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How to minimize conflict in a multigenerational family business

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The majority of family business owners believe family will continue to be in control.

Many family business owners have hopes of creating a family business legacy.

But according to the Family Business Institute, a family business consulting and professional services firm in North Carolina, 88 percent of family business owners believe family will continue to be in control, but only about 30 percent of family businesses survive into the second generation.

Addressing the following four guidelines early is imperative for owners hoping to transition their business to the next generation.

Start with a foundation of open communication

In a family-owned business, family dynamics are bound to come into play in the transition process. Having conversations about transition plans early is the best way to minimize future conflicts. Planning is crucial, but ultimately it is the proper communication of those plans that will drive a successful transition from one generation to the next. When open communication proves difficult, bringing in a third-party facilitator can get conversations started and keep them focused.

Establish prerequisites for family involvement

Decisions around hiring – or not hiring – a family member can cause family conflict. To avoid these conflicts, families should establish clear ground rules. For example, hire relatives only after they've first attained a certain level of education and gained relevant experience elsewhere. Where possible, establish a policy that family members coming into the business must report to a non-family employee initially.

Also, consider using non-family managers to help mentor the family member early on. Promote family members through the ranks based on their skills and the needs of the company. All of these techniques help foster the development of the new employee and helps them build credibility with other family and non-family employees.

To complement these guidelines, you should have clearly defined roles and responsibilities for all employees. Along with clear job descriptions, an unambiguous chain of command is necessary to prevent conflict and confusion – not just internally but also with the business' clients, vendors and external partners.

Sometimes timing is not your choice

How would you react to an unsolicited offer for a sale? Most business owners don't plan for a time when they won't be involved in the business. In a study of clients who previously sold companies, Northern Trust found an unsolicited or unexpected offer is often the trigger for a sale. Suddenly, an owner is forced to think about a sale transaction in a very short time frame, and in some cases far sooner than anticipated.

Business owners should focus on preparing for ownership transition now, even if there are no immediate plans to sell or retire. In today's economic environment, opportunities tend to arise quickly and with little notice. Preparing in advance can help business owners avoid the need to quickly determine what they will do after a sale, and how much income is required for them to live comfortably and accomplish their goals. Advanced planning can also prepare your company in the unfortunate event of an untimely death or disability of a key person.

Additionally, a company with a well-crafted succession plan can be worth more – and be more attractive to buyers – than one that does not have a solid plan in place, potentially increasing the company's valuation and the owners' after-tax proceeds.

Thoughtful – and early – succession planning can overcome future challenges

Important decisions should be made early to properly document a thoughtful and transparent succession plan. Integrated planning around future ownership, management and governance can help prevent future misunderstandings. Without a plan in place, conflicts can escalate into legal and personal battles, often causing business turmoil and family conflict.

Succession planning should also take into account family members who are not part of the business. For example, the plan may include buy-sell agreements funded by life insurance policies. The insurance proceeds can provide liquidity to buy back shares and keep control of the business in the hands of those still actively involved. Another approach, assuming asset sufficiency, is to separate business and family assets – giving family assets to uninvolved family members and shares in the business to those active in the company.

Since business transition can have tax implications, it's important to work closely with an estate planning attorney, a tax advisor and your company's CFO to craft a comprehensive, well-integrated plan. Close collaboration and coordination among your team of advisors are essential to avoid potential planning gaps. Early succession planning will ensure a successful transition while relieving the natural apprehension business owners feel when contemplating the future.

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