Balancing Your Goals With Your Family's Goals in Family Transfers

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If you're considering transferring your business ownership to family, you might be tempted to put your family's wants over your own goals. While this altruism may be admirable, it can also cause more problems than it solves. Consider the case of Darnell Orie.

Darnell Orie was unsure how to approach his business exit. His son, Hannibal, was the main reason why his company had tripled its revenues and profits over the last 15 years. And even though he wanted to begin winding down his own involvement in the business, he knew that he had to keep Hannibal motivated to grow the company: His retirement depended on Hannibal's continued success growing the company.

Darnell had always wanted to transfer ownership to Hannibal, but he knew Hannibal didn't have the money to pay him full value. He wanted to begin transferring ownership now, but he also felt it would be unfair to expect Hannibal to pay full value, because Hannibal was primarily responsible for the business' success through his work.

While Hannibal agreed that his sweat equity should lower what he would pay for ownership, Darnell knew that Hannibal's stepmother and half-sister would probably disagree, even though they were not involved in the business. Darnell is agonizing over three goals: his own financial security, making sure Hannibal's sweat equity is rewarded, and treating his wife and daughter fairly.

Like many owners, Darnell was equally concerned about his goals, and his family's wants and expectations. He simply didn't know how to make them whole.

However, there are three tools he used to help prevent his ownership transfer to family from becoming a zero-sum game.

1. An Exit Planning Process Focused on Financial Security

When he initially approached his exit, Darnell only had one set goal: transfer the business to his son. He didn't know how much money he wanted and needed to live a post-exit life on his terms, and he wasn't even exactly sure when he wanted to exit.

In our experience, the most important goal to set when exiting is determining how much money you'll need to be financially independent after you exit. All other goals should be considered within the context of your financial security. Establishing this foremost goal typically makes your other goals—determining your exit date and successor—clearer, because setting your financial goal first usually lets you consider your exit date and family considerations more accurately.

2. An Incentive Plan for Key Employees

In Darnell's case, Hannibal was a key employee, someone whose absence from the company would cause its value to drop and operations to suffer. Darnell had to make the offer of ownership appealing to Hannibal while acknowledging Hannibal's sweat equity and still assuring his own post-exit financial security.

A common tool to address these issues is to implement an incentive plan that hinges on a key employee's performance. If you're considering transferring ownership to a business-active child, you might offer your child shares of ownership for meeting certain performance goals. Those performance goals would in turn allow you to exit when you wanted and for the money you needed, while recognizing your child's contributions.

3. An Equitable Estate Plan

Even though Darnell's wife and daughter had no interest in ownership, he still wanted to be fair to them when transferring his ownership in his company. Because he couldn't offer them ownership, he needed a solution outside of the business that wouldn't require Hannibal to work for them, something Darnell knew his son would refuse to do. He found that solution in estate planning.

Estate planning is an important part of the Exit Planning process, and it can give you flexibility in how you approach family considerations throughout your business exit. By adjusting your will and trusts appropriately, and keeping your Buy-Sell Agreements current, you can more easily do what you consider is right by your non-business-active family members without short changing family members who take on the risk of running an otherwise illiquid business.

You can expose your post-exit financial security and family relationships to unnecessary risk without the tools necessary for proper planning. If you'd like to discuss the tools and strategies you can use to help you transfer ownership to your family members as smoothly and equitably as possible, please contact us today.

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