# Is the next generation ready to lead?

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We work with hundreds of family businesses, and by far, the biggest challenge is transition to the next generation. It's kind of ironic considering all the love and support that has got them to this point. But this is the moment of truth. This is when they need to discuss the real issues, the real facts.

Having successfully served as a non-family president of two family businesses, I've had a front-row seat on what works and, perhaps more importantly, what doesn't in the transition of a family business to the next generation.

What attracts me to family businesses is that they are personal, with a family culture and deep sense of legacy. What gets challenging is when the personal nature gets clouded by emotion and affects decision making. Sometimes the family culture breeds favoritism and entitlement. Other times the sense of legacy and long-term view result in complacency and acceptance of mediocrity as the status quo, leading to a slow death. You've likely seen the statistics: only 33 percent make it to the second generation, 12 percent to the third, and 4 percent to the fourth.

With 10,000 baby boomers retiring per day, many family businesses are in transition right now and their kids will take over. But in many cases, little has been done to prepare the next generation. A study by Roy Williams and Vic Preisser found the following primary causes of failed transition:

– Breakdown of communication and trust within the family (60 percent of failures)
– Insufficient preparation of next-generation members (25 percent)
– Absence of a clear vision to align family members (12 percent)
– Failure by professional advisers to correctly interpret taxation, governance and wealth preservation issues (less than 3 percent).

Here are six steps that you can take to help ensure you, your family and your business are well-positioned for transition.

1. Start now. It's never too early to be thinking about succession. Begin by establishing a rationale or philosophy for your ideal scenario. Answers to questions like "What does your model transition look like? What's the time horizon? At what stage and size is the business?" will begin to inform your pathway. This will evolve over time, depending on where you are in the transition process. As you get closer (within five years), develop a written plan with clear goals and a timetable to guide your decisions and actions.

2. Establish employment guidelines. This will save you from yourself and provide important boundaries for both family members and non-family employees. Bringing the next generation into the business can be loaded with misaligned expectations. You risk making emotional decisions rather than objective ones. Your children may not think the rules apply to them. Likewise, non-family employees aren't quite sure how to work with or supervise someone with your last name who might be running the company one day. The best way to avoid the pitfalls of family employment is to establish written guidelines

outlining clear expectations, standards for employment and prospective ascent through the ranks. This is commonly done with a family constitution or family charter. This should be shared, understood and observed by all family and non-family employees.

3. Prepare the next generation. Don't assume that family members will develop and learn the business over the natural course of time. Their growth in the business requires focused attention. You've worked tirelessly on your business. They haven't. They haven't yet learned the hard lessons that you have learned. You need to start integrating them into the process so they learn and understand, not just by being told. Create a development road map for next-generation members that starts with an honest assessment of their preparedness and then purposefully takes them from role-players to managers to leaders. Development plans should be customized for individuals and aligned with their interests and talents.

4. Articulate a clear vision. You probably know where the business is going and what future success looks like, but do others? Probably not, which can result in misunderstandings, disagreements and resentment. Articulating a clear vision with your leadership team and the next generation through a strategic planning process, and ensuring that all family stakeholders thoroughly understand and support it, is critical to family alignment and legacy.

5. Practice conflict and open communication. This is the number one reason why family business succession fails. Family members either avoid conflict (to keep family peace) or allow it to fester and erupt. Constructive communication breaks down, ultimately risking an insurmountable rift. When conflict is handled openly, communication and conflict can be productive, fuel better decision-making and innovation for the business, and clear the air. Regular family meetings and establishing standards for conflict resolution are two effective best practices.

6. Enlist trusted advisers. Surrounding yourself with impartial advisers who have no emotional capital invested in the business is absolutely critical. It's difficult to uncover solutions to complex and emotionally charged challenges in your business and personal life without a third party. When family and business are intertwined, judgment can be skewed by emotion, rather than objectivity.

As a family business owner, your legacy, the family legacy and the business legacy lie with your ability to implement these six steps. Get started today.

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