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An Introduction to Stage 4 Planning™ for Family Businesses

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November 16, 2016 | **CORPORATE**

While family businesses can achieve great economic prosperity and often outperform their non-family firm counterparts, authorities continue to cite statistics suggesting that approximately 70 percent of family businesses fail to successfully complete a transition to the second generation, and a staggering 90 percent of family businesses fail to complete a transition to ownership by the third generation. The commonality of family business struggles is often expressed through the well-known proverb, "shirtsleeves to shirtsleeves in three generations" – a proverb that seems to have a counterpart in every country with family businesses.

While the accounts of what compromises these statistics will often only be known to the family members and their advisors, many of whom serve under professional obligations of confidentiality, there are nevertheless seemingly endless published accounts of prominent families in business together, including the Gucci, Guinness and Gallo families, whose infighting has become known through the public litigation process.

In spite of endless seminars, articles, websites and other information designed to help families in business together, not much has changed and far too many families, many of whom expend substantial resources designed to allow them to secure the most advanced contemporary planning techniques, continue to experience dysfunction – and the "failure statistics" cited above appear to remain as predictable as they are consistent.

We believe the failure of current planning strategies results primarily from professional advisors giving disproportionate attention to helping families answer two questions inextricably tied to their wealth: first, "who shares in the wealth?" (which we refer to as stage 1 planning™) and second, "how much do they get?" (which we refer to as stage 2 planning™).

Some families in business together have engaged family business consultants, professionals with varying academic degrees and professional experience. Family business consultants often use tools like codes of conduct, mission statements and family constitutions, and help to professionalize governance (which we refer to as stage 3 planning™).

Taking it a step further, which we are introducing as stage 4 planning™ – now widely used by the largest companies in the world – considers and applies new insights from science, particularly from the fields of positive psychology and social neuroscience.

An increasing amount of research is being undertaken at some of the top colleges and universities in the world to examine, with scientific rigor, factors that influence how individuals and organizations flourish – and languish. And some of the world's greatest companies – including Google, Amazon, Zappos and many others – have been increasingly driven to apply those insights and others that they uncover from their experience. Insights include best practices for common business procedures, including how to start a meeting, how to ask constructive, open-ended questions, how to listen thoughtfully and how to practice empathy.

While stage 4 planning™ strategies have gained increasing recognition in non-family business settings, they remains a virtually undeveloped planning paradigm for family businesses. In recognition of the continuing value of traditional planning strategies, but understanding the importance of insights from science, family businesses would be well advised to integrate both the “hard” and the “soft” issues to provide a more holistic approach to family business planning.

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