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According to the U.S. Census Bureau, family businesses, which are defined as companies in which two or more family members exercise control, represent about 90 percent of American businesses. Ranging in size, Family businesses account for half of the nation's employment and half of the U.S. gross national product. They are an essential part of our economy, however, more than 70% of these businesses lack a succession plan which would allow them to transition to the next generation of leadership and continue to grow and remain an important part of the nation's business landscape.

Even though most business owners like the idea of creating a legacy for their families, a familiar saying "shirtsleeves to shirtsleeves in three generations" sadly describes the propensity of family-owned enterprises to fail by the time the founder's grandchildren take over, largely due to lack of successful transition planning. While there is some debate on the continued relevance of this adage, one thing is certain; a family business without a solid succession plan will most likely cease to be a family business, whether by failure or by sale. There are some proactive actions that a business owner can take to help keep the legacy of the family business moving strongly into the future.

Develop and Articulate Your Long-Term Business Vision

Not all business owners want to keep their business going for generations. Some dream of the "cash flow event," where the sale of their business will yield a cash windfall to be managed for the benefit of their favorite charitable endeavor and/or the family. Even a sale event as the desired outcome requires advance planning for tax purposes. However, if your vision is a lasting business legacy, develop and communicate that vision for the business to all key stakeholders, this includes the family and key employees.

Create the Plan

Sometimes the hardest part of the succession plan is just getting it started. According to the Harvard Business Review, 70% of family-owned businesses fail or are sold before the second generation gets a chance to take over, and only 10% remain active, privately held companies for the third generation to lead. While putting a plan in place may seem like a daunting task, failing to do so may seal the fate of the company the founder worked so hard to build. Start generating a plan early that involves successor management with the business, the family, and the employees. That successor will also benefit from these relationships as well as vision sharing and mentorship with the founder. Enlist the services of qualified legal, tax and business counsel to help you get the plan appropriately documented and communicated to all key parties.

Manage the Family Communication

Among descendants, there will always be a wide range of talents, education levels, interests, and passions. Not all descendants will want to be involved in the family business, and not all who want to be involved in the family business will be qualified to do so. This can create tension in the family dynamic if this gap is not properly bridged. Family members inside the business may view the outsiders or even other family members as parasites who benefit from the hard work of others toiling in the business. On the flip side, family members who aren't yet involved grow suspicious of the family members inside the business and may feel that they are somehow not getting their "fair share" or being treated equally. This common scenario leads to litigation, depleted family resources and strained family relationships. To effectively manage the business transition, business considerations must be balanced with family needs. Communication among the family is key. It is often

helpful to seek independent advice or judgment to effectively manage family communication, preventing discord and misunderstanding from tearing the family apart or damaging the business.

Choose the Successor Wisely

A successful and lasting business is a function of strong leadership. The successor must be chosen wisely and not for the wrong reasons. There can be undue pressure on the next generation to take over, which may lead to managers who don't want to be there but feel like they must be. In other cases, family members are only present in the business as a fallback option when their real career dreams did not pan out. Even worse, nepotism or family obligation may place the unqualified in positions of power. While most family businesses must decide from several potential family successors to determine who will take the reins when a founder steps down, sometimes that person isn't related, but could be an existing employee or an outside party entirely. Whether inside the family or out, bringing in third party objective advisors may prove to be helpful in impartially and fairly evaluating the pool of prospective successors to select and train the right fit.

Manage the Leadership Transition

Managing transition can be challenging, but you don't have to reinvent the wheel, there are transition principles proven for success. The goal of any succession planning process is to build confidence and support for the successor among family members, employees, and business contacts. A well-thought-out and executed process is key to achieving a smooth transition. It is important to establish expectations and ensure appropriate communication with everyone involved in the family and the business so that your vision is shared, and your plan is understood and supported.

Strategize Growth for Family Involvement

Another problem businesses may face is a family that grows faster than the business does, leading to exclusion of qualified family members who want to be involved but don't have a place. Not all family businesses have enough positions to employ the entire family, but many family business owners would like to accommodate those family members interested and qualified to work in the business. Once you identify these family members and their skill sets, develop strategies to grow the business in a way that creates positions to leverage their talent and include them in building the business legacy.

WHITTIER TRUST COMPANY

South Pasadena 1600 Huntington Dr., South Pasadena, CA 91030 | 626.441.5111
Newport Beach 4695 MacArthur Ct., Ste 1500, Newport Beach, CA 92660 | 949.216.2200
San Francisco 505 Montgomery St., Ste 1200, San Francisco, CA 94111 | 415.283.1850

THE WHITTIER TRUST COMPANY OF NEVADA, INC.

Reno 100 W. Liberty St., Ste 890, Reno, NV 89501 | 775.686.5400
Seattle 520 Pike St., Ste 1415, Seattle, WA 98101 | 206.332.0836
Portland 111 S.W. Fifth Ave., Ste 3150, Portland, OR 97204 | 503.444.3428

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