

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

by

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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.

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## 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?

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## 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?

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## 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?

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