Four considerations when passing the family business to the next generation – QuickBooks

November 5, 2020 Stacie Munroe QuickBooks

It's one of the most common issues related to the future of a family-owned business: How do the owners pass the business to their children? Moreover, how do they know if their children will even want to take over the business, let alone make it profitable for the long term?

Parents often treat the company as their baby to be lovingly and carefully passed off to new hands, yet the kids treat the new responsibility as a moment to shout, "Please don't let me fail!" Why should the kids fear failure? That's easy: For the same reason the parental owners and founders must be careful in these deals.

Over the next few decades, some $30 trillion in wealth is expected to change hands from aging business owners to their children. That's a staggering volume of wealth transfer, even with Covid-19 putting a dent into some of it and altering more than a few succession plans. Even though the business landscape may have been forever altered, there's no doubt that business will, eventually, bounce back.

Owners are not, however, particularly good at succession planning. Surveys have shown that almost half of family-owned businesses don't have a succession plan, yet 3 out of 4 of those businesses plan to pass ownership to the next generation.

More-sobering numbers still: Only about one-third of all family businesses survive into the second generation, and even fewer survive into the third — and those numbers were the reality before the pandemic.

A tough decision made tougher

Most owners are naturally concerned about how to transition control of their business — which is often the passion of their life — to new ownership. It's one of the toughest management decisions most of them will ever make. Add in complicated family dynamics to the transition, and you can have a truly challenging situation.

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Too often, we hear about the lack of communication and quarreling siblings. It would be nice to think that only good feelings, such as love and respect, motivate everyone to do their best for the future of the business. However, bad feelings with deep roots — resentment, jealousy, greed and perceptions of favoritism — can suddenly drive too many decisions about the future of the business. Concerns about the parents' health can cause problems for succession as well, with children bickering over medical directives and powers of attorney. The result can be a division that lasts, unfortunately, a long time.

Not all problems with these transitions come with decades-old emotions. Sometimes, differences can be as simple as technology to help the business function. Parents tend to be good with old systems, while the kids want something new. Parents are OK with data entry, while kids focus more on automation. Parents like the old coffee pot; kids want something with pods.

I see this all the time. For example, my firm recently conducted a demo for a father-son-owned wholesale and distribution produce business with about 100 local customers. The business owns its own delivery trucks and makes local deliveries only from its one warehouse. The business has a lot of manual

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Four recommendations for a smoother transition

Not all the obstacles to family succession are unsolvable. A little positive thinking can go a long way toward easing the next generation's leadership of any family company. Consider these four recommendations:

1. **The process takes time.** The sooner you can discuss the future of the business, the better off everyone will be. Start early with family members, and include professional advisors, such as accountants and attorneys, regarding the transition of a business and personal financial matters. These decisions often can't be finished in six months or, with some families, even in a year.

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2. **Recognize the good differences.** It's often hard for the next generation to simply take up the reins of a business exactly as their parents did. As business operations evolve, the next generation probably has different skills and interests. Recognize these differences and trust the process.

3. **Cover the right bases.** A solid succession plan covers the transfer of power and the transfer of assets. Due diligence is especially important to make certain the buyer — even if they are a family member — has approved financing or cash to purchase a business. A spoiled deal will likely only increase family squabbles. In addition, recognize that future taxes might be a huge uncertainty with both sides of a deal in a pivotal election year, or really any time the corporate tax structure is up for debate.

4. **Honor the business's reputation.** Family businesses have often been built with sweat, heart and tears, and parent owners have often spent years building a brand their customers like and trust. Those are big pluses for positioning these businesses to survive during and after a pandemic. Anyone succeeding as an owner needs to recognize the long-haul reputation of the business. Sure, changes can occur, and they most likely will, but be careful to not make too many changes overnight.

With these four considerations in mind and a solid plan for succession in place, your family business is more likely to see many more generations to come.

Editor's note: This article was originally published on *Forbes*.

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