Falkenberg-Poetz
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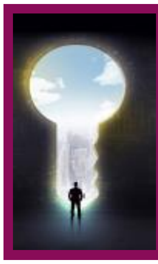
It’s time for family business owners to think about succession

Keeping your family business in the family — successfully and according to your wishes — takes smart, proactive planning. Here are some of the key issues you need to address to pass on your business to another family member.

This report was selected especially for you by Falkenberg-Poetz & Pidhirniak Wealth

Entrepreneurial insights

It’s time for family business owners to think about succession



Key takeaways

- Owners must groom family members if they want to become capable successors.
- Family harmony should be created and nurtured consistently.
- Wealth planning should be in place to help create a smooth transition of ownership.

If you own and operate a family business, what will happen to it after you are no longer involved? How will you ensure the continuity of the company so other family members will always be leading the way and calling the shots?

If you’re like many family business owners, you may not have given much thought to those questions. We see that most family business owners are intensely focused on the daily running of their companies — they’re not often spending time envisioning their companies’ future ten years down the road.

In addition, most owners tend to see themselves running the show for many years to come — even if they’re getting up there in age or experiencing health issues.

As a result, we find that many family business owners don’t focus nearly as much as they should on transitioning the business to family successors. And that can create big headaches.

Avoiding trouble

That’s where family business succession planning comes in. Effective succession planning is often essential to sustaining a family-owned-and-operated company into the future. Failure to effectively transition the family business can have significant adverse consequences, such as the following.

- Family conflicts
- Legal battles
- Bad publicity for family members and the firm
- Higher tax burdens on the parties
- The demise of the company

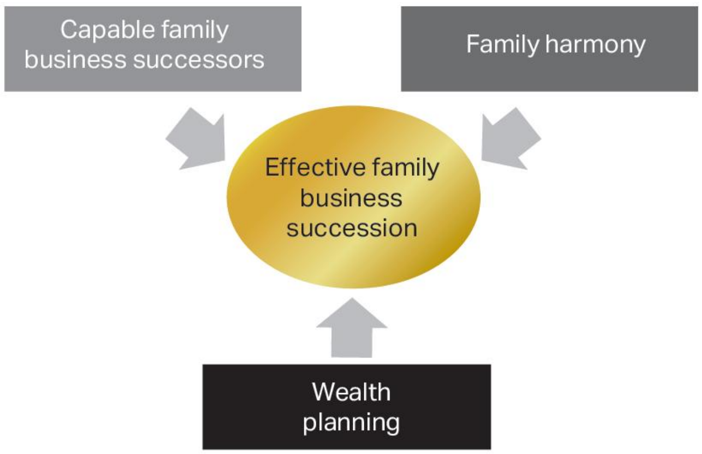
Family business succession planning is a process — not a one-time event — that happens over time, with modifications and tweaks along the way.

Three aspects of family business succession

There are three main aspects to family business succession, and they all play important and synergistic roles (see Exhibit 2). For family business succession to deliver intended results, there needs to be the following in place.

- A family business successor (or successors) capable of taking over the company and running it well
- A sense of balance within the family so that personal entanglements do not derail the firm
- A wealth plan that smartly transfers ownership of the family business to successors in a way that works best for the family and the business

Exhibit 2: Three aspects of family business succession



If any one of these three aspects is out of sync, there will be increased pressures on the family business successors and increased risk that the company (and all those people associated with it) will suffer.

Aspect 1: Capable family business successors

It is not uncommon for heirs to believe they can lead the family business even though an objective, rational assessment would put that conclusion in doubt. It is up to the current family business owners, and perhaps other key family members, to ensure that the intended family business successors are truly prepared to take over the company.

There are various ways families can prepare successors to take over the business, including the encouragement of getting the following elements.

- Obtain advanced degrees related to the business
- Get experience at other companies
- Take on various jobs within the family business

Regardless of the approach, it’s essential that the decision-makers involved in this process are able to identify the list of key attributes and expertise a family business successor needs to have — and be able to check them off the list with a candidate. It’s not always possible to absolutely ensure a designated family business successor is completely up to speed, of course. But the aim should be to work toward that goal, which usually entails starting as early as possible.

Note. In cases where the chosen family business successor is not truly ready, contingency plans can be put in place. When the selected successor meets certain criteria, he or she can then obtain control of the company.

Aspect 2: Family harmony

In many family businesses, harmony within the family is a key objective. That doesn't necessarily mean the goal is for all the family members involved with the business to get along famously. Rather, the intent is often for family members to simply avoid clashing with each other to an extent that could be detrimental to the family business and disastrous for family relationships.

Family harmony is fostered when the respective family members understand what is going to happen to the family business and other assets when the primary owner steps down. This does not automatically mean everyone will be happy about how the family wealth will be divided, of course. The key is for everyone to be aware of the plan and generally accepting of it. When this occurs, it's often easier to deal with future possible conflicts.

Aspect 3: Wealth planning

Achieving family harmony and avoiding fights usually require a well-structured wealth plan. There are many subcategories of wealth planning that are relevant to families who own a business, such as the following.

- A formal succession plan that clearly specifies the transfer of ownership and control of the family business as well as any appropriate legal structures that are in place. This type of plan can be especially important when the family business is being transitioned while the current family owners and executives are still alive.
- An estate plan is interconnected with the succession plan. It addresses the financial and legal issues in case of death. When family businesses are inherited without tying in solutions for the capabilities of family business successors and possibly family harmony, there is high potential for family confrontations.
- A creditor protection plan may also be beneficial to families. While the issue of protecting assets from creditors is not directly tied to the transition, it can prove worthwhile to address given the amount of other planning that is being done.

Warning. Don’t over-focus on **wealth planning** at the expense of the other two issues outlined above. Some family business owners become so concerned about wealth planning issues — such as getting the company in the hands of heirs without paying taxes — that they lose sight of the bigger picture: ensuring the family business is set up to thrive in the years ahead. The best family business succession plans balance out all three aspects and do not overemphasize any aspect to the detriment of another.

A team of experts

In general, the family business successions that work best for everyone involved often rely on a team of experts to guide the family through the many issues and nuances as well as to provide industry insights.

Certainly, the family member business owners are a key part of that team, as they usually do the job of getting the intended successor up to speed to take over the company. For example, they might arrange for the would-be successor to work in various positions across the business or arrange for the successor to pursue an advanced degree (such as an MBA). In addition, family business consultants are often engaged to help prepare the intended family business successor for taking over the company.

Ensuring family harmony is a trickier matter. We see a growing number of families working with business consultants and even family therapists to help families and their companies avoid conflicts. Family members sometimes fail to recognize the possible adverse consequences of not proactively addressing this issue. Bringing in an expert after a disagreement has grown can be more problematic than nipping challenges in the bud.

Wealth planning is also typically done with professional assistance. Once the family is clear about their desired outcomes, a plan must be set up to legally transfer control and management within the parameters set by the family and the law. There are different types of professionals — from wealth managers to accountants to lawyers to bankers — who can be instrumental when it comes to wealth planning.

In selecting the best experts to help transition a family business to a successor, family business owners commonly rely on referrals from trusted professionals they currently work with or from successful peers who can introduce the owners to experts such as family business consultants or wealth managers.

Please feel free to contact us

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