Businesses Encouraged to ‘Focus on the Details’ During Succession Planning

By Frank L. Brunetti on September 28th, 2012 Posted in Business, Succession Planning

Building an effective succession plan may appear simple initially for business owners. Many companies, especially those that are family-owned, may choose to name a new leader and begin integrating that individual into business operations to familiarize them with the inner workings of a company.

While this strategy may be a smart move, many business owners fail to focus on the small details of succession planning that can cause significant headaches for beneficiaries and heirs, according to Investment News. For example, the article notes that many owners may be too preoccupied with cultivating a new leader that they fail to consider other personnel. The ascendency of a new leader may open up additional positions for long-time veterans that should be addressed.

It can also be helpful for businesses to address issues of compensation, stock ownership and distributions, and other forms of monetary gain. Many of these topics – such as those relating to distributions and compensation – carry tax law implications that should be evaluated during the planning phase. Further, revising these figures as a company’s valuation shifts or the business undergoes significant changes relating to growth and profitability is also crucial. Relying on older valuations can trigger a string of financial and tax issues when a new owner takes over.

Lastly, difficult economic times can exacerbate the transition period for businesses and leave new or inexperienced owners with few funding resources. This can be particularly difficult with small businesses, in which the head of the family and company has long-standing relationships with a bank that a new owner has not yet cultivated. Discussing different financing resources or instructing successors on strategies for overcoming liquidity issues can help companies better navigate these types of issues in the future.