



Strategic Insights

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Business Succession or Exit: How to begin documenting a sound written plan for transfer of ownership and management

By Keith Lichtcsien

There is perhaps no document more crucial to the long term survival of a closely held business than a well discerned written succession plan. While many families have included stock distribution clauses in their estate plans, some lack practical planning regarding the two primary facets of succession or exit – ownership and management – and the participation of family members in each.

The decisions are both powerful and painful and, therefore, frequently pushed aside in favor of more pressing and immediate business issues.

First things first: impetus for clarity

A great starting point is to sort through where you stand currently. Take inventory of the financial and human assets in your business both on the management and operations side, and the ownership side. Next consider where you want to be in terms of growing the company within the family or preparing for sale in a manner that maximizes return on investment. Look at what type of management is required to sustain and grow the company. Ensure you have an advisory team that can guide and coordinate the processes and decisions that are unique to your family. The decisions should leverage the management and ownership facets synergistically.

Management succession: who will operate the business?

Start by establishing quality standards for key executives. Apply identical benchmarks whether the executives are family or non-family members. An incompetent family member can inadvertently drive out competent key players.

Ownership succession: how will you distribute ownership of the business?

If you don't have a thorough plan regarding future ownership, begin by informally brainstorming answers to the following questions. Is it important that the business remain family owned? Who can be an owner? Consider such events as death and divorce. Must the owners be involved in the business? How can the family stock be sold?

Voting rights: who will vote the stock, now and in the future?

A board of directors may guide the business decision but if push comes to shove, who can vote the stock? Will the voting shares represent a small or large percentage of the stock? How about the non-voting shares? When the owners of voting shares die or retire, how will control of the shares be passed?

Most established families have excellent advisors. Business succession decisions often wind up in a start-stop pattern. Consider who is quarterbacking this process on your behalf.

If you have questions about this or other planning issues, please give us a call.

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