Family Business Succession

Parallel Planning Is Needed

By Dan Maloney CPA CFP CM&AA

According to statistics gathered by the Family Firm Institute, only about 30% of family businesses survive past the first generation, and only 12% reach the third generation. The odds don't look so good! Failure to survive as a family business is not necessarily due to business failure, but rather, it could be due to a failure to analyze the family issues and business issues in a parallel manner. Family businesses are unique in that planning for succession and generational transfer planning can require a lengthy and emotional dual planning process. The dynamics of the dual planning escapes the learning experience gained at most business schools. The dual process entails strategic family planning (a strange sounding term from a family point of view) as well as strategic business planning. An added complexity is that the members of both planning teams may overlap.

The Search for Family Consensus

Families must plan around, over and through the soft emotional and personal issues such as: which members are candidates for leadership roles; who is entitled to own shares; who can vote; will younger, more qualified siblings be permitted to supervise their less qualified older brothers, sisters and cousins; and other family specific issues. When running a family business, the list can seem endless, and getting consensus agreement on the answers to the questions is reason to celebrate. In business planning, decisions are made, managers carry them out, and the business goes on. Not so with some family decisions. In the family planning arena, even with consensus, hurt feelings may cause the same issues to continue to surface. Sibling rivalry and subtle interfamily power plays can make corporate politics seem like child's play. For example, a decision to pay all siblings equal salaries, even though they hold positions having differing levels of responsibility and experience requirements, is a common family business approach. The siblings may initially accept it, but rarely is it a long-term satisfier. Resentment may slowly set in and generate irrational business behavior. The parents however, feel good that they are treating their children equally.

Boards and Councils – Different Rules, Different Players

To address the parallel planning, family businesses should consider utilizing two governing bodies, a Family Council for the family governance, and a Board of Directors for the business governance and strategic issues. The Council can address the difficult-to-discuss family values, family compensation structures, family performance measures, rewards and discipline, perquisites, ownership restriction, buy-sell agreements, generational issues and the family mission statement. These issues must be addressed in a council type setting if the family hopes to beat the odds and last for more than one generation. The Family Council, in effect, aligns the family's plans with the business issues concurrently being addressed by the board.

The Board of Directors addresses the business realities as it plans strategies to increase shareholder value. The Board could be composed of both family representatives and a few outside advisors. Some family members will participate in both groups. Since the family leader will be active in both forums, the Board will have the resources and information to plan the business with family needs in mind. Provided the non-family board members have as equal a voice and power as do the family board members, they can be a great resource for offering objective solutions that balance the needs of both groups.

Shared Vision or Conflicting Ideas?

When the family plan and the business plan are prepared in parallel, the ideas of the groups can be shared with each other. This interchange of ideas differentiates a family business board of directors from other independent boards. If the "business board" doesn't approach its governance issues with the family desires in mind, and approaches its role strictly from a business-first perspective, many of its directives won't survive the emotional roller coaster over the long-term. Even if the family's desires do not make the most business sense, they must be given appropriate consideration. If the board approaches its role strictly from a family-first perspective, the prospects for long-term business growth will suffer.

The best long-term alternative for family business governance is to engage in parallel strategic planning for both the business and family. It takes balance, give and take, communication and compromise. It also increases the odds of a successful succession.

As the company conducts its parallel planning, the members of each team should be continually asking themselves three fundamental questions:

- **What Do I Have?**
- **What Do I Want?**
- **How Do I Get There?**

The answers to the first two questions will vary depending on which team they belong to, as well as with their role within the family hierarchy. With some creative thinking and a little luck, the answer to the third question – parallel planning – will hopefully be the same.

*****

Daniel J. Maloney CPA CFP CM&AA is the founder of Certified Acquisition Associates LLC, a business intermediary and consulting firm specializing in managing the purchase and sale of successful privately owned businesses. If you have questions about business planning and preparing your business for sale, send a note to questions@certifiedacquisitions.com