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Practical Considerations for Family Wealth Succession Planning

Family-owned businesses across the world desire a successful continuity of their business from one generation to the another. Available statistics however suggests that 70% of family-owned businesses globally do not survive into the second generation and only 10% of family businesses survive till the third generation. The process of transiting ownership and management of a family business from one generation to the next could be onerous. Nevertheless, it could be planned for in advance and executed in an orderly fashion through the process of succession planning. From experience, a well-structured plan will help families navigate the challenges and ensures a smooth transition.

In this article, we examined the concept of succession planning and why it is important. We also offered suggestions on some practical considerations that should be taken into account when designing an efficient succession plan.

What is Succession Planning?

Succession is the process of transitioning the management, leadership and ownership of business or asset from one generation to another. It could also be viewed as the formulation of strategies to ensure that your wealth/assets go to the right people at the right time. A proper succession plan should address issues such as correct identification of the assets, the beneficiaries, exclusions, mechanism to ensure transference, decision making etc. While this may appear straightforward, delivering and executing a succession plan is a multi-layered, complex process and one of the biggest challenges family businesses face.

Why do family businesses need a succession plan?

The benefits of having a proper succession plan cannot be overemphasized. A family owned business that survives for many generations is more likely to cater to the financial needs and welfare of family members in the future. In Nigeria for instance, there are many family owned businesses that flourished in the 80s and 90s that have since gone into oblivion after the passing of the founders. These businesses would have contributed in safeguarding the family's financial future. Some of the many other benefits of succession planning includes the fact that it allows the family to cater for the different family dynamics, provides protection for the family's asset by ring fencing them against any possible business or family liabilities etc.

Starting your succession planning process

Due to the importance of this process and the need to ensure that families get it right, we have highlighted below some of the very important considerations that families should consider when designing a succession plan.

- **Start planning early** - It always helps to start the conversation early as this makes the transition planning process less uncomfortable and helps to minimise tension. Most times, family businesses leave the topic of succession till very late when the founder or current leaders are exiting or becoming incapacitated due to old age. For instance, we have seen how certain events such as Covid-19 could heighten the need to start these conversations early so that you are able to control events rather than be controlled by them. This is also because planning for transition is rarely easy. There are differing views as to the appropriate time to start planning for succession. Some experts are of the view that five years in advance is good while others think that 10 years in advance is better. The key is to recognise that succession is always a marathon, not a sprint. The longer you get to spend on succession planning, the smoother the transition process is likely to be.

- **Determine the choice of structure** - The choice of the structure adopted for succession planning is very important and families will have a set of options, each of which has its own advantages, opportunities and threats which must be examined extensively. For example, a family will need to decide if it should adopt Wills, Trusts, Investment Holding Companies etc. or a combination of two or more for its succession planning. The choice will ultimately depend on a number of factors such as the nature of the business or asset, the objectives of the family, the regulatory and tax laws etc.

- **Always consider the tax implications** - In every succession plan, the tax implications must be examined. With the dynamic nature of international tax environment, families must go beyond the traditional tax concerns such as inheritance taxes, business taxes, capital gains taxes, individual taxes etc. to also consider the tax implications of the structures themselves and the future implication for the beneficiaries/ next generation. This is even more important for families with assets and businesses in multiple countries because the tax rules in these countries are changing and this will need to be considered in a robust succession plan.

- **Institutionalise an effective family governance structure** - Family Governance is a very important tool that helps family members to manage family businesses. It is a framework that allows for joint decision making based on shared values, a common mission or purpose, and a collective vision for the family's future. Some of the benefits of having a proper family governance structure in place is that it helps families recognize and manage their wealth, define roles, set boundaries for individuals and enable members to manage competing and interrelated interests.

  The typical issues addressed by a Family Governance framework include the roles, rights and responsibilities of family members, the formation of a family council to oversee strategic decision-making for the business and strengthen business-to-family communication, the formalization of business relationships between family members, dividend and distribution policies among others. All of these subjects are usually codified in the family constitution. A Family Governance framework that is well implemented will prevent conflicts or provide a platform for quick resolution of conflicts that may otherwise lead to dissolution or sale of the family enterprise, the destruction of family wealth and a breakdown of family unity.

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- **Prepare and engage the next generation** - The preparedness of the next generation is critical to ensuring a smooth transition. One way to ensure that they are prepared is to educate them – academically and professionally. It is also advisable for the heirs to be familiar with the family business. They should have hands-on experience working in all departments in the company so they gain deep understanding of every aspect of the family business. This will equip them with the necessary tools to assume the roles and responsibilities that they will be taking on.

  Beyond educating the next generation, engaging the next generation early helps to improve the family's ability to find out where they stand regarding participating in the family business in view of generational ambitions and priorities. It will also foster trust, transparency, alignment and avoid future conflicts. These sort of engagements will greatly assist in the achievement of a common purpose based on shared values which is a key component to building effective succession plans, especially between generations.

- **Communicate the decision** - Good communication is essential in succession planning. It is very important to communicate key elements of the plan and decisions reached to all family members and key members of senior management team in an open and transparent way. This ensures everyone is aware of the vision for the future and allows the necessary cultural changes to unfold.

- **Ensure periodic review of the plan** - A succession plan should be considered as a "living thing". It must remain relevant and agile at all times to deal with ongoing changes and evolution in business and tax rules, births, deaths, marriages and other life events that may alter the dynamics of the family. Therefore, its effectiveness must be reassessed periodically to refresh the plan's vitality and confirm the decisions made.

Conclusion

Succession planning is a very important subject for family businesses. It presents a very good opportunity to have an open and honest conversation with the family members with whom you share a common purpose regarding the future of the family business. We encourage families to seek professional advice and support of family business advisors to assist them navigate this process that could potentially be complex and overwhelming.

As mentioned earlier, succession planning is a marathon, not a sprint. Families should have the courage to plan and agree succession now and not defer the decision to the next generation.

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