CONSTRUCTIONDIVE

5 steps to transfer a construction business to a family member

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Building a successful construction business isn't an overnight process. It takes years to build relationships and develop a reputation for quality that makes customers confident enough to hire you.

It's also not an overnight process to transfer a business to a family member, though owners often don't start thinking about a succession plan until they're nearing retirement age. According to a 2021 survey of construction owners, 50% of respondents reported that they don't have an ownership transfer plan — an eye-opening statistic, as the last of the baby boomers will be reaching retirement age in the coming decade.

For many aging construction business owners, the problem isn't that they don't realize the need to develop a succession plan, it's that they're unclear on where to start or the steps involved. If you've found yourself in this situation, here are some tips to help start the process.

Begin the conversation with your family

While many parents dream of passing their business down to a son, daughter or other family member, in truth, a good number of businesses don't survive the transition from first- to second-generation ownership.

Although it's a rare situation where a generational transfer is the best thing for everybody, it's still important to have a transparent conversation with your children to ensure you're in agreement about the future of the business. Don't make them feel obligated to continue what you've built. You should be clear that there are viable alternatives if they don't want to be in the business, such as a sale to an external buyer.

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Work to resolve interfamily disagreements

What if multiple family members are interested in running the business, but have different visions for its future? Interfamily disagreements are not uncommon and can deepen into more serious conflict that can permanently damage family relationships, not to mention a business itself.

For family members to work together productively, some ground rules often need to be put in place.

One way to do that is to establish a family pact — an agreement for doing business together, including how to resolve any disagreements that will inevitably arise. By agreeing upon some basic guidelines of behavior during work hours, family members are sometimes better able to compartmentalize that aspect of their lives and not let it affect their personal relationships.

Decide on a gift or sale

If one or more family members has a sincere interest in taking over, you will need to decide whether to give the business to them as a gift or structure a sale. The answer may partly depend on whether you want, or need, the sales proceeds to fund your retirement.

An interfamily sale of a business can be structured in a variety of ways, depending on the financial situation of the family members. Some buyers might opt to pay a lump sum with the help of seller financing or other means, or a monthly series of payments could be used to provide ongoing income for the seller.

However, there can be advantages to gifting a business to a family member. If the business has debts or other liabilities, a gift can be an easy way for an owner to turn those responsibilities over to the next generation — so long as there's open communication with those family members about what they're stepping into.

Once the basic terms of the transfer have been agreed to, creating a business ownership agreement will ensure that there's a timetable for the gradual transfer of responsibilities. This will help to eliminate any confusion over control, gradually empowering successors to begin making decisions while taking the weight off your shoulders in a systematic, transparent way.

Start preparing your successors

The process of grooming successors can take years. So, as early as possible, identify the roles that will need to be filled upon your departure and discuss with your family members who might be best suited for each. Look for gaps in their skills or knowledge and begin systematically addressing them.

Unlike other types of businesses, construction companies tend to have a reputation-driven pipeline of projects, as opposed to a set of long-term revenue-generating relationships.

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So make sure that your successors are client-facing and have the opportunity to begin building relationships that are strong enough to endure after your departure.

If possible, in the time you have left, it's also good to take a more comprehensive look at your business, examining your current streams of income and considering what changes might make them more predictable.

Seek professional assistance

When it comes to transferring ownership of a business to another family member, the complexity generally makes it a wise move to hire an experienced, independent third party who can assist with the finer details. The type of business you own — a partnership, limited liability corporation or corporation — might necessitate additional paperwork or have situation-specific legal requirements, which an expert will also be able to guide you through.

The most important piece of advice for construction business owners contemplating retirement is not to wait on succession planning. The earlier you begin the process, the more time you have to make well-thought-out decisions that don't cause unnecessary stress down the line.

With a workable plan in place, you'll be able to experience the pride of watching the next generation guide your business to continued success.

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