Who Is Next in Line to Lead Your Family Business?

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There's an old saying about a family business that often rings true: *The first generation starts it, the second generation manages it and the third generation shuts the doors*.

In reality, only about one-third of family businesses successfully transition to the second generation. And fewer than one in five family businesses transfer to the third generation! That being said, a small business owner has many good reasons to want to involve other family members in the business going forward.

First, family members are a convenient source of labour. They can begin working in the business at an early age during school holidays. Second, there is the element of family loyalty: The owner should be able to trust them more than someone outside the family. It's also a case of "the devil you know." The owner is fully aware of the family members' strengths and weaknesses.

Why don't transitions always work?

This then begs the question: So why doesn't such a seemingly ideal situation always result in the family business transitioning from one generation to the next, like other assets? Unfortunately, too often the demise of the family business results from poor succession planning – and a failure to select and prepare members of the succeeding generations for managing the business.

It is important to recognize that not all family-owned businesses can be transitioned to successor family members. Some family businesses don't survive long enough, while others may not be a good fit with the talents and abilities of the next generation. However, consider the opportunity a business represents for all members of the family if it stays in the ownership of the same family. And, if it's successfully run by the next generation, and the next and so on.

Family businesses may fall apart or be taken over by outsiders for many reasons. Key challenges faced by a family business include the ability to get cohesive management out of a family group. Some members may be insufficiently concerned with the business or simply lack the capabilities to successfully run it. Often disputes about how the business should be operated and managed can lead to destructive infighting amongst family members – which may result in the breakdown of the business.

Where transition planning is successful, a business owner may be able to retire with a secure source of income. The retired owner can even continue on in an advisory position to successors running the family business. In this scenario, family conflicts will be minimized and the tax demands on the business will not threaten its existence.

The key to attaining a successful transition is to recognize that it involves a process of planning and execution. It needs to begin long before family members find themselves in a crisis meeting, arguing about who's going to take over management because the founder has just had a heart attack. It's extremely difficult to resolve all the issues when a business is in a crisis and family members are dealing with deep grief.

Do your transition planning well in advance

Plan and organize a smooth transition well in advance of the time it actually takes place. To prevent conflicts, your future family successor must be someone the family has all agreed on. Then that person must be prepared and given the necessary skills to be a good CEO. Make sure to address well in advance such predictable family issues as rivalry, jealousy and entitlement. By discussing these issues calmly and deliberately, you will find a resolution acceptable to everyone.

It is important to formally document the succession plan; this will avoid later disputes. You also need to structure succession planning in a way that will benefit the future business. For example, many family businesses bring outsiders onto the board to acquire the crucial expertise essential to business growth. It may also be a good idea to review current senior management positions held by family members. Next, assess whether they are best suited to continue holding these management positions in the family business going forward.

Keeping everyone in the loop

Proactive planning is very beneficial as it can give all family members a fair assessment of how much time and effort they may be expected to invest in the business. And, an idea of what long-term rewards they may earn. Ensure everyone has a clearer understanding of the roles and expectations in being part of the family business. This should minimize the chance of bitterness and conflict when ownership and power are ultimately transferred according to the pre-arranged plan.

Well-thought-out succession planning will give your family business its best chance to survive the period of transition without being negatively affected by whatever changes must be made. It is an opportunity to create a new vision for the future of the business – and enables all work-in-progress to be continued under the new management.

Finally, remember a key thing about succession planning: It will involve highly complex legal, tax and accounting issues. Ensure that you engage your team of professional advisors at a very early stage. Then every option can be explored and the best plan for succession can be achieved for you and your family.

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