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## Getting Started on Family Business Succession

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For many closely held business owners, passing their business on to their children is a popular succession plan. However, many business owners have delayed succession planning and created problems that might have been avoided with earlier attention. While succession planning is easy to defer, it is extremely important to avoid that delay. As a starting point, owners can begin by considering the following issues:



1. Which heirs will be involved in the business operations?
2. What can be done for heirs who are not involved in the business?
3. Should some ownership be transferred to heirs before they are ready to lead?

Succession can be separated into two components, management and ownership, which can be transferred separately. Some owners prefer to transfer management of the business to one child but transfer ownership to all children. Alternatively, some owners prefer to only transfer ownership to heirs that are active in the business. Regardless of which option is chosen, communication and transparency throughout the process is important. When some heirs are involved in the business and others are not, they may have different views about the business and what should be done with its cash flows. Guidance throughout the process from the older generation can go a long way in easing tensions that may flare up later. It is important to note that heirs can't always be treated equally.

Even if the younger generation isn't ready to lead the company, there may still be a desire to start transferring some ownership to the next generation. This develops the commitment of the next generation to the business and facilitates estate planning. Through the use of voting and non-voting stock, it is possible to transfer interests in the business without the older generation sacrificing control of the business. The older generation retains control until the younger generation has proven their ability to manage the business. Such transfers can be done as sales or gifts.

Many business owners delay succession planning because the entirety of the project seems overwhelming. It is important to get started by breaking the project into smaller pieces, which can include separate transitioning of ownership and management of the company. Inattention to succession planning is a substantial problem for many family businesses, so get the ball rolling today to increase the likelihood of a successful succession.