by nature it means that we are facing the next stage of life. Henry Cloud wrote in *Necessary Endings*, "Getting to the next level always requires ending something, leaving it behind, and moving on. Growth itself demands that we move on. Without the ability to end things, people become stuck, never becoming who they are meant to be, never accomplishing all that their talents and abilities should afford them."

What is the first step in the process of developing a succession plan? Beginning a succession planning process might seem arduous, but family business owners should start going through a checklist of questions now:

## **What Are My Goals?**

Many of us started our businesses with the dream that we would pass it down in our families for generations to come. The reality is that only 30% of family businesses actually

transition to the second generation.

As an owner looks to move out of the business or pass on the baton, the first step is to take a step back and ask: What are your goals? Are you looking to keep the business in the family? Do you still want to be involved in some capacity?

There might be unresolved conflicts or other family dynamics at play that need to be worked through to help guide an ultimate direction. The owner, spouse, kids, and even the in-laws might have radically different visions of the future of the company, but ultimately those discussions will set the course for the possibilities ahead. Establishing a strong succession plan is better—sooner.

### **Who Should Run the Family Business?**

In succession planning, as an owner, ask yourself if the next generation of your family is actually interested in and capable of taking over the business. And is your vision for the company in sync with theirs?

This leads to bigger questions of who should run the business. If it stays with a family member, often owners get stuck on which son or daughter is going to be president. Many owners choose to bring in an outside executive to provide an unbiased view to assess the business and help guide this decision. An expert will go through 360-degree feedback, leadership assessments, and even a look into how each family member might envision a strategic plan for the business. Laying out the facts is a powerful place to start.

If someone is not ready to take the reins, an Interim CEO might be called in to run the business or mentor family members to the point where they are ready to step into that role.

### **Should I Sell My Family Business?**

Another route to family business succession planning is to exit from the business through a company sale to a strategic partner or investor like a private equity fund. Depending on your goals, some buyers will take full control, buying you out, while others might take a minority interest or provide ongoing dividends to you and your family.

An exit plan that involves sale or merger requires a high level of organization and may entail investing in improvements to make the business and its assets appealing to a buyer. Family business owners should start preparing for sale now, even if a potential exit is years down the road. Owners want to reap all of the hard work, time, money, and sacrifices that they have invested into building that company, but the reality is that buyers often find issues that push down the purchase price.

Harvard Business Review reports that the failure rate for mergers and acquisitions sits between 70% and 90%, but business owners can do something now to avoid becoming another statistic. Interim CEOs help assess a company's current state and can set a company

up to get maximum value in sale, by making operational, financial, or technical improvements now.

Family-owned packaging manufacturer, Styrotek, a California-based company started by a group of grape growers in 1973 is a great example. In 2016, InterimExecs' Rapid Executive Deployment Program deployed an interim CEO to help improve what were shaky operations. The company was in a state of chaos, suffering extraordinary losses and issues from bookkeeping to operations to broken machinery. The family discussed closing the doors, but the idea to bring in new leadership won out.

The interim CEO dove in, creating an assessment of the business and action plan moving forward. Within three months the CEO managed to have the highest daily and weekly production volume in company history, reduce production cost by 20%, initiate a capital investment program, and reduce overhead by 31% — all while saving 150 jobs.

Preparing your family business for succession doesn't have to be overwhelming. With the right guidance and forethought, your succession plan will position you for success. From determining who will lead during transitions to getting prepared for a sale, your succession roadmap gives you peace of mind. It also outlines the strategy and tactics you must employ for a stable and promising future.

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