

PASSING ON THE FAMILY BUSINESS
to the next generation or to key employees

by

Jerry Hesch
Steve Breitstone

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Key Principles

- Goals and Objectives of Succession Planning
- Choice of Entity
- Case Studies
- Liquidity Challenges and Solutions

Psychology and Pitfalls in Succession Planning

- Is there a proper age to give a child ownership of a family business interest?
 - Should all children be treated equally?
 - › Ownership
 - › Control
 - What are the goals of the family?
 - Financial security for all?
 - Continuation of a family business legacy?
 - Values?
 - Motivation:
 - Are there other assets to balance?
 - What other opportunities/sources of income are available – e.g., spouses?
 - What ownership structures will preserve the culture of the business and motivations of nonfamily members?
- This is just a start. But these psychological issues and more must be dealt with in order to create a successful, effective succession plan.

3

Need to Separate Ownership from Control

- How can you separate ownership from control?
 - › Should all children be treated equally?
 - › To what extent should passive family members be included in:
 - » Ownership?
 - » Control?
 - » Opportunity?

4

Need to Separate Ownership from Control (cont.)

- Expectations must be managed from the earliest age.
- Avoid and manage cognitive dissonance?
 - Are family members raised to believe they are entitled?
 - Key employees' need to be encouraged and incentivized
 - Is a role in the family business in the best interests of the child? The business? Key employees?
 - Is the child being discouraged from pursuing better opportunities? Can you know?

5

Separation of Ownership from Control

- Emotional issues aside, is it reasonable to expect that the business legacy will continue based upon the changing business landscape?
 - › What happened to Blockbuster video?
 - › Is the business Amazon proof?
 - › Are the family members educated and prepared?
 - › Is there a perception that a nonfamily member who is a key employee will not have the same career path as a family member who is less qualified?

6

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"Succession Planning for Owners of the Successful Pass-Through Entity"