THE TAX ADVISER

Global Family Business Succession Survey: Eight Principles of Succession

TAX CLINIC

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Personal Financial Planning

A family business succession survey was recently conducted by member firms of Baker Tilly International in cooperation with Swinburne University of Technology, Melbourne, Australia (see Shrapnel and Gilding, *Baker Tilly International Global Family Business Succession Survey: Dynamics, Barriers and Strategies* (2013)). The global survey, organized across 55 countries in nine languages, focused on the dynamics, barriers, and success strategies experienced in privately held and family-owned business succession. It looks at perspectives from the three phases of the succession journey—before starting succession, during succession, and after completing the succession process.

This item summarizes the interim results of this survey into the eight principles of succession (see Shrapnel, *Future Proofing the Capital Value of Your Business: Lessons and Experiences From the Journey of Succession: Interim Findings of Global Survey* (2013)). It is important that tax advisers not only provide guidance on the tax implications of their clients' succession plans, but that they also help their clients understand these important business succession principles.

Eight Principles of Succession

1. Succession is not retirement: Business owners fear that succession equates to retirement. Therefore, many business owners think they do not need to do succession planning because they are not ready to retire.

The survey revealed that if business owners think of succession as business evolution, their success in passing on the business increases. It is about building a business that is prosperous and can be transferred between generations (or sold) in a way that ensures family unity and business continuity. It is important for the younger generation to have the opportunity to grow and develop. As the senior generation builds the business, for example, it mentors the younger generation through leadership, management, and ownership issues as it prepares them to take over. This occurs over the life cycle of the business as it evolves.

Tax strategies involving trusts, deferred compensation plans, and careful structuring of business entities can be used to help maximize the net wealth transferred to the next generation. However, many more issues need to be addressed as the business evolves.

2. Start with readiness: Like learning how to golf, the succession process takes time, commitment, and motivation. To start, business owners should establish a succession planning process. This is another area where advisers can be of assistance. Like golf instructors, professional advisers have been through the process many times before and can help business owners figure out where to start. However, the older and next generations must be ready and committed to learning those lessons and developing that process.

3. Set your goals before the journey: The current team and next generation team need to take the time to define their business, family, and individual goals and to develop a plan to implement those goals. The goals should be clear, measurable, and compelling to energize and engage those involved in the process. Professional advisers can effectively help implement tax, legal, and financial strategies only if they first understand their clients' succession goals.

The global survey found, not surprisingly, that the respondents' goals changed before, during, and after the succession process. Therefore, professional advisers should revisit clients' goals often.

4. Harmony is a must: A good succession process should create, sustain, and enhance family harmony. Often, family disharmony is one of the main barriers to a successful succession plan.

5. Price is not first: No matter whether the owners are planning to sell, retain, or transfer the business, the survey found that the owners' biggest concerns during the succession process are "continuity of the business" and "ongoing jobs for employees." Before the process started, getting the best price for the business was considered an important factor, but its importance lessened significantly throughout the process.

6. Plan early, start earlier: If parents want their child to go to an Ivy League college, they do not wait until high school to start focusing on the child's education. Likewise, it is never too early to start a business succession plan. Because succession is about the evolution of their business and about business continuity, ongoing jobs, and building capital value, owners cannot start planning for succession too early.

7. Equality is not equal: Every member of a professional football team is important, but often the quarterback is the highest paid because he typically has the biggest impact on the outcome of the game. Therefore, his pay is unequal with that of his teammates, yet fair. Likewise, when deciding how to allocate the family wealth, family business owners should seek to be fair, based on the historical and future contributions of family members. Respondents listed achieving a fair distribution of assets among family members as one of their greatest challenges.

8. Ask before you get lost: A family business owner entering the succession planning process is like a person entering a maze. The person might know his or her end goal, but without professional guidance, he or she will make many wrong turns on the journey. Working with a team of professional advisers is essential to the succession planning process.

Business owners should consider seeking tax, legal, estate planning, investing, insurance, and family dynamic advice when endeavoring on their succession planning journey. Advisers must understand the client's goals to effectively provide specialized advice. For example, tax planning advice given without understanding the client's succession planning goals might yield a favorable tax result, but the advice might be off-target because it does not align with the client's overall goals.

The Long Journey

Family business succession planning is a complex process that requires business owners to engage professional advisers to help guide them through it. It is essential for the clients and advisers to both understand and document the clients' succession goals and to develop a plan to achieve those business, family, and individual objectives. Succession planning is a long journey that should be carried on during all phases of the business life cycle as the business evolves. Clients' succession goals and objectives will change throughout this journey, and it is up to the adviser to understand these changing goals and to help the client achieve them.

EditorNotes

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