

PUGET SOUND Business Journal

Business Leaders Get It.

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ESTATE PLANNING

Overcoming control issues

Consider this hypothetical. Ellen: “I have been the president of the company for four years, since Dad retired. You would think that by now he would stop secondguessing everything I do. It wouldn’t be so bad if he just voiced his thoughts to me, but he’s always jawing with the employees, when he calls in from Palm Springs and when he visits. The company is doing fine but I always wonder if the employees look to me as the leader or Dad.”

Joe: “Well at least he retired and left. My uncle is in the shop every day, checking the cash receipts. Sometimes I think he’s trying to see whether we have money to pay him. I don’t know what he’s so worried about. He never spent a cent when he and Dad ran the business so he must have a lot socked away — he’s been able to afford to be our banker for years.”

Ellen and Joe have discovered that what they thought was their own private hell isn’t all that unique — family business leaders who don’t complete the transition of their businesses to the next generation of owner/operators. What causes this behavior? Is it financial, emotional, a matter of control issues — or a little of each?

It is too easy to attribute the not quite completed succession to “control issues.” Most business leaders are control freaks anyway — right? That’s how they built or grew that business. But what might they be trying to control and why?

In our work, we see that most family business leaders view their responsibilities to include other family owners, the employees, and the community. This responsibility becomes, over a lifetime, a significant part of the business owner’s legacy. The legacy doesn’t change when a person is no longer active in the business. However, his or her sense of control over it changes when the day-to-day decisions that are part of perpetuating the legacy are no longer his or hers to make.

How does the transitioning owner gain comfort that his or her legacy is carried through and the business is maintained? Not surprisingly, in a manner very similar to the process of developing a financial and leadership succession plan for the business. It all starts with governance, but this time that governance is at a philosophical rather than transactional level. Determining the mission, vision and values for the company that are based on the legacy the leader and family want carried out and incorporating them into the company’s governance structure is key. When a company’s policies and procedures have been developed and implemented to further the mission, vision and values, then the legacy is preserved as a business practice. Staying true to the legacy is no longer the responsibility of the successor owners; it has been incorporated into the fabric of the business itself. The transitioning owner doesn’t

FAMILY BUSINESS



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have to “trust” that the successors will remember and stay true to the legacy; the business itself, through its employees, will ensure that fidelity.

Going back to Ellen’s dilemma: Her dad may be trying to ensure that his legacy is maintained, and without structures in place to keep that legacy alive, he may feel compelled to be involved in day-to-day decisions.

Financial concerns as the basis for interference cannot be disregarded. While Joe thinks his uncle is comfortable financially, he doesn’t know that for certain and his comment about his uncle being the banker is an indication that “uncle” may be undiversified in his investments with too much of his net worth tied to the business.

More than half of family business owners have not established a diversified asset base separate from the business. And these aren’t just young owners.

Laird Norton Tyee has sponsored two surveys of family business owners that addressed some of these issues.

In the 2007 national survey, almost 69 percent of the majority owners of family businesses were over age 55. Nearly the same number wanted the business to stay in the family, but 71 percent did not have succession plans. Further, and quite tellingly, 93 percent had little or no income diversification outside of the business. These findings led us to infer that perhaps financial dependence on the business was a contributing factor to failing to launch a succession plan and possibly a contributor to plans that never quite succeed.

The follow-up survey, in 2008, concentrated on a smaller number of family businesses located in the Northwest.

There we learned that 48 percent of these family business owners had incomplete estate plans, 61 percent spent little time on succession planning, and over 50 percent of their nonresidential real estate net worth was tied to the business.

If a business owner is dependent on the business for his or her income and has most of his or her financial assets tied to the business, how likely is he or she to completely turn it over to the next generation, which may not be adequately prepared for the succession plan that wasn’t fully developed?

Small wonder that Ellen’s and Joe’s relatives can’t stay out of the shop.

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