

"Successful Transfer of the Family Business ...To the next generation "

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Family businesses of all sizes form the core of our economy. Over 90 percent of the businesses in the United States are family owned. Family businesses generate half of the gross national product, and employ half the work force in this country.

The successful transfer of management and ownership from one generation to the next is key to the survival of these businesses. There are many factors that contribute to a successful transfer. These factors include willing and qualified successors, the willingness of the parents to give up power, trust and open communication among stakeholders, and a mutually agreed upon plan for the transfer that is realistic and includes timelines.

The Successors:

Potential successors may hesitate to commit to the business, and often the reason for the hesitancy is a lack of communication among family members about future plans and expectations.

Successors in the younger generation may not want to spend their lives working as hard, or the same way their parents did while building the business. The parents may not feel the successors are committed, because they may become involved in outside hobbies and interests, away from the business. The parents may worry that the business will suffer if the successors don't do the job the same way it was done in the past, including working excessive hours.

Whatever the issues are, they need to be discussed, and both generations must be clear about their expectations. If the expectations from both generations cannot be agreed upon, the transfer will not work, and other options must be considered.

It is important to determine what kind of leadership the company needs in light of its current challenges. Parents need to examine successors' leadership qualities as well as their performance skills, including how effectively they motivate and inspire employees. One sign of an effective leader is the presence of willing followers. Employees will respond to a leader who listens to them, can help resolve conflict, and is a positive role model in communication style, honesty, and integrity. Effective performance skills include the ability to make reasonable decisions, hold people accountable, delegate effectively and meet goals and timelines.

The Parents:

If owning the business provides a satisfying life for the parents, they usually wish to pass the business to their kids. The decision to sell the business or gift it to the successors is based on the financial needs and values of the parents. Many business owners have their retirement income tied up in the business, and therefore need to sell it in order to retire. Whether gifting or selling, the parents must feel that they are ready to step down, and that the chosen successors are qualified and capable of successfully operating the business.

Here are some suggestions for parents when they are grooming their successors: Give advice, but do not tell them what to do - and don't rub their noses in their mistakes. Groom your successors for the top job

by giving them jobs that are intended to broaden their skills. To avoid undermining the successors' authority and giving the message that you don't trust their judgment, give constructive feedback in private, and never contradict your successors in front of others. Discourage employees from going around the successors to you for decisions, by sending them back to the successors.

Remember that there are many ways to successfully run a business, and your successors may not do it the way you would. Give your successors enough room to develop their own style of management.

Trust and Communication:

Trust is built when healthy, direct communication takes place between potential successors, parents, and other stakeholders. The first step toward healthy communication is for families to get together and learn how to listen to each other effectively. Reflective or active listening skills can easily be learned in groups.

Another skill that can be learned is direct communication. When we are able to tell our family members exactly how we feel and what we need, it is more likely that we will have our needs met. Direct communication is scary, but it is worth the risk.

Trust is the outcome of listening, direct communication and understanding between family members. The potential for destructive conflict decreases when family members trust each other and communicate clearly. The planning process is much more effective when stakeholders are using healthy communication skills.

The Plan:

The plan must be a collaborative effort between the successors and the parents, addressing the interests of both groups. One important consideration is how soon the parents want to retire, or decrease their work responsibilities. It is not wise for the successors to push the parents out before they are ready to leave, however, there must be a reasonable timeline set for the parents to exit. The age and health of the parents as well as the experience and qualifications of the successors are important considerations in timing the parents' exit.

Once the basic expectations and tasks for transfer are identified, the goals and timelines can be outlined and assigned to different individuals to accomplish or oversee. Common goals include obtaining a current valuation of the business, gifting plans or buy/sell agreements, specific training for the successors, a plan for the parents to gradually start letting go of tasks and authority, and announcing to employees the planned changes in roles and responsibilities.

Successful transfer of the family business is made possible by a commitment of time, energy and cooperation of both successors and parents. Attention to all the factors listed above will help make your transfer a success.

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