How to Handle Multigenerational Business Transitions

“Love is equal, but money doesn’t have to be.”

People struggle with this concept, particularly in relation to transitioning a business within a family, and there’s no single answer that’s right or wrong. Advisors do their best to communicate the issues their clients are facing, reminding them that having family meetings with open discussion is vital to the health of family relationships.

If you’re on the fence about whether to be open with your children about your plans, consider asking yourself, “How will difficult news regarding business and transition plans affect the family?”

Imagine they have to wait to hear from the lawyer that one sibling is receiving a disproportionate amount of family wealth because they have more kids than the other siblings, don’t have a good job, or might be a single parent. That sibling has a greater need. Might the other siblings ask, “Wait, did Mom and Dad love them more? After all, they got more money than I did.”

Exploring Solutions

Different families find different solutions to the conundrum. Some feel strongly that all the children need to be treated equally. Regardless of whether they decide to be single or have lots of children, they will receive a prorated amount of money. Other families base their decisions on different criteria and arrive at different solutions. Some families might be facing health issues or have children who already have significant wealth. They might also not feel an obligation to pass down wealth to their children, instead finding other options that might fulfill their goals.

Parents understand that their estate planning decisions can create unintended consequences when they’re gone, consequences that they wouldn’t like. Most parents hope that their children will stay connected and that the family will flourish after they are gone. Communicating the reason for passing on your wealth before you die will help everyone involved.

No matter the decision made by the owner-parents, open communication in advance allows the parents to explain there’s a good and rational reason for decisions made, avoiding surprises and offering the benefit of talking to their family ahead of time. Even though the family may not agree with the decisions initially, an advisor can help them over that hurdle in order to maintain harmony.

Philanthropy’s Impact on Wealth Transfer Decisions

Successful business owners frequently generate more wealth than the family can ever use, or they feel strongly that capping the level of wealth passed to children is appropriate so as not to engender entitlement and demotivate them from creating their own success.

In both cases, involving the family in philanthropy is a fairly popular option. Because this directs family wealth to other causes and reduces the amount flowing to subsequent generations, communicating this decision in advance has several benefits. Helping others in the community is rewarding in its own right: if you’re feeling fortunate in your success, you may like to reinvest in the community that has contributed to your success. It also sets a solid example for your heirs of the responsibility that comes with success and wealth.

Post-transition involvement in philanthropy also can serve the same function that your business did in its inception, which is to bring the family together. Rallying of the family around a philanthropic cause, both now and into the future, mitigates feelings of loss that follow the company’s sale.

Transitions in family and business will naturally bring up conversations about estate planning, beyond post-sale planning, so communication between the parents and the children on the rationale behind the plan is important. Setting up a long-term charitable entity and naming the children as successors without involving them up front would be a mistake. Talk with your advisor about the effects these decisions will have on your family as well so you have addressed all aspects of wealth planning.

In some families, however, the children have no interest in the family business or involvement in philanthropy. They’re off pursuing their own interests, preferring to be independent and disassociated from the family’s wealth. In this situation, there may be significant work required to bring the family together.

Good communication between family members and good education regarding the rights and responsibilities of great wealth encourages a healthy family dynamic and provides an environment of growth for your family’s philanthropic ventures. Philanthropy can offer opportunities for multigenerational family involvement on various levels.

Changing Your Thought Process

For one client, there was a disconnect between the two adult male children and the patriarch regarding their level of interest in philanthropic involvement. Through discoveries made at facilitated family meetings, the patriarch changed his thought process about how the family wealth was going to be handled. Facilitated discussions allowed the sons to convey their interests, and the patriarch came to understand that it was more important to empower his sons to make independent decisions rather than force his preferences and values. Instead of continuing to direct his energies toward the donor-advised fund he preferred, the patriarch created a foundation. One of the sons who had a hands-on philanthropic interest will take an active role in running the foundation.

Making a priority of family communication up front opened the door for the patriarch and his sons to engage one another. That interaction resulted in a different philanthropic structure than originally contemplated, which would have caused disconnection between family members. The new structure invited the creation of common goals.

Always Stay Focused on Family

Your spouse and greater family represent the most important part of life. Business owners get a lot of fulfillment from running a business, solving problems, having employees, and being successful. At the end of the day, however, what you will always have is your family. If you haven't been involved as much as you like with your family, the transition presents you with a fresh opportunity to build deeper ties.

The way to begin building closer relationships is to see the greater family unit as an integral part of the decision process. Transition is not just about selling the business; it's about what comes after. Shareholders, boards of directors, managers, and professional advisors will move on when the business is sold, but your family is going to be there with you through the coming years.

***

The following is adapted from the book, Your Next Adventure: Planning for Life After the Sale of Your Business. The book shows you how to craft a robust transition strategy that considers your business, personal, familial, and community needs. From pre-sale to post-sale, you'll learn how to plan ahead, assemble the right professional advisors, and incorporate your values, legacy, and loved ones into every choice you make.

About the authors:
***Marshall Rowe**, President, CEO, and founder of Harvest Capital management, has over thirty years' experience developing portfolio strategies and analyzing investment opportunities.*

***James Fitts**, CFP, Managing Director, and Chief Planning Officer, has been assessing personal and business financial positions and advising family-owned businesses on ownership and succession for almost forty years.*

***John Weeks**, CExP, Managing Director of Family Wealth and Business Transition planning, is a financial service professional who has been working in wealth management, commercial banking, and family business for over thirty years.*

Together, at Harvest Capital, they help clients attain life goals, as well as financial objectives.