

# IN DEPTH: FAMILY BUSINESS

## Next!

### Passing the torch of a family-owned business requires planning

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Normally a management shift is an easy, even welcomed change. But for family-owned businesses, the passing of power can signal the end of the company.

It is estimated that around 90% of businesses in the U.S. are family-owned businesses, generating about half of the country's Gross National Product, according to the [U.S. Small Business Administration](#).

Yet only about 30% of those family businesses survive the succession to the next generation and less than half last through the third.

Several factors contribute to the demise of family businesses. Lack of planning is a major reason they miss the jump over the generation gap.

Don Schwerzler, founder of the [Family Business Institute](#), based in Atlanta says you have to pick a successor and plan the switch early in order to survive.

Because the succession exercise only happens once, most companies don't prepare much for it.

"It's not something you practice every day," says Schwerzler. "It's not like shooting free-throws, where you go out and practice shooting."

That lack of preparation usually proves fatal for companies transferring power, but for Memphis-based [Kemmons Wilson Cos.](#), it served as a lesson for the future generations to learn from.

Kemmons Wilson Sr. started his business mid-century and never dwelled much on who would work at his company; he already knew.

"He just thought he wanted to have his boys in business with him, that seemed to be the right thing. No big plan," says Spence Wilson Sr., the oldest of the family and now the president of Kemmons Wilson Cos.

After college, he applied to some insurance firms, but returned to the company at the encouragement of his father and eventually took over.

All three of the Wilson brothers joined the company after college, another potential trouble spot when the time comes to pass the torch. Often the hardest part of passing along the company is choosing the right child to take over. There's a challenge in determining which child, if there are several, will do the better job in a leadership position, and it's not necessarily the oldest child.

Spence Wilson Sr. is the oldest, but attributes his leadership position more to his experience with company.

"It sort of fell into my lot to be the generalist in the family," he says.

Although he serves as the president of the company, he shares ownership of the company with his siblings. When Kemmons Wilson Sr. passed on his company, he gave his five children equal shares.

"That worked out fine until you finally start getting those in the business who have ownership and are working, and then you have those in the business who are not working," Spence Wilson Sr. says. "It became obvious that that didn't make any sense."

Estate equalization and the buying out of relatives can cause sibling rivalry and contribute to the demise of a company.

"One of the most difficult dilemmas is wanting to give equal treatment to the kids," Schwerzler says. "It leads to litigation and not only ruins the business, but wrecks the family."

When the Kemmons family talked about the equal ownership situation, they brought in a lawyer, just for the paperwork of course. The brothers bought the sisters out of the primary operating side of the multi-industry private investment firm. They used lawyers and advisers who had been with the company and knew the family.

The Small Business Administration says that bringing in outsiders to help with family business decisions is a good idea because they provide a fresh look at operations. Outsiders can, however, get upset at nepotism within the family -- a reason Spence Wilson Sr. and his brothers laid some ground rules.

The Kemmons Wilson Cos. now requires any family member wanting to work for the business to have a college degree and at least two years of applicable outside work experience, something Schwerzler highly recommends.

"They're coming into the position because they earned it, not because they are in the lucky sperm club," he says.

That outside experience is vital for incoming family members so the non-family employees understand that, although the new guy has the same name as the company, he worked for the job.

"We want you to have meaningful work experience so that you can feel good about yourself and bring some experience to us," says Wilson, whose son, Spence Wilson Jr. worked at a bank before he joined his father.

"We both agreed to it," Spence Wilson Jr. says. "You do some things on your own and you come back in; you're perceived as not just handed stuff."

His experience outside of the company also gave him the confidence to know that he had earned his right to work at the family company.

That time away can also comfort the older generation. After all, they have to feel comfortable with the children's abilities in order to leave them the business. Some family businesses fail because the founder is unwilling to relinquish control.

"If the parents are scared, they're locked in," Schwerzler says.

He recommends starting a family foundation to ease the parents' nerves and keep them involved in the company.

"It has been our experience with family businesses that it is very difficult for a family business entrepreneur to move out of the business," Schwerzler says. "The best strategy is to create something for them to be able to move to."

They can also serve on executive boards, as marketers or in the research and development departments.

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