Estate and Wealth Planning for Family Enterprises: Reality — not myth — as the proper starting point

– *Patricia Angus*

Planning and managing the estate and wealth of business families plays an important role in sustaining family business legacy. Business families mostly turn to external experts for managing their wealth. These include consultants, lawyers, accountants and financial advisors. Each of them has a distinct professional background and advise families based on their own assumptions about the respective family business.

The author, an adjunct professor at Columbia Business School, identifies certain myths about family business that are common. The author suggests that it is important for wealth management advisors to recognize these false assumptions and advise their clients based on an objective need assessment.

Myth 1: The Family Business is a monolith

A commonly held understanding of family business is that of a monolith - a uni-modal, static business entity of the family. However, the present reality is more complex. Family businesses are fast transforming into diverse new forms. Original operating businesses are launching new divisions, merging or venturing jointly with external businesses. These realities of complex holding structures and multiple operating arms must be factored in wealth management planning.

Myth 2: Sale of family business is failure

Often the sale of a family business is considered a failure. Especially the wealth and estate planning for founders is pivoted on securing commitment of successors on not selling the business. Family agreements are made to prohibit the sale. Sometimes such agreements make the situation so inflexible that the consequences become extremely adverse for both the business and the family. Some provisions for flexibility that permit business diversification or alternate arrangements of managing business and wealth may go a long way in continuing family legacy.

Myth 3: It is all about minimizing taxes

Often tax lawyers or accountants advising family business assume that all wealth management efforts are aimed at minimizing taxes. However, the family business founder or the family often has a mixture of objectives in mind. For instance, while founders may aim to balance succession with family harmony, family shareholder may want to minimize the tax liability of inter-generational share transfer. Family dynamics may make it difficult for different members to voice these competing demands. Taking purely a tax saving perspective in the short run without paying attention to the other needs of family members may prove to be costly for the family in the long run.

Myth 4: I can do it myself

A lawyer or an accountant advising the family business in their estate and wealth planning often feels that he/she can do all that is required for the task. They do not feel the need to involve other professionals in what is perceived as a close client-attorney/accountant/advisor relationship. Sometimes they refrain from involving another expert as that person may have a competing interest and may interfere in execution of the plan. However, today's wealth management activities are very complex and require a multi-disciplinary team of experts. Advisors must ease such restrictions and encourage collaboration among experts so as to maximize the gains for the client while respecting the decision domains of all the experts involved in managing wealth.

Myth 5: Silence is golden

Wealth management and estate planning has been traditionally considered to be a confidential activity. Often the advisor and the founder/ family business leader hold confidential conversations and traditionally, silence has been valued in this regard. However, families with shared assets are served better if they have open channels of communication for making wealth management decisions. Through open discussions, family business can proactively resolve differences that may crop up among family members. This also provides time to all family members to adapt to the likely outcomes of the wealth management plan.

Practical Implications

Modern family businesses have complex structures and operations. They constantly evolve and pursue multiple objectives. Wealth and estate planning is not only limited to tax saving. It must aim at ensuring regular growth in family wealth with sustained financial security and fulfillment of financial needs of all family members.

Wealth management requires collaborative efforts of multiple experts that devise a solution keeping several perspectives in mind. Open communication channels help address differences in opinions and early resolution of conflicts. Family business advisors need to understand that if the starting point of wealth management is based on current realities and not myths, more effective solutions can be developed.

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