Integrated, holistic planning enables business survival across generations

BY CHARLIE MUELLER, KEVIN HARRIS AND CLAUDIA SANGSTER

After building a thriving business, entrepreneurs often hope their companies will stay in the family for generations to come. Yet many business founders, despite planning diligently and gathering recommendations from well-known advisers, find their companies faltering after they relinquish the reins. Why?

Fragmented vs. integrated

Most family business owners work concurrently with multiple advisers. These professionals may be very qualified and have great ideas, but they are often in limited contact with one another. Each expert offers advice and observations from his or her own perspective but may be unable to connect all the dots because they are all working in separate silos and, in some cases, with incomplete information. Each one communicates with the family and the business hierarchy, and each may see documents that the others produce. But they may never have the opportunity to meet as a group to discuss the family's business, wealth and life goals. In these cases, the family gathers up piecemeal bits of expert advice and observations and tries to stitch them together into a patchwork plan. In the process, the opportunity is lost for synergistic "third-eye" insights that come from a "sum-is-greater-than-the-parts" team approach. It's less about how smart your advisers are and more about how well they're talking to each other. Equally important is having somebody at the nexus to discern these insights, distill them and turn them into a plan.

The upshot: The family thinks it is on track, doing the right things to help ensure the longevity of its business, wealth and family legacy. But too often, it's dealing with incomplete information and possibly incongruent approaches. Family members fail to recognize overarching issues until a crisis throws a wrench into their carefully crafted—but compartmentalized—plan. That's when gaps in the segmented plan become obvious, and the family experiences uneven or unexpected results.

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Secrecy causes problems

Consider Joe, the president and one-third owner of a successful family business in its fourth generation. The firm engaged a law firm, an accounting firm, a tax preparer and an estate planning attorney for professional advice. It had a board of directors and an

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A Holistic Approach to Succession Plans Reduces Blind Spots

Family business owners should take three steps to help ensure that the legacy they worked so hard to build and nurture thrives across generations. This holistic, multidisciplinary approach aims to break down silos among various advisers and gets them talking among themselves as well as with the family. It can help eliminate and illuminate the peripheral blind spots that too often undermine the family's best efforts.

1. Strategize and align

- ***Business plans:*** Develop strategic business plans; set up contingency management plans; address policy gaps.
- ***Wealth plans:*** Clarify wealth goals and amounts needed to fund each; review/develop estate/tax plans and "stress test" them based on various scenarios; conduct asset sufficiency analysis and personal risk reviews; develop financial plans.
- ***Family plans:*** Create shared vision/mission statements; make compacts for family members to follow for managing shared ownership of business (e.g., family employment policy, distribution policy); develop communications practices informally or formally (e.g., family councils, family meetings)

2. Communicate, educate and develop

- ***Business plans:*** Communicate with key stakeholders; develop board structure and identify leadership team; conduct leadership succession planning.
- ***Wealth plans:*** Determine wealth transfer plans; evaluate senior generation's income flow; assess opportunities to achieve tax efficiency and optimize wealth transfer to family members and/or charity; engage next generation in wealth management tasks.
- ***Family plans:*** Develop decision-making/conflict-resolution processes; educate family about ownership/finance/business; develop family acumen; augment the adviser team if needed.

3. Manage transitions

- ***Business plans:*** Select/induct successor; implement family's "stepping-back" approaches for retiring generation; manage retention of key employees.
- ***Wealth plans:*** Monitor estate tax liquidity needs; update estate plans per life changes; implement charitable strategies.
- ***Family plans:*** Orient new family members to family system; educate new family members and continue educating younger generation; recognize key transitions; engage all family members in the future direction of the business.

executive management succession plan. A family council facilitated communication between the family and the board. The company typically paid modest dividends, but most cash flow paid salaries and employee incentives.

Joe was a very private person who kept his personal finances close to the vest. After he died, his family discovered his wealth was tied up in the business and other illiquid ventures. Joe's widow, facing a liquidity crisis without his salary, felt forced to modify her lifestyle and sell personal assets, including some cherished family heirlooms.

But those changes likely will not generate enough cash flow for her over time. Her future cash needs may require selling shares back to the company under its shareholder agreement, depriving Joe's descendants of future *pro rata* ownership.

Lessons learned

Although he worked diligently to address business succession and estate planning, Joe's failure to share complete personal information with his family and advisers undercut those efforts. With better adviser communication and coordination early on, the group might have spotted this information vacuum and gotten Joe to recognize the importance of sharing such critical details with his advisers and/or his family. They might have persuaded Joe to reallocate his assets to anticipate the family's future cash-flow needs, revisit his asset allocation and address the liquidity issues via life insurance or strategies such as an Employee Stock Ownership Plan.

Joe's situation is far from unique. Indeed, data from a well-known study of 3,250 families and 100 family foundations (Roy Williams and Vic Preisser, *Philanthropy, Heirs & Values*, Robert Reed Publishers, 2005) bear out the difficulty families face in creating businesses that withstand the passage of time and leaders.

The study found that only a small percentage of wealth transfers that failed within two generations were the result of technical flaws in wealth management or estate planning. Most failures stemmed from a lack of effective family communication and a lack of trust among family members (family governance). Others resulted from inadequate preparation of heirs (family education).

This study and others confirm that communication, education and trust are the key characteristics of families whose businesses (and wealth) span generations.

Benefits of collaborative plans

What's the remedy? While there's no single panacea, constructing an integrated plan executed by a collaborative team can go a long way toward helping the family achieve its long-term goals. We suggest a three-pronged approach to family business succession planning (see sidebar on page 28). It starts with gaining a thorough understanding of the business owner's goals and objectives. It then addresses how the business, wealth and family plans are integrated through a focused approach of (1) strategizing and aligning; (2) communicating, educating and developing; and (3) managing transitions to achieve those goals.

The benefits of having coordinated advisers are similar to those of using an integrated approach to health care. Many patients searching for the best treatment for a rare medical condition travel from specialist to specialist, each of whom devises a plan based on limited information and expertise. If they don't all work together and communicate, they can overlook important aspects of the patient's situation that greatly affect the approach and the results.

Increasingly, however, patients are seeking care from multidisciplinary specialty clinics. They benefit from being surrounded by a collaborative team of specialists offering coordinated, cost-effective care. That trust, expert collaboration and communication can mean the difference between life and death or, in the case of a family business, between growth and failure.

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Keeping the family business alive across generations requires long-range and continual planning to identify goals, understand challenges and adjust to expected and unexpected transitions. It entails applying the best approaches to meld three work streams—business, wealth and family. But it also means that business owners, family members and professional advisers must talk candidly among themselves. They must obtain a panoramic view of the family's situation—not just an isolated frame—in order to create a holistic plan based on that broad vista. FB

SMARTER WEALTH MANAGEMENT STARTS WITH MORE MEANINGFUL CONVERSATIONS

Any successful wealth plan begins with a thorough discussion of your ambitions. Whether you're pursuing your next dream, investing in your family's future or exploring your philanthropic legacy, we take the full spectrum into consideration. By understanding the intricacies of your goals, we create a more meaningful approach to wealth management.

Our goals-driven process considers all your assets and assesses various scenarios, allowing us to best guide decision-making and spark discussions to help identify the opportunities right for you.

1 **IDENTIFY** your goals to uncover your unique priorities and objectives – both business and personal – that may affect your decisions.

2 **ASSESS** the role of your current and expected assets – personal, investable and illiquid – in helping achieve your goals.

3 **ALIGN** your individual goals to your portfolio, ensuring assets are working toward your specific ambitions.

4 **GUIDE** real-time analysis of multiple scenarios to help you think through priorities, reveal opportunities and direct your decisions.

5 **OPTIMIZE** your tax planning and wealth transfer strategies with proactive, thoughtful advice.

6 **EVOLVE** your plan as your needs, goals and priorities change over time.

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