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Passing it Along

You've devoted years to launching and running your successful business. Though your exit from it seems a long way off, now is the time to plan for what will happen when you leave.

Story by KATIE NAVARRA

Photography by CHRISTINE HAMILTON

IN 2011, WHEN GREG AND JAMIE HUETT of Springdale, Arkansas, launched Big Country Toys, they were already contemplating the role their three sons would have in the business in the years to come. The family-owned company designs and produces durable hand-painted 1:20-scale farm, ranch and rodeo toys.

"From the start, we had to think about succession planning," Greg says.

The Huetts sensed that Austin, their oldest son, was likely the company's next leader, but they also knew he would need to leave the company at some point.

"Austin always had some interest in working for a larger company, and I told him that even if he decided to work for Big Country Toys, he needed to work in a larger, non-family business to learn things he couldn't experience here," Greg says.

While Austin finishes college in 2017, his parents have continued to prepare a succession plan because the process doesn't happen organically; it requires a deliberate, well thought-out approach.

"Succession planning is more like a journey than a destination," says Elaine Froese, a farm family coach and succession-

The most difficult part of transitioning a business to the next generation is letting go.

planning expert based in Boissevain, Manitoba, Canada.

Froese says that the conversations and actions relating to the transfer of a family-owned business begin years—even a decade or more—in advance of the actual transaction.

"Succession planning is one of the most important activities a business can conduct in terms of long-term viability," adds Keith Dickinson, a Certified Financial Planner and business consultant with Farm Credit East, ACA, in Bridgeton, New Jersey.

Statistically speaking, 30 percent of family businesses survive through the second generation and only 5 percent make it to subsequent generations. The original research, conducted 15 years ago by The Family Business Consulting Group, acknowledges that there are many factors contributing to this figure, but without question, succession planning is critical for anyone intending to keep a business in the family.

"Quite bluntly," Dickinson says, "if the business owner waits for a signal to start the process then they have waited too long."

ONGOING CONSIDERATIONS

Succession planning is a multi-year process for any business. It takes into account management, financial and operational processes, all of which evolve over time.

Transitioning management responsibilities comes first. The heir apparent gradually increases his or her responsibilities and duties within the business.

After that comes the gradual shift of financial roles.

"This includes successors participating in the financial management for at least three years prior to a transfer of ownership," Dickinson says.

Financial matters extend beyond operating expenses and revenues. Considerations include income, and estate and inheritance taxes to which a business and its successor may be subject. Dickinson recommends consulting with a qualified tax adviser.

In the best-case scenario, one family member stands out as the leader and heir apparent.

"Austin's brothers know he has been the most committed to the business," Greg says. "If they were making the decision, I don't think they would hesitate to have him leading it."

Even when the successor is obvious, Froese says, it's important to consider the needs and wishes of other family members not involved with the business. The "non-business heirs" often include other children uninvolved in the business, and/or spouses of the family member destined for ownership.

Fairness and perceived fairness are a significant part of the conversation, and greed or unreasonable expectations may have to be addressed. When all family members have an opportunity to express their expectations it's easier to find an amicable solution.

"Each person [including the current owner, future owner and those not involved in the business] has to be able to define what fairness looks like to them," Froese says.

DETERMINING FIT

One of the first and most difficult conversations to have is whether the family member in line for ownership has what it takes to run the business. The reality is that individuals can decide that the family business isn't a good fit for them. Conversely, the business owners can decide a family member isn't going to work out.

"It's important to consider if the family member has the needed skills and temperament," Dickinson says. "If they don't, can they learn these traits over time?"

Froese adds that the individual needs to be teachable and willing to be mentored.

"Apprenticing at another business or formalizing a mentorship under the current business owners provides suc-

The conversations and actions relating to the transfer of a family-owned business begin many years before it happens.

cessors an opportunity to strengthen the skills they have and learn those they may be lacking," she says.

Beyond skills, Greg says that the successor should also have the passion for the business and be willing to go the extra mile to make it successful rather than simply viewing it as a job. Family businesses are rarely 40-hour-a-week jobs with guaranteed vacation time. Having a passion for the company helps the successor through the difficult times.

Froese explains the successor's suitability to run the business is as much about openness to new ideas as it is about skill or desire.

"The successor has to be willing to learn from movers and shakers in the industry to keep up with changing times or to improve efficiencies," she says.

"I've tried to teach Austin how important it is to get other's opinions," Greg says. "I frequently remind him that the strengths of the group are much stronger than the one lone cowboy."

GAINING EXPERIENCE

When young family members are placed in positions they aren't ready for, it can be disastrous for the individual and non-family employees. Prior to establishing Big Country Toys, Greg worked for a Fortune 100 company and witnessed this firsthand.

"Younger family members have to earn their position in the company. If it's a gift, everybody around them will know it," he says, "and there's just not the level of respect a leader has when he or she hasn't earned it."

Developing the skills that earn respect happens inside and outside of the company. Greg has required his sons to work in every position in the business. Austin has worked in sales, advertising, new product development, accounting and warehousing so that he has direct knowledge of every aspect of the business.

"We have always made our kids do the mundane jobs—like taking out the trash or unloading trucks—so they could appreciate how hard and valuable that type of work is. It builds character and humility," he says.

Experiencing every role in the company is a good start, but it's not always enough.

"I recommend that all younger family members spend at least two years working outside of the family business," Dickinson says.

The easiest time to accomplish this is early in their career, immediately following completion of their formal education, whether that is high school, college or a trade school. This provides younger family members an opportunity to experi-

ence other ways of doing things and learn strategies that may help them once back at the family business.

Learning doesn't stop there.

"The younger generation should be willing to network with peers, and attend industry trade shows and conferences to personally meet the movers and shakers in the industry," Froese says.

Additionally, Froese recommends aspiring business leaders take a self-awareness profile to better understand their skill set and personality style, and also work on building communication and conflict-resolution skills. Helpful tools, like the Myers-Briggs Type Indicator assessment and others, are available online. They are designed to help people better understand what makes them tick, how they relate to others, and how they can benefit from this knowledge in working relationships and day-to-day life.

Froese offers a free Farm Family Toolkit with 19 tools to help individuals improve their communication skills.

STEPPING ASIDE

The most difficult part of transitioning a business to the next generation is letting go. Fortunately, the current leader can watch for several cues that suggest it's time to step aside.

Timing is often dictated by external factors such as federal or state estate tax demands or the current owner's retirement needs or goals.

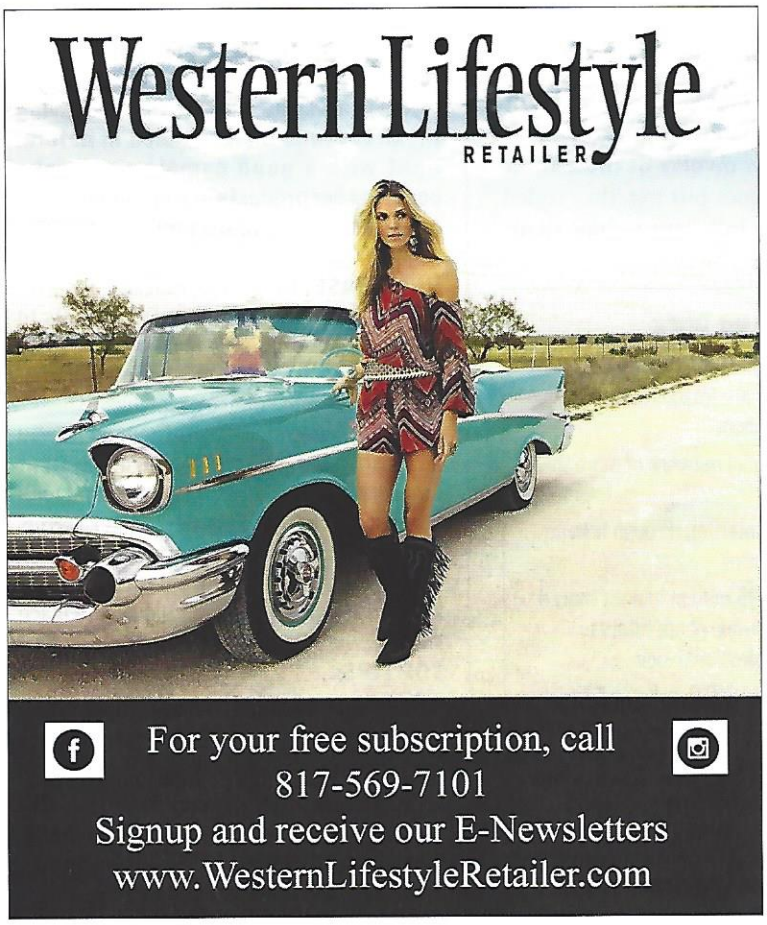
However, losing excitement about the enterprise is the ultimate cue.

"When you start to lose the passion you have for the business it's time to think about passing it down," Dickinson says.

Greg says that point could come as soon as five years for some people, or after 30 years for others.

"When activities outside the business become more interesting it may be time to let go," Froese suggests. "[Changing] health and energy levels are other indicators."

Preparing to turn the business over to the next generation requires planning, preparation and candid conversations. The process is certainly not quick and it might not be easy, but when sufficient attention is devoted to succession planning, the current business leader can rest assured that his or her successor will carry on the family legacy.

"All the successor really wants is opportunity for growth," Froese says. "That growth may be different from what the founders see [as] growth, but when it's time, the founders must step back and allow the next generation to take the reins." ●

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