



Business Succession “It’s All in the Family”



Whenever a family business is about to go through the succession process, a range of issues come to the forefront.¹ Among them are:

- Which comes first, the family or the business?
- Is the use of your business a refuge for family members?
- Will you be able to keep the business in the family?
- Can you transfer equally to children or treat them fairly and equitably?
- Which child will manage?
- Are you able to maintain family harmony?
- Have you thought about ways to compensate children who are not interested in owning a business?
- Would it be better to sell the business to a third party, rather than a family member(s) ---better return on the investment?

Case Study

Patrick’s Antiques and Reproductions is a second generation family business. Located in a medium-sized community in a Midwestern state, the business has been very successful under the management of the original founder’s single heir, a daughter. The business was left to the daughter, Patricia, when the founder passed away. He had left the business and all his possessions to his daughter in a clearly defined will. Since there were no siblings, and the daughter had grown up in the business and made her livelihood in it since graduating from high school, the transition was smooth.

Patricia and her husband had five children. All of them grew up working in the store, but they also went on to postsecondary school. Some graduated from 2-year postsecondary schools, while the others pursued and received degrees from 4-year colleges. Three of the children returned after graduation and have been working as part of the management/sales/accounting team in the business. There was never any doubt, however, that Mom (Patricia) was the “decider” and top manager and owner of the business.

Mom has decided that she and her husband (already retired) are still in vigorous good health and she would like to retire within the next 2-3 years so that they can travel, enjoy their grandchildren and friends, and generally enjoy their “golden years.” Her wish is to keep the business in the family, but has never really discussed a transition plan with the children. It is complicated by the fact that two of the children live outside the state. She has also never really asked the three who work in the business if they want to keep the business going or would rather pursue other ventures.

What would you do?

- What are the major considerations or issues that need to be resolved?
- How would you go about **planning** for succession/transition?
- What kinds of emotional issues may arise?
- What is your best recommendation for a succession plan for the business? Sell the business to a third party and divide up the proceeds equally? Sell only to those family members interested in buying it? Sell “stock” in the business to the children (and other interested parties)? Retain partial ownership of the business, retaining enough ownership to support retirement and health care expenses, giving equal shares of the remaining stock in the business to the five children and hiring someone to manage the business. Have a liquidation sale, selling the business components separately (building, inventory, equipment and furnishings) and divide up the proceeds among the family members? Another alternative?



¹Will You Be Ready for the Finish? *Destination Succession: The Business Trek* (2006)