

Family + Business™

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ABOUT THE RESPONDENTS

■ Male CEOs accounted for 91 percent of survey respondents; 9 percent were female CEOs.

■ The age groupings of the respondents were as follows: 23.6 percent were less than age 50; 33 percent were ages 50-59; 27.9 percent were ages 60-69; and 15.5 percent were 70 years of age or older.

■ Tenure as CEO varied, with 25.6 percent having been a CEO less than 10 years; 36.6 percent having served in the CEO role for 11-20 years; 22.3 percent having been CEO for 21-30 years; and 15.5 percent having been in the top spot for more than 30 years.

■ Most of the CEOs – 71 percent – were first generation family business leaders, while 21.8 percent were second generation. Only 7.2 percent represented third or later generations.

Financial, Emotional Factors Affect Retirement Decisions

Family+Business™ CEOs Share Attitudes

(Editor's Note: A survey of Family + Business readers compiled the factors family business CEOs believe are important to successful retirement. If you were among the 309 CEOs who responded to the survey, thank you for your participation! Hopefully all readers will benefit from the insights this research provides. The findings are summarized in the following article.)

The attitudes and beliefs of family business chief executive officers have important implications for succession planning and the survival of a family firm. With only 30 percent of family firms reaching the second generation, and 88 percent failing before the third generation, timely succession/leadership planning is critical. CEOs of family businesses in Texas were asked to evaluate the importance of 62 conditions to their successful retirement. For the purposes of this study, retirement meant stepping down from the CEO position. This issue was chosen for study by four South Texas researchers because leadership succession typically does not take place until incumbent CEOs feel comfortable with the prospect of retirement and are ready to relinquish their positions to the next generation of leadership.

Successful retirement for many CEOs of family businesses involves more than health status and financial resources. The transition of family business owners from CEO to retirement is complex, as personal issues often intertwine with business continuity and viability, family harmony, wealth management and transfer, ownership transfer and organization, and leadership succession and development. Results from the study indicated that successful retirement also requires focus on fundamental personal concerns. The CEOs' top three issues for successful retirement include:

- Maintenance of lifestyles;
- Ability to meet long-term care needs; and
- Completion of mission.

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Meeting CEOs' personal needs may prove to be some of the most crucial ingredients required to help them relinquish the top position. Being able to visualize achievement of these top three concerns when no longer CEO is an important stepping stone for leadership transition.

■ The types of businesses represented varied, with 22 percent of respondents working in wholesaling, followed by 20.7 percent in retailing. The construction industry was represented by 19.4 percent of respondents, while 18.1 percent worked in the manufacturing field. Businesses that provide services were represented by 13.3 percent of respondents.

■ Families had controlled their businesses for a range of years, with 34.5 percent of respondents being in business 19 years or less. Another 24 percent of respondents had controlled their businesses for 20-29 years, and 17.1 percent had been in business for 30-39 years. And, 24.4 percent of responding CEOs had controlled the business for 40 or more years.

Other key findings of the research with some possible implications include:

■ Women, CEOs who are older or those with longer tenure in the top position were more concerned with perpetuating family ownership and leadership of the business. CEOs who headed larger companies with several generations working together also were more certain they want family ownership and leadership to continue. These CEOs may have more at stake and possibly more assets to fund their own lifestyle as well as the family and the business.

■ CEOs desiring family involvement in the firm after their retirement are more likely to want to maintain a continued role in leadership than those less concerned about perpetuating family ownership. This finding suggests that family interests motivate the continued participation of the retiring CEO. This presents a challenge for CEOs in allowing the passing of positional authority and responsibility to well-prepared successors.

■ CEOs who believe in professionalizing the business are more certain they want to continue family involvement and believe that more family members will join the firm. These CEOs also tend to own larger companies. Those who do not wish to continue family involvement are less interested in professionalizing, which could lessen their companies' value when sold.

■ CEOs who place importance on having a sense of psychological and financial well-being are more likely to have acquired or founded the business, and their firms have larger revenues. These factors are less important to successors who may not have experienced concerns about these well-being issues, or perhaps previous planning has made concern unnecessary.

■ Attitudes about retirement issues held true across all types of industries, from manufacturing and home building to wholesale distributors and agriculture operations. The fact that they are families in business is what makes these companies unique, not their industry.

Many of the CEOs uncertain about continued family involvement shared similar characteristics with those who want to perpetuate family ownership/involvement. This suggests that their uncertainty may relate to family issues, as they seem to still desire the continuity of the family business. Sometimes a family wants to continue ownership of the business, but may be unsure if family members can continue to work together without the CEO's presence.

Ensuring that a CEO feels good about his/her future psychologically as well as financially seems to be an important step in helping the CEO move into a different position. Those who are younger are more likely to be interested in community activities or philanthropy as part of successful retirement. This suggests that 'letting go' at a younger age when you are still more connected to the community could make this process easier. Older CEOs may want to maintain control because they have not developed other interests beyond the business.

■ The businesses owned ranged in sizes in terms of revenue. Firms with less than \$5 million in revenues were represented by 10.4 percent of respondents. Almost 30 percent of respondents headed firms with \$5 – \$9.9 million in revenue, while 26.2 percent of participants were CEOs of firms with \$20 million or more in revenue.

■ In terms of the number of full-time employees, firms employing 49 or fewer employees were represented by 45 percent of respondents. Businesses with 50-99 employees were represented by 27.8 percent of survey participants, and 26.5 percent of CEOs responding had 100 or more employees.

■ Almost 30 percent of responding CEOs reported that four or more family members work in the business, and 33.8 percent report two family members working full-time in the firm.

■ According to 61.8 percent of responding CEOs, two generations work in the business, while 29.8 percent reported one generation. And, 8.4 percent of respondents had three or more generations working in the firm.

The researchers are hopeful that professionals and family firms will use this and other data to help CEOs emerge from their leadership and ownership positions in a way that benefits them, the family and the business. While each individual CEO is unique, knowing the retirement issues important to many CEOs considering a leadership transition can facilitate building the bridge to the CEO's and firm's future.

For more information about the study, contact Loeb & Associates, LLC at 361/576-0276, or by e-mail to mloeb@loebgroup.com.

Collaborating research partners included:

John E. Schoen, senior lecturer at Texas A & M University in College Station and co-director of the school's Family & Owner-Managed Business Program.

Fred S. Hulme, senior lecturer of information systems in the Hankamer School of Business at Baylor University in Waco.

Danny Klinefelter, co-director of the Family & Owner-Managed Business Program of Texas A & M University in College Station.

Margery Engel Loeb, president, Loeb & Associates, LLC, in Victoria, and a member of the advisory board of the Texas A & M Family & Owner-Managed Business Program.

■ While 46.9 percent of responding CEOs say that no additional family members may join the firm, some 36.6 percent are uncertain. And, 16.8 percent felt sure that additional family members would join the business.

More Change Ahead for Families in Business

The results of the 2002 American Family Business Survey have been released. The results indicate that family businesses remain optimistic, and most plan for the business to remain in the family. However, leadership will be changing for many in the next five years, and the family firm presents unique opportunities for women.

This is how leadership will be changing:

- Four in 10 businesses will change leadership within five years.
- For CEOs over age 60, about 55 percent will retire within five years.
- A successor has been named by only 30 percent of these businesses.

Women can expect an expanded role, as evidenced by these findings:

- One in 10 family businesses has a woman CEO.
- 34 percent believe the next CEO may be a woman.
- 52 percent of female family members are employed in the business full time.
- If co-CEOs are a possibility, 46 percent expect a woman to be part of the team.

Some trends are concerning:

- Many family businesses lack a strategic plan.
- Many are not taking advantage of estate planning.
- Family businesses rarely have strong boards.

The research is conducted by MassMutual/Raymond Family Business Institute. The survey was first conducted in 1993, and additional studies were released in 1994, 1995 and 1997.

From the Editor

The most important skill a family in business can have is to communicate its vision to each other and to employees. The vision is the beacon that lights the road. When family members are afraid to discuss their vision for fear that it may be divergent, or they hit a roadblock in continuing to envision a shared future, it's time to bring in someone from the outside.

Loeb & Associates, LLC takes great pride in not only providing consulting to families in business on issues related to transition, change, communication and planning, but also on finding the right resources for family firms, from an estate planning attorney to investment banking services.

Having been invited into the Silver Fox Advisors has expanded this editor's scope of resources. The Silver Fox Advisors are a select group of former business owners, entrepreneurs and CEOs who offer years of experience and advice to business owners. Membership requires a rigorous peer review and is by invitation only. It is an honor to become an associate member of this fine group.

This newsletter is a resource for you, and I invite you to share topics you would like to see covered in future issues. Additionally, if you have colleagues who would like to be added to the distribution list, please provide mailing information to the subscriptions contact listed below.

Margery Engel Loeb
President, Loeb & Associates, LLC



TIME FOR A CHANGE?



Planning a change in leadership or management requires preparation and good communication. Loeb and Associates, LLC can work with your business to facilitate change while at the same time helping the family maintain an atmosphere of caring and respect. Call us for a consultation where we can discuss the specific needs of your family firm.



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