

Designing Family Business Continuity

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"Successful family businesses design continuity plans that integrate individual, management, business and shareholder development into a comprehensive vision for the future."

Introduction

"On a hot August afternoon, Ted Brown stepped from his attorney's office, satisfied that the papers he'd just signed would provide financial security for his wife and family in the future. As he watched thunderclouds build on the horizon of the community he knew so well, Ted Brown had no way to know that he'd just created a different kind of storm that would someday embroil his wife and children in conflicts over the control of the business." (from *Love, Power & Money: Family Business Between Generations*)

Most family businesses, if they do any planning at all, develop estate plans to minimize their tax exposure. Like many owners, Ted Brown had an effective estate plan in place, but he failed to develop a comprehensive plan to protect the continuity of his family business.

Certainly all businesses must deal with the tax implications of their planning. However, the best transition plans incorporate the goals and needs of the family into a coherent vision that fosters the ongoing success of the business. Designing family business continuity requires the integration of individual, management, business, and shareholder development into a comprehensive vision for the future.

Individual Development

Each family member needs to feel accepted and appreciated for his or her unique talents and contributions, whether these are directed toward the family business or not. Young adults often feel the tension between pursuing a career that fulfills their own passions and meeting a sense of obligation to work in the family business. Of course, for family business continuity, the best scenario emerges when individual passion finds its expression in a career path within the family business.

Individual development and the fostering of self-esteem are also critical for the senior generation. In order to let go gracefully and transfer the business to the successors, the senior generation must "let go" to something new – such as involvement in the community or the pursuit of activities through which they find fulfillment.

Regular family business meetings are excellent vehicles to explore these issues of personal need and individual development. For example, to determine the long-range strategy for business ownership, one family has been meeting with me quarterly to discuss the career goals and objectives of each family member and to determine whether any members of the family have the commitment, the competency and, more importantly, the passion, to become future leaders of their family enterprise. Equally

important, the entrepreneurial founder of this family-owned company has shared his dream for the future of the business that he has built over the past 30 years.

Management Development

The long-term success of a family business from generation to generation is rooted in the development of competent leaders for the future. Management development is grounded in the basic philosophy of the family. Will the family foster nepotism and entitlements? Or will the family build a professional corporate culture based on competency criteria, both for employment and promotion?

Successful family businesses have four components in their family employment policy to foster the development of future leaders:

- Clear guidelines for the initial employment of family members, based on educational or technical expertise, experience working outside the family business, and a demonstrated level of emotional maturity.
- Defined performance criteria with measurable standards and objectives for the promotion of family members to increasing levels of managerial responsibility.
- Compensation guidelines consistent with the salary and incentive program for non-family employees in similar positions.
- Commitment to the ongoing educational development of managers through such programs as technical training seminars, executive MBA programs, or ongoing participation in peer development groups such as our Forums for Family Business.

Business Development

For any company, developing a business plan is essential to its long-term survival. As the road map for the company, a business plan provides a strategy to overcome challenges by regional, domestic and foreign competition, as well as economic setbacks and the internal development needs of the business.

For family businesses, their strategic plan must take into account not only the opportunities for the business, but also the goals, objectives, and capabilities of the next generation of leadership. For example, in one family business, the father established a successful international enterprise based on his patents as a civil engineer. The successor generation has built upon the success of their father, but expanded the company into the design of software solutions for their customers based on the expertise and interests of the next generation.

In another situation, the family expanded the value-added services it provides to its core customer group by creating a separate business owned by the successor generation that is vertically integrated with the parent company. In a third example, the successful family business created a venture capital fund to finance the entrepreneurial interests of individual members of the next generation.

Shareholder Development

To sustain the long-term success and continuity of a family-owned company, successful families-in-business develop educated family shareholders. One successful fifth generation family business I work with has a legal board of directors with representatives from each of the three branches of the family, as well as outside business experts. In addition, they have created a “shadow” board, made up of the next generation, who attend regular board meetings to become better informed on critical issues facing the company. Future board members are elected from those who have learned to be effective leaders through their service on the “shadow” board.

Another entrepreneurial client has established an advisory board, and invites the successor shareholders to attend quarterly board meetings. In addition to corporate issues, each board meeting includes an educational component, such as a presentation by the Vice President of Sales and Marketing on the sales objectives of the company, or a discussion by the corporate attorney on the reasons for their S-Corporation election.

In addition to developing educated shareholders, successful family businesses design plans to address the liquidity needs of shareholders. The long-term success of a family enterprise often requires the recapitalization of the business through the purchase of inactive shareholders' stock or the creation of a redemption program that is fair to the shareholders but does not jeopardize the financial strength of the business.

Conclusion

The best family business transitions that sustain value from generation to generation are developed through open communication and ongoing dialogue within the entire family. While estate planning for the purpose of minimization of estate taxes should be one key objective within a family business transition plan, tough choices concerning the family and the business must also be discussed and a direction determined, in order to facilitate the long-term success of the family enterprise.

Designing family business continuity is a process that weaves together issues of love, power, and money, by addressing the development needs of individuals, managers, the business, and shareholders.