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Death By Neglect
Avoiding Succession Planning Mistakes That Could Kill Your Business
By Matthew Mitton, 6/16/20064:36:15 PM MST

Many business owners fail to establish a viable blueprint for leaving a business behind. Reluctance to pursue proper succession planning is common, but a comprehensive succession plan should be part of every business plan.

"It'll Never Happen to Me"

SCENE: Bill Jones, the owner and CEO of Jones Industries, Inc., has died. Mary, Bill's wife, and their two children, John and Susan, are meeting with Tom, the company's attorney, at his office.

TOM: "Thank you all for coming in. I know the funeral was only last week."

MARY: "That's all right Tom. You sounded worried. What's going on?"

TOM: "Look, I'm not going to kid you. We've got some real problems. We don't even know who is going to run the business. Bill never made any provisions for that."

JOHN: "That's okay. Dad always told me I would take over the business if something happened to him."

SUSAN: "Well he never told me. Why do you get to take over?"

JOHN: "I've been working in the business for years."

MARY: "We didn't come here to argue. What about Richard? He has been with the company for a long time and knows the business. Maybe he should take over."

TOM: "Aside from the problem about who should take over, there may not be a business left to run. Bill left 50 percent of the business to Mary and 50 percent to John and Susan. That's $5 million for Mary and $5 million for John and Susan. The problem is that in nine months, there is an estate tax that has to be paid on his estate and there's not enough cash to pay it."

SUSAN: "Then we'll have to get a loan to pay the taxes."

TOM: "That could be impossible since the business has lost its main asset, Bill. Most banks aren't going to want to loan money to the business, including the bank you are currently working with. Business assets may have to be liquidated, or the business may have to be sold to pay the tax."

JOHN: "How could Dad have let this happen?"

SUSAN: "Please tell me this isn't real!"

TOM: "I'd been trying to get your father to meet with an estate planning team for months."

MARY: "I know you have Tom. Bill just kept putting it off because he was so busy. He always said there was plenty of time."

TOM: "Bill didn't mean to leave things this way, he just didn't plan ahead. It happens."

END OF SCENE.

What's the Problem?

Only 30 percent of family-owned businesses make a successful transition to the second generation, and fewer than 10 percent make it to the third. Many owners don't have an emergency or business "transition" plan for company owners and key employees. Death, heart attacks, strokes, auto accidents, unexpected illnesses, or unanticipated resignations or terminations can instantly throw the company into turmoil.

If there is no such "transition" plan in place, disorganization, loss of business opportunities, loss of customer or market share, and a decrease in employee morale and productivity may likely result. These problems may continue for a long time and may cause the ultimate demise of the company.

Tragedies will come without warning. However, a business "transition" plan can divert disaster and enable the company to survive without suffering damaging consequences.

You may be thinking, "I don't *have* a family business," but this planning concerns anyone who wants their business to survive when they are gone. *However,* the procrastination of actually pursuing proper succession planning is common since combining family and business concerns can be difficult and the reluctance to confront these problems openly is ordinary.

When Family and Business Mix

Dealing with business succession can be more difficult than creating a business plan. Emotions come into play. Since problems in family relationships can impact planning, financial and estate planners underscore the need for open communication and family meetings in succession planning. Business goals, values and objectives should be the controlling factors in business decisions, not kinship.

Children might not want to take over a parent's business. Siblings may disagree over who should run the business. However, in this type of planning, business goals, *values* and *objectives* should be the controlling factors in business decisions. Owners are often reluctant to consider liquidation or sale of the business, even if the children are not interested in taking *over.* But sale or liquidation may be the best choice. Owners who are parents often fail to consider that the children might prefer capital to pursue their own ambitions, rather than the mantle of family business manager.

You Have to Ask Yourself...

When an owner of a business retires or dies, some course of planning action should be taken to ensure financial disaster does not befall the deceased or retiring owner or the owner's family. Simply put, the owner of a family business needs to understand that failing to properly plan for retirement or death affects not only the owner, but the owner's family and any co-owners of the business. When planning, strategies such as generation-skipping and gifting should be considered. Finance, corporate, tax and estate-planning laws are all part of the succession equation.

You should *evaluate* the health of your business, and ask yourself these questions:

» If an owner dies prematurely, will the business have the necessary capital to survive?

» If an owner dies suddenly, will business partners pay the owner's heirs the value of his or her interest in the business?

» Have you adequately planned for payment of any estate taxes on the value of your business when you die?

» If inadequate planning has been made, where or when will a retiring owner receive the income to afford retirement?

» Can the business afford to pay the retiring owner's replacement (person) and still pay the retiring owner?

When Should You Plan?