Anatomy of Family Business Succession
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07-31-2007

ANATOMY OF FAMILY BUSINESS SUCCESSION

Succession planning in family business is an issue of growing importance. Approximately 90% of the 21,000,000 businesses in the U.S. are family-owned and one-third of the Fortune 500 are either family-owned or family-controlled. In 2006, the first baby-boomers turned age 60 and many of them own successful businesses. For those with a son or daughter who is working in the family business, it's natural to want to pass the business to the next generation. Yet, only 30% of family-owned businesses survive the succession from the founder to the next generation. And only 15% make it to the third generation. This is in spite of the fact that 80% of the founders want to pass the business to the next generation and 70% of the next generation share these desires.

If there are so many family businesses, why is it that so few survive to the second and third generations? The answer lies in recognizing that the term "family business" is a psychological contradiction.[1] The issues encountered in family business succession planning are generally "human" ones. Thus, the areas to be considered and the difficulties to be overcome revolve around relationships, individual attitudes and experiences, business and family cultures and the values involved. In addressing the issues, the family must keep in mind that succession planning is an interactive process and must be patient. In addition, the softer issues must be given proper attention. As each family business is unique, it is unlikely that a single model or approach to family business succession planning can be applied at all situations.

There are, however, common themes that emerge from family business succession planning literature and the suggested models offered. The required successor attributes need to be identified and appropriate processes for selecting and nurturing a successor determined. The timing and manner of transfer of control needs to be matched to the existing circumstances. The roles and needs of all family members must be acknowledged. Future business planning in a family business vision shared by all should be established. Ownership and inheritance issues must be addressed. Maintaining good relationships and open communication processes is essential. Finally, the future of the incumbent must be clearly determined and managed.[2]

In advising business owners, lawyers and accountants tend to focus on the transfer tax and income tax aspects of business succession planning while giving little consideration to the emotional and relational issues of the family. Many professional advisors tend to shy away from the emotional issues. Most meet their clients in their offices and fail to schedule meetings at their clients' businesses and walk around the facilities of a family business with those in control, and obtain a complete understanding of the dynamics of both the business and the family that controls it.

There are several common sense rules that will assist a family in the successful transfer of the business to the next generation:

Leadership. The founder must be the leader and take the initiative in striving for unity and cooperation among family members.

Employment of Family Members. Family businesses that treat employment of all family members as a right, rather than a privilege, are unlikely to survive the death of the founder. Employment criteria should be established and followed. Family members, who are unemployable in the outside world, if employed, must not be placed in executive positions where they can harm the business.

Communication. Succession planning is impossible when conflict among family members renders communication impossible. There are three deficiencies that tend to underline family disputes:

- The inability to communicate, either by lack of listening or trying to see the other person's viewpoint;

- Unwillingness to reach an amicable and well-reasoned solution; and
- Lack of consideration and understanding for others.
[3]

Changing such behavior requires a new viewpoint centered on today and the future and directed towards specific goals. Emotional issues that sustain conflict can, and must, be redirected in healthier, more positive directions. Mediation can be an effective tool in improving communication in a contentious family business and redirect misguided energy. It is imperative that the founder be the leader and establishing open and frank communication among family businesses.

Family Board Meetings. In most family businesses, meetings of the board of directors and shareholders are more myth than reality. The founder must schedule shareholder and board meetings at a time that the shareholders and directors can participate. Holidays, a time when families normally gather, provide a convenient time for shareholder and board meetings.

It is clear that many variables influence family business succession planning thus, a comprehensive checklist of relationships, factors and processes should be considered. Not all will apply in every succession plan as each family business is a unique blend of individual and business experiences and each succession will need its own tailored succession planning model.

On September 7, 2007, the New Mexico Family Business Alliance will be holding its first Annual Symposium. Dr. Donald J. Jonovic will present two featured sessions entitled "*Surviving Family Whitewater*," on business governance and transition. Two concurrent sessions will be held in the afternoon on bridging the communication gap in family business and successful succession planning. The concurrent sessions will be followed by a panel of distinguished New Mexico business owners discussions issues with Dr. Jonovic and John E. Schoen. Please email contact@nmfamilybusinessalliance.org for additional information and registration.

ENDNOTES

1. Gallo and Hjorth, "Handling the Non Tax Issues in Business Planning," Estate Planning Journal (January 1998).

2. Dunemann and Barrett, "Family Business and Succession Planning," Family and Small Business Research Unit, Monash University (July 2004).

3. Cohn, Passing the Torch, (October 1992).