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Family Private Enterprise Model for Business Succession Planning

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Establishing a clear path of succession is the best way to ensure your business' sustainability after you transition away from the day to day involvement in the company.

Successful family businesses are built on strong relationships. If a company is to remain vibrant, careful consideration must be given to the selection of the next president. Hiring a family member to lead the company may seem like the obvious or only choice, but if a family member isn't interested or ready to take over, what options do you have? Selling the company may seem like the only option.

What is often left unconsidered is the hiring of a non–family member president to guide the organization into the future. Hiring a non–family member president to run the company has benefits and challenges. As a result, much consideration should be given before settling on a path forward.

*Learn more about the **Family Private Enterprise (or Equity) Model here**.*

Benefits

Hiring a non–family member president to run the company brings fresh and unbiased perspectives. A non–family member president can bring a wealth of knowledge, including experience in regional, national and international markets, diverse operational models, management styles, and business strategies. They can provide expertise in areas otherwise lacking in the company.

A non–family member president can also help the company expand into new markets and make strategic decisions that contribute to the long?term success of the company. Non–family member presidents often come with a greater passion for the company and its growth, as existing owners may have become complacent or too comfortable with the company's current position.

The pool of qualified, non–family member candidates for recruitment is much larger. If family members are interested in leading the company but lack the experience or qualifications required to become president, a non–family member president could provide a succession bridge with the immediate skill set to move the company forward. A non–family member president can establish a clear path for the company's growth and continuity by providing training and mentorship to family members who may eventually take over the company. By hiring a non–family member president, opportunities for succession planning that were not possible with considering only family members can ensure the company is adequately prepared now and into the future.

Further, a non–family member president is often better equipped to handle disputes and disagreements that can arise between family members. We have seen non–family member presidents help ensure family relationships are maintained and conflicts are handled in a constructive and professional manner. A non–family member president helps take the emotion out of the decision making.

Finally, implementing the Family Private Enterprise Model removes the risk of "seller's remorse." A business owner can always sell the business down the road if that option becomes more viable or there are other

circumstances, but they cannot buy back what they already sold. This model helps create new opportunities for growth and success.

Further, if selling the company becomes the preferred option, businesses with management teams in place who can continue after the sale typically command a significantly higher sale price.

Challenges

Bringing in an outsider to serve as president could bring a clash of beliefs or a lack of loyalty toward the family. Also, hiring a highly qualified non–family member president requires a significant investment in the form of a higher compensation package for the non–family president.

High performing eligible non–family member president candidates command significant compensation packages with a generous base salary, 30-40% short term incentive tied to financial performance of the company, and a 10-20% equity arrangement in the form of Stock Appreciation Rights, Phantom Stock or true equity. These numbers often concern the company owners; however, in our experience the companies that have made this decision have seen significant improvements to top line and bottom line financial performance. These presidents paid for themselves by generating significant financial improvements.

Developing an Independent Board of Directors

The next consideration concerns the development of an independent board of directors. A board is responsible for setting the direction and overall strategy of the company, monitoring performance, ensuring compliance with legal and ethical standards, and holding key managers accountable. Independent board members serving on the board of directors provide an extra layer of protection for both family and non–family investors. They also help broaden the base, scope, and depth of the management team.

Independent board members composed of professionals with expertise in different areas can provide the company with different perspectives not available from family board members. Family investors in the business and, potentially non–family investors, will likely be more willing to be “patient” when the board of directors is augmented by independent board members.

The development of independent Board members with a non–family member President also provides a steady hand in the management of the company through any untimely health challenges or unexpected absences.

Furthermore, an independent board of directors can help to create a strong corporate culture where all constituents can benefit from shared values and objectives focused on the long?term success and growth of the company.

The formation of an independent board does come with challenges. Independence of the board may be hard to maintain due to family loyalties, the pressure of family members to serve on the board, and the cost of setting up and maintaining an independent board.

MORE: *View webinar on the Family Private Enterprise Model Webinar with Bernstein from May 2025 (use link and enter passcode: 54962949).*

Conclusion

The **Family Private Enterprise Model —** the selection of a president and the establishment of an independent board of directors — is a major considerations for family-owned businesses during succession planning. Owners should carefully consider the benefits and challenges before making decisions in order to ensure the success of the company.

Investing in the future of the company may seem costly in the short run, but the return on investing in the future and the rewards of a properly managed succession plan are invaluable.

Knox Law is available to counsel business owners as part of their team of advisors, tax & financial professionals, and consultants, and we have significant experience in this area of planning.

Contact your Knox Law attorney today or call us at 814-459-2800.



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