

Preparing for Family Business Transitions

– Arne Boudewyn, Wendy Morgan and Richard C. Watson

Before the family business leaders prepare to pass-on their business to the next-generation, they must understand the need to institutionalize the process of business transition. This must cover the financial aspects of business, interpersonal family issues and continuity in steward leadership. In this whitepaper, the authors, who are family business and wealth management consultants, present the challenges of business transition and suggest a systematic approach that family businesses must adopt when they plan to induct next generation family members.

Challenges of Transition

The authors list four challenges to successful intergenerational transitions of family businesses –

- (1) Breakdown of communication and trust among family members.
- (2) Lack of preparedness of the next generation members.
- (3) Lack of clear and shared vision, *and*
- (4) Poor anticipation of governance and wealth preservation issues

Family business leaders need to anticipate and prepare a structured approach to overcome these challenges, as the next generation gears up for major roles and responsibilities in business. Family business leaders may benchmark themselves with the best practices of those businesses that have successfully made this transition.

The authors suggest the following approach for ensuring successful transitions of business responsibilities to the next generation –

Plan Early

It is crucial that the business transition to the next generation is planned at least three to five years in advance. This gives adequate time to all entities - i.e. the incumbent leader, the prospective leader, the business organization and the family - to prepare for the changes brought by succession. It also helps in anticipation of issues that need to be addressed and immensely reduces uncertainties.

Formulate Clear Vision

A clear vision shared by all stakeholders brings everybody together for achievement of organizational goals. While developing this shared vision, the expectations of all family members comes to the fore and mis-aligned goals or incorrect assumptions can be ironed out. This would strengthen the family bonding and deepen the level of engagement of next generation members in the business.

Prepare the Next Generation

It is important to make the next generation members competent to manage the business affairs before they are given this responsibility. This requires developing financial and business acumen through both - structured and experiential learning. Training for responsible management of business and wealth, and transfer of implicit knowledge of business are all essential steps to prepare the next generation for a larger role in business.

Communicate within Family

Transitions plans must be clearly communicated within the family so that everyone is clear about the process and roles and responsibilities of next generation members. This reduces uncertainties and anxieties, thereby setting realistic expectations among all family members. Clear communication minimizes the noise and reduces potential conflicts.

Address Differences

Family dynamics often spills in the business domain and vice-versa. Due to this, conflicts in family businesses are often not dealt in a professional manner. It is important to ensure that any dysfunctional conflict is handled swiftly and effectively. Creating formal professional systems and processes that bring objectivity in business management can help a family business in avoiding many potential conflicts. Family firms can take the help of external experts, consultants or facilitators in resolving conflicts that have the potential of jeopardizing transition to next generation members.

Building an expert team can help family businesses a long way in insuring a smooth transition to the next generation members. A well-documented plan with clear objectives, roles and responsibilities of all family members and its deft execution will ensure that the next generation smoothly takes charge of the family business.

Source: "Preparing for Family Business Transitions," Abbot Downing Whitepaper by Arne Boudewyn, Wendy Morgan and Richard C. Watson, 2012. (<https://www.abbotdowning.com>)