Keeping It In The Family

Learn more about what to do (and not to do) when it comes to family business succession in the second part of this 2-part series.

Last month, I talked about some of the reasons businesses fail when they are passed down to the second or third generation. Specifically, such businesses lack pre-planning, lack sufficient training for the new kids in charge, have meddling by the old regime and show favoritism toward family. This month, let’s look at some other ways in which we can make a successful transition from one generation to the next.

It’s Not A Democracy

It’s important for everyone to understand that, even if it is a family business, it is first and foremost a business, not a democracy. In a democracy, there are continual debates and policy changes with the political winds. In a successful business, there is one CEO who leads based on policy established by a board of directors. Once a decision is made, discussion should be terminated, and everyone should focus on implementing that decision.

To keep peace in the family, some people will handicap the business by trying to run it as if everyone is equal. They seem to be more concerned about tensions around the Thanksgiving table than keeping the company afloat. Business is tough, and it needs to be run fairly but effectively. Unlimited debate or giving everyone’s input equal weight has not proven to be successful.

This perception may frustrate some readers. I’d be grateful for specifics where this isn’t accurate. The most visible example of democracy gone wrong in a business is documented in Ben & Jerry’s (the ice cream guys) book, *Inside Scoop*. The two idealists eventually came to the harsh realization that leaders sometimes have to do what’s necessary even though it may not be popular — a great lesson for us all.

Create A Family Policy

In some cases, businesses fail because there is a lack of confidence in the younger generation either by the employees, other family members, vendors or even the successors themselves.

To overcome this nagging doubt, the McCurys adopted the policy that family members could work in the business while going to school, provided they exceeded the average output of other employees paid the same wage. After graduation, there would be no full-time employment until a family member worked someplace else for three years. Family members had to get outside jobs on their own, without using family connections. At the end of the three years, family members would be free to contact the company to see what options might be available.

This process seems like tough love, and it is. The family members have to prove to the “marketplace” that they’re competent. When (and if) a family member comes back to the business, there’s minimal discussion about pay, because wherever he or she was working established compensation on a “fair market” basis. Additionally, working elsewhere taught the family member about respecting superiors, working in a group and understanding what it’s like to be on a team with “real” people who aren’t related to the owners.

A further benefit of this policy is that family members will have had a successful track record in another business, so they come to work with credibility and self-confidence. You may see it as a downside that sometimes they don’t return to the family business, but that could be the good news. We have had too many clients where, when we dig into the root issues of the business, we
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(Art. Nursery and Landscape Assn.)

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3. AND 9 TO 15 NEIGHBORS HEAR YOUR FIRM NAME, WHERE A DEAD PLANT WAS BOUGHT, BEFORE TALK QUIETS CIRCULATING IN A YARD OR LIVING-ROOM, according to GALLOP POLL AND ACLA (Associated Landscape Contractors of America) surveys.
4. **ONLY KEY to CURE IS SUPERthrive™ CHAMPION REVIVER.**
5. **ONE SECOND GETS YOU OFF THE HOOK AT CHECK-OUT. EITHER PASS OUT FREE SLIPS — OR REFER TO FREE SIGN.**

(At plants check-out)
Your “get-off-the-hook” check-out slip or sign.

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find family members who were
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negative situation in their lives, which can’t help but leach out
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person would have never come
back to the family business unless he or she wanted to, and everyone
would have truly been happier — except, perhaps, for the family
leader, who may feel history and tradition are more important than
letting people grow.

Nothing Is Certain

There’s no automatic success just
because you were born into the family. Two surprising events happened to
family businesses in 2006. William Ford,
former CEO of Ford Motor Company,
resigned. He said, among other things,
"Behind all of this is the simple fact
that the business model that sustained
us for decades is no longer sufficient
to sustain profitability."

A month later, William Wrigley,
Jr., stepped down as CEO of the
chewing gum business. One analyst
referred to Wrigley as a "culture that
has not yet learned to embrace
change." Analyst David Nelson wrote,
"We believe Wrigley needed to shake
up the culture of the organization to
regain its business momentum in an
increasingly competitive market."

Both these CEOs controlled
enough stock in their large, publicly
traded companies to maintain their
respective positions; they willingly
resigned so more capable outside lead-
ership could lead the team forward.
We salute them for their wise decisions.

Clashing Relationships

Family business relationships have
three dynamics that tend to clash all at
once: family relations, employment
and ownership. Family relations are
the history and politics every family
has. Whatever slight Aunt Bertha felt
at the last wedding will show up over
and over again if she works in the busi-
ness. This shouldn’t be allowed to hap-
pen and should be stopped if it occurs.

As much as possible, employment
shouldn’t be based on shared genet-
iccs. It should result from merit and
results. Family members who want to
work for the company should be inter-
viewed just like employees. Their job
responsibilities and pay should be allo-
cated just like any other employee’s.

Ownership and employment have
implored because of ownership issues:
The founding generation, in an
attempt to be fair to everyone, gives
equal shares of the business to each
member of the family, whether or not
the members work there. In Texas, we
worked with a business inherited by
three siblings. One worked in the busi-
ness, one was a schoolteacher and the
other was a truck driver. The one work-
ing in the business had the lowest take-
home pay. Despite that, the non-
involved siblings refused to allow the
working one a pay raise until they got
dividends. Out of spite, the working
one quit. The siblings hired a "profes-
sional manager." To save face, they had
to pay the manager less than they paid
the working sibling, which got them
someone whose prior experience was
as "chef" at a fast food restaurant. And
we wonder why some businesses fail.

Ownership and employment have

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to be objective and separated. What should have been a 6-figure inheritance for each family member turned into a tax loss and financial tragedy. If you’re involved in a family business, consider how spreading the ownership among non-working family members can impact the business’s long-term viability. Owners within the business will have different priorities than those on the outside. It is logical for non-working owners to want cash dividends or benefits, while those inside the business can see the need for retention of working capital. If owners have differing priorities and if everyone isn’t united about the long-term goals, clashes will result. I guarantee it.

Start Early

Some families have success with diversified ownership if the older generation sits down with the younger generation and explains the succession/ownership plan for the years ahead. There’s never a happy ending if this is explained during the reading of the will. It must be talked out prior to the event. This may be a difficult meeting, but when properly conducted, it can engender harmony and save the business.

A cautionary note: We’ve seen scenarios in which the company CPA thinks he’s doing everyone a favor by suggesting the owners pay their kids from the company as a way to reduce corporate taxes and spread income to lower-tax-bracket family members. It isn’t logical to follow the lead of congressional tax writers when making crucial business decisions. Decisions made solely to avoid taxes may be legal but they aren’t good business or family practices. To pay money to kids disproportionate to what they contribute to the business sets up false expectations for the future. It teaches everything you don’t want them to learn and essentially rewards them for doing nothing.

A Unique Resolution

Perhaps the most unique family resolution we have seen involved the young son/cousin of the owners who was the class clown, the family comedian. He didn’t take anything seriously, including being on time to work. The family was relatively straight laced, and Sonny was always the odd man out. With six siblings/cousins in the business, he was also lowest on the totem pole. No matter how often he was lectured, he wouldn’t change. Worse, his bad behavior was obvious to the other employees.

At a Chamber of Commerce meeting, the cut-up’s father heard one of his business-owning friends say how he needed help but couldn’t afford to hire anyone. Dad had an idea. He was honest about his son’s behavioral issues and said he would give the friend enough money to hire Sonny away from the family business and keep him working for a year. To the friend, it was getting a free employee for 12 months, albeit one with some history, so he took the challenge, along with the promise of cash from Dad, of course. He called the young man and recruited him. During the interview process, he outlined how important it was to be punctual and responsible. In the first month, the young man was late once, and the new boss let him know that was unacceptable. It never happened again. After six months, the new employer called Dad and said, “I feel guilty continuing to take your money. Your son has become the most productive employee I have.” I’ve given him things to do, and he...
goes beyond the norm. The other employees love his sense of humor.”

The son has matured, kept his sense of humor and learned great life lessons. Will he someday come back to the family business? It’s hard to tell at this point. But when the entire family gathers together at the holidays, there are no longer “issues” hanging over the table. Dad says it was the best investment he ever made.

Sure, business is tough these days. Family can be a strengthening glue or an acetic irritation. If you’ve got family frustrations, determine how to deal with them and then take steps now to get them under control. Rarely, if ever, will they heal themselves. 

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