

# Creating a Succession Plan for Your Business

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From left to right, Kieran Culkin, Jeremy Strong, Sarah Snook and Brian Cox in HBO's "Succession." | Credit: Photograph by Graeme Hunter/HBO

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Succession planning for business owners isn't just for the ultrarich and powerful like the Roy family battling it out on HBO's "Succession." Having a plan in place for who'll take over when the founder exits is essential for all entrepreneurs.

Yet, 30% of business owners don't have a formal business succession plan, according to the Northern Trust Institute's [Business Owner Benchmark Survey](https://www.northerntrust.com/united-states/institute/business-owner-benchmark) (<https://www.northerntrust.com/united-states/institute/business-owner-benchmark>). Worse, of those owners who do have succession plans, 50% have major concerns about their successor's ability to maintain the success of the business.

## Ask an Expert

With this in mind, Next Avenue spoke with Eric Becker, 60, co-founder and co-chairman (with Avy Stein) of [Cresset Capital Management](https://cressetcapital.com/) (<https://cressetcapital.com/>), a Chicago-based firm specializing in advising entrepreneurs, CEO founders and their families.

Following are highlights of the conversation, with Becker's advice on how and why you should create a succession plan for your business:

**Next Avenue: Why do so many business owners lack succession plans? And why are the ones who**

**do so worried about them?**

**Eric Becker:** There are multiple reasons, and I would say, in my experience, that 30% number might even be understated. In some ways, it's a little bit like other areas of life that require planning. People don't always want to go there.

For example, having a will and doing personal estate planning — a lot of times, people kick that can down the road. That's because we don't want to confront these realities.

Another reason: Small businesses are, many times, resource constrained. But there are resources available to help people get this kind of work done. And it's very, very important.

**I wonder if some of it is also about ego — that the business owner may say, 'Nobody can run this business the way I do, so what's the point of trying to have a succession plan? They're just going to screw it up.'**

It's true. I have a friend who calls that 'The Magic Man Syndrome,' which means that 'I'm The Magic Man or Magic Woman and this business wouldn't exist without me.'

That's a mistake.

When you're building a business, build a business worth buying. Think about it through the buyer's eyes and see what they see. How would a buyer look at your business? If you think of yourself as that Magic Person, the buyer's going to say: 'What happens if something happens to Joe or Jill? What am I going to do?'

When you look at your business through the buyer's eyes, you can come up with the right things that need to be done, identify the vulnerabilities or gaps and then fill them, so you end up with a business worth buying. And that is the most powerful succession plan of all.



## **What are the chief benefits of succession planning?**

The first is peace of mind.

The second is financial advantages. By doing the right succession planning, I think you will build a more resilient, agile and valuable business.

A third would be the financial benefits around tax savings, which can be very significant.

The last thing I would say: Like many things in the world and in our life, it's just the right thing to do.

Why should your employees be in a less-stable business because you haven't done the right planning? Why should your family have the terrible anxiety if, God forbid, something happened?

## **When should an entrepreneur start thinking about succession planning and why?**

As early as possible. You almost couldn't start too early. You want to start this planning early to help you build a better business and help you sleep better at night.

Doing this planning can help the business survive a founder's illness or an accident or a change in interest. If you wake up one day and don't love the business the way you once did, why should customers or employees or the community suffer because you didn't do the proper planning?

**It sounds like part of succession planning is about creating a legacy so your business will live on when you're not running it, maybe even when you're not there anymore. Right?**

Absolutely. I think having a [legacy](https://www.nextavenue.org/how-to-leave-a-legacy-where-you-work/) (https://www.nextavenue.org/how-to-leave-a-legacy-where-you-work/) is a beautiful thing.

## **Planned vs. Unplanned Succession**

**You say that succession planning is also about estate planning and taxes. Can you connect the dots?**

Sure. So, there is planned succession and unplanned

succession.

Unplanned succession would be you wake up one day and want to do something completely different or you have an accident, or something happens and you're out for a prolonged period of time or permanently.

And then you have planned succession which is saying: By this date, I intend to sell this business or retire, or sell it to the employees, or whatever.

When you exit the business, if you've done proper succession planning, you not only can reduce the tax burden on the sale itself, but for a family business, you can make significant differences in the cost of transferring those interests to the next generation.

So it's about planning where your wealth will go and the philanthropic goals you may want to accomplish.

## **Who Needs to Plan**

**When you talk about estate planning and tax planning, are you only talking about family businesses handed down to a child or about *all* businesses?**

All businesses that involve a sale with shareholders, because those are issues that come up over and over and over again whether you are the CEO of a large company and have stock options and have accumulated ownership over time or whether you've built a small private business.

**You believe owners also need to think about their identification with their businesses. What do you mean?**

How the sale will affect you in terms of who you are. Because many people identify themselves with the business. 'I *am* the business.'

Also, I know people who sold their business and then their kids came to them later, upset, and said: 'Why did you never discuss that with me? I was interested in that business; I would've loved to have joined you.' And they never thought to even ask.

**For an owner who hasn't done any succession planning, what's the first thing they should do?**

The very first thing to do is this emotional and personal planning. To think through what are your personal goals with this business, how does it tie into any family considerations and how does it tie into your own self in terms of what you want to do with your life?

Then, after you've had that talk with yourself, the next step is to start looking at who can help you with this planning process. A financial planner would be a great person to talk to. An estate tax attorney would be an excellent person to talk to. And then, potentially a business consultant who may help you identify gaps or vulnerabilities on the journey to building a business worth buying.

## Mistakes to Avoid

### What are some succession-planning mistakes you've seen?

The mistakes can go all the way back to the formation of the business itself. Not working with professionals to set up the ownership structures in the most ideal way, from an asset-protection and estate-tax efficiency perspective right at the beginning. Not seeking the advice of a tax accountant around small business tax incentives you can qualify for when your business is small and early.

The second mistake is not building a team of people where the leadership of the business is covered in the event that something happens to the founder.

I can give you an example of a nonprofit business organization whose owner became ill and had not put the right team together before that. The business became unstable in his illness. His friends who were part of this organization took over his business for a couple of months and sort of held it together until he could get back on his feet.

That's a terrible feeling, to be in the hospital and think that the business might fall apart without you.

As you get later in the evolution of a business, the succession mistake is someone comes along and wants to buy your business and puts an offer in and you don't have the right expertise and advice around how to handle that.

We've seen people sadly sell their businesses sometimes for not the full value because they did not have the right expert help and didn't run a [succession] process. That's a mistake that can, in some cases, cost people literally millions of dollars.

## Handing Down Family Businesses

### Can you talk a little bit about succession planning and family businesses? What should owners be thinking about regarding passing on their businesses to their children?

You need to understand your kids if you're thinking about that. Being the child of a successful entrepreneurial parent myself, I can tell you that many times these are big shoes to fill. You may not even understand the pressures that the [next generation](https://www.nextavenue.org/daughters-are-taking-over-family-businesses/) (https://www.nextavenue.org/daughters-are-taking-over-family-businesses/) may feel.

So, talking to your kids about it and understanding their interests and being open, I think is very important. What you may end up finding is that you have children who are not interested [in running the business]. Then you have children who are interested but aren't capable. Then you have kids who are interested and capable.

I think probably the one that's most challenging would be the child who has no interest in the business, especially if the parent had been thinking that this was their successor.

Of course, you don't want to pressure the next generation to get into something that they don't want to do; that's burdening someone with a big weight on their shoulders. It's a big mistake.

The other big mistake is to take a child who doesn't have the training, experience or capability to do this. Putting them in a position like that is also a very stressful.

## How to Groom a Successor

For the child who is interested and does have the capability, it's about cultivating that, with mentorship,

education and training.

And having them work in different parts of the business. I think giving them those opportunities so the next generation can try their hand and understand the business is good for them. And it's also good for the founder or the parent, the entrepreneur.

### **How should an owner help a child who's interested but not quite ready to take over?**

My favorite way of doing it is — when they're really young, have them do summer jobs or after-school jobs at the business. Give them an opportunity to know the people who work there and understand some of the basics.

There's also nothing better than gaining experience in another organization. Whether they work at another company in the same industry or any well-run business, gaining experience elsewhere builds confidence. Then, other people at your business won't think: 'Well, of course this person is here because they're the child of the founder' and discount their capabilities. If you've come from another organization, you've had a chance to prove yourself there.

When they *do* join the business, having an intentional plan where they work in different elements — sales, operations, finance — and then a stepped-up plan to take on more responsibility.

## **Avoid Divided Leadership**

**Do you ever recommend that the owner spend some time — a year, five years, six months, whatever — with the person who's going to take over, running it together before the owner walks away? Or is it better to just have it where one day you're the owner and the next day somebody else takes over?**

There are two schools of thought about that. Somebody who is mentored and trained and grows into the role is fantastic and that makes a lot of sense.

Where you do have a challenge is if there's any perception of co-leadership. Then, it's confusing in the organization who you [the employee] go to. It's a flawed

concept rarely done well. Not impossible, but rarely done well.

That's where this 'clean break' concept can come into play. If you have done your work well — either in picking someone great who came from the outside and getting them ready or growing someone from within the organization — you can really separate when you turn it over to them, so people won't undermine their chances of success by continuing to come to the founder.

## **Taking His Own Advice**

### **What went into your succession planning at Cresset?**

Cresset is young; it's five years old. But we did, even in the earliest days, all the things that you and I have talked about in terms of tax accounting and legal planning.

Our vision for the business was to build a hundred-year platform, something that we felt had every chance of being here a hundred years from now. So, in the succession plan, that included bringing on unbelievable talent onto our leadership team.

We've built a team where if anything happened to Avy or me, we feel our clients and our team members are in great hands with a resilient leadership team and a deep bench.

**Do you have a written succession plan that says, if *this* happens... or in 2032, Avy and I are going to leave and here's who's going to take over? Or is it open-ended?**

It's written around unplanned succession because the platform is young and because we are loving it and energetic and we don't have an immediate plan relative to our own retirement. We're just completing our first five years.

A written succession plan is something that we will do in the next five years, certainly well before I'm 65.