



# The Next Generation

## PRESERVING THE FAMILY BUSINESS

By Carolyn Riegler

The family-owned business has an unusual set of relationship issues. Multiple generations work side by side. Separation of work and family roles, although desired, is almost impossible. Weaving the family dynamics with business challenges is a combination of deliberate planning and tough decisions. Many of our clients are successful family-owned enterprises. They have gone through tough times, and have made choices to ensure the viability of the business for the next generation. Passing the torch is a difficult process, many family businesses do not survive through the second or third generation.

Our experience shows that a third party is often the bridge that can help the business transition successfully. An outsider brings clarity and experience, unfettered by lifelong relationship issues between parents and children, cousins and grandparents. The privately owned business will benefit from addressing a multitude of issues with their trusted advisor.

Strong businesses plan for success through strategic methods and techniques. The family business must also operate with discipline and forethought to ensure its viability for generations to follow. Three core areas set the foundation for building the future. A third party advisor can help you achieve your goals through a combination of establishing the business rules and framework, training and developing your talent and strategic reflection and planning for the future.



### 1. Establish Team Rules

Developing clear succession plans and shareholder agreements are key. Future expectations should be set early and communicated clearly to all members of the family. Agreements need to outline critical issues such as: Who will be in charge? How will decisions be made? Who will own the company? How will stock or member interests be transferred between family members? Who will have rights to future cash flows and profits? Should gifts be passed to minors, future descendants? Putting the rules in writing, reviewing, and updating them on a regular basis can prevent family dissent from distracting the business from its core purpose.

### 2. Train the Team

The founding member of the business often has talents which enabled them to build the business. These talents are not always shared by the next generation. It is important to assess each member's skills, strengths and weaknesses to plan for their success. Formal education and training, externships with other businesses, internal department rotation, and coaching are just a few techniques used to facilitate the planned development of younger family members to prepare them to lead.

### 3. Reflect and Revise

Successful family-owned businesses often have a planning and advisory board made up of non-family members to help them plan for the future, and reflect on the past. A group of trusted, experienced advisors willing to communicate the truth, even if it means conflicting with management, is priceless. The board should consist of individuals respected by family members; attorneys, CPAs, other family business owners, and community leaders are all good prospects for the advisory board. Meetings should be held on a regular basis, perhaps monthly or quarterly, depending on the business needs. Family management should be tasked with making formal reports and status updates to the board, promoting an environment of accountability. The board can help the management team "stay the course" or change direction on a dime when needed to facilitate success. Advisory board members can also help mediate family conflicts to avoid lengthy and costly litigation between family members.