

Hello everybody, Dennis Engelbrecht with The Family Business Institute. Thanks for tuning in today.

Today, we're going to talk about one of the frequent issues that we face here at The Family Business Institute, and it's becoming more frequent. It's an interesting dynamic of today's society. We're just talking, but back about 20 years ago, we had a lot of first generation business owners trying to pass on leadership and ownership to the next generation. And it seems like those generations were closer together.

What we've found now, if we think back with the baby boomers and those generations coming thereafter, our children started having children at a later age. I've got seven children, and the youngest is now 27 and only two of them have children thus far. If you think about it, our children these days are having children on average in their early and mid 30s a lot of times. Well, that contrasts with, of course, we go back about a generation and a half, a lot of those children were born in the early 20s and mid 20s for folks.

So now what happens is we near retirement, which by the way a lot of us have been able to have more success and possibly be able to even retire early. But we look back at our next generation for the family business, and we find that they're still in high school and college. So not only are they not ready to take over the family business, but we're not even in a position today to know whether or not they're going to be capable, interested, this is going to be their passion. It may seem like it because a lot of us are in the construction world right now. We have a lot of construction companies we deal with. And we look and we see some of those children are in the engineering program or the construction management program.

So, we see they kind of have in interest. But still, I may be four to five years from when I want my retirement to be, and I project down to the younger generation. And they'll just be entering the family business at best at that time. So, the challenge is what do I do then. Do I have to delay my retirement and not enjoy the fruits of my labor and the opportunities to go climb mountains and do some of the other things that maybe if I'm 10 years older I won't be able to enjoy or do as much?

I know my personal passion is I like to hike to places that you normally don't get to see. I look forward five or 10 years and I think, "Well, five or 10 years from now, I might not be able to get up that hill. I might not be able to get that experience." So how do we solve this issue, the basic issue of timing? I'd like to retire now, but my next generation is not ready.

Well, of course, the very easy, simple solution is I need interim leadership. Well, and that's all well and good as long as I've thought of this in advance to a certain extent and I have the right people in place that could actually fill that role. And of course, it also, if you think of interim leadership, well if I have 35-40-year-old that's the top person in my organization and they're ready to lead, what am I gonna do? Say, "Well, I'd like you to lead now for five or 10 years. But when my son or daughter comes along, I'd you to step aside so that they can lead then." Is that okay? Well, that might not sell real well either.

So, we have to think of that. Of course, if you have that 55-year-old that is capable and may lead, well that may be a perfect fit. And that may be ideal for you. But oftentimes, that's not the case. So oftentimes, what we actually have to do is, again, break the bounds of our thinking and maybe we have to have some non-family ownership so that the people I do bring in, and it certainly could be a minority share, but I bring in some minority owners and they have a real stake in the company and a stake in its success. And hopefully with that stake, they move the company forward in this interim period and it's not just stagnant and holding on for the next generation to come along.

Actually, in our experience what we found is leaders who will get the right next generation leaders and get them involved in 20-30% of the ownership of the company, what we find is those young leaders, those new leaders tend to drive the success of the company such that the majority owner actually can make more with 70% of the company than they can with 100% of the company. And that's sort of your ideal situation. But now, wait a minute, aren't I then closing off my children perhaps if I move this ownership as well as leadership to another generation? And not necessarily so.

And this is where at The Family Business Institute, we find there really are a lot of creative solutions. We've seen some situations work very well where the family may retain ownership, may retain a majority ownership, or just the controlling ownership and allow non-family sometimes mixed with family rise into that next leadership situation. And they actually can exist concurrently, so the family can still take advantage of some of the wealth creation of the business and some of the legacy of the business and still take care of that next generation and be able to reward the best and brightest and allow those opportunities for leadership and ownership to them.

And then there are some other creative solutions. Of course, once you bring in additional owners, you'll have a shareholder's agreement, a buy/sell agreement. There are many creative opportunities therein where we can reserve pieces of ownership for the future and retain the opportunity so that everybody knows that if we do have capable leadership coming up in this next generation and even a generation beyond them with grandchildren, et cetera, that there are creative ways that we can reserve that legacy without demotivating the leaders that you need today so that you can allow yourself to go out and live the life that you want to lead.

So, don't feel like you get stuck in that situation. And don't feel like you have to hang on longer than you need to. Trust that there are solutions out there. They do require some creativity, and sometimes breaking the bounds of your thinking. But that can be done, and you can achieve success in that manner.

So, thanks for tuning in. Don't forget to send us your questions and stay in touch with us over time. Thanks a lot.