Growth Guru Guild

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Family Business Succession Planning – More important that Taxes

Please don't get me in trouble with the IRS here! I realize planning for and paying your taxes are important. However, many leaders I have worked with over the years delay making the difficult decisions of family business succession. They also don't realize that those decisions are necessary to truly tax plan. Disclaimer here! I'm not a Financial Tax Planner! Please talk to your Wealth manager or Estate Attorney about your personal tax planning needs. What I do want to address today are the importance of making those decisions sooner rather than later, as well as the difference between Leadership Succession Planning and Ownership Planning.

Important Headlines

- *Only 23% of family businesses have a robust succession plan in place (PricewaterhouseCoopers)*
- *46% of the family businesses say they are reluctant to pass the business to the next generation*
- *Only 30% of family-owned businesses survive the second generation--many of these failures result from a lack of succession planning*
- *78% of businesses have no transition team, and 83% have no written transition plan (Exit Planning Institute)*

Here are the 4 primary issues I have found working with family businesses on succession planning:

1. Too Late! –The conversation about family business succession happens too late.
    - This comes from many conversations over the years, and it includes my story. I never had a clue that my mom and dad really wanted me to take over the family farm. It wasn't brought up during high school. It wasn't brought up at college graduation. In fact, it wasn't until after my father had died that my mom mentioned it. By that time I was 42 years old and had established a home and career hours away. Honestly, if we had that a conversation when I was 18, I don't know if it would have changed my direction, but now I/we will never know! These conversations need to take place at a young age. Our children need to know our desires and hopes and dreams for the future.
    - The story above did avoid the Ownership Planning, with all my siblings moving away from the farm and its leadership (Management) charged to renters, ownership transition became part of the estate to be divided equally. And with the Estate under 6 million, Estate taxes not a concern.
2. Too Scared! – We are concerned we are going to hurt someone's feelings.
    - You don't truly know how anyone feels until you have a conversation with them. Once again, I recommend starting those conversations early. Often more than one sibling is interested in working in and leading the family business, but all are interested in the ownership of the business.
    - One of my Vistage members reminded me that Family Systems, how members of the family act and behave with one another, are important to consider. I only suggest that while we can't change how people react or behave, we can set up a conversation for success. Many families will use a objective facilitator to build a process for these often difficult and complicated conversations.
    - The consequences are far too great to not have a plan and conversation. No matter how difficult a conversation is, it is always better to have it sooner rather than later.
    - What is equal is not always fair, and what is fair is not always equal.
3. Too Complex! – We just don't know how to unravel the complexity of the business.
    - How do you eat an elephant? One bite at a time. The same is true in tackling the complexity of a business. After meeting with a tax planner, meet with your family and begin the process of laying out the details, challenging yourself with one concern at a time.
        i. Separate the Leadership Plan from the Ownership Plan
        ii. Educate the family on the implications of not doing anything and the importance of a plan
4. Too Naïve! – We didn't know the tax implications of gifting our business and/or didn't have time to do anything!

- When it comes to Ownership Succession Planning, there is much to be understood or discovered. We don't always know the timing of ownership changes, so building a plan now and reviewing and revising along the way becomes crucial to decisions later.

Leadership Succession Planning involves those who are charged with the short- and long-term plans of the business, in case of sudden loss or for a planned transition. They will have authority to make day-to-day decisions as well as setting future vision for the family business. This leadership may or may not be a family member. Often if the leader(s) are not family members, they will report to a board which includes family representation.

- I also encourage leaders to complete a "Blue Box" exercise annually. This exercise is for all Senior Leaders, building a plan for leadership succession in the case of their death or exit. Let me know if you would like this template.

Ownership Succession Planning involves how the stock of the business will be divided or directed either with a planned transition or after the death of the current stockholders. This process always considers the Leadership Succession Plan of the Family Business but is a totally separate process and document.

Where Leadership and Ownership Succession Planning is the same.

1. Both plans are in writing.
2. Both plans need to be communicated as early as possible and reasonable to all parties involved, family or not.
3. Both should be built with expert guidance, which will often include Estate Tax Attorney, Wealth Manager, CPA, Insurance Advisor, M&A Consultant, and Leadership Development Coach/Consultant.
4. Both refer to and understand the Strategy of the business.

If you would like more information about family succession planning, please reach out to me anytime.

Sincerely, Rick Faber
Guru / Founder