The long and short of succession planning

For many business owners, putting together a succession plan may seem like an overwhelming task. It might even seem unnecessary for those who are relatively young and have no intention of giving up ownership anytime soon.

But if the past year or so have taught us anything, it's that anything can happen. Owners who've built up considerable "sweat equity" in their companies shouldn't risk liquidation or seeing the business end up in someone else's hands only because there's no succession plan in place.

Variations on a theme

To help you get your arms around the concept of succession planning, you can look at it from three different perspectives:

1. The long view. If you have many years to work with, use this gift of time to identify one or more talented individuals who share your values and have the aptitude to successfully run the company. This is especially important for keeping a family-owned business in the family.

As soon as you've identified a successor, and he or she is ready, you can begin mentoring the incoming leader to competently run the company and preserve your legacy. Meanwhile, you can carefully identify how to best fund your retirement and structure your estate plan.

2. An imminent horizon. Many business owners wake up one day and realize that they're almost ready to retire, or move on to another professional endeavor, but they've spent little or no time putting together a succession plan. In such a case, you may still be able to choose and train a successor. However, you'll likely also want to explore alternatives such as selling the company to a competitor or other buyer. Sometimes even liquidation is the optimal move financially.

In any case, the objective here is less about maintaining the strategic direction of the company and more about ensuring you receive an equitable payout for your ownership share. If you're a co-owner, a buy-sell agreement is highly advisable. It's also critical to set a firm departure date and work with a qualified team of advisors.

3. A sudden emergency. The COVID-19 pandemic has brought renewed attention to *emergency* succession planning. True to its name, this approach emphasizes enabling the business to maintain operations immediately after an unforeseen event causes the owner's death or disability.

If your company doesn't yet have an emergency succession plan, you should probably create one before you move on to a longer-term plan. Name someone who can take on a credible leadership role if you become seriously ill or injured. Formulate a plan for communicating and delegating duties during a crisis. Make sure everyone knows about the emergency succession plan and how it will affect day-to-day operations, if executed.

Create the future

As with any important task, the more time you give yourself to create a succession plan, the fewer mistakes or oversights you're likely to make. Our firm can help you create or refine a plan that suits your financial needs, personal wishes and vision for the future of your company.