

Business Succession Planning Issues Checklist

When planning the succession of a business, whether family-owned or not, there are many issues to consider that are similar to the physical, financial, and emotional investment to establish and grow the business.

Why Is Business Succession Planning Important?

1. 95% of American businesses are family-owned.
 - a. Family-owned American businesses generate 40% of the Gross National Product.
 - b. 35% of the 500 largest companies in the U.S. are family-owned.
 - c. Only 28% of family-owned businesses have a succession plan.
2. Only 57% of owners of family-controlled businesses intend to transfer the business to family members.
3. Only 30% of family businesses survive into the second generation.
4. More than 50% of the business owners have more than half of their wealth tied up in their business.
5. One-third of family business owners are 61 or older.
6. 71% of business owners over age 65 indicated that they would continue working indefinitely.
7. 33% of all 35 year olds will be disabled for 90 days or more before reaching age 65.

Business Succession Checklist

1. Have you defined your personal goals and vision for the transfer of ownership and management?
2. Is your successor identified, ready, and in place?
3. What is the importance of family involvement in leadership and ownership of the company?
4. Are you currently using techniques to mitigate or eliminate estate taxes?
5. Do you have enough liquidity to avoid the forced sale of your business?
6. Do you have a buy/sell agreement in place?
7. Have you had your business valued recently?
8. Do you have a contingency plan should you become disabled?
9. Have you considered alternative corporate structures or stock transfer techniques to help you achieve your succession goals?
10. Are you dependent upon your business to meet your retirement cash flow needs?

Family Business Issues

Some issues to consider when developing the family business succession plan:

1. Conflict between the departing owner (or his/her heirs) and the remaining owners over management of the company, control and/or money.
2. Friction between new management and heirs looking to participate in the business:
3. What incentives will work to keep key people?
4. Will heirs be forced to liquidate or sell to outsiders?
5. How will you retain income from the business or are there sufficient assets producing enough income to allow the business income to be used in funding the transfer?
6. If the business is gifted only to children active in the business, will there be an unequal estate distribution between those children and those who are not active in the business?
7. Will installment payment impose too much of a burden on the company, especially when expressed in terms of the sales required to generate the after-taxed profits necessary for the principal?
8. Will the surviving spouse's financial security be held hostage to the children's ability to continue the payments after the principal's death?
9. If the business owner dies prematurely, is the stock retained by the surviving spouse?
10. What will the source of income be for the surviving spouse?
11. Will conflicts arise between the children and the senior generation?