

CALIFORNIA
REAL ESTATE JOURNAL

Www.CARealEstateJournal.com

December 8, 2008

GUEST COLUMN

All in the Family: Plan a Smooth Succession for Your Family Business

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More than 25 years ago, my father, Harold A. Held, and I merged our two businesses to create a family business, Held Properties Inc., today an established commercial real estate company that develops, owns and manages distinctive office and medical office buildings in Southern California. Five years later, my brother, Joseph R. Held, and my sister, Melissa Held Bordy, joined the business, creating a true family business. We worked as a team, making sure that we delegated responsibilities fairly and kept the issues among siblings to a minimum. This worked well, and, as we refined our skills, Harold Held decided to step back gradually from running the business. Our experience prompted me to share some advice about the challenges and the advantages of transitioning a family business from one generation to the next.

Harold Held had brought up his children with the expectation that we would become independent adults and make our way in life. It was essential for us to be independent, experienced, confident and capable of making the right decisions. So rather than earn a university degree and get a job "working for" our father, the siblings all went out into the business world to learn what it means to succeed on their own merits. Once this was accomplished, we could be assets to the family business and bring in new ideas based on experience.

Laying the Groundwork

It is important that all family members involved in the business understand that the aim of a family business is not for the senior member to control its destiny, but rather to prepare the next generation for succession. We learned by doing. Our father's intent was to give as much responsibility to the next generation as possible and be available for consultation, when and if needed. In our case, from the first day our opinions were requested and

discussed. Harold Held started as a major contributor to the day-to-day work, then evolved to being involved in only the global decisions, and finally to being available as needed for his experience. By the 10th year, the siblings were in complete control of all operations.



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A Challenge: Family Unity

One thing that we know for sure: An inherited business will not work if the family's private life does not work. Every member of the family and new management team must understand that family ties come first, and the business cannot be allowed to break family bonds. Make a strong commitment to the pursuit of a common goal, the success of the company. Clear priorities leave very little room for family politics. Without family solidarity, understanding and good communication, it is impossible for a family business to succeed to its full potential.

It's essential to:

- Stay focused on the same objective: Do what is best for the company. This commitment is critical when multiple siblings are involved.
- Make sure that each family member has the same economic interest in succeeding. If one has a different tax issue or requires more funds to live on, it must be addressed early and should be constantly revisited.
- Agree on shared priorities and ground rules for how the business will be conducted, especially during the transition. Make sure that all equity stakeholders share common goals for the company.
- Understand each person's different talents and expertise to ensure that they will be contented with their roles and perform their jobs well.

Practical Strategies for Co-Management

Continuous communication is a necessity. The siblings should regularly meet with one another to discuss and carefully plan the path for the company. Some points to take into consideration when management is shared among multiple siblings:

- Create a common goal, vision and mission for the business, which all agree to follow.
- Define and adhere to a workable hierarchy in which all family members are treated fairly.
- Clearly define each family member's role in the company, and be sure that roles do not overlap or leave room for confusion. Ensure that all are comfortable with decisions about delegating authority.
- Understand that each family member brings different strengths, and that all are vital to the company's success.
- Discuss how the company interacts between the siblings and departments and determine how to have them better communicate.

Tough Love

Family members in management must be mindful that their enterprise is a business first and not a birthright. A bad decision affects not only the family but their employees' lives as well. Those who choose to participate in the family business need to understand clearly that if they do not produce they will not stay. Tough love is necessary for a family business to succeed.

Exercise diplomacy when a spouse, a non-family member or a member of the incoming generation wants a job or a promotion in the family business. All family members must agree to their hiring. (Be forewarned: Creating a "make-work" job situation will be counterproductive for the work environment.)

Agree upon a resolution-solving process for resolving the inevitable differences and disputes that arise in a family-run business. Ideally, family members will be able to resolve issues internally, without recourse to third parties. Compromise and acceptance are critical, so that the management team can move amicably on to the next decision.

Crosstraining each sibling has many advantages: When each sibling understands the scope of work of the others, one can step into another's position for a period of time in the event of an emergency. It also affords flexibility for balancing life's other demands, such as vacations, honeymoons and illness or spare time to pursue other interests.

We have also benefited from what we have learned by developing contacts with our peers and consultants. Many beneficiaries to family businesses find it very helpful to network with other family-owned businesses and successors and

develop relationships with non-family-owned companies to expand their knowledge and resources. The more information that you have at your fingertips, the better your decision will be.

Advantages of Family Succession

In the long run, family businesses can provide an advantage over other businesses. If done right, the upcoming generation would have a better understanding of the firm's history and idiosyncrasies, without the added issue of bringing in an outsider to control the destiny of the family. The politics that would normally be found in a non-family corporation should be replaced with a firm knowledge of each family member's capabilities and personal issues, if any.

With luck, years of family closeness will have established an understanding of one another's needs and goals, and the capacity and desire to support each member actively. Each knows what to expect from another; for example, my siblings and I have a good idea of how each of us will respond in an emergency.

The Future: Generation Three

As we raise our own families, we are committed to prepare for the next transition without rigid expectations and without pushing the next generation into the business. It is important to be prepared for the possibility that no family member may be interested in taking over.

To prepare your children to take roles in the family business, make sure that they understand what you do. Discuss the business at the dinner table and family events. Let youngsters work part-time in low-level jobs. Give them a good education that allows them to explore alternatives, and let them first achieve a degree of success in other enterprises after graduating from college. Encourage grown children to develop backgrounds that they will enjoy throughout their lives and ones that will make them assets to the business before joining the company.

And finally, leave it up to the third generation to find its own way. Our father also taught us this: Recognize when it is time to step back. If you laid a good foundation, then you should have the basis for a good succession plan.

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