BUSINESS SUCCESSION PLANNING
(The ultimate in sustaining wealth)

Business succession planning is the process of preparing to hand over control of the business to others in a way that is the least disruptive to the business's operations and value. Lack of succession planning is a silent killer of most small and medium enterprises.

A succession plan is an organized process that goes into effect should a business owner become disabled, retire or die unexpectedly. It is intended to allow a business to continue operations into the future. Start-ups generally don't need a succession plan, but business owners should consider making one as their enterprise starts to accrue value.

Setting up the plan

Business owners should think about what they want to happen to their business should something happen to them. This should include who they would want to take over from them ie their spouse, child or non-family member. If the heir to the business is not a family member, it's often good practice to set up a mechanism to buy out the rest of the family members if that person is not comfortable running the business with the rest of the family.

It is important to set up an agreement among the partners so that they're all on the same page. Most owners typically do want their family members involved in their business and some family-owned businesses see succession planning as a good way to transfer wealth. They initially involve their children in the running of their business as a process of grooming them to take over. Some business owners employ their children during school vacations to expose them to the business.

It is recommended that a succession plan be updated every two to three years or whenever there's a big change in the business or the personal life of owner. Other catalysts for change are economic or legal or show of disinterest from children.

Food for thought

It is estimated that 90 percent of businesses in Ghana are family owned. When family businesses fail to plan for their successors, they destroy the wealth created by their forebears by dint of hard work and sweat with alarming speed. Families that simply gift their businesses to their children typically destroy their businesses and their families usually in that order. Founders of family businesses who sell their holding to family members are typically poised for success. When an offspring borrows money to invest in a family business they are assessing their own ability to make money and grow the business. Markets devour family businesses blinded by love. Gifting businesses out of love or failure to plan could lead to a tragic end.

Any transition must preserve the continuity of leadership. It is important to ensure that the succession of ownership and management is perceived as a process rather than an event. It is estimated that about 30 percent of family businesses survive into the second generation and less than 15 percent of them endure into the third. This is sad for the families and the nation's economic health, since much of our economy is made up of small, family-owned businesses. If the business of succession is not done by a process of planning, it will be done by crisis as a result of failure to plan with perhaps disastrous results.

Way forward/other exit strategy

Apart from succession planning, there are other exit strategies to ensure business continuity and perpetuity. The entrepreneur can sell the business to its employees through employee or executive buy in. The business can also be offered to competitors or other third party through acquisition (white knight) or to the business partners via a buy/sell agreement and finally to the public by way of stock offering.

A typical succession plan has two elements, which should be considered separately. There is the transfer of power, whereby control over the business operation is transferred to those best suited to exercising it. Then there is the transfer of assets, whereby the wealth concentrated in the business is transferred to designated family members, who may be a different or larger group than the person or persons who will be assuming power.

Managing the transfer of power while balancing the internal and external environmental influences of the business is a juggling act. If the founder is somehow unwilling to give up control and/or the successor is not well prepared to accept it, the future of the business could be in jeopardy.

Fortunately in this enlightened day and age, most family business people are professionals who manage their companies to compete effectively in the global marketplace. They consciously try to do away with petty jealousies, family squabbles and power struggles.

The major issues confronting a family business owner seeking to transfer power to successors are: selecting a successor, intergenerational conflict, different agendas, first generation goals, second generation goals, training and the timing of the transition.

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