Profitable Legacy

Think beyond financial investments for greater returns in the future.

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Profit is one of the most widely used measures of business success. Without profit, there is no long-term business. A continued lack of profit eats away at your assets and reduces your net worth. Lack of profit will eventually drive you out of business.

The idea of profitability can also be useful in thinking about the resources beyond the fiscal "bottom line" of a family-owned enterprise. A family business requires investments beyond dollars to operate successfully; the return on these investments provides the sustenance and incentive to continue the business.

Take the practice of succession planning. A lot of effort goes into planning for the transfer of assets and responsibilities to the next generation. You make an investment, a "hard cost" in financial terms, in planning with a CPA, attorney or family business consultant. But, the real work involves a different kind of expenditure, namely investments in thinking and talking about the future. Consider the following examples of nonfinancial investments.

VALUES-BASED APPROACH

Successful planning involves identifying the values most important to you so the outcome of the plan reflects your deepest intentions. Sometimes, those values are in conflict. For example, you may want to treat your children equally, but if only one returned to the farm, you might struggle with how to be fair in the gifting of your assets. Or, you may value the financial struggle it took to build the business, but you don't want to saddle your kids with insurmountable debt or require them to use their capital to buy out family members. Finally, you might want to be transparent with your estate-planning intentions, but you also value your privacy and the right to change your mind in the future, and you don't want to create unrealized expectations.

GETTY IMAGES

Navigating the pros and cons of your values-based approach is an intellectual exercise that also requires a conversation with your spouse and family members. The thinking and talking required to arrive at a good solution are just as important as the advice you may purchase from an accountant or attorney. If the planning by your parents or a prior generation did not go well, you must think through, and talk about, how you want your transition to be different. No one can tell you the right solution; you have to invest in exploring potential answers.

YOUR SECOND ACT

One major obstacle to a successful business transition is the senior generation's struggle to let go. When it comes to daily decisions, giving direction or making plans, they find it hard to stay out of the way. There are many reasons parents are hesitant to hand over the reins, but a key explanation can be the lack of something else in their life that provides the same level of purpose or meaning as the business. The parents' identity is so tightly wrapped around the business that other retirement endeavors, such as a fulfilling hobby, church work, travel or board service, don't offer a sufficient pull. So, they end up staying in the middle of the business, generating tension and conflict.

Determining how to spend your time after business leadership takes personal reflection and a large dose of spousal discussion. Much like the transition of assets, there is no single right answer, and you can't pay someone else to come up with the solution. You must invest time and energy to think, discuss and figure it out.

Achieving a profitable legacy is as much a psychological, emotional and discussion-intensive investment as a financial outlay. But, the returns on those nonfinancial investments pay dividends to current and future generations of your family. ///