Family Business:
Sibling and Cousin Generation

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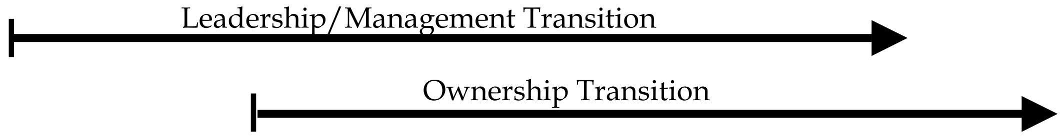
The generational transition from founder to the sibling generation is risky, and the transition from sibling to cousin generation is equally risky: **two-thirds do not make it** at each generational transition. Yet, this risk can be managed and lessened.

The majority of businesses throughout the world are owned and run by family members. According to estimates compiled by the Family Firm Institute, family businesses comprise up to 80-90% of all American businesses, generate 50% of U.S. Gross Domestic Product, and account for 60% of our nation's employment. A huge part of our economy depends on the success of family businesses. The work of running the business and also owning it provides many benefits, but there are also many unique financial and emotional challenges that must be confronted. These challenges compound as the business matures and grows.

The founder's dream becomes a reality, and the business comes into existence. The business is owned and managed by the founder who makes most of the key decisions. Corporate governance issues are limited, but the future "challenge of choice" may be seated at the founder's dinner table. It is here, at an early age, that siblings should begin to learn how to work together and to channel rivalry into constructive dynamics. Working in, managing, and leading a family business should not be a birthright but earned through hard work, positive performance, and a genuine interest in being part of the business. It is noteworthy that Warren Buffet said he will give his kids just enough to enter a business, and the rest goes to charity.

Only about 1/3rd of family businesses are successfully transitioned from the founder to the next generation. PricewaterhouseCoopers' Family Business Survey 2007/2008 noted, "The majority of family businesses are either sold or closed after the founder's death, and the main reason appears to be a lack of planning." Planning and policy development must be performed **in advance** of any transition to future generations. Advanced planning should include such things as conditions for family members to enter the business, successor identification and development, succession planning for all positions, compensation plan, distributions and re-investment policy, and leadership/ownership transition. John Ward, Ph.D., co-founder of The Family Business Consulting Group, Inc., points out that if planning is done in advance, "People's egos aren't on the line – we can think about the future before it becomes an issue. Policies are less personal and more objective if you develop policies before the need."

While generational transition is a lifelong process, most of the preparation for transfer of leadership and control can be done in 5-8 years. Transition should follow a staggered, two-track process. Once leadership and management have been effectively transitioned, then ownership can be transitioned.



To objectively determine the strengths, potential, and shortcomings of successor candidates, many family businesses call on a professional assessment firm. **Assessments** can identify the potential to be successful in a CEO role or other top management roles before the candidate is actually placed there. A developmental plan is prepared to turn potential into performance. As the successor moves into his/her new leadership role, self-management and relationship management skills become paramount. Ideally, the leadership and management transition can be designed as passing many small batons rather than one large one. The batons to be passed can be sequenced relative to the strengths and developmental needs of the successor.

As the business matures and grows, key positions may need to be staffed by non-family professionals. Peter Drucker pointed out in the Wall Street Journal, "The demands for knowledge and expertise have become too great to be satisfied by family members alone, no matter how competent they may be." Key non-family employees must know and feel that they have full citizenship in the business. Phantom stock can be used to incent and retain non-family members, allowing them to participate in the company's growing value over a fixed period of time without diluting ownership and control.

As family members come from different generations and from different family branches, we can get a mix of values, beliefs, rivalries, personalities, work ethics, and behaviors. It is, therefore, easy to understand why only 8-9% of family businesses reach the cousin generation. As more family members become involved in the business, governance, compensation, distribution and other issues become more complex. This is a paramount reason why it is necessary to have policies in place long before the transition to the cousin generation takes effect.

Consider establishing a **Family Council** to serve as a forum for open communication and learning. Develop a mission statement articulating what the family wants to be, its overriding purpose, its key beliefs and values, and why these values are important to the family. The Council can also be an excellent opportunity for young members to learn about the business and its challenges.

An **Advisory Board** can provide unbiased, objective counsel to the CEO. Members of an Advisory Board should be outsiders with no relationship to the business or the family. They have no fiduciary responsibility and serve at the pleasure of the CEO. Board members should be experienced in disciplines that are outside the expertise of the CEO and who have the trust of the CEO. The Advisory Board should be constructed so that it can provide assistance on both business issues and family issues. An alternative is a **Fiduciary Board** elected by shareholders and charged with governing the business on behalf of the shareholders.

Two of the most significant keys in generational transition are: advanced planning and continuous, open communication. Transition is complex and often risky. Yet, successful transition is essential for sustained success and the risks of generational transition can be managed.