Transferring Ownership in a Family-Owned Business

A local, long time family owned business is needing to make some drastic changes. Dad and Mom are no longer physically able to continue managing the business. What does the family do? What are their options? What are the key considerations in this transition? Will the business survive?

This is not an uncommon situation. The family business is a vital force in the American economy. About 90 percent of all U.S. businesses are family owned or controlled. They range in size from the traditional small business to a third of the Fortune 500 firms. It is estimated that family businesses generate about half of the country's Gross National Product and half of the total wages paid. The American economy depends heavily on the continuity and success of the family business.

It is unfortunate, even alarming, that such a vital force has such a poor survival rate. Less than one third of family businesses survive the transition from first to second generation ownership. Of those that do, about half do not survive the transition from second to third generation ownership. At any given time, 40 percent of U.S. businesses are facing the transfer of ownership issue.

The founders are trying to decide what to do with their business; however, the options are few and may be limited to:

✔ Close the doors.
✔ Sell to an outsider or employee.
✔ Retain ownership but hire outside management.
✔ Retain family ownership and management control.

To be one of the few family businesses that survive transfer of ownership requires a good understanding of your business and your family. The research that I have seen seems to suggest that there are four basic reasons why family firms fail to transfer the business from generation to generation successfully:

1. Lack of viability of the business.
2. Lack of planning.
3. Little desire on the owner's part to transfer the firm.
4. Reluctance of offspring to join the firm.

These factors, alone or in combination, make transferring a family business difficult, if not impossible. The primary cause for failure, however, is the lack of planning. With the right plans in place, the
business, in most cases, will remain healthy. Next week, I will discuss a few basic plans that should be included in the transition process.

Thoughtful succession planning is important for all businesses, particularly family-owned businesses. Working with an accountant and an attorney will help you understand the tax consequences of the transfer and develop a succession plan that will work best for your situation.

If you need help in your business planning, contact SCORE, mentors to America’s Small businesses. They provide free, confidential counseling as well as informational seminars.

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