

Every Family Business Needs a Succession Plan

There's a widely published statistic that says only one-third of family-owned businesses survive the transition to the second generation. A primary reason for this dismal survival rate lies in poor succession planning, reports the Texas Society of CPAs. While issues of mortality and family relationships can make succession planning difficult, a well-constructed plan is essential to passing the business on to the next generation. Here are several key strategies for a successful transition.

START THE PROCESS EARLY

CPAs say it's best to treat succession planning as a process and not an event. How long the succession planning process takes depends on your goals and objectives, your family members, the type of business you own and your company's human and financial resources. In most cases, family business owners should get started at least five to 10 years before they plan to retire.

GET YOUR FAMILY INVOLVED

The best way to begin preparing your succession plan is to determine your objectives, share them with your family and seek their input. Remember that it's important to keep the lines of communication open. When important participants are left out of the process, they may find it difficult to support the outcome.

One of the first issues you'll want to discuss is whether any members of the family are interested in taking over the business. If your children are interested, most family business experts agree that your offspring should work for someone else first. The experience they gain can provide valuable training and give them a truer sense of whether they really want to run the family business.

CHOOSING A SUCCESSFUL SUCCESSOR

Think long and hard about what qualities the ideal successor should have. Whether the candidates are within or outside the family, the formula for choosing your successor is the same – select the person most capable of managing and growing the business and its profits.

While this is good business advice, family business owners often are understandably reluctant to choose from among their children. While there are exceptions, bear in mind that having more than one successor sharing the ownership and management of the business seldom works. Ultimately, one successor should be chosen to run the company. Others who are interested can have a role, but you need a single leader at the helm. In the interest of fairness, you can use other means to provide an inheritance to children who are not involved in the business.

TRAIN AND COACH YOUR SUCCESSOR

Once a successor is chosen, the next step is to assess the development needs of the candidate and devise a plan to address them. By choosing a successor well in advance of the transition, you will have the benefit of training and coaching your successor over a period of years. Encourage him or her to build relationships with employees, vendors and customers. Along the way, evaluate his or her commitment, business acumen and leadership skills. Be sure to allow sufficient time for development, but don't wait too long to give true responsibility and authority to the potential candidate. When you think your successor is ready, consider taking a long vacation to allow him or her to experience being fully in charge.

WORK WITH A CPA

There are a variety of financial strategies that can be used to transfer your family business to your successors. Alternatives to an outright sale of the business include installment sales, combination gift/sales, buy/sell agreements, or annual gifting.

This is a complex area with serious tax and financial implications. A CPA skilled in family business issues can help you determine the best method to transfer your business and guide you through the succession process.

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