CREDIT SUISSE

A practical guide to corporate succession

Table of contents

Don’t leave anything to chance

Succession management is always an emotive matter. After all, the future of your life’s work or even a family tradition built up over several generations is at stake. All entrepreneurs shape their companies in their own way. Every family has its own structures and ties. In many cases, entrepreneurs not only want the company and its often long-standing workforce to be preserved after the handover, but also their personal values to be upheld. An entrepreneur with strong local roots, for example, may be committed to keeping production at the same location and preserving jobs. In addition, entrepreneurs’ expectations of their financial situation in retirement may vary widely.

The aim of effective succession management is to meet all of these expectations as far as possible and to reconcile the conflicting goals that may arise, so that later surprises are avoided. For example, the tax burden can be optimized with an early review of the company structure, so that the visions and plans of the outgoing owner are not ruined by unexpected financial losses after the handover.

As the Bank for Entrepreneurs, we are proud to draw on many years of experience successfully handling countless succession cases. We have proven client advisors and a tried-and-tested, structured process – together with entrepreneurs and their families we work out step-by-step the best solution for you and your company. We can help you find the ideal solution, making use of our long experience in this process and our extensive network of internal and external specialists. We concern ourselves not only with hard factors, but also with the soft factors that are often critical for success.

Effective succession requires entrepreneurs to embark on a long-term, sometimes non-linear, process early on, and to consider a wide range of scenarios in detail. Some aspects have to be put in place long before the actual handover. Don’t leave anything to chance – we’ll be glad to help!

We wish you an enjoyable and thought-provoking read.

Andreas Gerber
Head of Corporate Banking

Securing your life's work: A structured approach

Succession management is generally a process that extends over a number of years. For this reason, it should be approached as a structured process with defined phases and milestones – just like any other long-term, strategic company project.

The five phases of the succession process are:

Phase	**1. Initialization**	**2. Analysis of current situation**
Content	Entrepreneur's initial consideration of succession Succession process is initiated	Assessment of current situation (business and personal) List entrepreneur's ideas/goals
Services	▪ Trigger the thought process ▪ Explain the phases of the succession process ▪ Assemble a project team	▪ Assess the company's current situation ▪ Assess and secure the entrepreneur's personal situation (marital law, inheritance law, advance directive)

Over our many years of experience, we have developed a structured succession process with five phases. It establishes the clear framework that is needed while providing maximum flexibility, thereby helping to identify the best solution for the company's situation.

Through every phase of the succession process, the experienced corporate client advisors at Credit Suisse will accompany you as partners and coaches while themselves consulting external specialists (accountants, lawyers, etc.) as the situation requires.

The completion of each of the five phases – initialization, analysis of your current situation, evaluation, preparation, and handover and conclusion – is marked by defined goals to be achieved at that step in the process. The various stakeholders are involved in each phase in different ways. The length and intensity of the phases can also vary greatly depending on the individual background and the desired objectives. In addition, circumstances may necessitate a repeat of certain phases; for instance, if an additional option emerges during the preparation phase that was not considered during the initial evaluation.

The general rule is that thorough succession planning takes time. Companies should not have to forgo possible courses of action due to tight deadlines, and they should be sure not to lose critical expertise because the succession process was not initiated at the right time. You should expect the entire process to take roughly five years.

3. Evaluation

Evaluate and prioritize various options both within the family and externally.

- Point out advantages and disadvantages of possible succession options.
- Point out requirements for implementing each option.
- Contribute experience from other solutions related to succession.
- Search for potential buyers.

4. Preparation

Prepare the company, departing entrepreneur, and incoming entrepreneur for the handover.

- Structure private wealth and company's assets.
- Execute financial plan based on marital property law, inheritance law, and private financial planning.
- Support successor in drawing up a business plan and liquidity planning.

5. Handover and conclusion

Successor assumes management and ownership, both formally and symbolically.

- Conduct asset transactions.
- Obtain succession financing.
- Manage disposable portions of assets (asset allocation).
- Provide company with ongoing assistance after handover.

1. Initialization: Taking the initiative

The issue of succession is often on the minds of employees, family members, and other stakeholders before the entrepreneur has even begun thinking about it. That is understandable, because a change in company ownership and management means important changes for everyone. For this reason, entrepreneurs should initiate the succession process as soon as possible. This allows them to provide all stakeholders with the security they need while preventing unnecessary friction caused by differing opinions about the company's future path.

Experience shows that this first step is often the toughest for many entrepreneurs. For most, the company represents their life's work. Moreover, succession planning should really be addressed at a time when the entrepreneur's plans for his or her personal life do not yet include leaving the company. For this reason, it is sometimes easier if others in the company or the entrepreneur's family address the issue and initiate the process.

With each passing year, you should see your company as an investment to be protected with the best possible framework conditions. It is therefore crucial for you to deal with the issue of succession as early as possible.

2. Background: Analyze your current situation

During the analysis phase, succession must be addressed within the company and within the family, and a general outline of the entire process should be drawn up. All stakeholders must be included. The financial, organizational, and personal objectives and requirements must also be identified. For that reason, this chapter will take a more detailed look at each stakeholder group: the entrepreneur, family, management, employees, and external specialists.

Succession affects everyone
The succession process affects all persons and parties who are directly or indirectly involved with the company. The highly diverse group of stakeholders means that conflicting objectives are almost unavoidable. To prevent the friction caused by disagreements, each stakeholder group, its requirements, and its specific roles should be defined during the analysis phase:

- Which stakeholders should be involved, and how?
- What are the influential powers of the stakeholders, and what are the groups' objectives?
- Does anything need to be formalized in order to minimize conflicts among stakeholders during the succession process?

However, experience also shows that the various stakeholder groups should not be involved in the process too soon, because the outgoing entrepreneur first needs to decide what he or she exactly wants or does not want.

The key stakeholders

Key questions when analyzing your current situation

- What strategic, cultural, and organizational conditions must be met for the company to continue? Which conditions are mandatory, and which are optional?
- What role do the financial conditions and goals play (both the company's and the entrepreneur's)?
- Which stakeholders (entrepreneur, partner, children, children's spouses, board of directors, management, employees, business partners) need to be involved in the planning? At what stage? What role do they play?
- What decisions must be made and which steps should be completed, and by when?
- Which issues will require external support? Who can serve as a consultant?
- What job specifications will the future owner have to meet?
- How will I spend my time once I give up my role in the company?
- Devise an emergency plan: What if the entrepreneur has to step down sooner than expected? Have provisions been made to represent the entrepreneur as a shareholder and reassign his or her duties in the company?

The entrepreneur's role

The entrepreneur is the central figure who defines the direction and pace of the succession process. Generally, his or her primary goal is the survival of the company and the protection of its jobs. The entrepreneur has often spent decades building the company with the employees, experienced the highs and lows, established a leading reputation as an employer in the region, and formed trusting relationships with suppliers and customers. Thus, many entrepreneurs are justifiably committed to ensuring that this carefully cultivated social network remains intact.

However, an individual's desire to preserve his or her life's work through succession in many cases conflicts with other goals. For instance, you may have to forgo receiving the maximum sale price if your main objective is to keep production in the same location.

The head of a family business, for instance, may have to reconcile family needs with his or her goals as the head of a company. Should management of the company remain in the family's hands? How could a dispute over the assets be prevented? How can the inheritance be distributed fairly among the heirs? The entrepreneur's personal situation as well as his or her goals and ideas also play an important role.

In this context, it is absolutely essential that the personal circumstances be analyzed more closely and any necessary measures be taken (based on marital law, marital property law, or the need for an advance directive). That will serve to protect the family's assets as well as the actual planning of the succession process by avoiding any blockages caused by communities of heirs or government authorities.

In many cases, some requirements cannot be fulfilled. Company owners have to pursue a practicable management and ownership structure, for instance. The simplest method is to transfer the management and ownership to a single person. However, if there are multiple heirs, transferring the company's assets to just one child is complicated from a probate stand-point. Moreover, succession management must also provide a secure financial future for the outgoing entrepreneur and his or her spouse.

Key questions for the entrepreneur

- In your role as entrepreneur, what are your requirements for the succession process? How do you rank them?
- Which stakeholders may be critical for helping you meet these requirements?
- When do you want to involve these stakeholders in the succession process?

Your family's needs

The family takes center stage in most succession solutions, and each member can play a very different role. While some are committed to preserving the life's work of the entrepreneur, others may be more interested in potential sale proceeds. Frequently, one or more persons may already work at the company, helping to shape it for many years.

When it comes to succession management, combining family and company can be inherently complex, as illustrated by these fictional examples:

- A daughter employed with the family firm as a sales manager fails to measure up to the expected standards. Meanwhile, her father, the entrepreneur, looks the other way while trying in vain to help her. The members of management on the same hierarchical level as the daughter are unwilling to accept this unfair treatment.
- Many times, the father was forced to correct his daughter's impulsive behavior as a child. Now she is the family firm's sales manager. Subconsciously, the father uses a firmer tone of voice with his daughter during management meetings than he does with her colleagues.
- The entrepreneur's daughter who does not work at the company wants her husband to take over an executive role.

These types of situations can rarely be settled by legal, tax, financial, or organizational measures.

That's why the following questions must be answered early on:

- Which family members are potential successors?
- Based on what criteria are they being considered?
- Do those family members actually want to take on the responsibility?
- Are those family members able to do the job?
- Does the entrepreneur trust those individuals?
- What commitment (for example, training, coaching, installment payments of the purchase price) is necessary for the plan to succeed?

Careful consideration alone, however, is not enough to satisfy the requirements of the family as a stakeholder group. A frank and open discussion must be held to avoid conflicts as early as possible. If the family is not used to discussing matters openly, a biannual family council meeting can be set up for that purpose. Another option is using the board of directors or annual general meeting. In some cases, it may be a good idea to involve a neutral intermediary or process consultant (for example, a Credit Suisse corporate client advisor).

Key questions for the family

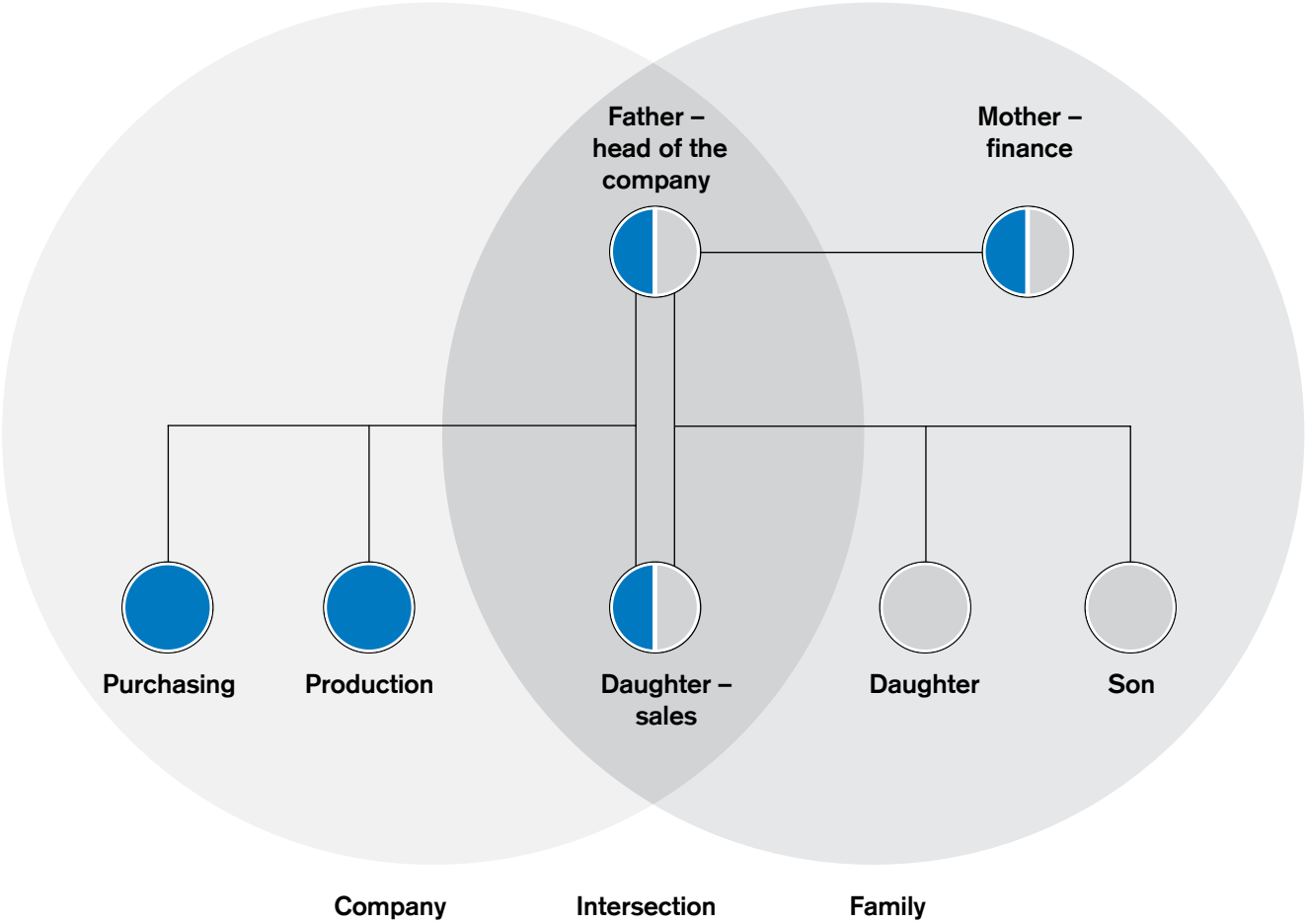
- What are the company's current and future management principles?
- Is the aim for the family firm to continue for many years?
- May/can/should descendants work for the company?
- How are the descendants preparing for their future roles?
- What are the family's expectations for those management employees who are not family members?
- What are the rules governing compensation and dividends?

It is advisable to keep a written record of the family council's key decisions. The following principles might be used as a guideline:

- The entrepreneur's achievements deserve recognition and appreciation.
- The departing owner must be financially independent after the succession and should not hold all of his or her assets in the company.
- There must be an adequate transitional period for the handover.
- Employees who are family members must be evaluated and paid according to the same criteria as non-family employees
- There must be a willingness to discuss matters at all times.
- Until the entrepreneur has formally exited the company, the successor will not make any strategic changes that have not been agreed on first.
- The entrepreneur has the final say until the succession process is complete.

These kinds of principles could be used as a basis for the future ownership strategy. This provides information about the future ownership structure, management, strategy, and main objectives. It may also define specific measures for implementation. Even if the process described above now relies heavily on consensus in the family, the final decision rests nonetheless with the current owner.

Possible roles for family members within the company



Management's function

Regardless of the chosen solution, management is a key factor in whether a succession plan succeeds or fails. After the entrepreneur and his or her family, management is the third most important stakeholder in the process. In relatively small companies, this role can also be held by foremen or long-standing employees.

Managers have a vested interest in the succession process because their own professional future is at stake. Their role will be especially critical if a management buyout (MBO) is a potential option.

If management is interested in an MBO, its perspective will change because management employees become potential entrepreneurs who must carefully examine the opportunities and risks of this solution. This naturally results in conflicting objectives.

For instance, managers are interested in enhancing the company's value, while buyers look for the lowest possible purchase price. In order to avoid any negative effects of a conflict of interest, the entrepreneur must make binding agreements with management from the start of the succession process:

- The entrepreneur must provide full transparency about anything that will impact future developments.
- Management will retain its established role in business operations.
- If one party suspects misconduct, it will initiate a defined process. This will help to address the issue and determine measures to be taken by the entrepreneur.
- Handling these types of conflicts must take top priority.

Management members must also hold discussions and make agreements with each other, because, more often than not, there will be differing opinions and personal objectives surrounding an MBO. Questions requiring attention include the planned ownership shares, distribution of profits, responsibility for company management, rules regarding joining or leaving the ownership structure, and pre-emption rights.

Since there is only one management team, there is only one chance for a successful MBO.

Key questions for management

- What are management's expectations for the succession process (information, cooperation)?
- Might the company be sold to certain managers (willingness, financially feasible)?
- What preparations and agreements must be made between the entrepreneur and management before the succession process can be initiated?

Involving your employees

A change in management and ownership as part of succession planning can also mean major changes for employees. To prevent rumors and insecurity among staff or even the departure of key employees from the company, it is essential to communicate the steps ahead actively and carefully.

Consulting external specialists

It is generally advisable for a trusted individual to assume responsibility for the project and coordinate the process, setting milestones and a timetable. Depending on internal resources, it is also advisable to hire outside experts to assist with certain phases and specific issues. Particular attention should also be paid to answering emotional questions, which should be discussed with the corporate client advisor from Credit Suisse.

Process steps that may benefit from a consultant:

- Initialization of succession management, process support, coaching
- Conflict resolution (among family members, co-owners, and/or management)
- Evaluation of possible options and preparations to implement them
- Special legal issues (marriage and inheritance law, tax law, contract law)
- Searching for, evaluating, and selecting successors
- Company valuation
- Financing considerations
- Wealth management and pension planning

Analysis phase summary
Analyzing your current situation can reveal various conflicting objectives. One example of conflicting objectives is when the family wants to receive the highest possible sale price, but the entrepreneur wants to hand over the company to a current employee who will continue to run the company in the same spirit and tradition.

It is therefore essential that the current entrepreneur's next step be to prioritize his or her goals and weigh up the different options.

The process advisor will also need to discuss emotional issues with the entrepreneur and monitor achievement of individual milestones.

3. Evaluation: Devising multiple courses of action

It is generally impossible to reconcile all the wishes of the entrepreneur and the various stakeholder groups. The purpose of the evaluation phase is to consolidate different requirements into logical, practical courses of action that are accepted by the main stakeholders. If possible, devise numerous scenarios and weigh up their advantages and disadvantages carefully.

Given the demographic and social trends of today, it is necessary to devise several alternatives. For instance, while it was once very common to transfer the reins to family members, this may not be an option because there are no descendants.

Expand your possible courses of action by devising multiple options.

Strategies for succession from within the family

Many company owners hope to transfer the reins to a family member. However, this is often not possible for demographic or social reasons. The entrepreneur may not have any descendants, or the descendants may be pursuing their own professional goals and projects. Alternatively, the designated successor might not be ready to take over yet. In these cases, an external manager may bridge the gap until a family member can take over.

- **Entrepreneurial successor from within the family**
  A family member succeeds the entrepreneur. Company ownership is transferred in full to the succeeding family member.
- **Managerial successor from within the family**
  Company ownership is transferred in full to various shareholders within the family. One or more family members take over operational management.
- **External management under family control**
  An external manager, with an employment or shareholding relationship, manages the company while the family remains sole owner or majority shareholder.

Strategies for external succession

A solution from outside the family must be chosen if there is no successor from among the descendants or if the successor is not yet ready to assume responsibility for the company.

- **Management buyout (MBO)**
  Internal managers buy the company from the entrepreneur, assuming complete operational and financial responsibility.
- **Management buy-in (MBI)**
  External managers buy the company from the entrepreneur, assuming complete operational and financial responsibility from then on.
- **Shareholding or acquisition by a financial investor**
  A financial investor purchases a stake in the company or acquires it in full. Depending on the nature of the transaction, the entrepreneur or his/her successor remains in the company, or the investor selects and establishes a new management team.
- **Sale to a strategic investor**
  If a different company is interested in the existing expertise, products, or simply greater market share, the option of selling to an industrial partner should be examined.
- **Merger with another company**
  If the company's expertise, products, or market segments are an ideal fit for a different company, then a merger is worth considering. In this situation, the issue of staff succession will be resolved only if the partner has adequate management resources.
- **Going public (IPO)**
  Following an IPO, the family retains varying amounts of involvement in the company.

Weighing up the options

Experience has shown that many of the goals defined in the initialization phase can be achieved using various succession options. However, conflicting goals are unavoidable in certain cases. Therefore, it may be necessary to critically re-examine the requirements from the initialization phase given the options that were developed in the evaluation phase.

To compare all the options objectively, each of them should be precisely described using a standard table. This neutral form of presentation also reveals many of the measures to be taken in the subsequent preparation phase and identifies any obstacles that might impede the realization of some options.

Table for describing the possible courses of action

	Example
Description	Brief description of the option, particularly ownership and management situation (persons involved, roles, and duties)
Consequences	**Initial evaluation of the effects on:** ▪ the successful continuation of the company ▪ the company and personal assets ▪ capital requirements ▪ questions to be settled by contract (marriage issues, inheritance issues) ▪ the pension provision ▪ taxes
Assessment	**Advantages and disadvantages of the option:** ▪ Fulfillment of entrepreneur's plans and goals ▪ Continued growth of the company ▪ Fulfillment of the family's plans and goals ▪ Fulfillment of management's plans and goals ▪ Effects of the option on employees and business partners (particularly customers) ▪ Consideration of intangible assets ▪ Any problems or obstacles

4. Preparation: Laying a foundation for every option

During the preparatory phase, the foundation must be laid for implementing the chosen succession solution. Preparations include authorizing the potential successors, regardless of whether the solution involves a successor from inside the family or an external successor, adapting corporate structures, and answering all financial and legal questions. It is also extremely important to have carefully planned internal and external communication of the entire process and its key results.

The preparatory phase can be very lengthy, for example, if a family member designated as the successor wants or needs to gain professional experience with another company to train for his or her future role. Usually, it becomes clear during the preparatory phase which option will ultimately be implemented. For example, the initially designated successor may be working for a company in a different country and decide to remain there, or a different family member may demonstrate exceptional business acumen within the company.

Potential family successors play a major role in this phase. Their decision to take over the company should not be taken lightly, because they will have a tremendous obligation to the company as well as its employees, customers, and suppliers.

During this phase, a strategy should be defined that accounts for the needs of the potential successor as well as those of the market, the company, and the current entrepreneur. This prevents complications in the succession process caused by discussions regarding the company's general strategy.

Thorough and timely preparations will allow for greater flexibility. By strategically enhancing personal assets, the entrepreneur can ensure that all heirs are treated equally while handing over the company to one individual.

The main steps in preparing for handover

- Ensure the transfer of know-how (document procedures, obtain ISO certification if need be).
- Assemble a project team.
- Transfer company assets not needed for operations to personal assets.
- Simplify and adapt the corporate structure (such as dividing the business into several companies for which different succession arrangements can be made).
- Remedy past risks.
- Develop methods of receiving objective feedback during the succession process (such as involving an independent board of directors, an advisory board, or a consultant).
- Lay the foundations for rapid and objective decision-making (such as professionalizing the accounting system, introducing management tools, formalizing the controlling process).
- Initiate the company valuation process.
- Create a communications concept and communicate initial information internally as appropriate.

Setting the financial course

Generally, the exiting entrepreneur's specific asset structures will need to be adjusted before handover or sale. Many owner-managed SMEs have a high volume of non-operating assets such as from real estate and stock transactions; however, in most cases they come from reinvested profits. These funds are held by the company for security reasons or to optimize the tax situation in the event of a capital disbursement.

Retained profits may be an obstacle to succession from within the family or a sale. An external buyer will generally be interested only in the necessary operational assets and will not have the finances to purchase redundant assets. Meanwhile, a family succession plan often requires that multiple heirs be treated equally. For instance, if one child inherits the company, the other children should receive private capital. The entrepreneur will also have some financial requirements after leaving the company.

This is why personal assets should be separated from business assets no later than during the preparatory phase for succession management. The transfer of these assets must be reviewed in advance on a case-by-case basis, so the more time available, the better.

Begin transferring any assets not essential to operations, such as excess liquidity, to your private assets as early as possible. One way to do that is by withdrawing dividends.

Adjusting structures and processes

After completion of the succession process, the company will have to function without the knowledge, involvement, and contacts of the former owner. For this reason, the organization should be strategically prepared for this step and the level of formalization within the company should be increased. Written documentation should be kept of strategies, organizational charts, processes, policies, contracts, and job descriptions. ISO certification may help in this area.

Measures for increasing the level of formalization

- Formalize the management structure and the organization (binding organizational chart, job descriptions, rules of representation, and delineation of powers).
- Formalize decision-making processes (written planning process, strategic decision-making process, regulations, and policies).
- Improve controlling and reporting tools.
- Be open to supervisory, consulting, or support committees (board of directors, succession council) that can give professional, external feedback.
- Draw up a business plan.

When preparing for a succession solution, families are advised to document previously unwritten rules for family members and non-family employees alike.

Resolving risks from the past

Generally, a company that has been managed by the same person for many years has risks. While management has learned to handle them in the course of business, the risks could pose a problem for a successor. For this reason, risks from the past must be resolved as efficiently as possible during the preparatory phase.

Measures for resolving risks

- Ensure that the executive management team has the right people to function after succession and that all members have the right qualifications for the job.
- Selectively renew traditional supplier relationships or terminate them if there are better options (for instance, to avoid risk concentration).
- Knowledge that is held only by certain employees should be formalized or made accessible to the company.
- Address and discuss any underlying management conflicts regarding the strategic alignment; if necessary, take personnel measures.
- Review whether structures that have developed over time stand up to current business management logic.
- Strategically secure a product pipeline for the transition period.
- Resolve any deficiencies in infrastructure (clean up contaminated sites, renovate real estate, and carry out safety inspections on production equipment).
- Verify that intellectual property is protected.

Measures for risk resolution have a direct impact on the purchase price in the event of a sale.

Identifying the right valuation

The question of the company's value is a fundamental one for any succession solution. There is a diverse range of valuation methods to determine its value objectively; some can be used in tandem with others. A key aspect is not only the value that can be obtained by selling the company to a third party, but also the price at which it will be able to continue investing sustainably and maintain production (especially if it is sold within the family or to management).

The most common method, but the one that usually does not reflect the company's value to third parties, is the mean value method, which uses the weighted average of the capitalized income value and net asset value. The capitalized income value, in which the profits that can be sustainably earned are capitalized, is weighted more heavily than the net asset value, which merely corresponds to the present value or sale price of the invested capital.

The sale price achieved does not have to match the valuation. The entrepreneur is free to reduce the sale price in favor of intangible goals, such as the company's independence.

Planning your finances

Striking the balance between risk tolerance and borrowing limits is not always easy when financing succession plans. Aspects such as whether the planned sale can be financed and whether the liabilities assumed can be met over the long term are key. The following factors must be considered when reviewing financing options:

Debt capacity
The successor has access to the company's free cash flow expected over the coming years to pay off the debt financing and interest. If there are multiple affiliated companies, the entire group must be taken into account.

Financing ratio
A distinction is made between two main areas for corporate finance: equity financing and debt financing. According to general principles, the business risk is borne by equity. Therefore, it is the actual "risk capital" provided by the owner or investor; at the same time, it means higher expected returns. Debt capital is generally provided as a loan from the bank.

In addition to financing by means of traditional bank credit and loans, mezzanine financing is a further instrument that can be used. This is a collective term for hybrid financing that combines elements of debt and equity financing. Due to its subordinate status, mezzanine capital reinforces the equity ratio from a financial standpoint. It can bear a higher risk than a normal bank loan without giving creditors co-determination rights. From a legal perspective, mezzanine capital is still debt capital. That means the interest can still be deducted from the company's taxes, an essential aspect for offsetting the financing costs. Mezzanine capital is unsecured and can be used freely.

Lending terms and ability to repay
The bank's lending terms will depend on the company's rating and the specific details of the loan. The costs are not calculated using a standard formula; they vary by loan amount, term, client rating, client relationship, and market situation. The repayment period depends on the industry and on the company's business model. However, it should not exceed five or six years.

Financing must allow for the perfect balance of independence, profitability, and security. Credit Suisse can help you define a custom financing solution for succession planning.

Determining your private asset structure

The entrepreneur's future financial situation is just as important as that of the company. His or her needs will most likely change after leaving the company. Comprehensive financial planning focuses on these changes. The goal is to plan the personal income and asset situation for the long term so that it can be managed from an early stage.

Credit Suisse's comprehensive financial planning can help you factor personal obligations, assets, and needs such as pension planning or tax and estate law issues into your succession planning.

Key questions for the entrepreneur as a private individual

- How can I maintain my current standard of living and meet my obligations after I step down from the company?
- Are there any tax savings options for me as a private individual?
- Does my investment strategy suit my risk tolerance and ability?
- Is my safekeeping account structured to my overall financial situation?
- How do I plan my estate properly (descendants, legacies, foundations)?
- Do my family and I have an adequate safety net in the event of disability/death?

Analyzing tax issues

The succession process requires a number of careful tax considerations. There is no one way to handle these issues. Various factors such as the company's legal form and the different methods of handling family vs. non-family succession must be taken into account. It is usually worth seeking advice from a tax expert.

Key points on tax issues

- Plan ahead for the most flexibility.
- Retaining profits for years as non-operating assets will limit your flexibility in personal pension planning, distributing assets, or selling the business.
- Regular dividend payments have a number of tax benefits. Firstly, tax progression can be avoided, and secondly, the private capital can be used for your personal tax optimization (such as using capital to purchase pension benefits or renovate real estate).
- In the event of relatively large dividend payments, you may consider relocating your domicile, since taxation varies greatly from canton to canton.
- A tax ruling (a written, binding preliminary decision of the tax authorities on a planned transaction) is recommended.

Tax treatment depends on the individual circumstances of each client and may be subject to change in the future. Credit Suisse does not provide tax advice.

Considering legal issues

Succession management for owner-managed companies must factor in a number of legal aspects. Marriage and inheritance laws in particular can play a major role.

- Is the entrepreneur subject to a marriage contract and/or contract of inheritance?
- Does the entrepreneur have provisions for appointing a shareholder proxy in the event that he or she becomes mentally incapacitated (advance directive)?
- Are there financial claims or obligations under marital property law that date back to the time of incorporation?
- With regard to succession, in the event of divorce, or if the entrepreneur unexpectedly becomes incapacitated, has it been ensured that the entrepreneur and spouse can maintain their standard of living without having to sell or liquidate the company?

If a joint stock company is to remain in the family and multiple descendants are taking ownership, you should draw up a shareholders' agreement. These written agreements can help prevent the burden of family conflicts from being placed on the company.

What does a shareholders' agreement stipulate?

- Change in shareholders: pre-emption rights of existing shareholders, valuation methods
- Procedure for revising the articles of incorporation: the role of family members involved in the company's operations and the role of family shareholders who are not
- Long-term dividend policy: possible contractual agreements on the future dividend policy
- Making decisions: voting majorities that differ from those stipulated by law when strategic decisions are involved
- Protection: minority protection clause

The proper ownership structures and contractual agreements can help you ensure that unexpected personal events do not create obstacles or pressure you into giving up the business for less than it is worth.

Taking control of communication

Planned, active communication helps to avoid misunderstandings and the damage that may result. However, sometimes you need to communicate on short notice. A key employee may have left the company, a competitor may have submitted a bid to purchase the company, or the entrepreneur may be incapacitated due to illness. In these cases, quick, consistent communication is needed in order to avoid a loss of trust among internal (management and employees) and external stakeholders (especially customers).

This need for immediate response requires early discussion. The corresponding rules for communication should be defined at the very latest before the entrepreneur starts to transfer duties and authority to his or her successor.

Communication policies to be addressed

- Define the stakeholders and their characteristics.
- Establish communications principles (such as "communicate clearly and proactively").
- Specify and describe the tools of communication.
- Assign responsibilities for communication (who does what and when?).

Preparing your communications professionally allows you to use your succession plans as a PR opportunity.

5. Handover and conclusion: Turning over responsibility and heading for new horizons

Once the succession plans are in place, and the successor and company are ready, you can initiate the handover phase. If the successor comes from within the family or the process involves an MBO, the entrepreneur will, in many cases, retain his or her function during this phase. Since the transition phase is especially important in these cases, these two options will be discussed in detail below. By contrast, the handover often takes place more abruptly when the company is sold to an outside buyer.

If succession takes place within the family or involves an MBO, the successor must participate in all important meetings and decisions from that point on. The goal is to establish the company's future leader, transfer expertise, and introduce the successor to key customers.

During this phase, the entrepreneur and successor each need to define their specific duties in detail and communicate that information as needed. Any problems can be discussed in weekly one-on-one meetings or together with a professional advisor. Furthermore, symbolic actions, such as clearing out the CEO's office, are an important milestone, especially during this phase.

Key questions for the entrepreneur during the handover

- What measures must be taken to ensure seamless collaboration between the entrepreneur and the potential successor? How are the roles and duties defined in this handover phase, and what is the procedure for handling differences of opinion? How do I need to behave as an entrepreneur?
- How will the successor be initiated into the company (as a member of the board of directors, secretary to the board of directors, CEO, staff/technical specialist, project manager, division manager)?
- How and in what manner will the entrepreneur leave the company (partial versus complete withdrawal)?

The successor must also carefully consider how to prepare for his or her new responsibilities. It is advisable to spend a certain amount of time at the beginning just listening and forming an opinion. After this period (the first 100 days, for example), the new head of the company should begin making his or her own decisions.

Keep in mind that, depending on the succession plan, the implementation phase can take just a few days or up to several years.

Succession management is complete once the successor takes over the reins and the former entrepreneur leaves the company. The successor can then begin to make independent strategic decisions and align the company with his or her goals and skills. Naturally, the corporate client advisors from Credit Suisse will continue as coaches during this step and will not abandon the project once the handover is complete.

Providing constructive support

From the very beginning, it is important for the successor to align the company with his or her individual abilities, generation, and current environment. This can mean strategic, organizational, and personnel changes. However, changes do not mean that the company was mismanaged in the past. Things are just taking a new direction.

To avoid slowing down the succession conclusion phase, discussions about the company's general course can be precluded by verbal and written communications about the entrepreneur's role before and after handover. Terms such as "member of the board of directors" or "consultant" are not specific enough and leave too much room for interpretation.

Example of detailed role assignment
The entrepreneur:

- actively supports the introduction of the successor to customers, management, employees, and suppliers;
- serves as a sparring partner for the successor in the event of important decisions;
- gradually exits the company according to a defined schedule.

The entrepreneur does not:

- review on a daily basis whether the successor is doing the job "correctly";
- openly criticize the successor's decisions;
- make himself/herself indispensable;
- sit in the background pulling the strings indefinitely.

New paths to success
Some entrepreneurs are relieved to hand over their responsibilities and workloads. However, after decades (in some cases) of performing a certain role in the company, the region, and society, others find it very hard to say goodbye. The reasons for this are as diverse as the people behind them. That's why it may seem as if the entrepreneur is clinging to his or her role – because there are no alternatives. Planning for life after the handover can help simplify the personal separation process, so that new challenges can be confronted.

Give yourself plenty of time (if possible, as soon as you initiate the succession planning process) to create a new vision for your future. Experience shows that many entrepreneurs are not satisfied with simply doing nothing. It is easier to begin a new chapter in life once you have decided on specific options and activities. We wish you the best of luck!

The succession process is not complete until the entrepreneur has surrendered all functions in the company.

Key questions for the entrepreneur after leaving the company

- How will I use my time now that most of it is no longer spent with the company?
- How can I meet my legitimate need for validation and success?

CREDIT SUISSE (Switzerland) Ltd.
P.O. Box
CH-8070 Zurich
www.credit-suisse.com/successionplanning

LMAB 3 2513894 12.2021