



OSWEGO
PRIVATE WEALTH MANAGEMENT

Family Business
Succession: An Overview
for Owners and Heirs

KEY TAKEAWAYS:

- The lack of a solid succession plan can easily result in family conflicts that hurt the company.
- If the decision is to keep the family enterprise in the hands of the family, then a succession plan is needed.
- Many owners of family businesses want to create a family dynasty involving the company.

If you've built and grown a family business over time, there's a very good chance that you'd like to have your heirs take over the company at some point down the road—or maybe more like around the corner, if you're ready to move on.

But are you and your business's potential future owners prepared for that transition and set up for success?

The fact is, we too often see entrepreneurs who want to transfer ownership of their companies to their children or grandchildren fail to plan adequately for that moment. As a result, family infighting can occur—which, in turn, can damage or even destroy the business that the founder spent decades nurturing.

This issue is one of increasing importance. We believe the transfer of these family-owned and -operated enterprises is going to become a comparatively larger-scale phenomenon over the next decade because of the tremendous amount of entrepreneurship and private wealth that has been and continues to be created. By understanding the differences in approach and thinking between founders and inheritors, you can potentially discern opportunities and complications so as to improve the transition when the day arrives.

With that in mind, here's a closer look at family business succession planning—as well as a snapshot of how today's entrepreneurs are thinking about the future of their companies, and their families' role in them.

A SURPRISING REASON FOR SUCCESSION PLANNING

If you have the desire to smartly and efficaciously pass the baton that is your family enterprise from one generation to the next, succession planning is essential.

The reason, however, might surprise you. Many assume that succession planning is all about minimizing taxes and other financial concerns. And certainly those issues are extremely important. But perhaps the biggest reason to engage in solid succession planning is because the lack of a plan can easily result in family conflicts. These conflicts can cause personal and financial complications that can result in the desolation of the family enterprise—as well as considerable damage to the family.

The key purpose of succession planning, then, is principally twofold:

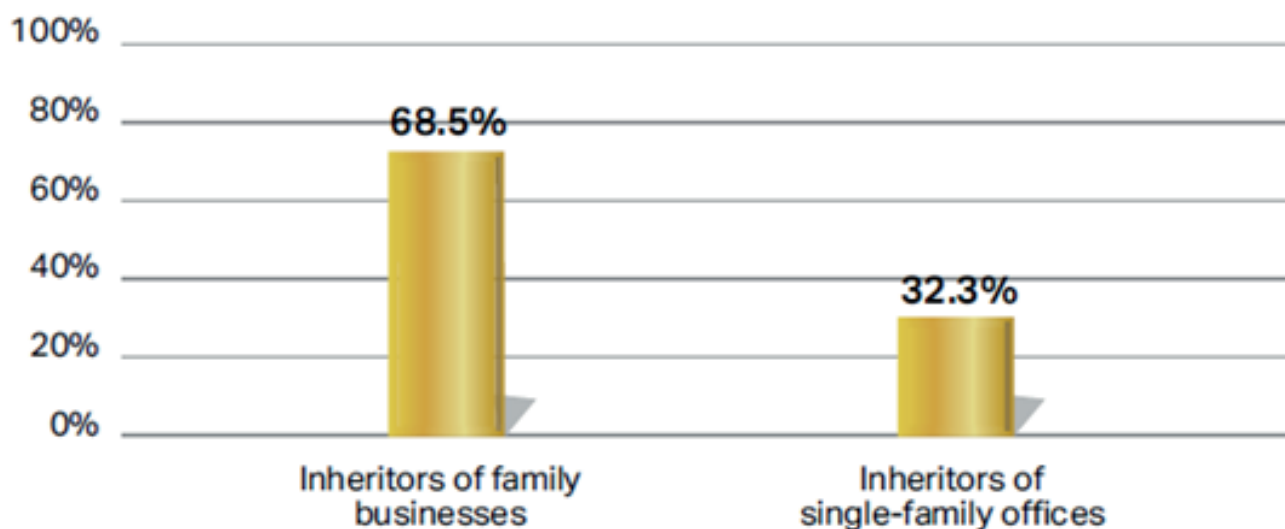
- The transfer of the family enterprise between generations in the most effective way that ensures continuity
- The minimization of family conflicts that can derail the family enterprise or damage important family relationships

THE POTENTIAL FOR FAMILY CONFLICT

Keep in mind that there is a significant difference between putting even a well-designed succession plan in place and ensuring it endures and is adhered to. While legal structures such as trusts and partnerships can guarantee the desired mechanical transfer of ownership of the family enterprise between generations, those structures don't negate the fact that family members can still fight over the assets—with potentially devastating results.

Consider research showing that more than two-thirds of the inheritors of family businesses reported experiencing family conflicts within two years after they took control (see Exhibit 2). Incidentally, as seen in the exhibit, inheritors of single-family offices—another type of enterprise used by some extremely wealthy families—were much less likely to have to deal with family conflicts than those in family businesses. (A possible reason for this distinction is that for ultra-wealthy family members of single-family offices, it is generally easier to take their share and go their own way than it is for family members who own a piece of the usually illiquid family business.)

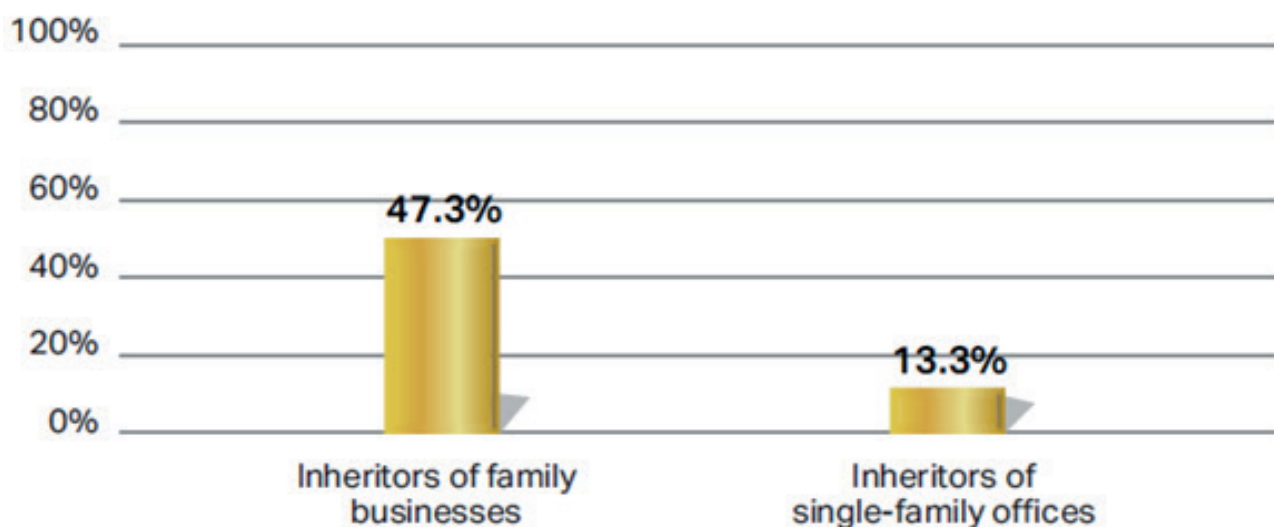
EXHIBIT 2
Conflicts Within the Family



N = 201 family enterprise respondents.

Of those business inheritors who reported having family conflicts, nearly half classified those fights as being severe (see Exhibit 3). This was much more common among inheritors of family businesses than among family members who inherited single-family offices from their elders.

EXHIBIT 3
Severe Conflicts Within the Family



N = 104 family enterprise respondents.

Clearly, then, family infighting is an issue that must be considered by many families that own and operate businesses and that seek to pass on those businesses to heirs. Even if you don't think it could happen in your family, the research suggests that in reality, severe conflicts arise quite often.

Severe conflicts regularly prove to be extremely problematic to disastrous for family enterprises. Aside from direct damage, they eat up considerable resources and take an extensive emotional toll on the family members.

Keep in mind that a disgruntled family member can always file a lawsuit. Even if that lawsuit does not prevail, the problems it can cause other family members can be extensive. Effective succession planning not only results in the efficacious transfer of the family enterprise between ultra-wealthy family members, but also mitigates or virtually eliminates family dissent due to the transfer.

That said, family conflict is not always avoidable. There are a number of ways—such as family enterprise mediation—to lessen the conflicts or at least minimize the possible harm you, your family and your family enterprise experience. However, the foundation of your efforts to steer clear of family disharmony should be effective succession planning. Without it, the impact of family conflicts can be intense and even ruinous.

DO YOU NEED A SUCCESSION PLAN?

The first consideration is deciding if you need a succession plan. To make such a decision, you and your family have to determine the preferred future of your family enterprise.

With respect to a family business, some of the questions you might want to consider include:

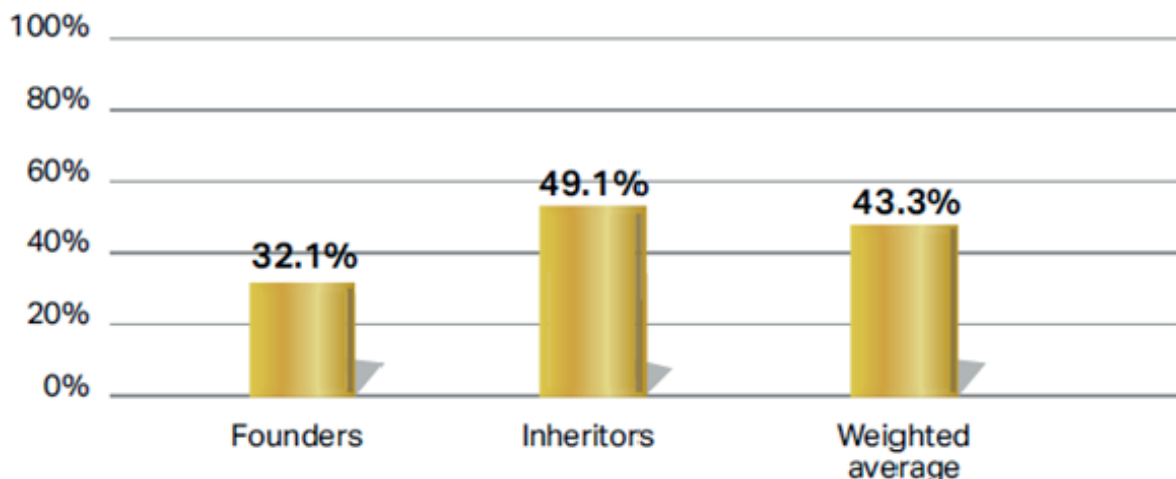
- Does it make sense to continue as a family business, or is it smarter to sell the company now as it presently has significant value?
- Are the potential inheritors of the family business up to the task of capably managing the company, and if not, what steps are needed to ensure the continuity of the family business when it is transferred?
- What will be the arrangement between equity inheritors who work in the family business and those who have chosen not to?

If the decision is to keep the family enterprise in the hands of the family, then a succession plan is needed. Interestingly, the family business owners who are part of the research above said they strongly intend to transfer their family enterprises to heirs.

What's more, a number of the research participants are thinking beyond just the subsequent generation. More than 40 percent say they are interested in creating a family dynasty—which we define as a cohesive economic entity where the perpetuation of family wealth, values, and objectives lasts for five or more generations.

Note: The interest in a family dynasty stems mainly from the inheritors of the business—not the founders. While 49.1 percent of inheritors have a family dynasty in mind, just 32.1 percent of the company founders are thinking about this path (see Exhibit 4).

EXHIBIT 4
Interest in a Family Dynasty



N = 164 C-level executives in family businesses.

If this outcome sounds intriguing, keep in mind: A family dynasty shares not only financial interests across generations, but also the same values and goals. Because of these shared moral standards and objectives, there is a solid ongoing commitment to the family. In other words, for a family dynasty to exist, each generation must transfer to subsequent generations the family wealth in one form or another as well as the family's core belief system.

Having a well-formulated succession plan is therefore essential in order to achieve both of those aims.

CONCLUSION

Obviously not every family-run business needs a plan to pass that entity on to kids, grandkids or other family members. But if you have the intention of involving heirs—or are even mulling over the possibility—then developing some sort of succession plan probably makes sense. In our experience, the family businesses that survive and thrive after their founders are no longer involved are the ones that take succession planning seriously—and make it a priority.



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