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## **Transitioning the family business: In peace or in pieces?**

Should someone get a bigger slice of blueberry pie for dessert if he picked, sorted and washed the berries for his mother while his siblings watched TV?

If a family bases decisions on equality, each sibling receives an equal share of pie. But if equity is the standard – shares based on proportion of input – whoever does the most work receives a larger piece. And if decisions are based on perceived need – perhaps a brother didn't eat lunch and is ravenous – he receives an extra slice of pie.

Even among closely knit families, these simple scenarios over dessert can sow seeds of discord because people have their own perceptions of fairness. Equal slices of pie – or a business – might seem fair to everyone but the major contributor. An equitable distribution might seem fair to the contributor but quite unjust to everyone else for any reason, sensible or not. And distribution according to perceived need may be most disruptive of all – suppose the hungry child willfully skipped lunch.

### **PLANNING AHEAD**

Fast-forward 40 or 50 years. Same family members, all grown. Some outspoken, others less so but hardly disinterested – and all wondering how fair you're planning to be as you decide on a succession plan for the family business.

No matter how difficult it is to arrive at a workable plan, it seems wise to give it your best effort. Only 30% of family-run companies succeed into the second generation; only 15% make it into the third. Those are discouraging numbers, and most business experts lay the blame at the lack of a workable, orderly and transparent succession plan.

In general, widely accepted criteria apply. Small business owners should have a succession plan, no matter how old they are. While it's not routine, neither is it impossible for a perfectly healthy middle-aged person to suddenly become ill, suffer injuries in an accident or otherwise be taken away from the business.

Many experts agree that between ages 55 and 65, owners should devise a three-, five- or 10-year succession plan and actively explain, to designated successors, the nuts and bolts of the business and what made it successful.

## **WHO DEFINES “FAIR”?**

But all that well-grounded advice for small-business men becomes moot when owners face family situations that defy routine formulas. Then there is only one rule: Find a succession formula that gives the business its best chance to succeed after you retire. That means working out a smooth transition that’s as fair and just as possible to all relevant family members.

Note that “fair” doesn’t necessarily mean equal. Furthermore, successful transitions seldom are built on a platform of perceived need. Plans built on qualities like trust, respect and loyalty are more likely to succeed.

Should day-to-day management of the business be left to the one most-interested and most-involved heir while ownership shares are spread equally among the others? Would it be better for the enterprise and family to pass the business to the most actively involved heirs while using other ways to transfer wealth to those who are disinterested or unqualified? Experts tend to agree that one key element must be present – a transparent process that gives each family member a clear understanding of how you arrived at a just succession plan.

There are countless formulas to use basing your decisions on what you know about the inner workings of your family, your heirs’ capabilities, their personalities and their individual perceptions of what is equitable and fair.

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