



5 Vital Succession Planning Tips for Family-Owned Businesses

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It's a shocking statistic, but one that any family-owned business should be aware of: less than half of all family-owned businesses survive into a second generation. And a major reason for this is failure of family-owned businesses to understand the importance of [succession planning](#).

The truth is, no matter where your business stands at this point in time, it's never too early to start thinking about what will happen when you can no longer run the company. Will you pass it on to a family member? Sell it? By planning ahead, you'll increase the company's chances of being able to succeed and thrive long-term.

Consider Short- and Long-Term Goals

Perhaps the most important aspect of succession-planning for a family-owned business is having a strong idea of both your short- and long-term goals for the

company. Specifically, be sure to consider the company's cash flow needs along with any financial obligations related to retiring family members. Where do you see your company in a year? In 10 years? Is it important to you that the business remain family-owned after you retire, or are you open to the idea of bringing in an outside professional to run the company? These are all important questions to consider and discuss with the rest of your family.

Establish a Decision-Making Process

Once you have an idea of your short- and long-term business goals, you can begin to develop a logical process for making decisions regarding succession planning. Understand that all of your family members and employees should have at least some stake in the process. And depending on how many people will be involved in the decision-making process, you'll probably want to have a system in place for conflict resolution. This way, everything can be done as diplomatically as possible.

Determine the Succession Plan

Now comes the hardest part: developing the succession plan itself. One of the most important decisions that will need to be made is that of choosing a successor to run and manage the company once you're out of the picture. In making this decision, be sure to consider what will be best for achieving the long-term goals of the company—even if that means selling the business or passing the reigns onto an industry professional outside the family circle.

In addition to establishing a successor, you'll also need to consider:

- which roles other family members will take on
- a timeframe for the plan's implementation
- how any shares of the company will be handled

Along the way, also be sure to keep a detailed, written copy of the plan as it

develops. By having a specific plan for determining your successor(s) and making everybody else aware of it, you're less likely to run into family drama or hurt feelings when you ultimately make your decision because everybody will see exactly how you came to your decision.

Consider and Plan for Tax Implications

Depending on the succession plan you decide to go with, there will be different tax and financial implications that you'll need to take into account as well. As such, you'll want to take specific measures to minimize any tax burden your business will face when the succession plan is implemented. For example, you may want to meet with a succession-planning professional who can assess your unique situation and determine the best course of action for reducing your tax burden.

Other possible family business challenges you'll need to plan for include:

- owner estate planning
- delays in stock transfer
- planning for death or divorce

Set Up a Plan for Transition

Even once you've decided on a sound business-succession plan, you'll need to make sure you have left detailed instructions in terms of how it'll be implemented. It's not enough to simply declare that your spouse will take over the company; you'll need to outline, for example, the specific timeframe in which this will take place. Will ownership be transferred overnight? Will the transfer be categorized as a gift or a purchase (each comes with its own tax and financial obligations, after all)?

Above all else, communication is key when it comes to family-owned business succession planning. If you remain transparent throughout the process and

keep everybody informed, you're less likely to run into challenges down the road and more likely to enjoy a smooth transition that sets your business up for success in the long-term.

Succession planning for a family-owned business isn't something you can do in a day. Instead, it will require meticulous planning and consideration on your part—along with plenty of input from your employees/family members. By following these tips, however, you'll be well on your way to an actionable plan.



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