THE VELD GROUP VELD MERGERS & ACQUISITIONS

One Child Shall Succeed In Business Ownership

Michael Wildeveld, CEPA, M&AMI, CM&AP, CM&AA, CBI, CBB
michaelw@veldma.com

Veld Mergers & Acquisitions
www.veldma.com
1 Park Plaza, 600
Irvine, CA 92614
310-652-8066

It is easy to recognize those business owners who have dedicated their lives to ensuring a successful transfer of a family-run business — they have but one child.

There are two possible ownership scenarios for families having more than one child. The first is that more than one child is active in the business. In that case, the predominant issue is to determine how multiple children are to *share* the control and ownership of the company. The second is having one business-active child and one or more children inactive. The primary concern in that case is to give the business to the active child while being fair to everyone else (Ingredient Two).

Owners in the first situation must ask themselves, "How can children who couldn't share a ninety-eight cent toy when they were younger now share the ownership, management, and control of a successful, multi-million dollar business enterprise?"

Forcing children to work together ordinarily creates an unnatural coalition of differing talents and desires, united only by bloodline. Contrast that situation with business partnerships that do work: two or more individuals enter voluntarily into a business arrangement for their mutual benefit, each contributing experience, talent, and perhaps money. In return they each receive an agreed upon, negotiated, ownership interest in the business — a proportion *they agree* upon, not a proportion given to them by someone else. Further, they are likely to have similar goals, aspirations, drive and ability. Desire for business success brings them together, not family ties.

Family ties of a different sort can also create dissension and discord. Adult children who, years before, found sharing a toy difficult (if not impossible) because of sibling rivalry now find another relative introduced into the mix: their spouses. The influence of a spouse on a child's business decisions is similar to the influence gasoline has on fire. Whether the son- or daughter-in-law becomes active in the business or simply offers observations, an already warm brew can begin to boil. For this reason, co-ownership among siblings is rarely permanent, especially once the parents are out of the picture.

Look at this issue another way. As a business owner, you know many other owners. How many of them share ownership equally with a brother or sister?

In many family-run businesses, a parent did once co-own the business with one or more brothers or sisters. Over the years, however, those siblings dropped out or were bought out of ownership. It would seem that co-ownership just doesn't work for most families. It's unlikely to work for yours.

This second ingredient — transferring the business to one child — must now be blended with the quest for the third: fairness to all children.

Afterword

If at this point you still wish to attempt a transfer to more than one child there are several business characteristics that will increase your limited chances for success.

- Each child views business success through the eyes of the family, and each of its members, rather than through his or her own eyes.
- One child has effective day-to-day control over the business operation. Usually control is granted to that child, not because of stock ownership, but because of the child's experience and leadership abilities.
- The business is large (and profitable) enough to support all children and give each child a separate area of responsibility.
- Each child's salary is based upon job description and performance.
- Children have been active (alongside parents) in the business long enough to make each child comfortable with the role each plays within the business.
- Alternatively, the business must be large enough to be considered an investment (mature, solvent, stable, usually run by non-family managers as well as one or more children, and sufficient cash flow to handsomely reward the business-active child while providing an income stream to other children who are simply passive investors).