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7 STEPS

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for a Smooth Succession in a Family Business

Developing a successful family business requires a very high level of devotion, hard work, discipline, personal resilience and planning. Those who have been involved with building a family business from the ground up understand the sacrifices that have been made to make their business successful.

Many business owners intend to transfer the businesses they have built to the next generation and hope to see their work and effort continue to benefit their families for generations. Unfortunately, it is estimated that less than one third of family businesses successfully transition to the second generation and nearly 90 percent of family businesses never make it to the third generation. What is it that keeps a family from successfully navigating a generational business transfer? If the answer were simple, more people would do it. Part of the struggle is figuring out where to start.

Dave Specht, a family business consultant and lecturer in family business management at the University of Nebraska, has developed a solution that he calls “The Continuity Quotient.” (The name is trademarked.) This process includes seven themes that must be accounted for to allow a family to manage the succession planning process. These themes include the following:

- **Business and estate planning:** There are a few aspects to transferring a business that make it crucial to have a solid estate plan in place. In addition to having a plan that incorporates strategies to minimize tax and facilitate an orderly transfer of assets, a good estate plan should also plan for the management and ownership needs that may exist within the family business. The best plans are developed when a team of professionals including CPAs, attorneys, Insurance professionals and bankers collaborate together with the family to develop a plan that not only accomplishes the business needs, but also provides for the needs of the family. Tax laws and family needs are always changing, so a good estate plan should also provide a level of flexibility that allows the plan to adapt over time. Individuals should reanalyze their estate plans periodically and make necessary adjustments as family circumstances change.



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Finally, performing a regular review of an estate plan may help identify additional planning opportunities where business interests may be transferred in the most economical manner.

- **Communication:**

Communication of intentions and dreams for both the Senior Generation and the Next Generation is crucial.

Communication with those we care about most can sometimes be difficult. However, the ability to work through challenges, while speaking respectfully is crucial to the success of any family business. Families that set aside time to “work on” and talk about the business and the goals for their family will increase their likelihood for success.

- **Leadership development:** Developing the next generation takes both initiative and patience. An intentional skill development plan for the Next Generation will give them the necessary level of skill and confidence to allow the Senior Generation to delegate meaningful responsibility when the time is right. Creating expectations and accountability for the development of the next generation will aid them in their growth.

- **Trust:** There are many types of trust that need to be in place for a generational transfer to be successful. The Senior Generation must trust the decision-making ability of the Next Generation in both their personal and business life. They must also trust that they have similar goals for the family business’ future. Equally important is the Next Generation’s trust level with the Senior Generation regarding their intentions for the future. If either side doesn’t trust the other, the process of transitioning the business will most likely break down.

- **Personal resilience:** Just as personal resilience is one of the elements that makes a business successful to begin with, it is essential for the business’ continued success. Successful business owners know how to learn from their mistakes, embrace change and not give up when things are difficult. If the Next Generation doesn’t have a great deal of personal resilience, it will send up a red flag that things might not go according to expectations. It is best to find out early if a person isn’t “wired” to be an owner. This is not an insult to someone who isn’t, it is just an

observation that if a person isn't comfortable with struggles or doesn't quickly learn from their mistakes, they may not be ideally suited to be a business owner. If this is the case, more focus must be placed on developing a supporting network for the individual to help them successfully manage the businesses.

• **Retirement and investment planning:** Most successful family businesses owners have one common challenge. They are usually asset-rich but relatively cash-poor. When considering the prospect of transitioning out of the operation, the Senior Generation's retirement cash flow sources and needs should be carefully planned for. It should be determined what the desire for cash flow is and those needs should be measured against the ability that the business has to create the needed cash flow. It is recommended that families who desire business continuity through the generations should do everything they can to create alternative sources of "retirement" cash flow.

• **Key non-family employees:** In family business succession, the key non-family employees are sometimes the most important piece of the puzzle. Taking the opportunity to share the family's visions and dreams for the future with the key employees can instill confidence and loyalty in a group that will ultimately help navigate the most difficult part of the transition. Sometimes communicating with key employees is enough, but

other times financial incentives are used to entice them to help the family make the transition successfully.

Each family has unique issues in their generational transfer situations, but if you can identify the strengths, weaknesses and gaps in perception with the seven themes of "The Continuity Quotient," you will increase the likelihood for success. Getting "intentional" about working through these challenges is the most important step you can make. Generation transitions are hard work, but if they are done properly they will not only strengthen the business, but they will fortify the family relationships that every family hopes to preserve and perpetuate. Your family and your business deserve a thoughtful process to continue your legacy of success.

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