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Why Succession Planning Is Vital And How You Can Start Today

Bruce Werner Forbes Councils Member
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POST WRITTEN BY
Bruce Werner

Specializes in strategy, finance, M&A and governance for private and family businesses. Experienced Corporate Director. **Kona Advisors LLC**.

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COVID-19 has drastically altered the course of America's small and medium-sized businesses. According to a recent Facebook survey of over 86,000 SMB owners, managers and employees, about a third of SMBs are currently closed. Nearly half of owners whose businesses are still open are suffering burnout. Fewer than half of nonoperational SMBs plan to rehire the same workers and over a third of operational SMBs have shifted exclusively to e-commerce.

Family businesses may be particularly vulnerable to the long-term impact of COVID-19, especially without proper succession plans. A 2018 survey of 200 privately-held business owners revealed 58% do not have a succession plan, even though long-term transition planning has been shown to yield better business outcomes. Though “getting older” is the most oft-cited impetus for establishing a succession plan, 47% of business owners over the age of 65 still don’t have one.

With over 1.5 million confirmed COVID-19 cases and nearly 90,000 attributable deaths nationwide, America’s family businesses are in the midst of a serious shakeup. Never has the value of comprehensive succession planning been so apparent. Even the best plan cannot predict a global crisis. But it can certainly help preserve a family’s financial interests and its delicate relationship dynamics.

It’s not too late to begin succession planning. Here is some distilled wisdom to help you get started as soon as possible.

Work on your business.

There is an old trope that says family business owners must wear three hats – as owner, boss and employee. Depending on which hat they’re wearing, owners are either working “in” the business or “on” the business.

When you're working "in" a business, it's easy to get so caught up in everyday operations that you don't have a chance to ask yourself how you're leveraging the business as an asset.

Working "on" a business requires owners to break from the daily grind of 60 to 80-hour workweeks in order to ask questions like:

How can this business improve my life?

What is the state of the industry?

Should I take more or less risk?

How should I capitalize my business?

Should I make an acquisition or sell some/all of my business?

It can be hard for an owner to shift from working "in" to working "on" their business, because they often form an emotional attachment, as if the business were their child. But a business is an asset, not a child. Getting clear about this distinction is the first step in strong succession planning.

Consider risk vs. reward.

An owner's most important decisions are made when working on their business. From this perspective, owners are better able to objectively analyze their preconceived ideas. For example, many view their family business as their birthright, which is intended to be passed from generation to generation.

Many have been conditioned to measure their success as the difference between what they inherited and what they pass down to their children. But the idea of a family business as a birthright is inherently flawed, because it doesn't account for how industries change (and sometimes completely transform) over just 20 or 30 years.

Protecting the future financial health of your family requires objectively looking at the state of your industry today and for the next decade. Is your industry in growth or consolidation mode? How risky will it be to continue to own the business now and into the near-term horizon?

Your agenda as an owner is to decide how much capital to deploy, how much risk to take, what business you are in and who is responsible for running the business. If your business becomes unacceptably risky, ask yourself why you want to own the business – then examine your answer. If much of your business' value is attached to you being the CEO, consider the impact your absence would have.

Seek objective facilitation.

It's almost impossible for families to rationally evaluate their businesses without objective third-party facilitation. Owners who are excellent at running their businesses might not see the need for facilitation. But business ownership can be like home ownership; even though there are many things you can do by yourself, sometimes you need to hire an expert. For example, you probably always want to hire a professional electrician – otherwise, you might get hurt.

Everyone can benefit from a facilitator, because we all have biases that can hinder objective and effective decision-making. Facilitation helps families create an environment where they can take off their everyday hats and look at the facts through a clearer lens. A good facilitator will constructively challenge the thinking of everyone involved in succession planning.

Depending on the dexterity and maturity of an owner and their family, they may need a lot or a little facilitation. A business that's composed of a father and two sons might be more emotionally challenging than a business with five or ten active family members asking constructive questions.

Leadership can be lonely. A great challenge of leadership is that no one tells you what decisions to make and when – especially when confronting your own mortality through succession planning. But for an experienced facilitator, succession planning isn't personal. Precisely because a facilitator is not your family, they can ultimately be your family's strongest ally.

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