

## **BUSINESS SUCCESSION PLANING**

Many business proprietors work very hard at building a successful company over a number of years. Unfortunately most do not equip the company to successfully operate in their absence or retirement. Succession planning is not a strategy that can be put in place at the last minute.

It is estimated that eighty percent of small businesses have no succession plan. Business succession planning should be a priority for every family business. Sooner or later, everyone would retire temporary or permanently. The question of what happens to the business becomes paramount. Who is going to manage the business thereafter? How will ownership be transferred? Will your business survive in the long term?

### **The Criteria for a Successful Succession Plan**

Identify a member who is qualified and available to take over the business. Groom and prepare him for the management of the business. Ensure that he or she is fair minded and appreciates the interest of all stakeholders. Review the option of retaining the ownership of the company whilst entrusting the management to a third party. Evaluate the option of selling the company outright to avoid family feud.

Business succession planning seeks to manage the above issues, setting up a smooth transition between business founder and the future owners of the business. With family businesses, succession planning can be especially complicated because of the relationships and emotions involved. It is more so because most people are not that comfortable discussing topics such as aging, death, and their financial affairs.

It is believed that more than 70 percent of family-owned businesses do not survive the transition from founder to second generation. The bane of this poor performance is family discord and poor management or leadership.

### **Management**

It's important to realize that management and ownership are not necessarily one and the same. You may decide, for instance, to transfer management of your business to just one of your children but transfer equal shares of business ownership to all the children, whether they're actively involved in operating the business or not. For many family businesses, family is the primary emphasis of succession planning.

### **Modalities for Successful Business Succession Plan**

1) Start business succession planning early.

Three years in advance is good but five years in advance is even better. Many business advisors tell budding entrepreneurs to build an exit strategy right into their business plan. The longer the time you spend on family business succession planning, the smoother the transition process is likely to be.

2) Involve your family in business succession planning discussions.

Making your own succession plan and then announcing it is the surest way to sow family discord. Opening a dialogue among family members is the best way to begin the process of a successful succession plan. Pay close attention to the personal disposition, feelings, ambitions and goals of everyone concerned.

3) Look at your family realistically and plan accordingly.

You may want your first-born son to run the business but does he have the business skills or even the interest to do it? Perhaps there's another family member who is more capable. It may even be that there are no family members capable of or interested in continuing the business. The best option may be selling it. Examine the strengths of all possible successors as objectively as possible in the interest of the business.

4) Get over the idea that everyone must have an equal share.

While this is a nice idea in theory, it may not be in the best interest of your business. Remember that management and ownership are separate business succession planning issues. It may be fairer for the successor(s) you have chosen to run the business to have a larger share of business ownership than family members not active in the business. Or it may be best to transfer both management and ownership to your chosen successor and make other financial arrangements to benefit your other children.

5) Train your successor(s) and work with them.

How can you expect your successor to take over and run your business successfully if you haven't spent any time training him or her? Your family business succession plan will have a much better chance of success if you work with your successor(s) for a couple of year or more before you hand over the reins. For solo entrepreneurs, sharing decision making and teaching business skills to someone else can be difficult, but it's definitely an effort that will pay big dividends for the business.

If you want to pass your family business along to the next generation, putting off business succession planning is the worst thing you can do. A good succession plan can ensure that you have the funds you need to retire and that the business you have built continues to thrive in the hands of the next generation. Succession planning is critical to the long term survival and sustainability of small businesses.

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