



HOW TO HELP YOUR FAMILY BUSINESS SUCCEED TO THE NEXT GENERATION

BY ZINNER & CO.

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THANK YOU

Thank you for downloading the Zinner & Co. “How to Help Ensure your Family Business Succeed to the Next Generation”. We’re glad you did and ready to help!

Business, like life, continues to evolve and change. A family business is much more dynamic than other types of business because of its many interrelated factors: the culture is more paternalistic, the financial interests include not only company growth, but also personal financial risk, and many in family businesses rely on the status quo for psychological comfort, despite knowing that stagnation is unhealthy for the growth of the business.

The decision and process of passing a family business to the next generation can have more parts to contemplate than trying to build with Tinker toys. In this e-book, you will learn some of the primary factors to consider when reviewing your family business structure, not only for today, but for succeeding generations.

Zinner & Co. has helped countless closely-held and family owned businesses position for success. We understand what it means to put your neck on the line and the difference between weathering a bad year and trying to regain a financial footing because of poor planning.



PLANNING



In a family business, planning becomes an integral part of a succession plan. There is planning when a family entrepreneur starts the business and planning continues as the business goes through its life cycles. This planning becomes more critical when a family business is passed from one generation to another.

Statistically, only 30% of family businesses that are passed from one generation to the next succeed, and only 10% make it to the third generation.

FACTORS TO CONSIDER WHEN DEVELOPING A SUCCESSION PLAN:

Who will lead the company into the future?

- What roles will the new leaders have?
- Do the family members have an interest or passion for the business?

When is the right time to give up control?

- Does the owner have enough in their retirement fund to live the lifestyle of which they are accustomed?
- Are the successors part of the process and do they understand the succession plan?

Is the best family plan to sell the business to someone other than a family member?

- Is the buyout more or less secure by selling to an outsider?
- Do you have an understanding of the tax ramifications of your plan if it is sold to an outsider?
- Will you receive a greater value for your business when selling it to an outsider?

STEPS IN THE SUCCESSION PLANNING PROCESS:

Running a successful business in the future in the same manner as you did in the past will lead to failure. Banks, airlines, automobile manufacturers and virtually every industry has had to make changes in their operations, during the past decade, to the way they operated years ago. Outside of planning, employees must have trust in their successor; this trust encompasses the idea that the successor will bring fresh ideas to the company while preserving the integrity of the business. Differences in opinion based on a limited view due to experience(s), versus differences in operational ideas that make sense for the growth of the business can manifest. Ensuring clear, open and frequent communication will reduce the risk of appointing an ineffective successor.

“Shirtsleeves to shirtsleeves in three generations”

- 1 Identify the critical positions in your company; will there be one president and several vice presidents? One of each? A CEO? There are the obvious “C-level” players, but also consider any positions that you’ve filled in the past two years. If you’ve hired anyone during this lackluster economy, it was probably for a critical role.
- 2 Determine what skills people in those positions need. Doing this can be as simple as identifying the five top talents that a candidate has, and then matching those to a position requiring some or all of those skills.
- 3 Find and assess potential successors. Even if you don’t have a formal competency model in place, you can jumpstart your initiative by identifying the most obvious candidates. Doing so will help you create a working process.
- 4 Involve managers and leaders at all levels throughout the company. In my experience, they often know where the hidden talent lies outside the “inner circle,” including the excellent qualifications of an underemployed individual.
- 5 Commit to developing internal talent and monitoring their progress. It’s more cost effective to promote from within, and I’ve found this often results in better leadership.

HANDLING CONFLICT WHEN A FAMILY BUSINESS IS PASSED TO THE NEXT GENERATION

Conflict Resolution: Five Steps to Resolve

1. Identify and clearly define the problem.
2. Brainstorm for all possible solutions; every idea, thought or suggestion is on the table, but not yet discussed.
3. Evaluate each “if/then” solution, listing only the facts, not the emotion.
4. Choose which solutions are win/win for all involved. If a solution does not fit win/win, it is off the table.
5. Define implementation date, milestones, or if another date to meet and evaluate the agreed upon plan is necessary.

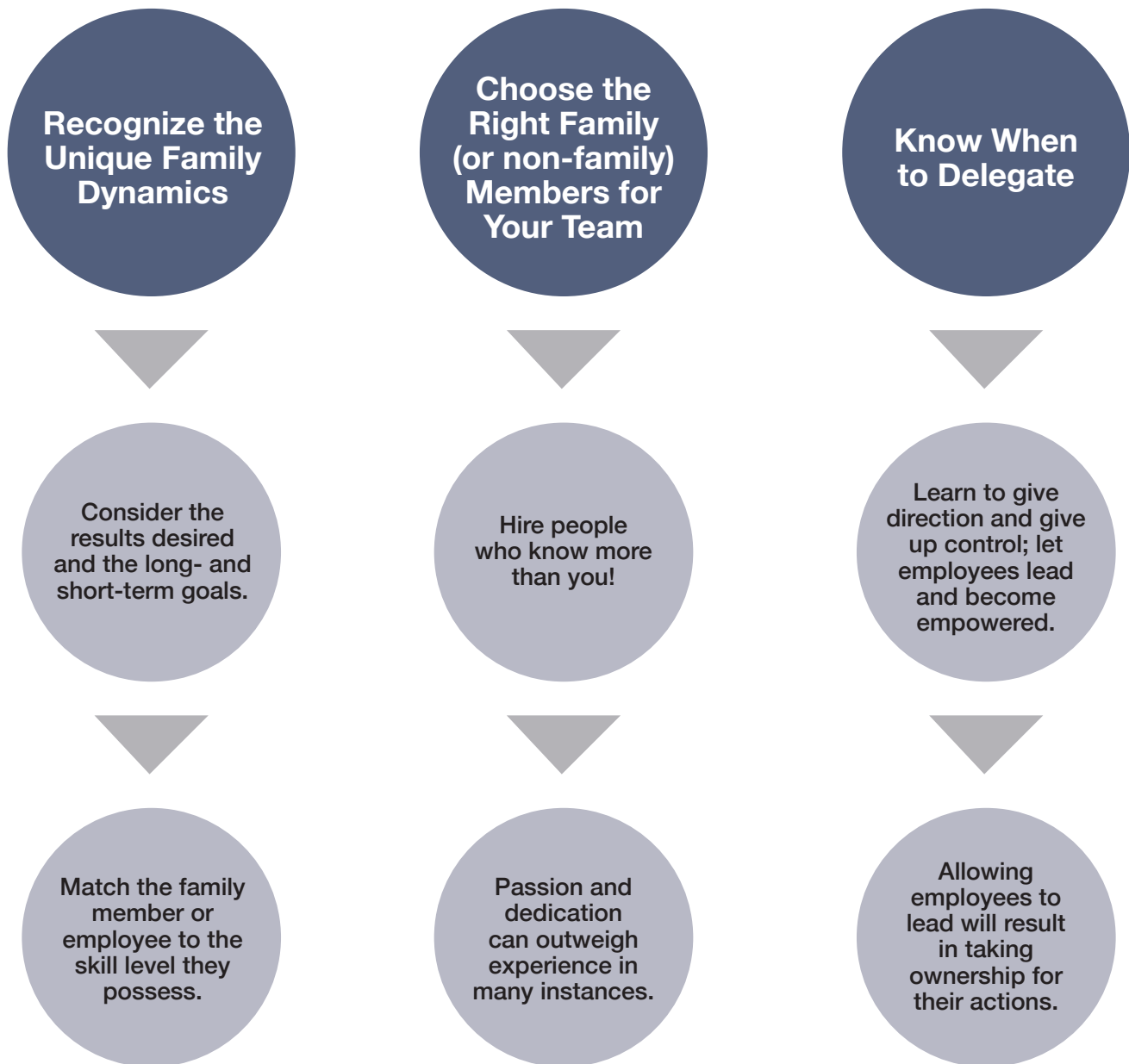


When a business passes from one generation to the next, the new management team must be able to work together and have a plan that is agreed upon by all. However, it is quite common for family members to have different ideas and agendas. Just because one's last name is the same as another's does not mean they can easily work together. These differences can be the result of many factors, including:

- How the family members played together as children and what dynamics may be a red flag;
- In what groups each person was active while growing up and how that affected their life preferences;
- Who they married and what history and emotional factors the spouse brings into the relationship, and;
- Who is trained and trusted to become the leader of the group and are the others accepting of a lesser position or title?

If there is not a consensus among the next management team of family members, the business is doomed. I have been involved with situations where siblings could not work together and the solution was to either sell the business or have one of the siblings buy out the other. In another situation, the siblings met before the transition occurred and agreed who would serve as President and Vice Presidents of the company. In the latter situation, although they were all leaders of the company, everyone understood who the best person was to lead the company and the employees.

BUILDING AN EFFECTIVE FAMILY TEAM



MEASURING SUCCESS

Many times, the family business is the major financial asset in one's family, more so than any other investments or properties. Making sure the business remains a strong and viable asset that will generate cash for the family members is important for the continued life of the various family units. Therefore, it is important that measures are in place so this important asset will be safeguarded from marital issues, conflict of interest between siblings and economic factors.



Ensuring the business cannot be sold to outsiders without the consent of the current shareholders is important. Performing a valuation analysis of the company helps to protect the company from financial disaster in the event a shareholder is bought out.

IN SUMMATION

It is important that businesses have an advisory team that will help guide the owners and management in a business succession plan. Regardless of where in the business life cycle a company is, having an advisor on board to explain the options and discuss the consequences will keep the business on a productive trajectory.

As a neutral person of the business, an advisor is only looking out for the business' best interest, without any personal gain or fear of offending another family member. While it is great for the advisor to have technical expertise in law and tax, an advisor should also have a keen understanding of the family dynamics and the issues unique to your family. Not only does this help with communication and interests, but also enables the advisor to have meaningful and relevant conversations with the various family members based on their individual perspective, expectations and experiences. Bringing an advisor into your business early on, even if just sitting on the sidelines, will allow an understanding of the family dynamics when it comes times to discuss and develop the succession plan.

There is no single solution that fits all cases. The plan needs to be flexible and dynamic; to evolve as times and conditions change. With a trusted advisor working with the family, the plan will have a better chance to succeed.



ABOUT ZINNER

In 1938, Harry Zinner had a vision for long term success. He founded a Cleveland-based bookkeeping firm that focused on integrity, commitment and a pledge to help individuals, not-for-profit organizations and closely-held companies grow and prosper, not just for today, but for decades to follow.

Today, Zinner & Co. provides tax, accounting and management advisory services to guide businesses from startup to succession planning and help individuals create a solid financial foundation.

Our Beachwood, Ohio office is home to a dedicated team of CPAs and management advisors that provide a full slate of services beyond traditional tax and accounting. Contact us to discover how we can help you achieve your greatest financial potential.

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