Planning the Transition Phase between generations – Part 2 of 2

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In Part One of "Planning the Transition Phase between generations," we looked at ensuring the transition of your business's ownership is a smooth one, carefully thought out and planned to every detail. We discussed the impact of ownership transfer on non-family members actively involved in the management of the business. Using specific examples, we also examined: the fundamental need to transfer knowledge about running the business; setting the transition date well ahead of time; and the process of selecting your successor. In Part Two, we shift our focus to the vital next step: how to prepare your successor – and your family and you – for the ownership transition.

Having identified and chosen your eventual successor, you now need to turn your attention to addressing that individual's business skills and business acumen. You should objectively analyze your successor to identify their areas of weakness or lack of knowledge. Then you can address their shortcomings – and resolve them – in good time before they assume leadership and control of the enterprise. This may take years to accomplish, which is another reason for setting the ownership transition date well ahead of time.

The future business leader may require a specific educational pathway. It may take three or four years of study to prepare them with the requisite technical skills. You'll have to factor in the funding of this educational process. Will the business cover the necessary costs? What about extra costs for accommodation and meals if the formal requisite programs are not offered locally? Business and personal coaching may be required as an adjunct to formal study; these costs may need to be met by the business, too.

Once all the educational and upskilling needs have been met, you should consider having your designated successor work in the family business or other similar, non-family business for a time. This will give them valuable "hands-on" experience and familiarize them with the day-to-day responsibilities of a senior leadership role.

Funding of retirement through realization of value from the business

Most outgoing owners of a business want to fund their retirement from the transfer of the business, just as they would if they were to sell it to someone outside the family. When you start thinking of retirement, you'll want to plan how such funding can be accomplished without adversely affecting the current cash position and future required cash flows for your business. Ideally, you'll work this out well before your departure.

The financial needs of both a retiring owner and their business need to be in alignment with the projected profitability and available cash flows that the business can generate. To position your business to meet these needs, you may require further capital investment in the growth and development of the business before the transition occurs. This way, you'll be providing for sufficient cash flows going forward.

Consider setting up a family board

If the business involves several members of the family, you may find it helpful to set up a family board. Members of this board will meet regularly and share information about the transition while it is being planned. Interaction and involvement by the family members can smooth over any potential disappointments or feelings of being disadvantaged that might otherwise occur when choosing and deciding on a successor. Together, the board can establish a family vision, values and goals, creating a framework to provide the future successor with guidance and support. The family board, working in conjunction with the successor, can play an important role in determining the direction and success of the family business for multiple generations to come.

Once you've set up a formal family board, ensure that minutes are taken at all meetings and circulated shortly after each meeting. Minutes provide family members with written support of the decisions made – and therefore the basis to minimize any conflicts or disputes that may arise at a later date about what was said or decided.

Addressing taxation and estate planning issues

The departure of you as owner, and the transition of your business to the next generation, almost certainly has taxation implications for everyone involved. As a business usually forms part of an owner's estate, you'll need to identify and address various estate planning considerations.

Effective tax and estate planning for any owner usually involves highly complex rules. It requires the attention of specialists with local experience and a good knowledge of all applicable tax and estate legislation. You, your family and your business will benefit from early involvement by your key trusted advisors to work with and guide you through the transition process. Access to their expertise and experience during the process ensures every option can be explored – and the best plan for succession achieved.

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