



PLANNING FOR SUCCESSION IN FAMILY ENTERPRISES

We are in the midst of the largest generational transfer of wealth in the history of mankind with most of that wealth being in the ownership of operating companies, in real estate, and in investible assets. For family-owned businesses, planning for ownership and leadership succession will be necessary to ensure continued success since only 32% of these enterprises survive into the second generation and only 12% are sustained in the third generation.

As a consultant to family enterprises, I can attest to benefits of planning for ownership and leadership transitions well before health or market conditions prompt unplanned changes. Indeed, succession planning can be liberating for those who are retiring and empowering for those who are assuming responsibility for the future success of the company. The most successful ownership and leadership transitions entail more than the transfer of assets and authority. They involve family members and their advisors working together across generations to ensure the continuation of a proud family legacy.

To be certain, succession planning must address questions that can be difficult to answer, such as:

- Should the business continue operating under family ownership or be sold to others? Are qualified next generation members interested in leading the company?
- What changes will be needed to sustain the family enterprise? Is the family enterprise sufficiently diversified to meet changes in market conditions?
- Which next generation family members are the most qualified to lead the business forward, and how will they work with other family members and key non-family executives to ensure success?
- Have retiring leaders undertaken the necessary financial and estate planning to ensure their retirement and family needs can be met while leaving the next generation of leaders with sufficient assets to compete successfully?
- What professional advisors will be needed to execute the desired ownership transfer? Are next generation family members acquainted with these advisors?
- What governance structures might the next generation of owners consider for making decisions and communicating with the family?
- What meaningful endeavors might the retiring generation pursue once they relinquish ownership and/or operating leadership?

These questions and others can be answered through a multi-step succession planning process that engages and educates all family members. First, a successful transition process requires the commitment of all family members, particularly the current owners and leaders of the business, to work on succession planning. The most critical step in the process will feature the engagement of “next generation” members in detailing plans for assuming ownership and operating leadership responsibilities. In developing plans to present to their parents or other retiring family members, these leaders can demonstrate their maturity and business acumen while allowing the current owners to provide helpful feedback and to make final decisions. Once both generations of family leaders agree on a plan, they can engage their legal and tax advisors in finalizing details before sharing their intentions with the entire family and initiating changes.

Each family faces different challenges, but a sound succession planning process can permit all business-owning families to prepare for ownership and leadership transitions and ensure that success continues in the next generation. Families will need this if they are to beat the odds and continue ownership in future generations.

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