So much to do, so little time
By Stan Simkins

The potential demand for succession planning and conflict management by family businesses is enormous. However, that demand lays virtually dormant. Could denial and ego be the cause of such neglect?

With well over 23 million small businesses in the United States, of whom more than 90% are family-operated, the mission of family business institutes ("To promote the continuity of family businesses within the family through the generations") is a daunting challenge. Certainly, if institutes were to serve as consultants to family businesses, their mission would be physically impossible. Instead, these institutes serve as a venue to *teach the teachers* and to *spread the gospel* of what it takes to be a successful family-operated business. They do this not by dealing with the everyday management challenges that all businesses face (e.g. sales, finance, production) but by focusing on those challenges that are unique to family-operated businesses. I will go into greater detail later about what these unique challenges are and how they are manifested.

DO WE HAVE THE FIREPOWER?

The concern I have is how the fewer than 150 family business institutes will ever meet the succession needs of these businesses. The only reason they are able to cope is the extremely small number of family businesses in these organizations. Because family business institutes are fairly new to the scene (the majority are under five years old), most have fewer than fifty member companies. Most can accommodate fewer than seventy companies in their current format and facilities. Therefore, they must be able to reach out on a broader scale. I believe they need to interact on a greater level with the professionals who serve these family businesses. Professionals need to increase their clients' understanding of their environment and how best to meet the challenges family businesses face. Why? Let me quote some statistics. 2 out of 3 family businesses that are in the 2nd generation will not make it to the 3rd. And 6 out of 7 family businesses that are in the 3rd generation won't make it to the next. Now, these statistics are somewhat biased, as I understand that the average life cycle of most small businesses is around 25 years. However, this does not lessen the importance of the issue of continuity since it is accepted that one of the leading causes of family business failure is the lack of planning given to identifying and grooming a successor.

WE NEED THE HELP OF OTHERS

Many professionals focus on the tax and financial planning aspects of business transfer between family members. While those are important aspects, it is essential that attention be given to the family-dynamics and personal issues among the family members in the business. Accountants, lawyers and other professional advisors may not be formally trained in these disciplines, but they can play an integral role as facilitators and as a resource for other advisors who can team up with them. After all, they usually know the family members and have gained their trust. This is an essential element to the process.

OWNERS MUST BECOME INFORMED

There is further evidence that these professional advisors have a great opportunity to serve their clients in this manner. Family business institutes have to vigorously market themselves to attract these family businesses to become members. Family businesses often operate under the handicap of too few people to get too much done. Owners find it almost impossible to set aside time to attend seminars, participate in self-improvement programs and the like. They are busy *doing* things rather than *managing* people. Michael Gerber addresses this point effectively in his book, The E-Myth Revisited (© 1996). Worse yet, many entrepreneurs let their egos get in the way when it comes to seeking help from others. Their pride causes them to say, "I don't need any help from others. I can take care of my problems myself". Even worse, they are often in a state of denial when their pride makes them say, " I'm Ok. I don't have a problem." That may be what General Custer was saying before his demise.

THE MARKET FOR SERVICES IS HUGE

If only ten percent of the family businesses in the United States had a real need to learn more about how to avoid the pitfalls that cause 2 out of 3 to fail after the 2nd generation and 6 out of 7 to fail after the 3rd, then there would be over one million potential members to be served by the fewer than 150 family business institutes. Of course, common sense would tell us that 10% is far too conservative. If this is the case, and if one knows that family business institutes work hard just to attract fifty family businesses to their membership, then what does this suggest? I contend it serves as proof that most family business owners and their family members have not made succession planning and healthy family dynamics a priority for their business. This was further proven in a study sponsored by an international CPA firm and a major life insurance company which showed that fewer than 25% of small businesses had done any type of succession planning, and fewer than 50% had chosen a successor in the event of death, disability or retirement of the founder or current leader.

NEGLECT KEEPS THE MARKET SMALL

So, while I started out feeling that family business institutes (including the Siena Family Business Institute) had so much to do in so little time, I guess they don't really have to be so concerned with what could be such a daunting task. As long as family businesses don't mind living with their internal problems (which don't exist!), then the institutes don't have to worry about addressing them. After all, out of sight, out of mind.

No, I'm not going to let family business owners off the hook that easily. I will identify and address some of the typical challenges they face with the hope that maybe this *friendly reminder* might cause them to rethink their commitment to seeking help from family business institutes and competent professional advisors.

FAMILY BUSINESSES–THE DIFFERENCE

But before I do that, let me briefly address one issue. People who have never worked for a family-operated business often wonder what is so unique about the challenges found in those entities. While all businesses are made up of various types of people with varying personalities, what separates family businesses from other organizations is *family*. One only has to think of their relationships with parents, siblings, in-laws, cousins, uncles, aunts, and grandparents to appreciate why the emotional dynamics of these relationships might be different from the emotional challenges of nonfamily co-workers. The real challenges surface when these individuals fail to separate their behavior and roles as family members from their roles as employees in the family business.

NOT ALL FAMILY BUSINESSES ARE SMALL

So much for making the argument that family-operated businesses are different than non-family businesses. And by the way, not all family business are small businesses (i.e., under $25 million sales according to the Small Business

Administration definition). There are many family-owned companies that have sales well in excess of $25 million, are international in scope, and are not publicly traded. As for the publicly traded family-controlled businesses, many people are surprised to learn that about 30% of the Fortune 500 companies are family controlled. One fine example is the Mars Corporation (makers of M & M candies). Coors Brewing, of beer fame, and Wrigley, of gum fame, were once family-controlled companies.

THE CHALLENGES: LEADERSHIP

Now back to the challenges of a family business. The most common challenge is determining which of the children (or other family members; e.g. cousins) will be capable of leading the team. Some families, like the United Kingdom, use the “oldest-male” system to select leaders. In today’s society, it is no secret that there are many females who possess the attributes to easily win an objective contest over their male siblings (younger or older) for top leadership roles. Fortunately, the “oldest male” approach is becoming obsolete.

COMPENSATION

Another challenge for family businesses is compensation. Parents often feel compelled to show each child they are loved equally by paying them equally, despite the wide disparity in performance of each child. They fail to accept that equal is not always equitable.

LETTING GO

“They won’t let go” is a common cry among children (who are often in their 50’s and 60’s) when parents are unable to pass the reins to them for fear of loss of financial security. When the existing owner/manager refuses to transfer control, serious conflict or lack of motivation among the children can occur. I have seen near anarchy occur with children threatening to take key employees with them to start new businesses.

PROCRASTINATION

Almost as bad as not letting go is when the parents finally agree to make the move but procrastinate in getting the paperwork done. Years can go by before they finally sign the documents necessary to effect any real change in control. This creates mistrust and bitterness.

DELEGATION

Delegating is a challenge to all managers. But lack of delegation takes on a whole new persona in family businesses. Children take it really personally (as a lack of confidence in them) and parents suffer because they feel they must carry the load alone and are underappreciated. Dumb as it may sound, this is sometimes caused by parents (immaturely) fearing their younger generation progeny. Their fear is not of physical harm, but as a reflection of their getting older, or becoming less competent than their children, or just not wanting to give up control of an activity they enjoy.

TRAINING AND MENTORING

When it came time for my wife to learn how to drive (she was a late bloomer in this area), I knew that our marriage would stay intact if I funded her driver training with a professional driving instructor. Not because I didn’t know how to teach driving, but because I knew I wasn’t the best suited to do so. First of all, I would have taught her all my bad habits. Secondly, I knew I didn’t have the patience to stay calm as she careened into the sidewalks and slammed on the brakes in the middle of the block. The moral to this story is that not all parents are best equipped to select, train and mentor their successors. However, this does not mean they must be totally excluded from the process. This is a difficult thing for them to accept; so, it becomes a problem. There are many healthy ways to address this if only they would take the time to learn about them.

FINANCIAL SECURITY

I commented earlier about parents not letting go. But I didn't mention that this is often well founded on their part. The value of the business often represents the greatest portion of the parents' estate. Often, it is their sole resource for financial planning. Entrepreneurs often plow every penny they earn into the business and fail to provide a nest egg outside the business. This creates great pressure on them to retain control until the last minute. There are ways to address this concern in the interest of the parents and the children.

MAKING OBJECTIVE DECISIONS

Managers have a tough enough time disciplining or terminating key employees even when it is justified. Imagine what a tough time parents have disciplining or terminating family members when it is appropriate. I have even seen them unable to take appropriate action when a family member was caught stealing money from the business.

IDENTITY CRISIS

Entrepreneurs, by their very nature, have big egos. That doesn't mean they are conceited or think they are omnipotent. It just means they have the personal pride and conviction to stick with their dreams when the going gets tough. Sometimes their egos (which can be tied to their personal identity) get linked to the business. That is, THEY are the business and the business is THEM. If the business becomes a failure (even if they are not working in it), then they have become a failure. This is not abstract. This is exactly how they feel and how they perceive the situation. Therefore, it is very difficult for them to "give custody of their baby" to someone else – especially the young children who could barely be trusted to clean up their rooms or come home before midnight as teenagers. You get the point.

LOSS OF STATUS

Some owners of prestigious businesses, get a sense of status and importance in the community from their business. To no longer be involved with their business represents a loss of that experience to feel prestige or status. Some even feel they are being put out to pasture.

THE MONEY TABOO

Many people raised prior to the 60's may have had parents whose attitude was to "not talk about money." Consequently, they are uncomfortable discussing their personal financial condition with or disclose the company's financial condition to their children. Obviously, this "keep them in the dark" approach has many latent problems; the least of which is, "How do the kids learn to manage the finances, and how do they track the success of their efforts?"

DENIAL

And the all-time favorite, of course, is the reality that only *others* will die or become disabled, and not the owner. If they believed otherwise, they would have made the appropriate arrangements to plan succession, deal with financial planning matters, and tell the kids what they needed to know.

THE NEXT STEP

Make a commitment to begin the succession planning process. Contact a professional who can guide you through the process or begin reading all you can on the subject and "test the waters" to see how comfortable you are facilitating the process by yourself.

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