

PLANNING FOR THE FUTURE OF YOUR FAMILY BUSINESS

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For many owners of family businesses, succession planning is the thing they know they should be doing but can't seem to find time to address.

Many of the baby boomers leading the nation's family-owned businesses are approaching retirement age. Yet in a recent Harris Williams & Co./Inc. M&A survey of leaders at privately held, high-growth companies on the Inc. 5000 list — mostly firms with from \$2 million to \$250 million in annual revenue — only about one-quarter said they had a detailed exit strategy in place, and more than 30% reported they hadn't even begun to formulate one. The common excuse: Who has time for succession planning when you're totally focused on growth and facing more pressing demands from operations, customers and employees?¹

REALIZING HOPES

An interesting disconnect in the research into family businesses highlights the importance of succession planning.

On one hand, many business owners express the hope that they will pass the enterprise on to family members. Of those respondents to PwC's 2017 U.S. Family Business Survey who anticipated an ownership change in the next five years, 52% expected to pass ownership on to the next generation.²

Yet we know that, in reality, only about 30% of family-owned businesses survive the transition from founder to second generation.³

Why aren't business owners' hopes being realized? Research indicates that a failure to plan adequately is the reason.⁴

CRUCIAL PLANNING STEPS

Once family business owners are focused on succession planning, most experts agree that these steps will be critical to their success:⁵

Start early. A common question posed by business owners is: *When do I need to start succession planning?* Most experts say it's important to start at least five years in advance of exiting the business. Some advise taking steps as early as 10 or 15 years out, so the owner has time to oversee a successor's development.

Here's how one expert, Andrew Keyt, a clinical professor at Loyola University Chicago's Quinlan School of Business, recently responded to the question about when to get started:

“If you want to be successful across generations, the answer is today. A lot of people treat succession planning as if it's an event. It isn't. It's a process, so you have to do it over time.”⁶

Involve your family in planning discussions.

The best way to begin the process of succession planning is by opening a dialogue with family members. You want to focus on individual family members' feelings, ambitions and goals — and learn how they view the family business. Do the children of the next generation have any interest in the business? If so, as a source of full- or part-time employment, or purely as an investment?



When choosing a successor, it's essential to consider what is right for the business independent of family preferences.

Assess what's best for the business. This begins with making a realistic assessment of family members. Let's say an owner has always had her heart set on turning the reins over to her oldest son. It's important to evaluate that dream critically: Does the oldest son have the business skills or interest to take charge? Maybe another family member would be a better fit.

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Seek other opinions when choosing successors.

One way to take emotion out of the decision is to seek advice from your board of directors or a search committee.

Develop a plan for training your successors.

One idea is to have your successors, over several years, spend some time working in each area of the company. Another common recommendation is to have successors spend some time gaining work experience outside the family business in order to develop a broader perspective.

Establish a succession timetable. Draw up a timetable for successors' training as well as when there will be a shift in control of the company. This will enable successors and the company's management team to know who will be in charge of what and when.

Plan for your retirement. Don't forget to plan for what you will be doing after the ownership transition. Your retirement plans could include recreation, travel, community service or even another business venture. But remember: Retiring doesn't mean you have to disappear. Although you will no longer have managerial control, you can look to stay involved in the business on a part-time basis in an area or two where you provide a distinctive value.

IT'S COMPLEX — SO SEEK EXPERT ADVICE

There are many aspects to business succession planning and ownership transfer. Some involving taxes, estate planning and capital, for instance, can be quite complex. That's why another key step in planning is seeking outside professional assistance — from your bankers, lawyers, accountants and financial advisors.

If you'd like to discuss business succession planning or any other business topics from PNC, please visit: pnc.com/cib/commercial.

1 "Entrepreneurs Assess Their M&A Options," Harris Williams & Co./Inc. 2015 M&A Survey results, pages 2-3.

2 "Succession planning in family businesses," PwC's 2017 US Family Business Survey results. <http://www.pwc.com/us/en/private-company-services/publications/family-business-survey/succession.html>

3 "Tips for Successful Family Business Succession Planning," by Susan Ward, *The balance*, Sept. 18, 2016 (<https://www.thebalance.com/tips-for-successful-family-business-succession-planning-2947038>) and the PwC Global "Family business, succession strategy, transition planning" web page (<http://pwc.com/gx/en/services/family-business/business-transition.html>)

4 "Succession Planning" page on The Family Business Institute website (<https://www.familybusinessinstitute.com/consulting/succession-planning>)

5 Action steps culled from the following sources:

• "Tips for Successful Family Business Succession Planning," by Susan Ward, *The balance*, Sept. 18, 2016 (<https://www.thebalance.com/tips-for-successful-family-business-succession-planning-2947038>)

• "Succeeding with Succession Planning in Family Businesses," by Vikram Bhalla and Nicolas Kachaner, Boston Consulting Group, March 25, 2015 (https://www.bcgperspectives.com/content/articles/leadership_talent_growth_succeeding_with_succession_planning_family_businesses/)

• "Developing a Succession Plan," SCORE website (<https://www.score.org/resource/developing-succession-plan>)

6 "Succession Planning in a Family Business," *The Wall Street Journal*, May 9, 2017 (<https://www.wsj.com/articles/succession-planning-in-a-family-business-1494381780>)

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CIB COMM PDF 0617-094-552102