MY SON THE IDIOT, MY FATHER THE S.O.B.... AND OTHER FAMILY BUSINESS ISSUES

by
John H. Nardozzi, CPA
Nardozzi Consulting, LLC

"I'd like to retire, but I don't see how I can. Who will run my business? My son the idiot? He wouldn't know a good day's work if it jumped up and bit him."

"My father may have started this business, but the times have passed him by. He's just too stubborn to admit it. But if he doesn't step aside soon, he'll drive the company into the ground before I even get a chance to run it."

Welcome to the wonderful world of the family business. As if the daily minefields of conducting business were not enough of a challenge, we've added the joys of conflicting personalities and family infighting to the mixture. It's enough to drive you right out of your mind–or right out of business.

It is estimated that family owned businesses make up nearly 75% of the American economy. From tiny "Mom & Pop" operations to sprawling, closely held corporations, the family business is a national tradition. But the family business is an icon in crisis.

Nearly two-thirds of all family owned businesses fail to survive into the next generation. In many cases, the children of the business owner have no interest in the company, and "leave the nest" to pursue other careers. But more frequently, the business succession fails due to lack of planning.

Years ago, it was a simple process for a father to pass a business on to his son. (And it was almost always a father and son transaction–the roles of mothers and daughters have expanded dramatically only in recent years.) Dad simply said, "Take over, son." However, as doing business became more complex, so did business succession.

Today, the successful transfer of a business from one generation to the next requires careful planning in areas as diverse as financing, taxation, retirement and legal issues. Planning must begin years in advance, and remain flexible enough to adapt to changing conditions. Most savvy business owners know enough to begin the succession planning process at least ten years before retirement.

Still, it isn't the money, legal machinations or tax problems that kill most family business successions. That's just business. It is the family part of the equation that causes the most serious problems. It is the family part of family business that prevents too many companies from staying alive into the next generation.

Ironically, the human issues surrounding business succession are often overlooked or ignored by professionals–lawyers, accountants, consultants–who are otherwise qualified to assist a family with succession planning. Those consultants who do not adequately and immediately address the questions of personalities and family history, and who do not uncover hidden agendas up front, are doing their clients a disservice.

Take the statements that you read at the very beginning of this article. This sounds like an intractable situation, incapable of being resolved short of a long, ugly legal battle. In reality, both father and son want the same thing: a smooth succession of control, with both parties comfortable and content. But unspoken needs and emotional baggage are clouding the real issues.

The first step in developing a good succession plan must be a family meeting. Not a family business meeting, but a true family discussion. The goal is to have everybody open up and come clean with all their pet peeves, secret wishes and fears about the future. Only by exposing any "dirty laundry" will the planning process move ahead with a common purpose and direction.

Seeing the transfer of a family business from parent to child as "strictly business" is a sure path to disaster. Strange as it may sound, business succession works best when everybody involved has a "warm and fuzzy" feeling about the process. It is perhaps the only business transaction where love and affection carry more weight than dollars and cents.

John Nardozzi of Nardozzi Consulting, LLC provides valuation, transaction advice and business management services for fuel oil retailers and distributors. He can be reached at (617) 487-4752, or jnardozzi@nardozziconsulting.com.