

What if ... My Kids Take Over the Business



By Nathan Sachs,
Blueprints for Tomorrow

ALMOST ALL CLOSELY held businesses will transition to family, key employees or management. The statistics for such “inside” transitions are not great. Half of the time, this kind of succession fails completely. There is a 70 percent chance the second generation will lose the business altogether. Why? Unfortunately, the next generation of owners usually has a feeling of entitlement—and that is not good.

However, parents can improve the chance of their children succeeding with the family business. Children need to be developed into owners; they have to work harder and longer than anybody else in the company. Ideally, it would be great if they could come to the business after they’d proven themselves elsewhere.

Often, “kids” need to do things that came naturally to their parents but not necessarily to them: They should give back to the industry in which they work. They should take outside management courses if need be. They should find something that is lacking in the business and master that something.

The children must understand that taking over a family business is a stewardship and a privilege. The reputation their parents created needs to be cherished and nurtured, so they need to keep their wealth private and never flaunt it at work. Often the employees are looking

at them with a jaundiced eye; don’t give them a reason to do so more than they already do.

We always suggest that children have several years of employment elsewhere before coming to work for the family. Parents should compensate children fairly based on what the job really deserves and not any more. Certainly don’t pay a child more than the job calls for because of a personal situation.

Children should be encouraged to give back to the community and be good citizens. They should be involved in their industry associations and service organizations. Help them learn to be competitive but also to be ethical.

Parents need to make sure they’re transferring the business to the right child. We strongly suggest that non-active children—those who are not active in the business—should not have an ownership interest in the business. This is a recipe for a family disaster. Communicate to the entire family the transition plan so there are no surprises. Always remember that you are a family first and a business second. No amount of money is worth family disharmony. The true test of a successful transition plan will be the continuance of the family always having Thanksgiving dinner together. ■

Nathan S. Sachs is founder and owner of Scottsdale-based Blueprints for Tomorrow, a business advisory firm. A chartered life underwriter, chartered financial consultant, and certified family business specialist, he has shared his business insights in *SAN*, *The Phoenix Business Journal* and on “Ch 12 Today” (KPNX TV-NBC). More: 480-596-1525; natesachs@blueprintsfortomorrow.com.