

Intra-Family Business Succession: Best Practices

By Cynthia Adams Harrison, Managing Director

Transferring ownership of a family-held enterprise from one generation to the next might be one of the most daunting tasks an owner, the family and the business can face. One of the greatest challenges to succession within a family is change. Families are systemically comfortable with homeostasis which means the family seeks to maintain its customary organization and functioning over time.

Business success depends on proactively changing to meet the needs of growth. In order for these two systems to operate effectively together the family needs to understand the complexities of each, appreciate that the family needs to change in accordance with best business practices and also undertake steps to ensure harmony within family relationships. This is not an easy task.

Most efficient succession transitions include effective planning, thoughtful and comprehensive communication, care to maintain harmony within both systems and monitoring the plan to measure its success.

Best practices for an intra-family business succession may include:

- **Being pro-active and designing an effective plan:** Succession works best when shareholders, key senior management, employees and family members are engaged early on in the process. Creating a timeline for succession allows for realistic expectations and consideration of the stages or steps required for the process. It also allows for the evaluation and mentoring of family leadership and key senior management to prepare for the transition.
- **Effective Communication:** The biggest challenge for most family businesses is effective and consistent communication. Having an effective communication process for your succession plan is a smart step. Conflict typically surfaces when communication is poor. When and how all stakeholders communicate needs to be identified and adhered to for success.
- **Preparing the next generation for leadership and other roles within the business:** Assuming family members want to have leadership roles within the business can be an error. Many family members would like to work in the business without having a management role or leadership responsibilities. Still others, do want to have leadership roles. Proper discernment and evaluation of skills, experience and motivation is critical in making decisions about who will lead the business going forward and it doesn't always have to be a family member. Non-family key senior leadership can be an effective bridge to allow the next generation to prepare for leadership positions in the future. Seek out effective training and development programs for all employees, family and non-family.
- **Prepare owners for succession:** Understand the emotional aspects of transition for the senior generation, identify the needs of control and dynamics of power, have empathy for the fear of loss associated with transitioning the business and create a transition plan for the owner which includes defining the next chapter.
- **Define the most effective management structure for the future:** What typically allowed one owner to become successful may not work going forward. The business may need much more diverse sets of skills to continue its trajectory of growth. An Executive Committee or Senior Management Team may need to be identified to support the needs of the business in a succession process. The collaboration of needed skill sets can only strengthen decision-making and ensure best business practices for future business growth and performance.

- **Consider governance structures to support both the family and the business:** Get advice on what the best family and business governance structures might be for your situation. Family governance can start with a Family Assembly and then move to a Family Council which then makes recommendations to business governance structures like a Board of Advisors or a Board of Directors. Family structures support educating the family on all things business and can often avoid potential conflict. Maintaining family harmony through the challenges of a succession process is crucial. Business governance structures support best business practice decisions for the business.
- **Fair does not always mean equal:** When considering ownership transition many owners believe that they should give equal ownership to their children whether or not they work in the business. This can be a complicated conversation with owners and their spouses and partners. Consideration to family that work in the business, roles, responsibilities and functions they may have, assets that are not in the business (e.g., real estate) and additional estate planning need to be outlined with best business practices in mind. It is important to be objective with next generation skill sets and avoid issues of entitlement.
- **Get professional expertise:** Professional advisors such as lawyers, accountants and family business consultants are required to ensure a succession process is effective. Succession can be complicated and needs special assistance to problem-solve ownership transfer, tax planning and implications, estate planning needs, documenting shareholder and operating agreements and more.
- **Create a formal transition plan that aligns with the business' strategic plan:** Documenting a formal succession plan is crucial to ensuring that you consider each important topic area, the agreed upon timeline and responsibilities for action steps. Aligning the succession plan with the business' strategic plan also creates confidence that the plan will do what it has set out to do in meeting the needs of the business.
- **Monitor the plan:** Create a process for evaluating that the plan is working, timelines are kept and outcomes are measured. If adaptations need to be made, they will be timelier if the plan is consistently monitored.

There are many universal themes that surface in preparing for an intra-family succession planning process, but each family business situation is unique. It is almost impossible and naive to believe you can do this alone. Seek the assistance of professional advisors who are experienced in intra- family succession planning and understand family business dynamics, so your process and outcomes are effective and successful. You have taken years to build your business and you can assure its legacy and future with proper and effective planning.

Contact Us

If you are presently a client of PKF O'Connor Davies, please contact the partner in charge of your engagement. Otherwise, reach out to the author:

Cynthia Adams Harrison, Ed. D., LICSW
Managing Director
Center for Private Business Owners
PKF O'Connor Davies Advisory Services
charrison@pkfod.com | 914.575.2744

Our Firm provides the information in this e-newsletter for general guidance only and it does not constitute the provision of legal advice, tax advice, accounting services, or professional consulting of any kind.