

Part I: Planning for the Next Generation of Leadership

It's been said that family-owned businesses are the backbone of our nation's economy, and in fact, most new jobs are created by family businesses. Given their importance, it's surprising that so few successfully pass family ownership from generation to generation. According to one study, only 30 percent of family businesses make it to the second generation and only 15 percent survive to the third generation. Why should this be true, considering the abundance of business advisors and consultants in this country?

This is the first in a series of articles describing a unique way of approaching the issues surrounding planning for the next generation of family business leadership. In this article I will provide a brief overview of the Family and Business Renewal (FBR) Method. Subsequent articles will discuss some of the individual aspects of the FBR Model in more detail.

Most new businesses are started by an entrepreneur with an idea and a penchant for risk-taking and hard work. The founder of the typical successful family business possesses a skill set and has personality traits that facilitate building something from the ground up. The problem is that these same attributes often work against the successful transfer of an operating business to the next generation. While the entrepreneur must be decisive, gutsy and sometimes even belligerent in the quest for success, an effective leadership transfer plan must be deliberate, well thought-out and carefully implemented. In addition, the plan must meet the needs of, not only the current owner, but also the future owner or owners in order to be successful. Unfortunately, some of the very traits that contributed to the success of the entrepreneur work against planning for the transfer of the business leadership.

The Family as Client

In my work with family businesses, I treat the entire adult family as my client. My objective is to create a plan that will transfer the family's entire wealth — not just the business — to succeeding generations. In order to do that, I must create a plan that will reflect the needs, desires and expectations of the entire family.

To develop the information I need, I personally interview every member of the family — including spouses. I meet with every family member in a "safe" setting where they can be comfortable sharing open, honest answers to the questions I pose. I ask about family relationships, communication problems affecting family members and probe expectations related to the future of the business and their perceived role in it. This information helps me understand the objectives of the entire family regarding the transfer of the family's wealth.

The information I receive from the owner and other family members, plus consultation with the owner's attorney, accountant and other trusted advisors, allows me to develop a wealth transfer plan that I know will address the long-term goals and objectives of

everyone in the family. A plan that meets everyone's expectations for the future has a much better chance of success than a plan developed with input from the business owner alone.

The Family Retreat

Once the new plan is developed, I present it to the entire family at a family retreat. The retreat is conducted at a neutral site, such as a hotel or resort, where there will be no distractions. Every adult family member and spouse is invited and expected to attend.

I begin the retreat by asking each family member to respond to three questions, 1) "What do you expect from the retreat?" 2) "What do you admire most about your family and business?" 3) "What would you like to see changed?" As the new plan is unveiled, I point out how its provisions meet the expectations expressed during the three-question exercise. If I've been an active listener during the individual interviewing, I know my recommendations will hit the mark.

The retreat experience is always interesting. Many business owners have told me that this was the first time they ever heard their children speaking openly about the business and their expectations. Often, the children's comments trigger deep emotions in themselves and others in the family. In many cases, the retreat is the first time the family has openly discussed business and financial matters. I call my process "family and business renewal" because, while it helps preserve the business and other family wealth, it also enhances family relationships by opening the door to better inter-family communication.

Implementing the Plan

During the family retreat, the various alternatives for passing on the family wealth are discussed and a consensus is formed. Questions about the various options available are discussed openly and each family member's questions are answered and their concerns addressed. Plan implementation is accomplished with the help of the owner's other business advisors. Once in place, it is periodically reviewed to keep it up to date as conditions surrounding it change.

I firmly believe that the successful transition of business ownership and transfer of family wealth is a family affair. Making plans in secret — to be revealed at the reading of the will — is a recipe for disaster for both the family and the business. To assure that your family business does not become part of the depressing statistic mentioned earlier, consider working with a wealth transfer specialist to develop a complete wealth transfer plan, taking into account all your family's needs. The odds will greatly favor both family and business in the long run.

In the next article, I'll describe in more detail the challenges of conducting the family interviews.