

Hawaii Business

Family Matters

How to avoid a family feud when dealing with family-business succession By [Lisa Ro](#)

After a long day at work, you look forward to walking through your front door, putting up your feet and vegging for at least a few hours. Sure, you didn't appreciate the traffic or picking up grumpy kids, but at least you have an evening and night before the next work day begins that is, unless you are a part of a family business.

"A family firm is so different from any other business, because it reflects what the family is all about. It [the business] is them. It is an extension of their family," says Dr. George S. Vozikis, founder of the Family-Owned Business Institute at the University of Tulsa. That's why deciding what to do with a family business from generation to generation is perhaps the most complicated business decision for a family to make. In a family business, especially a small business, there are many underlying problems families fail to recognize or discuss, because the issues at hand are coming from family members, not employers or employees. When it comes to big issues like succession, communication is often even less.

According to Vozikis, to best address family succession, you should focus on three major forces that shape a family business, small or large: ownership, management and the family itself. In order to plan for succession, it is necessary to balance these forces.

"With so many stakeholders, you have to juggle the agendas of all these people, and it is not as easy. In corporations, you have managers, boards of directors, and you don't have to worry about the pressure of the family," says Vozikis.

The first step a family should take is to evaluate its business. "Before you go to what should be, you need to have a clear, cold-blooded view of what is, so you can move to what could be done to what should be done," says Vozikis.

The second step is to create a succession plan and lose the notion that the founder will always run the business. He says, "You have to plan a succession process. Succession should not just be passing the baton, but, instead, you should create conditions in which the business will rejuvenate."

Experts say a written strategic plan is an important part of succession planning. In 2002, according to the American Family Business survey, compiled by the MassMutual financial group and Raymond Institute, 36.7 percent of 1,143 companies surveyed had a written strategic plan. Those that had a plan posted higher sales revenues and greater international sales than those that did not.

Whether the plan includes appointing a new successor or formulating step-by-step strategies to further develop the business, it is absolutely essential to be prepared for the "what ifs" in life, such as the unexpected death or absence of the founder.

The third step is to create ground rules for the family. These rules can help prevent the business from overcoming the family, as well as root out potential problems that develop because it is a family affair. Some suggested ground rules are: do not discuss work around

the dinner table, determine who can or cannot be a shareholder and what portion of the business will be managed by unrelated family members.

A common mistake families make is passing down the business to someone in the family, regardless of prior experience or knowledge, for the sake of keeping it in the family. A notable solution is to bring in an outsider, whether that outsider is a board member, the next CEO or a business consultant. "You need to constantly step outside of the circle, because you are so wrapped up, you are 100 percent biased. It's your family, plus it's your business, plus you don't want to change and you don't want to lose control," says Vozikis.

In Hawaii, there is a local culture that has a don't-ask, don't-tell policy, says Rann Watumull, VP and manager of the Family Wealth Management department at the Bank of Hawaii, who is also a third-generation family businessman. Someone outside of the family can ask the hard questions family members cannot ask, as well as provide business insight family members might not possess. In 2002, 14 percent of those surveyed had non-family CEOs and 40 percent rated the experience as "very successful."

"It gets harder generations later. A lot of emotional issues are played out that can be destructive, unless you have a mechanism to deal with it. Conflicts are not a sign of failure. What happens is, if you don't address those conflicts, that's what leads to failure," says Watumull.

Problems and strategies aside, family businesses in America are successful businesses. According to the American Family Business survey, the mean annual revenue of the companies surveyed was \$36.5 million and 95 percent have at least 50 full-time employees.

"We need to help family businesses thrive. These guys reinvest back to the city, back to their communities. That's why it is the true backbone of the local community," says Vozikis.