With an eye on the future

How to keep a family business alive and well **Interviewed by Bridget McCrea**

Family-run businesses contribute more than 65 percent of the nation's gross national product and include recognizable names such as Ford, Motorola, Tyson Foods and Wal-Mart. Yet, very few survive to the second or third generation of family leadership.

That's because they face challenges that most other businesses don't, particularly when it comes to succession planning, business development and communication among family members.

"Running a family business is hard work and requires intensive planning and other strategies that many families don't always want to deal with," says Rich Snebold, co-founder of the Family Business Center at NexTier Bank in Cranberry Township.

Smart Business spoke with Snebold about the strategies that family-run companies can use to ensure their survival in today's competitive business environment.

Rich Snebold
Family Business Center co-founder
NexTier Bank

What business challenges are unique to family-owned businesses?

Only 30 percent of family businesses make it to the second generation, and only 30 percent of those firms [10 percent of the original generation] ever make it to the third generation.

Why? Because they work very hard and spend a lot of time on the day-to-day business duties, but they don't plan for the future. They fail to use strategic, business and succession planning, and they don't have time to train the next generation [or a nonfamily member] to help them run the business.

Many of them don't know where to go for help. They may attend a seminar or read a book, but they don't have anyone who can help them stay accountable and focused on these issues.

How does a company go about creating a business development plan?

The key is to find out what their competition isn't doing and then create new demand around those holes. It's a competitive world out there, and even a 5 percent market share gain or loss can make a big difference.

The company that can create differentiation [by creating that new demand] is the one that makes competition irrelevant. That company is looking to the future, picking up on the wants and needs of its customers and tapping new markets.

How does that affect hiring procedures?

The same company is also using a human resources system and looking well past the mom-and-pop stage when hiring employees. For example, (it) creates a system by which employees are tested first to see if they're truly a good fit for the job. Find out if (a candidate's) personality fits the task at hand, rather than just hiring kids who may not necessarily be the right choice.

When should succession planning begin?

Start now rather than later. Succession planning isn't something that can be put off until the year that the original founder retires. It's something that needs to be undertaken well in advance in order to ensure a smooth transition.

Succession planning involves understanding the organization's long-term goals and objectives, identifying the work force's developmental needs (such as training), and figuring out longer-term work force trends and predictions. It also requires that current owners build some wealth outside of the business itself, or risk having to sell the business in order to generate income for retirement.

How can a family business promote better communication?

It's very typical to find families that love one another both inside and outside of the business but who really don't communicate when it comes to the tough subjects. Family members really need to be on the same page.

There are some very basic steps to help people communicate. Have a process in advance for communication, schedule specific times during which family and management meet, have a written game plan in advance for conflict resolution and put a written policy in place that says you'll always go to arbitration before litigation.

What do family businesses need to do to keep their eye on the future?

They need to take a step back and think about where they want to be three, five or 10 years down the road, then create a game plan around those goals. They need to implement those ideas as a team, and consider input from all team members when planning for the future.

If they don't want to wind up as one of the 90 percent of firms that never make it to the third generation, they need to focus on the tough subjects, like succession planning, business development and HR.

Determine each family member and employee's unique abilities, then capitalize on those strengths. By doing so, they'll wind up with a happy, productive firm that's well-braced for the future.

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