

## Transitioning your Family Business

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### The “Three Circle Model”

The family business can be a convoluted pool of personal and professional relationships. Who fits in where? Who has a stake in decision-making?

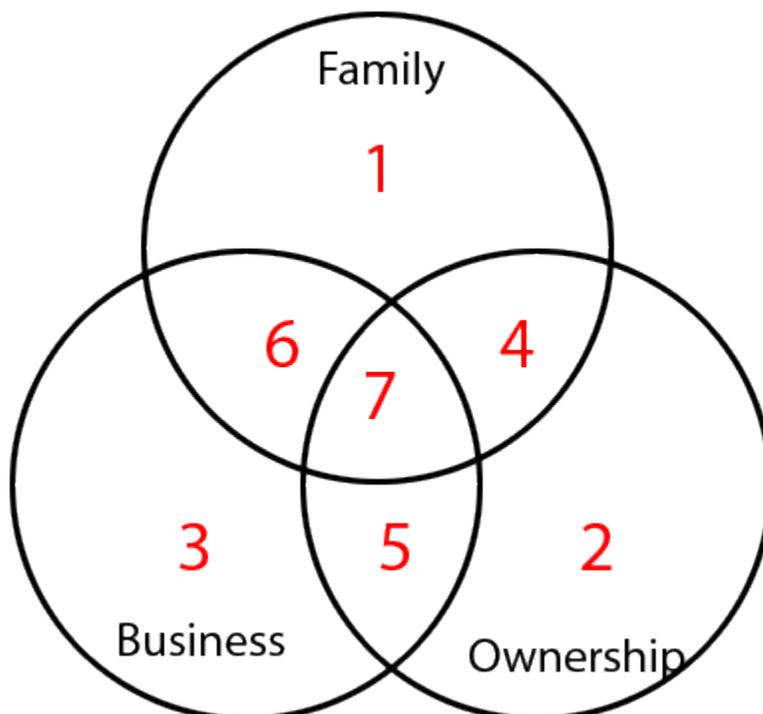
As family business consultants, understanding these relationships is key to helping ensure the survival of the family business.

#### Did you know?

- Only 30% of family businesses survive to the 2<sup>nd</sup> generation
- Less than 15% survive to a 3<sup>rd</sup> generation
- Only 3% survive to a 4<sup>th</sup> generation
- The average life expectancy of a family business is 24 years

Determining WHERE to place each member of the family in relation to the family business is one of the greater challenges we face on a day-to-day basis. I.E. what is the role of each family member in relation to 1- the family itself, 2- the business, and 3- the ownership?

In order to simplify the process, the “Three-Circle Model” from the Reger Group has garnered widespread acceptance and used by consulting firms like Fuller Landau.



- Zone 1 represents family members not involved in the family business.
- Zone 2 represents non-family business owners
- Zone 3 represents non-family employees
- Zone 4 represents family owners not working in the business
- Zone 5 represents non-family owners working in the business
- Zone 6 represents family members working in the business, but with no ownership
- Zone 7 represents family members who own the business and work in the business

This model helps to break down the complex interactions within a family business and makes it easier to understand what is actually happening – and why. It is a useful tool for understanding the cause of interpersonal conflicts, role dilemmas, priorities and boundaries in family firms.

For example, when taking a view on the appropriate level of dividend payments, non-owning family members who work in the business (Zone 6) often take a very different view to their relatives who own shares in the business but who are not employed by it (Zone 4).

The former may favour cutting dividends in order to boost reinvestment in the business (and improve their career prospects), the latter may want a dividends increased to provide a better return on their investment.

The more family members involved, the more complicated it can become, with many different aspirations and opinions trying to influence the way the family and the business conduct themselves

We encourage all family business owners looking to transition their business, to take the time to pencil in family members in their respective zones. Having a clear picture of where everyone fits in will help in the decision-making process and increase the longevity of the family business.