update

Staying Ahead
with Saul Ewing

10 | 04

Personal Wealth, Estates and Trusts Group

Keys to Family-Controlled Business Success — Part I

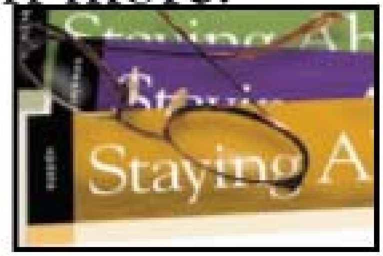
What happened?

Lack of succession planning causes approximately 80% of family-controlled businesses to fail to reach the second or third generation of owners.

What does it mean?

We recommend following twelve action steps in order to systematically assess and plan for the potential and unique problems faced by family businesses and, therefore, help those businesses avoid pitfalls and conflicts before they occur.

Learn more.



Turn page to find out more.

When asked when they expect to retire, a high percentage of family business CEO's respond "Never." The resulting lack of succession planning causes approximately 80% of family-controlled businesses to fail to reach the second or third generation of owners.

We recommend the following action steps in order to systematically assess and plan for the potential and unique problems faced by family businesses and, therefore, help those businesses avoid pitfalls and conflicts before they occur.

1. Encourage the family business members, its advisors and its non-family member managers to perform a SWOT analysis (strengths, weaknesses, opportunities and threats) of their business, its products, its services, and its people.
2. Have this group meet and set realistic goals, define the family business mission, and then analyze and discuss the results with all the family members and their spouses.
3. Set objective criteria for family members' compensation and define the amount of output expected from such members in conjunction with the same planning for non-family members.
4. Examine whether the family business attracts family members to work in the business or whether the next generation is going outside the family business for employment. If the latter scenario occurs, is that decision based on any of these factors:
   - Disagreement over the family business's mission, values or goals.
   - Individual goals.
   - Shareholder vs. non-shareholder status.
   - Lack of a succession plan.
   - Too much control and voting power concentrated with the owner.
   - Company appearing to be "in a rut" and lacking re-invention.
5. Establish a mentoring program for younger members and use non-family, experienced employees in the process.
6. Encourage younger members to receive well-rounded experiences, either through school or working outside the business. Reward the younger members for this investment by placing them in positions that reflect having obtained this type of experience.
7. Consider the use of non-family management and outside advisors when family members need assistance.
8. Help management of the family business recognize and understand that people in the business organization have different perspectives.
9. Emphasize the advantages that a family business has over non-family business including common goals, higher commitment and long-term perspective.
10. Have scheduled, facilitated strategic planning and business advisory board meetings as well as off-hour, out-of-the-office retreats. Advisory board members should not be persons who are regularly, directly compensated for their services by the company (the company lawyer, accountant, banker, etc.). They should be experienced entrepreneurs.
11. Establish a reporting mechanism that prevents family members from directly reporting to other family members, therefore minimizing family conflict.
12. The founder who is able to "pass the baton to the next generation" and then have the company continue to prosper is the true success. Finding the right successor is often the most difficult task an organization can face, and the challenge is often greater for family-run businesses seeking to develop a **succession plan and gifting strategies**. Our suggestions for this important process are in Part II which will be forthcoming shortly.

This Update was guest authored by Leonard C. Green, CPA, MBA and Beth Green Silver, Esq. For more information, please contact Beth at 516.869.6458 or bsilver@entrepreneurialstrategiesgroup.com. *The information in this Update is intended for informational purposes only, and its contents should not be considered legal advice.*