Practical Advice for Family Business Succession

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Combining family issues with business considerations is enough to stress even the most thoughtful and successful business owner. The good news is that there are ways to reduce the stress in family business succession. The following is not a legal checklist, but rather practical advice to business owners thinking about handing the reigns to a family member.

Plan Early

By far the most important thing a business owner can do is begin succession planning early. There are many different questions which arise in the transfer of the family business from one generation to the next. Which family member will take over? What income should non-participating children receive? What if multiple children want to have roles in the business? When should this transition begin? How will the transfer of ownership be structured? What valuation will be placed on the business and how it will be paid or gifted? Addressing these considerations before they happen is critical to an easier succession. It's easy to get bogged down in the day-to-day of the business and neglect long-term planning, but you will thank yourself in the end if you talk with an adviser earlier rather than later.

Keep Emotions in Check

The sale of a business to a non-family member can be charged with emotions. Throw family relations into these complex transactions and it can be fraught with personal and business implications. From my experience, one of the most important things for a family business owner to remember is that family comes first and business second. At the end of the day, the goal should be to preserve family relationships. If that means finding alternative routes to accomplish a business objective, then pursue those routes.

Communication is key to minimizing family conflict in these situations. Communicating expectations about how the process will occur is crucial. For example, a parent might expect their child to get a particular degree or work in the business or in a related field before taking over. The current and succeeding generation need to understand and align on business valuation and structure for the transfer. If not communicated early, these types of expectations can lead to frustration or resentment. Making sure the child understands that running the family business is an option, not an obligation, is invaluable. The best way to do that is to have a conversation.

Involve the Next Generation

The next generation needs to be involved in and understand the day-to-day operations of the business well before succession begins. This starts early, before the kids have even expressed an interest in assuming ownership. If the ultimate goal is a family business succession, the children should gain an early understanding of the business and get familiar with its key personnel, suppliers and customers, as well as the prospects and challenges for the business.

The benefits of this are two-fold. First, it allows the child to see for themselves if they have any interest in taking over one day. Second, it helps instill trust in non-family employees that the next generation has worked their way up the ladder and earned their right to management.

Assemble the Right Team

Handing over the family business can't be done one night at the dinner table on a napkin. Effective succession planning requires assembling the proper team to plan for all possibilities. An accountant, financial advisor, valuation expert and attorneys with corporate, tax and estate planning experience are the minimum required to help prepare for the transfer.

This often means that while the parents need to get a lawyer, the children need to get their own, separate attorney. This may seem strange to someone outside the legal profession, but it does not need to be combative. Having each side represented by separate, competent counsel ensures the expectations of both sides are met resulting in an amicable and fair transfer of the business.

Let Go

Once the passing of the torch has occurred, one of the hardest things for the former business owner is to fully let go of the reigns. This makes complete sense. Most business owners make being an entrepreneur their identity. For some, it's not simply what you do, it's who you are.

However, having mom or dad still with a foot in the door can create a stressful challenge for the new leader. The next generation needs to be allowed to fully take command. If other employees or outside companies do not know with whom "the buck stops," it has the potential for disaster.

This does not mean that the parents or predecessor should totally abandon the business during the transition. Being willing to offer advice and expertise can be valuable during the change. Depending on the structure of the business transfer, there may also be continuing payments and contractual information and participation rights for the previous owner until payments are fully made.

The senior generation is encouraged in these transactions to envision how their post-ownership life will look. Develop interests outside the business well before the transition. Even so, recreational activities alone might not be fulfilling long-term. If not, volunteer for tasks that fit your skills within organizations where you believe in their missions or explore new ventures or roles to find fulfillment. You may be comforted too in this new stage of life especially knowing that you have successfully navigated the potential pitfalls in a family business succession.

We Can Help

Contact authors Hugh Sharber or Michael Brown, or any member of our Merger & Acquisition practice.

Click here to read the full Business Acumen featured article, "Practical Advice for Family Business Succession," on pages 26-27 in *Edge* magazine.

Click here to read the full article, "Chattanooga Corporate and Business Law Attorney Hugh Sharber Offers Some Practical Advice for Family Business Succession," on *TimesFreePress.com*.