

9 BUSINESS SUCCESSION-PLANNING MISTAKES TO AVOID

Most business owners expect to pass on some day their pride and joy – mostly likely to their children, but possibly to an employee or an outside buyer. This change in ownership is what will fund the owner’s retirement and carry the owner’s creation down through the generations. Yet many small-business owners make mistakes when it comes to succession planning that can thwart their dream.

Waiting too long to plan. Many business owners leave succession planning until the last moment – if they plan at all. Yet an ideal succession plan requires laying the groundwork over many years – some experts recommend planning your exit strategy from the day you start the business. How you want to exit the business tomorrow strongly influences how you structure and operate the business today.

Assuming your children will take over the business. While many children want to eventually take over the family business, not all do. Perhaps your child really wants to be a schoolteacher or minister or doctor instead of the owner of a small factory. It’s critical to talk to them about what they see for themselves. Encourage them to work in the business, but don’t pressure them. It’s not fair to them, and it will probably be a disaster for the business if you try to shove them into a role they don’t want. You’ll want to know their desires as soon as practical in order to pursue other avenues if necessary, such as selling to a valued employee or outside buyer.

Dividing the business equally among heirs. Equal partnership among heirs is usually a recipe for disaster because of inevitable conflicts, different skills and different visions. Ultimately, one child needs to run the company. That’s why it’s critical to plan well in advance, to see who among your children has the talent and genuine desire to run your business. And if a child doesn’t want to be involved in the business, devise a way to leave the child non-business assets such as insurance, or perhaps nonvoting shares in the business (though this, too, can lead to conflicts).

Waiting too long to give real authority to the heir. Another common mistake is to wait too long to give genuine responsibility *and authority* to a potential heir. Many owners never give it up until the day they retire—only to learn painfully that their child isn't up to the task. Involve them in your decisions and let them make decisions. Let them build the needed relationships with vendors, employees and customers. Let them make mistakes. You made mistakes, too, when you were starting and growing the business.

Not trusting them. This goes along with the failure to give your heir genuine authority. While you don't want to trust the person blindly just because they're family, don't be so suspicious that you're constantly peering over their shoulder. This creates an atmosphere of distrust.

Not letting them work for another business. Sometimes encouraging an heir to work a while for someone else before committing to the family business can be valuable training and can give them a clearer sense of whether they ultimately want to run the family business.

Being secretive about your plans. Business owners frequently play their succession plans close to the chest. Perhaps they're worried about stirring up family conflicts or they just don't like to talk about the family money. This is a disservice to your heirs and potentially a disaster for the business. The sooner you can inform them how you see your succession plan, the sooner they can make their own plans. It also gives you time to modify the plan, if necessary. Keep them informed, perhaps through periodic family meetings.

Not thinking of your retirement years. Retirement can be difficult for small-business owners because often their business is the all-consuming center of their life, even their personal identity. Without a clear sense of what they want to do in retirement, they inevitably drift back to the family business, frequently meddling in how it's currently being run—often to the detriment of the business and family relations.

Planning alone. Business succession planning is complicated (we haven't even discussed tax issues here) and fraught with landmines. Outside experts can be invaluable, particularly someone who can lead family meetings and ease family conflicts through their knowledgeable, objective perspective.

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