

Preparing for the Next Generation

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Our family is close. My daughter grew up around the business, helping out summers, and listening to discussions at the dinner table. Now she wants to join the company full time. I'm concerned that it's a big leap from helping out, to entering the business as a young adult. And I'm worried that people who have worked here a long time may not know how to handle her joining us with real responsibilities. What do you suggest?

You have a right to be concerned. Under half of all family owned businesses make the transition from first to second generation and less than 1 out of 5 make it to the third generation. Problem areas include financial disagreements about income, asset distribution and generation transfer. Lack of skills, improper task assignment, the need for management and different views on accountability can also cause problems. Here are some suggestions to help you get through a transition.

Make sure your next generation gets a job, experience and some measure of success in another business, before joining yours. The best place to go is into a larger corporation, ideally one that is related to your industry. Young adults can learn from another company's experiences, and get an expanded vision of where they can take your business. They will also learn to make it on their own, without

owing success to their parents. This will contribute to their confidence once they join your business.

Think through the finances of the next generation. Many parents remember that they made very little when they first joined the family business and have the same expectation for their children. That may, or may not, be appropriate. The cost of living has gone up radically since parents joined. Children may also possess skills, education or experience, different from what their parents brought to the table when they joined.

Make sure that transfer of ownership is thought through, agreed to, and in writing. Many children and parents enter into a work arrangement without being clear as to how transfer will happen. Parents may be slow to let go of ownership, and children may be anxious to take over. Misunderstandings can turn into blow ups.

Talk about what triggers transfer – skills and timing. Learning about specific areas of the business and demonstrating mastery can be tied to earning a portion of the company's stock. As you shift stock ownership, keep in mind that whoever controls 51% of the votes, or shares, controls the company. Don't forget to set up insurance policies to cover the costs of transferring the business if

something happens to the senior generation. Work with a financial, tax and estate planning firm, to define the most cost effective way to transfer ownership, once you've decided on timing.

Outline the first job assignment and overall training program. Be clear as to what's expected, what constitutes average and above average performance. Decide how long it will take to get up to speed, and what the children will be accountable for producing. Put it all in writing. Get signoffs by both parents and children, that all are in agreement, before starting.

Make the next generation interview for the job. Decide what job they are to interview for, and how long they will be in that job. Find out why they think they are qualified for the job and why they want to do that job. Decide who the children are going to report to, preferably not a family member, and involve that person in the interviews. If concerns come up during the interview address them before a start date is agreed to.

Be careful to avoid making up a job just to have a family member join the company. Family members should be as, or more accountable, for contributing to the bottom line, as compared to all other employees. Entitlement rarely works out well. You want the next generation to prize the business, and grow it into something even bigger and better.



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Once the next generation comes on board, put them into a management development program. Sales and marketing are cornerstones of any growing company and the next generation needs to learn to be good at both. Understanding the financial underpinning of the business, and knowing how the business produces what it sells, are both crucial. The next generation will be best served if they earn the respect of coworkers, who will one day report to them. They must learn about how to work on teams, manage employees and recruit, interview and hire quality workers. Consider outside training as well as on-the-job, in order to prepare them to run a business 2 to 3 times the size.

Looking for a good book? Try *Perpetuating the Family Business: 50 Lessons Learned From Long Lasting, Successful Families in Business*, by John Ward.

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