

Passing on the Family Business to the Next Generation



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Rosner Tool Works*, manufacturer of industrial and construction industry tools and accessories, was founded by Aaron Rosner in 1931. He turned the reins of the business over to his son David in 1968. David planned all along to leave the running of the business to his daughter, Deana, when he was ready to retire. Deana found out the hard way, however, that things don't always go as planned. Her father died suddenly in 1999, and while it was his strong desire for her to inherit the business, the lack of a transition plan (addressing how the handover was going to be accomplished) presented a variety of problems. The biggest issue was that, while Deana and her father talked frequently about how she was going to continue the business, the way all this was going to be worked out financially was never covered in an Estate Plan. Nor were there written plans for how the business ownership and roles and responsibilities were going to be divided up amongst the other members of the family. Without a written plan for transition, because of the enormous tax consequences, Rosner Tools was destined to be sold rather than passed on. To keep the business in family hands, Deana, with some support of others in the family, had to cash in everything she owned in order to purchase the assets. After taking over the Company, she had to negotiate agreements with the rest of the family. As would be expected there were many practical issues to work out but being able to do that within the context of all the emotional family baggage that had to be dealt with made the process so much more difficult. Business meetings with the family turned into unproductive family therapy sessions. Corporate Performance Consultants Family Business Division was then called in to facilitate these meetings, help the family get past all the emotional blockages, and get the necessary business accomplished and agreements reached. After that, working with legal and financial consultants, Deana was able to draft a full blown plan for transitioning the business to her son, Justin, who is currently Vice President and General Manager of the company. The plan not only included the financial contingencies, but also set up time lines, assessed Justin's development needs, created his development strategy and determined the roles of other members of Deana's family. According to Deana, "we still meet annually to review the plan. I don't want my son to go through what I had to go through and I implore every family owned business to develop a well thought out, detailed transition plan."

Planning for Succession in Family Businesses

While it is the goal of the founders of so many successful companies to pass along the business to their children, statistics demonstrate that is not always successful. Only 30% of family businesses survive into the second generation, 12% are still viable into the third generation and only about 3% of all family businesses operate into the fourth generation or beyond.

Although the odds appear to be against it, family-owned (closely held) businesses can persist long after the founder has left the business. To survive into succeeding generations, though, each business needs a carefully developed plan – a living document to be acted upon, reviewed and revised when necessary on a regular basis.

Steps and Tools

1. Successful transition planning begins with a frank, open family meeting to determine who wants to make a future career commitment to the business. This meeting is a good opportunity to clearly review the mission and vision of the company and the core values by which the business has been run.
2. Next a professionally facilitated, in-depth analysis of the company should be conducted – including a SWOT Analysis. The purpose of this assessment is to take an objective look at the Strengths, Weaknesses, Opportunities and Threats of the business and to set short term and long term priority goals. All key employees should participate in this analysis as well as all family members who will have an on-going employee or ownership role in the business.
3. A thorough assessment of each family member that is going to play a role in the business should be conducted to determine development needs and create a leadership development plan. It starts with a determination of the Success Factors for the key Leadership positions in the company. Then capabilities of performing those success factors are measured for each family member that is committed to having a role in the business. There are many tools that can be used in this process including career interest and skills questionnaires, personal style assessments and 360° surveys.
4. The primary outcomes of using these tools is an individualized plan created for each family member to be monitored and adjusted regularly according to need. There are a variety of methods available for leadership development including in-house and outside training, executive coaching, mentoring programs, a management rotation program and MBA and technical certifications.
5. Well-constructed retirement and estate plans should be created to assure the continuation of the business and guaranty the financial security of family members as well as how to manage the transition.
6. The transition plan itself is a formal written document that should be reviewed and revised (if necessary) at annual family business meetings. It is best to get a professional adviser to help facilitate these meetings.

As Deana wisely advises: "I implore every family-owned business to develop a well thought out, detailed transition plan before decisions need to be made in haste or, even worse, in crisis."

**This is an actual business case. The names and industry have been changed to protect confidentiality.*