HB Wealth

It's All Relative: Family Matters in Business Succession

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Parenting and running a business are, in many ways, parallel experiences.

From the time a baby is conceived, we plan to ensure the child enters this world under optimal circumstances. We consult with experts during pregnancy to learn how we should eat, the right amount of exercise, and the supplements we should take. We contact pediatricians, buy cribs and car seats, and arrange for childcare. Once the baby is born, it is our job and privilege to nurture the child, physically and emotionally; to clothe and feed him/her, teach him/her right from wrong, support him/her to learn from mistakes, applaud achievements, and participate in his/her education. Then, one day, when the child is grown, we must send him/her off into the world with the understanding that our child will encounter obstacles, but we hope and put confidence in the fact that all the planning and preparation we devoted to this child's upbringing will allow him/her to thrive in society.

Similarly, we pour our blood, sweat, and tears into the establishment of a business. We meet with consultants, perform research, and develop business plans. Once the business is established, we do all we can to foster its development into a thriving and well-respected enterprise. We experience blunders, celebrate successes, and hopefully improve upon the business as a result. Then, one day, the time must come to relinquish control and hope all our planning and devotion to the business will result in its future success.

When the worlds of parenting a child and a business collide in the context of transitioning the business to younger generations, the strengths and weaknesses of both entities have a way of showing their true colors, resulting in success or ultimate failure of the business, of family cohesiveness, and of the founder's legacy. Of course, the legal transition structure and documentation are critically important, but so, too, is the internal family side of the transition. Families must focus on whether there is a clear choice for the "right" family member to succeed the current business leader, and consider if that choice based on merit, birth, gender or something else; whether the children sit in a circle daily, holding hands and singing kumbaya, plot one another's downfall, or something in between; whether members of the next generation all pining for control of the business out of self-interest and greed, or if they truly care about the business and the strength of the family; whether spouses, in-laws, friends and advisors in a family member's circle are asserting their opinions and influence; whether any family members harbor unaddressed resentment about past events; whether there is an ingrained level of entitlement among certain family members that cannot be unwound.

All these considerations combine to create the ultimate question: how do we preserve peace in the transition of a business to the next generation to ensure that both the family and the business prosper?

Clarify Focus

There is a common story of business owners who were not present in their children's lives because they were working. Nights, weekends, weeks, months, or years spent away from the family, missing soccer games, recitals, birthday parties, and tucking the kids in at night. Often, they rationalize this absence by explaining that it resulted from their love for their families; their creation of wealth for the family is their way of showing love and devotion to the family. An idealist might call this behavior "wrong" or an example of misplaced priorities, but there are indubitably business owners whose love language is providing for the family financially. If the end goal, though, is solely to make the most money possible for the family, the family business is not as likely to thrive as it might otherwise be.

Guccio Gucci founded a small leather shop in the early 1900s and successfully transitioned his single-man shop into a family business when his sons joined the company, and Gucci became a world-renowned fashion powerhouse. Upon his death, Guccio Gucci bequeathed his business to his sons, but because of a lack of communication and planning, feelings of entitlement, sibling rivalry, and pure greed, the Gucci family was ousted from the company by private equity.

If the end goal is focused on a happy family working together to preserve a legacy, there may be promise for the business's intra-family succession. Truett Cathy, with help from his family, grew his chicken sandwich business into that multi-billion-dollar enterprise whose product we all inevitably crave on Sundays: Chick-fil-A. A tenet of the Chick-fil-A company policy is a focus on family and community. As a result of the dedication to the company's focus on being "better" – better employers, better people, better product, and service providers – it has grown to be one of the largest, most successful restaurant chains in the United States.

We should not disregard the importance of focus on the actual business of the business, but if one accepts the idea that a focus on the family's happiness and development over revenue generation may foster success of the business and the family, he must also accept that, like all relationships, maintenance of the relationships among family members in the business will involve the use of time, money, and effort. Important points in working toward this goal include:

- Establish a family mission statement and run the business in line with the same, not vice versa;
- Each family member needs the latitude to determine who he/she is and, if he/she is to be involved in the business, the family must realize who it believes him/her to be. Knowledge of talents and downfalls will contribute to whether he/she should be involved in the business and in what capacity;
- Set benchmarks for the younger generations. Benchmarks may serve to educate younger generations regarding expectations for their involvement in the business and provide a roadmap for proving themselves – both to themselves and to the leadership of the company. Benchmarks also allow the head of the business to understand each family member's abilities and weaknesses, critical information to effectively plan for the future;
- If neither the business nor a family member will thrive with such an individual's involvement in the business, this issue must be addressed directly, upfront. It is only fair to the business that its transition is to the right people, and fair to the members of younger generations to set their expectations;
- Every member of the family who is to be involved in the business, from the patriarch to Cousin Greg, needs to know and understand the inner workings of the business; if you own the burger joint, you should know everything from how to clean out the grease from the fryer to back-office operations; and
- Advisors, mediators, and even therapists should be proactively engaged to regularly promote communication and prevent conflict within the family.

Governance and Planning

If a business owner accepts the idea of "family first" and commits to devoting resources to promote understanding and cooperation among family members, he must also focus on governance. Just as a written succession plan is an absolute necessity for the seamless transition of the ownership and management of any business, so, too, is the family meeting vital to fostering a cohesive family unit (which, in turn, fosters the emergence and growth of a successful family business). The relationships of supportive, functioning families – like any strong relationship – require intentionality.

Family meetings should start early – even before younger generations are involved in the business – and be held often enough to keep family members regularly engaged with one another and clued into business matters. These meetings do not have to – and should not – always include every member of the extended family; rather, they should regularly involve a core group, to be expanded occasionally to keep the broader family unit at least tangentially involved and connected. Remembering that the purpose of these meetings is to devote the work necessary to maintain the family as a well-functioning unit. If certain members of younger generations will one day be involved in leadership of the business, their participation in such meetings may translate into positive results for the business itself.

Certainly, “business” should be discussed in these meetings. Though other important topics regarding both the family as a whole and individual family members should also be included:

- Achievements;
- Conflicts and challenges;
- Morals and values;
- Culture and identity;
- Finances; and
- Goals

This list is by no means exhaustive, as family meetings should be an appropriate venue for family members to seek guidance or resolution about anything on their minds from their family, their team. An ever-developing tangible product of family meetings will hopefully include a family mission statement; an explanation of who the family is, what their general beliefs are, and their governing principles. The mission statement may serve as a guidepost for family standards and serve to deepen the intra-family connection by providing a common sense of purpose. Taking the mission statement one step further, a family constitution is critical for the family that is serious about making their familial and business relationships work: it is a document providing rules in line with the family’s mission statement, establishing family goals, and providing processes for decision-making and achieving goals. A family constitution is not only an excellent product of family meetings, but the discussion, debate, reflection, and examination required to establish the constitution may produce more enduring benefits to a family than the constitution itself.

For family meetings to be productive exercises and to have discussions from such meetings result in a worthwhile mission statement and constitution, families should consider the following:

- Choose a leader. This is the quarterback, the guide and, as necessary, the referee. This may or may not be the so-called head of the family; it is more important that this is a person who is organized, impartial, and respected among family members.
- Make a plan. Create an agenda to keep everyone on track. A good start would be to obtain input from all family member attendees about topics they would like to see covered, time permitting.
- Include everyone. Make sure that Aunt Polly is not monopolizing the conversation with old stories that have nothing to do with anything. It is important for everyone to listen and for everyone to not only have the opportunity to speak, but also to feel heard.
- Take notes. Give someone – perhaps an older child – the responsibility of serving as the secretary. These notes will be meaningful when it comes time to develop the family mission statement.

Just as families will hire lawyers and consultants to structure and draft necessary and appropriate business succession documents, they may also consider engaging therapists, financial experts, lawyers, and other professionals to participate in family meetings to provide structured focus and clarity.

Often, business founders and leaders are so devoted to the everyday matters of their business that they do not devote considerable time to thinking about the family or about a formal succession plan. Their hearts are not necessarily set on moving to the beach and playing golf every day; they feel the need to stay involved forever. Unfortunately, forever is not possible, and if business leaders desire to avoid an unexpected fire drill to arrange succession during a crisis, they must devote work to both the business and to the family, helping them to achieve an optimized, well-thought-out, structured transition.

If you have any questions or would like to discuss further, please reach out to your client service team, visit us at hbwealth.com, or call 404.264.1400.

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