The Secret Family Recipe for Succession

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The founding fathers of any organization start with a vision, countless hours of hard work and a strategic plan. Take these ingredients, plus a little luck, and a successful business is born. In construction, success also requires convincing a surety you have the requisite abilities, character and capital to warrant bonding support. In many respects the objective of the founding fathers and the surety are very much aligned; long term success and perpetuation of the company. However, statistics reveal how difficult it can be to perpetuate a closely held business. According to The Family Firm Institute, only 30% of family businesses survive into the second generation. Odds get even worse as the business passes to the third and fourth generations. With years in the surety business, the topic of succession planning is always one of the toughest subjects to discuss. Ironic since it is an area that inevitably will need to be addressed. Reasons vary, but the fact remains that left unaddressed; the lack of a succession plan is the key factor for future failure and can impact your surety relationship.

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There are many different ownership transition options. These include a transfer to next generation, management buyout, third party sale or an employee stock ownership plan. The right option depends on the goals and priorities of current ownership. In order to be successful, the succession plan needs to address future leadership of organization and the financial position through the buyout. A surety is interested in knowing what capital will exist during the transition relative to backlog projections. A well-structured buy-sell agreement outlining all aspects of an ownership change is critical. The buy-sell agreement will typically address business valuation, stock redemption/purchase and the financing/duration of a buyout. Planning should also contemplate any unexpected event with adequate life insurance funding. These are critical areas to a surety and provide a better understanding of the potential financial impact of the transaction, while the surety continues to extend surety credit.

With the financial base addressed, it is equally important to identify the individuals to lead the organization in the future. Determining if the next leader is amongst family members, a valued employee or outside the company is paramount. This is a generational decision, so time should be taken to get it right. The best transition plans are set through years of evaluation. Assuming an internal transition, potential leaders are provided the opportunity to handle increased responsibilities which serves to improve skills and reveal any areas of development. Additionally, in this way the surety company gets to know the next generation of leadership and gains clearer insight and comfort into their abilities.

Ultimately, the key is to be proactive and start the succession planning process early. Devising the right plan is personal depending on your goals, so engage professional advisors such as your attorney, accountant and surety broker. Like most endeavors, having an expert team leads to the best results. Additionally, a surety professional who has experience in navigating through ownership transitions can help with the solution that meets your goals and ensures that your surety is supportive of the plan. In this way, you can preserve the legacy of your founding fathers.