

## Passing the Torch: Nine Tips for Your Family Business Succession

Family businesses account for more than 60% of the U.S. GDP, highlighting their important economic role and the significance of effective succession planning.

Passing on your family business to the next generation requires careful planning and execution. Beyond ensuring the business's long-term viability and growth, you will want to preserve your family's legacy and values through strategic, informed succession planning. While professional advice from attorneys, accountants and consultants will be essential for navigating your unique situation, these tips can help you get started.

### 1. Establish a Succession Planning Committee

Form a dedicated team of family members involved in the business and key external advisors, like your accountant and attorney. Explicitly define the roles and responsibilities of each committee member to avoid confusion and ensure a thorough approach.

This committee will oversee the succession process, ensuring all aspects of the transition align with business goals, family interests, legal requirements and more. Hold regular meetings throughout the succession process to monitor progress, anticipate and overcome challenges and provide updates to stakeholders.

### 2. Involve the Right Professionals

Your succession team should include, at minimum, the following professionals, all of whom should have experience in family business succession, if possible:

- **An accountant** can provide financial advice, help with tax planning and compliance, and ensure the financial aspects of the succession plan are sound and beneficial to both the retiring and succeeding generations.
- **An attorney**, ideally with experience in business succession and estate planning, can offer legal guidance on the official transfer of ownership and related documents – like wills, trusts and buy-sell agreements – to verify their validity, accuracy and alignment with the family's wishes.
- **A business banker** can connect the company with banking services, products, tools or resources that might help the process, including business financing options that might be needed during the transition.
- **A financial advisor or wealth manager** can aid business and personal financial planning with tailored advice to ensure the stability of the retiring generation and secure the capital needed to keep the family business in the family.
- **An insurance agent or professional** plays a crucial role in evaluating the necessity for various insurance policies, including life insurance, disability insurance and business insurance, among others. These policies are essential for safeguarding both the business and the family against potential losses. Additionally, the agent assists in establishing buy-sell agreements, which facilitate a seamless transition of ownership in the event of a partner's demise or departure. These agreements are instrumental in protecting the interests of both the business and the departing partner's heirs. The agent may also recommend key person insurance to bolster the business further. This type of insurance provides financial protection in the event of the death or incapacity of a pivotal team member, mitigating potential disruptions and ensuring uninterrupted business operations.

You might also want to include a business succession advisor and an industry expert on your team. A business succession advisor is a specialist who can guide you on best practices for the handoff, help develop a strategic transition plan and offer advice on training, development and integration for successors. An industry expert can teach successors valuable knowledge about important trends, challenges and opportunities in the field.

### 3. Conduct a Business Valuation

A business valuation analyzes your company and establishes a market value. It may also determine the worth of its separate departments or business lines. A valuation can help you set a reasonable price for the business, help successors seek and secure financing from lenders, help you structure buy-sell agreements (particularly if a business partner is involved) and help guide and streamline equitable asset distribution to heirs. Essentially, it gives all parties a clear understanding of the financial stakes involved.

Consider performing multiple business valuations if your transition period is lengthy. Economic conditions and the company's financial performance and outlook can change, altering the company's value.

#### **4. Develop a Detailed Timeline**

Develop a clear, realistic and flexible timetable for transitioning responsibilities to the next generation. Include estimated dates for key milestones regarding shifting duties and decision-making powers to the successor and outline specific criteria for the transfer of ownership. For instance, you may stipulate that the business must have a strong financial position before the successor can fully take over.

Review your timeline with your succession planning committee, then communicate it to all relevant parties, setting clear expectations for how the shift could impact them and preparing the business for change. For a seamless handoff, regularly revisit your timeline and succession plan throughout the transition and adjust them as needed to accommodate evolving business or successor needs.

#### **5. Blend Academic and Real-World Education**

Encourage successors to pursue formal education in fields like business management or finance to gain essential knowledge, like strategic and financial planning, leadership, communication and risk mitigation. Pair this with hands-on learning that suits their skill level, like shadowing you or managing a new project, to equip successors with practical experience and insights.

Successors can also benefit from external employment experience. They'll gain exposure to different management styles, new technologies and innovative business strategies that can help maintain and improve the company's competitiveness and growth. Outside experience can hone soft skills like problem-solving, decision-making and conflict resolution.

#### **6. Define Clear Roles and Responsibilities**

Establish specific job roles and responsibilities for successors to get hands-on experience, matching their strengths to business needs. This is essential for them to understand how they fit within the company and to earn respect from other team members. It also promotes accountability and provides a framework for their integration into and advancement through the business, avoiding undefined roles and vague responsibilities that can cause discord among the team.

If you can't immediately identify appropriate roles for successors, determine their strengths, weaknesses, interests and current skills to identify possible matches. Consider external development options – like an internship, certification course or advanced education – if needed. Implement a mentorship program and conduct regular performance evaluations to support their professional growth.

#### **7. Involve Successors in Strategic and Financial Planning**

Include successors in pivotal strategic and financial decisions and discussions, including financial forecasting, resource allocation and business investments. Let them observe first and provide their thoughts privately. After the observation period, ask them to share their thoughts during meetings, then let them make decisions on increasingly significant matters as they demonstrate an ability to make wise choices.

Involvement in the family business's strategy and finances can teach successors critical planning, budgeting, cash management and investment skills. By participating in key decisions, successors gain confidence in themselves and instill confidence in others, including non-family partners and employees, that they will make sound choices that benefit the company.

#### **8. Require Industry Involvement**

Consider requiring successors to regularly participate in webinars, workshops, conferences, seminars or other industry events during their training. Look for events that:

- Expose successors to industry language, culture and innovations
- Familiarize successors with important figures and thought leaders in the industry
- Encourage respect for new ways of thinking and doing that could benefit the business
- Foster recognition and eventual respect for the successor among industry peers
- Build a powerful professional network

LinkedIn, blogs and podcasts can also be valuable for gaining insight and inspiration. Encourage your successor to grow their professional network and learn from business leaders inside and outside your industry and share what they've learned.

#### **9. Update Governance Structures**

Review your business's governance structures to ensure they are current and align with the vision and capabilities of future leaders. This process typically includes revising bylaws, shareholder agreements and other foundational aspects. Examples of

potential governance updates include adjusting names in contracts, creating more flexible ownership structures for shareholders or revising the formal decision-making process to include successors.

When updating governance documents, be exact and use unambiguous language to avoid potential misunderstandings or disputes. An attorney can help with this, as well as ensure compliance with applicable laws and regulations. Before finalizing new governance structures, consult with stakeholders to ensure you have their buy-in.

A family business succession should be a collaborative effort between yourself, involved family members, other key figures in the business and trusted professionals – particularly your accountant and attorney.

When equipped with the right knowledge and skills, the next generation can drive innovation, growth, and success for generations to come.

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