
Family Business Succession — With A Heart

by JEFF HARRIS



A seminal event occurred last year that will have a profound impact on business families in the years to come. The first baby-boomer turned age 60, and here's why it's such a big deal. Many of these baby-boomers own successful businesses, and they're seriously thinking about — if they haven't done it already — reducing their work schedule so they can spend more time doing the things they love. And for those with a son or daughter who's working in the family business, it's natural to want to pass the business on to them.

Sometimes this works out great for everyone, but all too often the second generation simply doesn't have the "heart" to continue the business effectively. In *Beating the Midas Curse*, estate attorneys Rod Zeeb and Perry Cochell reference studies that show 65 percent of second-generation family businesses fail, and a mind-boggling 90 percent of third-generation businesses fail!

And when you consider that most of these businesses had traditional succession plans drafted by brilliant CPAs and attorneys, something is dreadfully wrong! Notice I said traditional succession plans, and here's why. Traditional succession plans deal with legal strategies and tactics to avoid taxes and transfer control to the next generation. But they don't address values, morals and matters of the heart.

Matters of the Heart

What do values, morals and matters of the heart have to do with successful succession planning? Anecdotal evidence suggests this is a crucial component and is very often overlooked by business families who want to pass on the business to the next generation. As I mentioned earlier, statistics show that 65 percent of second-generation and 90 percent of third-generation businesses fail. So what can those few business families that manage the succession process successfully point to as the primary reason for their positive results?

Either knowingly or unknowingly, they have managed to pass on their values, morals and positive family heritage; in short, matters of the heart. If you talk

long enough to any thriving second- or third-generation business family, you'll find they have, to a large degree, embraced their grandparents' and parents' positive heritage. No, they're not brainwashed into behaving like clones of Mom and Dad; they have their own ideas and personalities.

But they've recognized the positive threads that run through their family that have led to their personal and business success. They're smart enough to realize how they too can benefit from these family traits, and they've "caught" them over the years. Unfortunately, the professionals who counsel business families as to appropriate succession strategies and tactics aren't usually trained to deal with matters of the heart. Often they fail to realize how critical this is to successful family business succession planning, so they do what comes naturally — they ignore it.

What's Really Important

Many business advisors are heavily left-brain oriented — they focus on facts, numbers and details. And while this gifting is invaluable when it comes to tax planning, legal tactics and business strategies, it can blind advisors to what's most important to the business family — matters of the heart. Quite often the business-owner clients they serve are right-brain oriented; they're creative, visionary and focused on the "big picture."

Left-brain advisors typically struggle with this notion of "matters of the heart" because it's somewhat ethereal. It may appear unnecessary and "touchy-feely," with no concrete benefit. But

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their technical expertise is crucial for the ultimate success of any family business succession plan to work. So it's important for them to understand what we're doing with the business owner's family, and why we're doing it.

For example, I recently met with a client's CPA to explain our process for family business succession with a heart. Part of the process involves a pre-inheritance experience for the adult children. They are given a cash gift (often substantial) from their parents and asked to put this money to work, not consume it. This requires them to work together, to learn valuable communication skills, management skills, discipline and accountability.

They have to decide how the funds should be titled and invested. Provided they do a good job, the parents will make additional contributions over the coming years. If they don't demonstrate good stewardship skills, their future financial inheritance will be directly impacted, negatively. The CPA said he didn't think this was necessary because he knew the children personally, and they were both "good kids."

Besides, there was no signifi-

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cant tax advantage by doing this, and he was certain the parents wouldn't want to give up control over this much money anyway. From a technical standpoint, he was absolutely right. They were already "good kids," there would be no significant tax advantage, and the parents would lose control over the funds they were gifting. His observations were logical and practical.

A few weeks later I spoke to the parents after we'd completed their family retreat and the father said, "When we made the cash gift to our children, that was the highlight for me! I've wanted to do something like this for years, but didn't quite know how to do it. Besides, our daughter said she wanted to have a joint investment with our son so they could learn to manage assets as a team, since they'll be joint owners of the business. Last week they showed us the plan they had developed with our investment advisor's help. It was outstanding, and we're so proud of them."

A Litmus Test

In essence, this is a litmus test to determine how prepared the children are to manage financial resources and the family business. It also reveals their attitudes, initiative and self-reliance. There's

no reason to believe a child who's incapable of (or unwilling to demonstrate) good character and stewardship under these ideal circumstances will suddenly have an "epiphany" when the parents die.

If they're unmotivated, uncooperative and disinterested in the family business now, then passing it on to them will probably result in disaster. It's better to know their "heart" up-front than plan to pass the business on to them and hope things work out. I believe this is one of the reasons the failure rate is so high for family businesses in future generations. Often the owners and their advisors automatically assume the business should "stay in the family." So a succession plan is drafted to reduce or eliminate taxes and ensure a smooth transition to the next generation. But often little if any thought is given to the most important issue, and that's matters of the heart.

So what can we do to ensure our family business successfully passes to the next generation? We can hope the kids and grandkids pick up on our positive family traits, learn good stewardship skills and have the "heart" to continue the business. Or we can use a proven process designed to do just that. It's a process that's been fine-tuned over the past 20 years and consists of the following steps:

- **Determine what's important to you** — Unless you know what's important to you and your family, you can't make sound decisions that will impact future generations. That's why the first step is to recognize what your family's core values are and how your positive family heritage has led to the success you enjoy today. Some questions to consider are: "Who was the most influential person in your life between ages 10-15 and why?" "What challenges have you overcome, and what traits got you through it?" "What does an abundant life mean to you?" "What three things would you want your great-grandchildren to know about you?" You may be surprised to hear your own answers. But by uncovering what has impacted you in the past, as well as what you envision for your future, you can see patterns emerge that can help guide your succession planning process.

- **Create your family's vision statement** — Once you've determined what's important to your family, you can create your family's vision statement. This is usually a four- to 10-page document designed to unify and preserve the family by articulating what's most important to you. Think of the vision statement as a guiding light for children, grandchildren and future generations, helping them understand their unique family heritage and positively influencing them to live fulfilling, meaningful lives of significance. To supplement the vision statement, we create a video of the family history, where each parent and/or grandparent "tells their story" so it can be passed on to future generations.

- **Hold a family meeting** — No matter how well you articulate

your family vision statement, it can't do its job if it isn't properly presented to family members. By answering a series of highly targeted questions, such as, "If you received a check from your parents for \$100,000 today, what would you do with it?" and "How have you seen your parents demonstrate the values described in the vision statement?" your heirs will be guided to self-discover the power and value of the family vision statement. Remember, you can't force your heirs to live lives of significance. In fact, the harder you try to tell them "what's good for them," the greater they will resist. Therefore, they need to be guided to discover on their own the value of, and personal benefits to them, of the family vision statement.

- **Create a family council** — The family council is a powerful tool to help build family unity and cohesiveness through a shared vision of the family's purpose. Family members are given specific duties and responsibilities, such as investigating how to invest family money together, identifying those charities and causes that best align with the family's values, setting up future family council meetings, and establishing a budget and agenda, which requires engagement with other family members to accomplish their goals. Ultimately, the family council serves as a repository for all the experience, connections, education, know-how, business and people skills the family has acquired over the generations.

- **Get your team involved** — Now that you know what matters most to your family and everyone is on the same page, you need to keep your attorney, CPA, stockbroker, insurance agent and any-

one else assisting with your family business succession plan abreast of your desires. Armed with a copy of your family vision statement, these various professionals can help turn your desires into reality by using their unique skills to create strategies, tactics and tools designed to bring your vision statement to life. Realize, though, that this concept of "family first" may seem foreign and unnecessary to some of your advisors, as their focus is usually tax savings and legal strategies, not matters of the heart.

No Thanks

The odds are good that if you've taken the time to read this far, you have done a good job of raising your children and instilling good morals and values in them. So it would be normal to

think you're okay and your family succession plan will work just fine. That may be the case, but think about this. As we get older, our influence will naturally wane. Future sons-in-law and daughters-in-law may not hold the same values and morals dear that have served your family so well.

As our influence declines, their influence will grow — that is, unless we have a process in place designed to preserve our timeless values, pass on our true wealth and empower our families to live treasured lives of significance working in a thriving family business. Yes, it takes time and resources to complete this process. But it could mean the difference between a healthy family business that continues to bless you and future family members, or a sad statistical footnote. □

ABOUT THE AUTHOR:

*Jeff Harris and his wife DeAnn have been in business together for more than 25 years. Their consulting firm, Family First Legacies, Inc., www.familyfl.com, is dedicated to empowering business families to preserve their timeless values, pass on their true wealth and create treasured lives of significance for themselves and those they love. He is the author of *Retire Rich and Happy* and a contributing author to *Sixty Things to do When You Turn Sixty*. His next book, *Family Business Succession With a Heart: A Proven Process to Preserve Your Business and Family* is scheduled for release this summer.*

Now that the Harris's three daughters are grown, Samie (left) and Max (right) are the only "children" at home.

