The Entrepreneurial Spirit

By

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The members of successful family businesses have in common an entrepreneurial spirit. It is evident in their passion for their business and the cohesive effect that it has on their relationships and continuing vision.

The Webster dictionary defines entrepreneur as "one who organizes, manages and assumes the risks of a business or enterprise". An important part of effectively managing a privately owned business is a carefully crafted succession plan that is fully funded. A succession plan is a documented process that plots the necessary steps for the next generation to take over control of the business. It prepares not only the individuals of both generations but the organization. The funding piece of the plan ensures that the necessary finances are available to implement the plan. Such a plan ensures that family members will feel secure plus it respects the independence and the right to choose of each family member.

Who takes over control of the business after the retirement, disability or death of the present owner is often an issue that is avoided by family members. The son is secretly afraid that his father is never going to retire. Will Dad always want to have a say in the business? The daughter who has faithfully worked in the business since graduating from college is uncertain of what her role will be when her father eventually retires. She has never voiced her expectation that she will be her father's heir. Their cousin who owns a share in the business is anxious to take a more active role. A key employee, who is the backbone of the company, is near to resigning unless he is given part ownership or other incentives.

Successful succession planning is a process - not an event - that respects the wishes of each family member while at the same time ensuring the ongoing success and therefore the long-term security of the business, the family and their employees. Often the family benefits from working with a financial professional to facilitate the process allowing individuals to express their needs and desires for the company and the future.

There are various elements involved in a succession plan but it begins with the owner(s) having a clear strategic plan for the future of the business. In a business that is closely held by the owner, it is even more important that he or she designates who is their successor and begins the grooming process. The founder also needs to think about what his future financial needs will be. A wise aim is to create financial security outside of the business through various types of investment vehicles. That is only part of a retirement plan. It often requires considerable emotional adjustment for the entrepreneur, who thinks he will work forever, to plan for his retirement. It is crucial for the owner to consider what portion of his retirement income will originate from the company and when will it begin. Will this money come from the sale of the company or a lump sum upon retirement or installments for a defined period?

There are a number of vital issues to be addressed by the business owner(s). Procrastinating due to being too busy is a poor excuse. Best management practice involves implementing strategies to reduce the risks to the business. A potential danger often overlooked by busy owners is the risk caused by ill health or accident to themselves or key employees. Personal disability insurance coverage and business overhead expense coverage ensure peace of mind plus the premiums may be tax deductible as a business expense. A business overhead expense policy covers expenses such as rent or mortgage, utilities, employee salaries, pension contributions, office supplies, accounting billing and collection fees and even taxes.

A good slogan for succession planning is "Get it all down on paper". Start with a clear vision for the future, have a Certified Valuation Analyst appraise the value of the business, incorporate a formula valuation and make sure the appropriate insurance policies are in place. There are a number of options for handing over control of your business but if you opt for a buy-sell agreement it is important the business be periodically valued. A pre-determined valuation formula, usually a multiple of earnings, ensures that the amount of the buy-sell agreement keeps pace with the growth in value of the business. Honest, open communication between generations and key managers is essential in designing a succession plan, ensuring a seamless hand-over and moving the business forward to the next stage of its development.

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