

## 8 keys to successfully transfer a family business

Do not improvise when transferring a business to the next generation.

by: Jaime Mejia, source: AARP , January 13, 2016



At least half of the companies in the US, even those that are listed on exchanges of values, are family businesses, according to the business school at Harvard University.

These businesses are not only "the backbone of the US economy, but tend to perform better than non-family businesses during the economic crisis," says Pramodita Sharma, a professor at the business school of the University of Vermont and expert in the family business.

But what happens when the founders decided to retire and move the control to a new generation? For many family businesses it currently represents one of the most complex processes and generates more challenges.

### 3 Mistakes to avoid when managing a family business:

1. respect the family hierarchy. Every family has a hierarchy, and if you do not respect this order within the company it will cause friction. If someone feels they are not respected or listened to, the situation will end in resentment and conflict. Some level of mutual respect and a sense of partnership are essential. Leveraging the individual strengths of each person, including entrepreneurial skills should always be a priority for the good of the company.

2. Not having enough flexibility. The members of the family, particularly the younger ones, need the freedom to experiment with their own projects, even if other family members do not necessarily agree. If the project fails, it will be a learning experience that person will long remember. If the project is successful, it will be a big win for the individual and for the whole company.

3. Not celebrating victories. Having a company with your family is a blessing. Take the time to celebrate the victories, and learn from defeats. This is vital to maintain morale and a positive overall sentiment towards the company. Every time an objective or goal is reached, take the time to recognize and

celebrate that achievement before moving to the next. A family business that celebrates and supports each other creates a culture that encourages dedication and success.

Source: Brian Greenberg, who with his father runs and is co-owner of [www.WholesaleJanitorialSupply.com](http://www.WholesaleJanitorialSupply.com) and two other businesses.

### **A successful transition**

Henry Suarez, a Colombian, had made his career in the pharmaceutical sector; his last job was as chief of Upjohn (now Pfizer). But in 1990, when he reached 50, he decided to become independent and create Suiphar, a drug distribution company. He did so in the company of his three children.

That was the first step in a successful generational transition, years before officially happened. The children not only learned the details of the business, they helped create the company. "My father always involved us in his businesses since we were just kids," says Jaime E. Suarez, member of the board of Suiphar Group and shareholder of the company with his two brothers, Henry H. and Luis A. All three have equal stakes.

Eight years ago, the brothers received fSuiphar control from their father - a group of nine companies with strategic headquarters in Sunrise, Florida and offices in five countries in Latin America, including a production plant in Bogota. The company generates close to \$ 50 million annual revenue.

The generational transition of the Suarez family was successful for several reasons: the children were trained in business, they had a clear interest in the company; and they had won their participation in it with effort and not simply because they were the sons of the owner. They put their own capital and effort into the business.

The following are the eight most important aspects of the generational transition of a family business, according to several experts consulted.

**1. Business Plan.** The transition from one generation to another is a major project and should have its own business plan. "The family must meet to define where the company is now and where it wants to go in the future: what technology will be needed, what capital requirements and what kind of human resources will be required," says Wayne Rivers, president of a consulting firm, Family Business Institute. "This is part of a business plan 95% of cases, [the companies that are in this process] have." Jaime E. Suarez, Suiphar adds, "When we made the transition, we made the strategic planning of the company for 2010-2015. And it is a plan that we review every five years. "

**2. Real commitment.** The new generation should never think that their place in the company is guaranteed because they are part of the family. Working in the family business should be an opportunity, not an entitlement, and therefore owners should be very clear on the conditions of employment of children-from benefits to performance evaluation-not to give a wrong signal to other employees of the company, says Paul Karofsky, a family business consultant.

**3. Structure of corporate governance.** Every company should have a professional management system. Establish a board of directors composed of business experts, lawyers, accountants and others

who are not part of the family will help you make better decisions. However, "it is key to have a good board that includes Mom and Dad as advisors," says Greg McCann, McCann & Associates, a firm specializing in family business consulting. If you are a small business that cannot afford to have a board of directors and paid professionals, you can have an advisory board comprised of family, friends, lawyers and accountants.

**4. Gift or sale?** A common dilemma is whether the new generation should receive the shares as a gift or to contribute capital and purchase the company. "The more advanced often have a combination of both in the transition plans," says Professor Sharma. "Demonstrating financial commitment to the company is important for business success through generations." As in many family businesses, in the case of Suiphar, the commitment of the second generation was clear from the beginning that the children's father participated in the creation of business.

**5. Preparation.** Both the generation that is retiring and the one that takes the reins should begin early enough to get the training required to take over. Meanwhile, those who leave the business also need a plan that clearly defines the conditions under which they will go and whether, for example, will remain as consultants or maintain a position within an organization with specific functions. "In my experience, between five and 10 years is long enough to ensure that all parties are ready for a successful transition," says McCann.

**6. First the administration, then the property.** Transferring the company to the next generation is not only to designate children as owners. The first step is to transfer the management of the company and ensure that the new generation is able to take over the business. "When the new leadership is consolidated and ensures that they are competent, then you can move towards the transition of ownership," says Rivers. Even, if necessary, you can hire professional managers until the family is ready to take full control of the business.

**7. Resolve conflicts.** All families have problems and resolve conflicts. Karofsky says it is vital to keep interpersonal conflicts out of the activity of the day to day business and define ways for the family to resolve these differences. "Unresolved conflicts can not only destroy the family but also the business," he says. According to Jaime Suarez, it is essential to have a family covenant, a document that governs the behavior of the family within the company and within the family. For example, he says, in the case of Suiphar the pact "shows how a conflict between family members is resolved."

**8. Key documents.** In the process of generational change, there are a number of documents that family businesses should pay special attention to. According Karofsky, these are:

- Family covenant: sets forth the terms and restrictions under which a family member may transfer their shares. It also establishes the rules of entry and exit of the company, how conflicts, educational requirements, compensation and promotion policies will be resolved.
- Testament: specified what will happen to the shares upon death of the shareholder.
- Code of Conduct: sets the rules of behavior of family members within the company and issues of confidentiality of information.