All In the Family

HOW MIXED GENERATIONS CAN SUSTAIN BUSINESS IS A CHALLENGE MANY FAMILY OWNED COMPANIES FACE. BY MATTHEW SPIVEY AND KEVIN HUDSON

Those who own their own business know better than anyone that planning for the future survival of the company may seem challenging and distant when looking at the present state of affairs. Whether it is a sole proprietorship started from the ground up with no employees or a private company of 250 employees, the future survival or disintegration of that business is often not discussed in the course of day-to-day operations.

Similar to looking out into the ocean with no horizon in sight, the idea of not being in control of the business (whether through retirement, death or unplanned sickness) is a thought that we don't like to imagine and when we do, it is hard to comprehend.

A Tricky Mix

As if the thought of being gone from your company is not enough to turn your stomach, here comes the tough part – imagine having to throw the difficulty of family emotions into the mix.

At this point, the reader may be thinking that unless their own death has caused their departure from the business, they'll be dead by the end of the fight that will ensue to take over control of the business. Some may think that they would rather see their business go to deserving employees and management who have put more into the business than ungrateful children, cousins and other siblings. Still, others may not be able to imagine the business that they have put their sweat, blood and tears into passing outside of their family.

Whatever your thoughts, goals or motivations – although succession planning is not a pretty thought, it is necessary if you wish for your business to survive into the next generation – whether inside or outside of the family.

Making A Plan

General options and considerations include the timing of any succession in management, tax implications of selling shares in your business and whether you think an employee stock option (ESOP) plan may help to motivate employees. In the family run business context, this obviously includes the decision of whether you want succession planning based on retention of the business within the family or selling to other business owners or key employees.

One thought may be to encourage your employees to participate in an ESOP plan and therefore invest some sense of themselves into the business. Obvious disadvantages of such a plan would be a loss of control within the family. In contrast, reorganization of the company to exchange your common shares in the business for preferred share with a fixed value can allow you to pass future capital appreciation and tax liability to your children while you retain control, keeping the business in the family but freezing the corporation.

"SUCCESSION BUSINESS PLANNING, AND ESPECIALLY PLANNING FOR THE FAMILY BUSINESS, APPLIES EQUALLY TO THE CONSTRUCTION INDUSTRY, THE LAW FIRM OR THE LOCAL RESTAURANT."

As detailed below, the statistics on the overall success and longevity of businesses and the differing styles of today's work force demand that the prudent business owner implement a succession plan. Such a plan requires open communication to honestly address concerns, flexibility in approach and expectations of the next generation, respect for different values held by these multigenerational groups and encouragement of training and collaboration between different ages.

This is especially true in the family owned business, given that more than 80 percent of all businesses in the United States are family controlled. In addition, more than 60 percent of the work force in the United States is employed by a family owned business. If those statistics aren't surprising, then take into account that the general success rates of most entrepreneurial businesses are dismal, with estimates that around 75 percent fail in the first five years. Of those that do survive, only around 10 percent last 10 or more years.

In the arena of family owned businesses, statistics have shown that more than 70 percent do not survive the transition from founder to the next generation of ownership. As more employees reach retirement age, business owners need to take into account replacing all levels of management and employees.

According to the Bureau of Labor Statistics, 25 million employees plan to leave the work force by 2010. The majority of this group of departing employees will be leaving due to retirement, placing a huge demand on a younger generation and requiring business owners to plan to transition job responsibilities.

Smooth Transitions

Ensuring a smooth transition and success of the business is accomplished through identifying and preparing employees who are capable, motivated and willing to see the company survive and become as important to them as it is to you. This requires mentoring, training and job rotation, helping the successors to understand all the ins and outs of the business that you have come to love and call your own. This also requires understanding the motivations of different generations of workers and how to communicate and deal with them in new ways.

Succession business planning, and especially planning for the family business, applies equally to the construction industry, the law firm or the local restaurant. Whether you are a new business owner in your 20s or are nearing retirement age, statistics show that your company needs to start thinking of succession planning sooner rather than later. From a management perspective, succession planning is made all the more difficult through dealing with the clashing styles of a multigenerational work force which as detailed above will be changing drastically in the next few years.

In the context of the small business owner, your 35-year-old child will have different motivations and thoughts than your 58-year-old sibling, yet both may wish to take over a lead role in the business. The 35-year-old will most likely not wish to spend 75 hours per week at the office as you did and may instead expect that they will be able to leave by 5 p.m. to go to play golf or spend time with their children. This will inevitably cause a clash between your child and your sibling. The sibling who put 20 years into the business and sacrificed time and opportunities, which your child now expects, will likely expect to take over a more senior position.

More important, in the larger company, the business owner has to understand and began to cope with the four distinct multigenerational age groups. These groups are defined as:

The Traditionalists – This is the group of employees who have generally been employed between 30 and 40 years. They are defined as stable, disciplined and highly dedicated and feel their success has been built on hard work and postponement of quick material rewards. This group may have difficulty with technology and feel that they are not appreciated or understood by younger executives who are managing them.

The Baby Boomers – Most readers may fall into this group of workers who make up the large group of employees looking toward retirement. These workers are often used to a more hierarchical style of management and take a "whatever it takes" mentality. They believe one must work their way to the top and willing to put in long hours to gain respect. Research suggests that this group of workers may enjoy continuing to work part-time after retirement age if a company allows flexibility.

Generation X – This group often lacks loyalty to an employer and instead place family and community above work requirements. They are independent and most view their job as a means to an end. This group of 30- to 40-somethings can serve as an important experience-building gap between the youngest of workers and those at retirement age, but also expect a different work environment with fewer hours.

Generation Y – This group of young workers values partnering and collaboration. They are better at multitasking than their older counterparts, but struggle with a rigid and hierarchical system. Like their brethren in the 30- to 40-something age range, these 20- to 30-somethings don't have as much loyalty to the organization, yet they seek and expect responsibility and input from day one. This group has the most technical savvy and combines the "can-do" work ethic of traditionalists with a sense of independence and fearlessness.

Managing these varying groups and different approaches is made all the more difficult by the interplay of a family business and the emotions that necessarily come with it. It is key that as you move forward in your business, you decide whether you want a family-first business or a business-first family. Taking a look at the general contrasting motivations between the family and a business demonstrates that this is not an easy task.

The key to getting a handle on your business and the future will require long-term planning with accountants and attorneys if you want your business to survive into the next generation. All of the messy tasks of splitting profits, assigning responsibility and ensuring profitability can be easier when dealt with over a long period of time. The sooner you start to plan for the future of your family and business, the more likely you are to become one of the few who can pass it along to the next generation. ■

Kevin Hudson is a partner at the law firm of Foltz Martin LLC, based in Atlanta. Matthew Spivey is an associate at Foltz Martin LLC. They can be contacted at www.foltzmartin.com or by calling 404-231-9397.