PLANNING FOR A SUCCESSFUL TRANSITION

By Damien Martin

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LET’S SAY YOU ARE PLANNING A VACATION TO AN AREA IN WHICH YOU’VE NEVER VISITED

and are responsible for arranging the trip not only for yourself, but also your family and close friends. In addition to your day-to-day responsibilities at work and home, you must research the destination, arrange transportation, plan meals, schedule sightseeing activities, learn about the local culture, plan for expected weather conditions, and more.

In addition, you must provide accommodations for allergies and disabilities as well as consider how to react if there are travel delays, cancellations, etc. One might decide to do it all him- or herself, hire a travel agent to take care of everything within budget, or assign tasks to multiple family members and friends. If your situation is similar to mine (e.g., a full-time job, a young family at home, and only 24 hours in a day), then the most likely – and most successful – scenario is probably a blended approach.

Likewise, succession planning is a deeply personal process for an owner or company leader who is looking to transition out of the business and into the next phase of life. Similar to the previous vacation scenario, a successful plan is driven by a mixture of specific needs, available resources, strategic goals, and timelines.

And, just like how the location of that perfect vacation evolves over time (e.g., theme park, camping, weekend getaway at the lake), successful succession depends on a number of wide-ranging factors that change over time. Lack of preparation can cost a great deal at the closing table, and so it’s critical to be fully prepared to pass on the company’s values, vision, and culture.

So, what should a company owner or leader do? The most successful leaders will take flexible approaches to succession and continuity, seeking help as needed to develop a plan that can be revised and adapted to meet their specific and changing needs.

**Define the Destination**

Before we take a closer look at the resources to consider for assisting with succession and continuity planning, let’s first review my definitions of these terms.

**Succession**

While company leaders tend to focus on the technical aspects of transitioning a business (e.g., implementing strategies to help increase cash proceeds at closing), succession planning is an intentional and thoughtful process designed to create financial security for one’s business, family (if applicable), and future.

A leader’s identity is a complex mix of the business, ownership in the business, and family. As attention shifts among these three buckets, it might also involve elements of family governance administration, wealth transfer planning, investment management, risk management, philanthropic strategies, technology, and accounting and tax services.
**Continuity**

Continuity is a system to help a business continue operating successfully and without interruption. Elements include developing a timeline, defining transition, identifying and planning for family management succession issues, and preserving culture and legacy.

**Legacy**

Business legacy focuses on a company’s values, vision, and mission. A successful business is likely built around leadership. Planning for the future of the business without the owner or top leaders often includes preservation of company culture, with a focus on governance and board members, and examining how the business legacy ties to the family legacy.

Similarly, securing one’s family’s legacy – its values, vision, and mission – often requires careful consideration of systems for family governance, communication, decision-making, conflict resolution, a code of conduct, and participation in the family business. It may also involve memorializing philanthropic intents and defining fairness.

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**Road Map for Success**

With a destination in mind, determine what kind of help is required to get there. Here are some questions to consider:

- Have you assessed your needs and options?
- Are there any business management succession issues?
- What’s your timeline, and what will the transition look like?
- How will the transition contribute to your personal financial goals and estate plan?
- Have you determined your cash flow needs for retirement?
- Do you have a plan in place to transition your business and family legacy?
- How will the business be affected before and after the transition?

Effective succession planning often requires building a team around a business leader and connecting him or her with the

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**From the CFO’s Perspective**

**How to Give an Owner Succession Planning Guidance**

Succession planning can be hard, particularly when you’re planning for someone else’s departure! Here are five tips for CFOs looking to help guide an owner’s succession:

**Be Understanding**

Many owners find it difficult to address what the business will look like without them. To help overcome this emotional hurdle, demonstrate you understand that succession can have a large impact on the owner at a personal level.

**Assess the Focus**

Priorities and mindset change over time, as does the focus on the wide-ranging elements of succession planning. Create alignment by matching your focus on the right elements of succession planning with the right phase of life.

**Get Some Help**

Leverage resources by building a team around the owner to connect him or her with the right advisors to provide the right services at the right time.

**Be Flexible**

Fitting succession planning into an already packed schedule amid the distractions of everyday life and the day-to-day business operations can seem daunting to owners.

Being flexible in setting and measuring goals is paramount to keeping the conversations going and creating long-term success.

**Continuously Revisit & Adapt the Plan**

Succession planning is often a moving target and taking a “one and done” approach often leads to an ineffective plan.

Make succession an ongoing project and schedule regular check-ins to revisit the plan to ensure it’s meeting the owner’s specific needs.
right advisors to provide the right services at the right time. There are many advisors who can play roles in succession and continuity planning. Many business leaders find it challenging to navigate the world of advisors to guide them with succession planning.

Long-term financial success isn’t a simple, straightforward matter, and the lines will often blur among the advisors’ job descriptions. Here’s a guide to the world of advisors beyond the attorneys and bankers you may be familiar with in the day-to-day operation of your business, who may be beneficial in creating a successful succession plan.

**Accountant**
Business leaders have a wide range of personal and business accounting needs. An accountant can provide support functions that allow you to better concentrate on what you do best. Common ways accountants can help include bookkeeping, including the preparation of payroll tax returns, and accounting services, fiduciary accounting, and assurance and audit services.

**Tax Advisor**
Tax implications affect many of your wealth planning decisions, and solid tax planning can help you secure a healthy financial future. A tax advisor can go beyond your tax return to provide sophisticated tax compliance, consulting, and planning services for you, your family, and your business. This advisor can help provide tax return preparation services, perform annual and multiyear income tax projections, and analyze and help implement income tax planning strategies. Examples of typical income tax planning strategy areas are retirement plan distributions, stock options, and deferred compensation and significant charitable contributions.

**Estate & Gift Tax Planner**
This advisor provides assistance throughout the lifetime estate planning process. Since each individual situation is based on a unique mix of family, business, and legacy, proper planning often requires a deep understanding of tax law. This advisor can help determine the need for trusts, examine the implications of joint ownership, and identify an executor.

An estate planner can help by consulting on annual and lifetime gifting strategies, creating and reviewing estate planning documents (e.g., wills, trusts), evaluating philanthropic strategies, and assisting with estate and gift tax compliance.

**Business & Financial Analyst**
This consultant can handle specialized analysis to gain insight into your business and provides direction for strategic planning regarding balance sheet analysis, profitability and operating performance assessments, budgeting, forecasting, and benchmarking. Using a business and financial analyst can help improve financial and operational flexibility.

**Management Succession Expert**
This professional helps assess a team’s readiness by providing management skills assessments, organizational development and training, assisting with professional search and recruiting, and providing organization charting and position descriptions.

**Transaction Service Advisor**
Whether buying or selling a business, a transaction service advisor can help provide insight before investing capital, energy, and reputation. Typical areas of focus include assessing the quality of earnings and cash flow, reviewing company forecasts compared to historical results and trends in the industry, identifying asset and liability exposures, identifying the value drivers and risk areas, and analyzing working capital to understand its effect on cash flows.

A transaction service advisor can also assist in settling working capital targets, analyzing historical and related future baseline and growth capital expenditures, identifying internal control weaknesses (including observations on systems), performing market research, identifying carve-out issues if part of a larger entity (including stand-alone and one-time integration costs), and assessing differences from generally accepted accounting principles.

**Corporate Finance Advisor**
Acquiring and selling a business is one of the most complicated transactions, often requiring extensive planning, evaluation, marketing, and execution.

A corporate finance advisor can help manage a sale or identify a target, negotiate an acquisition, and raise debt and/or equity capital. He or she can also help assess available
financial and strategic options and develop a specific course of action to achieve desired results.

**ESOP Consultant**

An employee stock ownership plan (ESOP) consultant can help determine if an ESOP is the right tool for accomplishing succession planning goals and objectives.

An ESOP can allow the sale of all or a portion of an investment in the business while retaining continuity and control of business decisions and operations. Stock acquired by an ESOP is legally held in an ESOP trust, and employees are beneficial owners in the value of the stock. This means employees don’t legally own the stock and may only vote in a few major events, such as the sale of business assets.

An ESOP provides a market to sell stock at fair value, which generally results in greater tax advantages than by selling company assets.

**Valuation Consultant**

This advisor helps determine the value of a business to meet the needs for compliance-driven financial reporting (e.g., ESOP or tax purposes), and advisory-related reporting (e.g., shareholder agreements, business planning, or related dispute consulting). Other services typically include financial reporting for bank transactions, shareholder agreements, corporate advisory services, dispute resolution, strategic insolvency, and bankruptcy and fair market value.

**Risk Management Consultant**

Beyond the business risks to consider are a number of personal insurance issues, such as health, life, disability, long-term care, and personal liability. This type of consultant can help evaluate how the cost of protection and the form it takes fits within the goals and objectives of a succession plan.

A risk management consultant can also provide property and casualty insurance assessments, evaluate life insurance strategies, and provide disability insurance assessments.

**Personal Financial Advisor**

A cornerstone of creating long-term financial security is an assessment of an owner’s needs vs. the value of the business. A personal financial advisor provides future-oriented planning (including analyzing cash flow needs), helps develop a retirement plan, and provides proactive ideas and strategies to grow, preserve, and protect an owner’s wealth.

**Investment Advisor**

This advisor helps develop a unique plan tailored to an owner’s objectives and risk parameters. Typical services include risk tolerance determination, investment policy statement development, asset allocation analysis, portfolio construction, and management and investment performance measurement.

**Charitable Planner**

Incorporating charitable trusts and private foundations into your long-term financial and estate plans can increase the funds available for gifting. There are many charitable giving techniques, and working with a planner can help implement a strategy that aligns with the goals and objectives of a succession plan.

**Family Office Advisor**

To manage and transfer multigenerational wealth, a family office advisor assists in simplifying and integrating services that affluent families need to manage and transfer multigenerational wealth. The sophistication of a family’s wealth typically increases with a large financial transaction, such as the sale of a business. A family office advisor integrates services to help families manage and transfer that wealth.

**Family Wealth Coach**

If a family needs assistance with addressing the challenges and emotional complexities that come with wealth, it may turn to a family wealth coach. This professional can help conduct values retreats, facilitate family meetings, and help families define and communicate a legacy using their wealth.

Other advisors who may play a role in succession planning include business attorneys, mergers and acquisitions attorneys, and investment bankers.

Obviously, a successful succession plan would not necessarily require all of these consultants. Consideration should be given to each depending on the needs of the business, leadership, and family and selected based on value that can be discerned.

**Find a Tour Guide**

While having the right team of advisors can leverage their experience to build a holistic plan that uses your time wisely, it’s also important to have a specially trained advisor to lead the team.

An experienced lead succession planner will act as an intermediary to collaborate and monitor progress on an ongoing
basis and work to assess whether all stakeholders – business leadership, family (if applicable), and other key stakeholders and advisors – are engaged in the process.

A lead succession planner can seamlessly integrate the services of the team while anticipating potential challenges for each generation, and tailoring solutions to help meet a transitioning owner’s distinct needs.

An effective lead advisor can work in conjunction with an advisory team or augment the team by providing access to additional resources while creating alignment between future ownership and future leadership.

**Plan Your Journey**

Many surveys reveal that privately-owned businesses view succession and continuity planning as one of their most important issues. However, many of these surveys also indicate that many businesses haven’t developed a formal, comprehensive succession plan.

Overcome obstacles by building a team of advisors that can help develop a thoughtful and complete succession and continuity plan. Then, engage a lead succession advisor to monitor the plan and help implement solutions aimed at creating financial security for an owner’s family, business, and future.

Proper planning for such a unique personal and business journey today can allow your company to build a solid bridge to tomorrow.

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