

WHY YOUR SON OR DAUGHTER

SHOULD NOT

INHERIT YOUR BUSINESS

BY SID FRIEDMAN

Many successful business owners today share the same dream: to be able to leave their business to their son or daughter. Having a child follow in our footsteps and choose the same life's work as we have is a wonderful thing for a parent, as I well know. My own daughter, Lori, works with me, and it's great to have the opportunity to watch

her achieve goals and help build the company.

Yet when it comes to planning the succession of your business, you must be careful not to let emotions cloud your judgment. Believe it or not, there are significant arguments to be made for why you should not leave your business to



your offspring, no matter how much you love them.

Statistics show that a second-generation business has only a 53 percent chance of surviving 10 years, and a third-generation business less than 32 percent, according to the Institute for Family-Owned Business. That means that nearly half of all companies passed down from parent to child end up failing within a decade.

This article presents some reasons why your son or daughter should not inherit your family business.



THE CHILD IS TOO YOUNG

Sometimes it's a matter of a child simply being too young to take over the company when you want or need to transfer ownership.

Take the example of famous restaurateur Warner LeRoy, owner of the legendary Russian Tea Room, who died in 2001 and left the business to his 22-year-old daughter. Just one year later, the fabled landmark closed its doors forever.

Immediately after LeRoy's death, the media made much of the new 22-year-old CEO. Yet it was likely due to her very youth and inexperience that the restaurant struggled and finally closed. Employees who had been there for decades lost their jobs, and New York City lost a bit of its history. Imagine being in your early 20s and having such a spectacular failure on your resume. Would you wish that on your child?

When you're planning the transition of your business, you must take into con-

sideration the age and experience of your offspring. Your son or daughter may be bright and motivated, but there's no substitute for high-level experience. Working for you during summers off from high school and college does not make them qualified to run the whole company. If you're ready to step down but your offspring is still relatively young and inexperienced, the timing is simply not right. Either you remain at the helm for a few more years, or you should consider making other arrangements for the succession of your business.



THE CHILD "JUST DOESN'T HAVE IT"

No parent likes to admit that his own child lacks aptitude for something. Yet when it comes to your business, you have to be brutally honest. Does your son or daughter simply lack the talent or motivation to run your particular company? Do they lack the required aptitude for your industry?

Much as you'd like your children to follow in your footsteps, you can't force them to love your business just because you do. They may have their own unique talents that they want to explore. For example, my younger daughter, Wendy, works in TV production. The money in her industry is lousy, and I'd love her to come work for me. But she loves what she's doing, and she's moving up, getting more responsibility and earning the respect of her peers. Wendy is happy, so I'm happy for her.

If you force a child to embrace a business or industry he just doesn't have a knack for, you're courting trouble. That's because he'll always feel forced into it,

and one day, at the worst possible moment—like when you're about to retire—he'll wake up, realize he's not happy, and quit. That leaves you holding the bag and scrambling for another successor.

If your children really want to learn your business, they'll ask you. Wendy knows the door is always open. Sure, I'd love her to work with me and make some real money. But I respect her decision to explore the TV production field. In fact, she's learning skills that she could put to good use if she ever does decide to join my firm.

WHEN YOUR CHILD WANTS TO LIVE IN A DIFFERENT GEOGRAPHIC AREA



Your business is in Baltimore—but your son wants to live in Boca Raton, Fla. He'll “telecommute,” he tells

you—and run the business from the beach. After all, with the new technology available today, some CEOs rarely even have to show up at the office. Or, he thinks you should up and move the company down to Florida, where it will be easier for him to take the reins.

Well, that doesn't fly with me—and it shouldn't with you. You've spent years building your business, and your location is likely a big part of that. You've worked hard to retain a good team of employees, none of whom want to be uprooted. Unless there's a solid business reason for relocating the company headquarters—and it better be a good one—a dramatic move is not a good idea.

Make your child live near the business, not vice versa—or he simply doesn't

inherit it. If he refuses, then he's simply not the right successor for you.



YOUR RELATIONSHIP ISN'T
WHAT IT COULD—OR
SHOULD—BE

Much as you hate to admit it, you may not

have an ideal relationship with your child. For parents, this is a very sensitive area, but one that must be addressed.

It could be that you couldn't spend a lot of time with your child when he was young, because you were working so hard to build your business. Even though on the surface things may seem

OK, there may be some lingering resentment. If you had to miss too many soccer games or school plays because you were tied up at the office, your child may still feel a little bitter at times. To him, the business may represent the many hours you had to spend away from him during his childhood.

Or, you may be divorced from your child's mother or father, creating an even more delicate situation. If your child has always tended to side with your ex, he may harbor some bad feelings toward you.

Finally, the two of you may simply be completely different personalities, and have difficulty communicating. If any or all of these are true, giving the business to your child isn't going to "solve" the problem. If the parent-child bond isn't strong enough, you could be headed for disaster.

I plan to be leading my company and selling insurance until they put me in the funeral home. Yet we all know that life is full of surprises, and things don't always go as planned. That's why planning the succession of your business should be at the top of your "to-do" list.

They say love is blind, but don't let emotions or guilt get in the way of this very important decision. If there are any reasons, including those above, why your son or daughter should not inherit your family business, then accept it and move on. It's your duty to find someone you can rely upon, such as a key company executive who knows the ins and outs of your business as well you do—if not better than you do. When you're thinking of handing over your life's work—and your family's primary source of income—you need a successor you can trust. 

About the Author

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