

## Succession Planning in the Family Owned Business

09/01/08

This family owned business was started by my parents, and I need help with ownership transition. I've been working here nearly 10 years. My problem is this: I can't get my parents to let go. Each year I take on more responsibility. And each year we have more disagreements about how things should run. For example, when it comes to strategic planning – we have nothing on paper. I know they mean well, but their need to control is frustrating, and it gets in the way of progress. Since they're the majority stockholders, there's not much I can do about how decisions are made when there's a disagreement. I feel like I'm walking through quicksand some days.

Generational transfer and family business ownership can be very tricky issues. Family businesses survival rates are low: less than 1/3 make it to the second generation, less than 1/6 get to the third. This low business survival rate exists, even though the turnover volume is high: close to 90% of U. S. businesses are defined as family owned and statistics indicate that over 1/3 of them are dealing with inter-generation ownership transfer issues right now.

Making decisions everyone in the family agrees to can be challenging. And the confusion isn't all at the strategic level. Often even minor tweaks to the business become sources of conflict. Additionally, unresolved

ownership transfer leaves the business wide open to unintended consequences. No wonder few businesses survive from one generation to the next. So what can this company do to increase its odds of surviving to the next generation?

Let's start by looking at the issues. Family controlled businesses face the typical management challenges of command and control, differing viewpoints, and gaps in perception. In addition, they have to deal with more subtle, but just as real relationship issues of parent / child, adult authority, and admission of aging. Add to the mix differences in values regarding finances, management, and personal choices and it's easy to see how everyday flare-ups can disrupt the most harmonious family. Let's get started with ownership transition in the family owned business.

Many families have the best of intentions and the worst of outcomes. Differences of opinion and conflict arise regarding tactics. Instead, focus on the end game, including wealth, personal satisfaction and goodwill among family members.

Here are some questions that will help you shape your family business:

- How much money does the business have to generate in order to confer wealth on all

participating family members?

- What would cause each family member to be personally satisfied with his or her business career?
- What kind of decision making structure would be most likely to balance input from family members and achieve optimum business results?
- How could competing interests best be turned into collaboration?

Define the family business values and long term goals in writing, taking into account answers to the above questions.

Establish a decision making structure that everyone agrees to support. Practice leadership by giving family members areas of authority. Set targets for each area, fit to the company's overall strategic goals. Consider a rotation of who's in charge, a governing board, an organization chart with lines of authority spelled out, a management training program.

Measure results quarterly, annually and over multiple years. Check that the company's goals are being met at both the strategic and tactical level. Allow family members who are hitting their targets to increase their influence. Get help for those who are struggling, then re-assess.

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Deal with ownership transfer earlier rather than later. Get disagreements out on the table. Hire experts to advise family members regarding the choices they face. Secure family ownership by planning for buy-outs and insuring individual interests. Negotiate a win for both generations.

Professionalize conversations by using first names, last names and titles. Avoid family terms of Mom, Dad, Son, Daughter, etc. When at work, stick to business topics. Leave home issues at the door.

Encourage discussion and pursuit of personal as well as business goals. Urge the older, work-horse generation, to develop hobbies and pursuits outside the business. Help the next generation identify ways the business can serve their personal needs and goals.

Rotate duties to develop broad skill sets. Rather than second guessing individual actions, ask family members to critique their own work – what went right, what didn't work so well, what changes do they recommend for next time. Allow for individual differences in how to get the job done, so long as the tactics are consistent with the company's overall values and goals. Reward family members who meet goals with expanded responsibility and authority. Work constantly towards that long term goal of successful generational transfer.

Looking for a good book? Try *The Accountable Leader: Developing Effective Leadership through Managerial Accountability*, by Brian Dive.

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