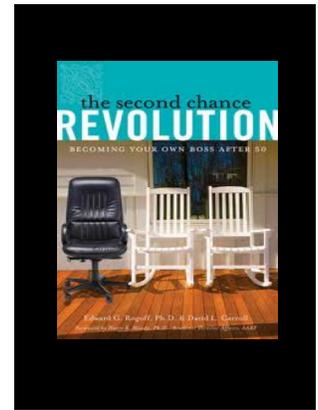

HOW DO I KNOW WHETHER A FAMILY BUSINESS IS FOR ME?

“Say, for example, that you and your middle-aged sister start an accounting firm together. She’s worked as a bookkeeper for several small companies, and seems to know her stuff. After working side by side for a year, however, it becomes devastatingly clear that sis would have been more of an asset to the family name if she’d kept her day job.”



MOST FAMILY BUSINESSES TEND TO BE SMALL AND FOCUS ON RETAIL AND SERVICE-ORIENTED VENTURES.

MANY HAVE A HISTORY THAT GOES BACK A GENERATION OR TWO. IN THE CASE OF A FIFTY-PLUS STARTUP, ASIDE FROM MAKING A PROFIT FOR ALL INVOLVED, GENERATIONAL AIMS INCLUDE

ESTABLISHING
LONG - TERM
EMPLOYMENT
OPPORTUNITIES
FOR ONE’S

INSIGHT: *Think carefully who in the family to go to business with. You will have difficulty cutting professional ties with incompetent family members.*

CHILDREN, OR GENERATING AN ANNUITY THAT CAN BE PASSED ON TO ONE’S SPOUSE IN CASE OF DISABILITY OR DEATH.

MOST OF ALL, A FAMILY BUSINESS HAS SPECIFIC ADVANTAGES AND DISADVANTAGES THAT SEPARATE IT FROM OTHER FORMS OF BUSINESS.

FAMILY BUSINESS: PROS +

On the positive side, a family business makes it possible for you to spend more time with your spouse and children, an asset that is especially appreciated if you've worked nine-to-five for years to the constant complaints of family members that you're never home.

A family business helps you provide relatives with the kind of career and profit-making opportunities they might otherwise never realize. It allows you to work with associates you trust, who are loyal, who are willing to make sacrifices for the good of the company—people with whom you're comfortable and who care about you, people that you're happy to brush shoulders with every day and whom you are proud to see grow and prosper on the job.

And, of course, a family business helps you create an enduring commercial enterprise that can then be passed on to younger family members.

FAMILY BUSINESS: CONS –

Meanwhile, on the debit side, is the fact that when running a family concern, you are often obliged to manage personal issues that can be confusing, contentious, and that have a long emotional history reaching far back into the family's past. You must deal with the kind of constraints and complications that would not ordinarily show their heads in a non-family business environment.

Say, for example, that you and your middle-aged sister start an accounting firm together. She's worked as a bookkeeper for several small companies, and seems to know her stuff. After working side by side for a year, however, it becomes devastatingly clear that sis would have been more of an asset to the family name if she'd kept her day job.

She's grossly incompetent. Yet, you can't fire her. She's a partner. And more to the point, she's your sister. At the same time, it's obvious to everyone that she is running the business into the ground.

REALISTIC EXPECTATIONS OF FAMILY BUSINESS

A. CHOOSE FAMILY EMPLOYEES REALISTICALLY AND OBJECTIVELY.

B. DEVELOP A FULL OPERATIONAL STRATEGY.

C. ESTABLISH AN AGREED-UPON AUTHORITY STRUCTURE FROM THE START.

It will remain this way unless you establish an agreed-upon chain of command at the inception.

- **There are ways to avoid these pitfalls:** For example, you as founder of the company may want to create a board of directors that is staffed by family and non-family members alike.
- Who repairs what; and who reports to whom, when, where, and how? In this way, power squabbles among employees, family and non-family members alike are minimized.

D. KEEP ALL FAMILY FINANCIAL TRANSACTIONS CONTRACTUAL.

E. ESTABLISH A TIME LINE.

If you want your new business to be time-limited, make this fact clear to all family employees in the early stages.

Explain to one and all how you'll be structuring the company, how the proposed time line will work, and when and how you intend to sell or retool or divest yourself of the company's assets.

F. SET UP GOOD LINES OF COMMUNICATION.

It's a good idea, for example, to organize a family-only business meeting once or twice a month. At this family sit-down, all business problems and personal issues are aired and all suggestions heard.

It's important that people's problems, suggestions, and gripes be heard. This is especially true of a family business, where unaddressed frustrations can morph into personal family feuds, causing hurt feelings, shouting matches, and even divorces.

SO THINK PREVENTIVELY.

BE SURE ALL FAMILY MEMBERS' VOICES ARE HEARD. KEEP THE CHANNELS OF COMMUNICATION OPEN. DON'T IGNORE PROBLEMS, DON'T LET DISAGREEMENTS FESTER, AND DON'T ALLOW SMALL ISSUES TO MUSHROOM INTO LARGE ONES.

Son, daughter, nephew, granddaughter, etc.—often feel empowered to challenge policy and decisions by right of blood alone.

It's a good idea, for example, to organize a family-only business meeting once or twice a month. At this family sit-down, all business problems and personal issues are aired and all suggestions heard. Grievances can be ironed out at this time, changes in business policy discussed, and personal conflicts addressed.

Not every meeting will solve every problem, needless to say. But the very fact that you schedule these meetings sends a message to family employees that they are an integral part of the organization. Even if you have only one or two family members working for you, these meetings can go a long way toward defusing potential—or de facto—conflicts.

THE QUESTION OF SUCCESSION

Somewhere down the line, you will either want to cash out of your new entrepreneurial enterprise, or pass the torch to one of your relatives, presumably one who already works in the business. If you choose to take the latter route, it's a good idea to start the wheels of succession turning early.

In their standard business school textbook, *Small Business Management*, Justin Longenecker, Carlos Moore, and J. William Petty present a section on family businesses subtitled "Stages in the Process of Succession."

ACCORDING TO THE AUTHORS, SUCCESSION IN A FAMILY OPERATION OFTEN REQUIRES A LONG PROCESS OF PREPARATION AND TRANSITION THAT UNFOLDS IN A SERIES OF DISTINCT STAGES:

1. PREBUSINESS STAGE.

- In many cases the successor-to-be learns the family business as a child and teenager. He or she goes to the office or store everyday with Mom and/or Dad, plays with the equipment, makes friends with the employees, and unconsciously absorbs the company's atmosphere and operations. The deep sense of familiarity that results paves the way for this person to become a strong asset to the business later on, and to rank as a logical candidate for succession.

2. INTRODUCTORY STAGES.

- Young family members work in the business part-time, during vacations or after school. Here they meet other workers, perform a number of basic jobs, and receive a ground-up education in the daily running of the business.

3. FUNCTIONAL AND ADVANCED FUNCTIONAL STAGES.

- After completing their formal education, or after finishing a term of duty in the military, many young people join the family business as full-time employees. They often start at the bottom, carrying boxes in the warehouse, cold calling on the phone, performing janitorial work, making deliveries, or accompanying technicians on service calls. While performing these duties, they gain valuable experience in many different branches of the business. Gradually, they work their way up to full managerial positions.

4. EARLY AND MATURE SUCCESSION.

- Eventually, the family employee becomes the de facto or de jure head of the family business. He or she, along with the founder, oversees all supervisory duties, directs employees, and participates in policy decisions. During this time, the successor is intentionally groomed to take over the operation.

In the case of a later-life new career, not all of these stages apply, but many still do. If you are a fifty-plus entrepreneur, keep in mind that in times of transition many family businesses fail, both for financial reasons and personal ones.

THE REMEDY IS TO BE PROACTIVE, AND TO SET THE SUCCESSION MACHINERY IN PLACE FROM THE START.

THE FOLLOWING PROCEDURES WILL HELP:

- **Establish the plans for your succession at least a year, and preferably several years, before you intend to retire.** Doing this helps you avoid the inevitable power struggles that occur among family survivors if you suddenly become disabled, mentally incapacitated (as with a stroke), or die without warning. It is also good business to let everyone know in advance how the succession will work, and who will do what, when, and how, when your retirement time comes.
- **Make sure that your successor is adequately prepared to take over the business.** Before you step down, encourage successors to participate in running the company and in making key decisions. As your retirement approaches, increase their power and authority. Let them do the important work with clients and business associates. Encourage them to get involved in all aspects of the operation. Ideally, when the time comes for takeover, they will already be partly running company.
- **Be crystal clear when naming your successor.** Simply transferring shares of your business to a family group and letting them figure it out from there is a recipe for family war. Far better to provide each key person involved in the transition, family and non-family alike, with a written succession plan. Be sure that all principals read and understand this document.
- **Before retirement, schedule a series of meetings with family-company officials.** At these meetings, name your successor, discuss the mechanics of the takeover, and describe in detail how the succession plan will work. Holding such formal meetings now will help prevent family members later on from insisting that they were surprised or blind-sided by your transition policies.
- **When more than one relative is being groomed to take over your business, be sure there are two ways to do this.** The first is with a legal family partnership in which each relative is made a full partner. Though far from ideal, this method is preferable if successors are uncomfortable naming one of themselves as boss. Second is by establishing a “first among equals” plan in which one of the successors oversees the day-to-day running of the company. When major business decisions are made, however, all the partners cast their vote as equals.

- **Provide your successor with a clear business plan.** Part of this plan will already be in your successor's mental data bank from long experience with the family company. More tangibly, you might draw up a business plan and walk through it with your successor until it becomes second nature. Successors may, of course, diverge from this plan as soon as they take over, heading off in their own directions, but it never hurts to leave a clear instruction manual for a new regime.
- **Establish a timetable for your succession.** Let involved family members know exactly how long you intend to keep working, when you plan to transfer shares of the company, when you intend to retire, and how long after succession you intend to remain with the company in an advisory or voting capacity (if at all). By keeping key family players informed of your plans in advance, there is little room for accusations and misunderstandings down the line.
- **Keep your succession plan flexible.** Since the business world is always in flux, and family members' lives change as the years pass, it's best to periodically review your succession plans, and to add modifications when appropriate. Most of all, avoid the "file it and forget it" approach. Life is full of surprises.
- **Educate yourself.** Read books on family succession. Check out family business-oriented websites. Talk to people with experience. Learn the legal and psychological ins and outs.

Here are several excellent books that will get you started:

- C. Arnoff, S. McClure, J. Ward: *Family Business Succession*
- Randel Carlock: *Strategic Planning for the Family Business*
- Quentin Fleming, *Keep the Family Baggage Out of the Family Business*
- Edwin Hoove: *Getting Along in Family Business*
- J. Hughes: *Family Wealth: Keeping it in the Family*

Helpful websites include:

- www.familybusinessmagazine.com
- www.ffi.org
(Family Firm Institute, Inc. The International Body for Family Business Professionals)
- www.family-business-experts.com