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SUCCESSION

To Last Beyond Tomorrow, Here's What Family Businesses Need to Do Today

Don't let your family business be another statistic. It could last for generations, but you need to set it up now for success down the road.



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You've spent your whole life growing your company. You've put blood, sweat, and tears into making it a success for your family, and building a legacy that will outlive you. The last thing you want is for the next generation to come in and destroy what you so painstakingly assembled. Unfortunately, the odds are against you: nearly 90% of family businesses don't make it to the third generation, and they often harm family relationships along the way.

[YPO](#) member George Isaac is the family business whisperer. He was born into a family business, and after graduating with an undergraduate degree and an MBA from the University of Michigan, consulted for Deloitte, eventually becoming a partner. He then returned home to run his third-generation family business, which he grew 6-fold in just 8 years. Since then, his company, [GAI Capital](#), has helped other family businesses handle the unique challenges of running such an enterprise. He is also a Lecturer and Advisory Board Chair at USC's Marshall School of Business Family Business Program. Isaac is also publishing a new book called *Your Business, Your Family, Your Legacy: Building a Multigenerational Family Business That Lasts*, which guides family company leaders on what to do now to put the company and family in a position to succeed for the long term. The book has already achieved several weeks as an Amazon #1 New Release in multiple categories.

Recently, Isaac shared his advice on what family business leaders need to do today to set up the company for success tomorrow:

Family Transition Planning

1. Family Planning and Communications

Isaac admits that what he proposes for family businesses is not necessarily easy. *"The starting point is the hardest - addressing the often emotionally charged and conflict-triggering family issues associated with family business succession plans,"* he says. But it's critical. He explains, *"If families get this wrong, the transition begins with cracks that will grow until they eventually undermine, and more often destroy, a multigenerational family business."* Communication is a key component of any family relationship, and the

same is true of any family business relationship. Without the foundation of open, honest, ongoing communication, it becomes much harder to accomplish anything else.

2. Ownership Planning and Alignment

Once strong lines of communication are established, it's time to start making decisions. Isaac says, *"Key issues to address include who 'gets' to inherit or own the stock, who is 'picked' to be the next CEO, and how power will be divvied up among the family stakeholders."* This is where things can begin to get complicated. Isaac warns, *"An overriding issue is whether the next generation of family members feel they are being treated 'fairly,' which is typically based upon perceptions and biases."* Isaac advises that there's a way to get ahead of this before it becomes a problem: *"An overabundance of communication among current and next generation family members on explaining what the decisions mean and do not mean are essential to minimize misinterpretations and undermine a transition,"* he says. It's critically important that [the next generation makes these decisions on its own](#). Isaac says, *"The next generation ownership group must independently reach agreement on their goals and plans; it cannot be defined by the prior generation. Otherwise, the alignment will not last once the elder generation is no longer around."* Each generation must make it their own responsibility to build a tradition of family communication and alignment.

3. Retirement and Estate Planning

Another critical decision is what former employee family members are given in retirement. Isaac advises, *"Individual retirement and estate plans need to be defined to address liquidity needs for estate taxes and lifestyle support of the elder generation."* This can be a difficult topic to address, but establishing guidelines now can help prevent problems in the future, for the business and for family relationships. Isaac warns that when things aren't clearly defined, [unmet liquidity needs may become a capital constraint on the business](#). "You can't afford past decisions to bankrupt your future."

4. Governance Planning

Good governance is essential for both the family and the business. Ideally, the company should be governed by a board of directors that represents all owners, not just the family members working in the business. In fact, Isaac advises that *"Non-family board members or advisors be included on your board, to provide objective business wisdom and a degree of formality and professionalism,"* he says. Additionally, Isaac asserts there should be an additional governing body in family businesses. He explains, *"Family issues associated with a family business should be addressed by a family council focused on conflict resolution, family employment policies, family communications, and use of social media, and producing an annual or bi-annual family retreat."* It's an important safeguard against conflict and helps keep communication channels open.

Business Transition Planning

5. Business Strategic Planning

Once the family issues are agreed upon, the next step is to be certain the goals and plans among the next generation of ownership are aligned. Isaac encourages the family businesses he advises to be specific and put plans in writing. *"The foundation for the business transition plan is an updated strategic business plan aligned to support the next generation's goals for the business,"* he says. And it doesn't have to be overly complicated. Isaac advises, *"A typical SWOT analysis is a good starting point - an objective analysis of the business's strengths, weaknesses, opportunities, and threats."*

6. Risk Assessment and Contingency Planning

Like decision-making, Isaac believes that risk assessment is an area that each generation must tackle on its own. *"Adopting the prior generation's business plan is typically a mistake, since late-stage family leadership is often very risk adverse and unwilling to implement new ideas or strategies,"* he warns. Further, Isaac believes that every generation must work together to plan for possible contingencies. *"As part of your strategic planning activities, identification and plans to address potential known and*

improbable 'black swan' risks need to be evaluated in order to have plans in place to survive these risks," he explains.

7. Management Organizational Planning

Once your strategies and risk management activities are defined, the next step is to determine the organizational requirements to implement that plan. Here again, Isaac wants families to get specific. *"Both short term and longer-term organizational needs should be defined,"* he says. You need to have a clear map of where the company is going, and what will need to be in place to make it all happen.

8. Family Leadership Development

Isaac laments that current leadership often neglects leadership and business development in subsequent generations. *"Current family leadership often overlooks developing younger family members. They need to be prepared in advance to be ready to serve in management, participate on the business' board, or function as good owners,"* he maintains. Don't let today's mistakes get repeated tomorrow.

9. Stakeholder Communications Planning

Remember that there are many stakeholders in your family business. Besides family members who work in the company, there are non-employee family members, the management team, other employees, customers, suppliers, and more. It's important that [all of these stakeholders](#) *"are aware of your succession plan and feel their future has been secured,"* Isaac advises. Here again, Isaac advises that it's all written down in a binding document. He concludes, *"Your family business can beat the odds and last for multiple generations, but it requires hard work and a strong commitment to make it happen."* Ultimately, though, it is well worth the effort!

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