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Fortify your family business

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Family businesses account for about 25 percent of the US market, according to John L. Ward, author and a co-director of Northwestern University's Center for Family Enterprises at the Kellogg School of Management, which offers well-researched and practical advice for family business owners. Unlike corporations and entrepreneurs, most family businesses emphasize reputation, continuity, and personal values.

However, only one third of family-owned businesses make it to the next generation. That number dwindles to 12 percent into the third generation. Inadequate planning, procrastination, and family dynamics are key reasons for failure.

According to a recent American Family Business Survey, within the next few years, four in ten CEOs will be stepping down as leaders of their family-owned businesses. Nearly 88 percent of survey respondents said the family will continue to control the company for at least the next five years. What will enable these businesses to remain intact through the next generation: hopeful dreams or strategic planning? Probably a little of both.

Setting standards

The business that Jim founded is a case in point. He gave it a little of both, and it survived for the next generation -- although not quite the way he planned it.

Like others who found family businesses, he was a risk-taker. At 55, Jim's friends thought the best of their careers was over, but for him it was just beginning. He bought his American dream: a subsidiary owned by the oil company at which he had worked for 35 years. He had

three children in college at the time and four still at home. He told them to find a way to continue their education. He mortgaged his house.

But Jim was also a visionary. Right from the start, he began covering his bets for the future of his business with his boys. He referred to them as "the infield" and groomed them to become part of the business. (Today daughters are more likely to assume leadership roles, but this was 30 years ago.)

Jim did a lot of things right. He upheld expectations of professionalism and competency for his sons. The oldest joined the company after graduating from college, and the three other sons followed suit, joining the business as a step into adulthood. (Today, business advisers say that a child should work for someone else in a similar industry for at least a year before joining the family business.)

Legacy by design

While remaining CEO of the company, Jim designated his oldest son as president -- a good strategic move for providing continuity. This was after his attorney had warned him, "Leaving the boys to figure it out for themselves is a guaranteed failure. I have never seen it work."

However, Jim's decision angered his second son, who left the company and asked for a year's salary. A request to receive money for not working did not sit right with this Depression-era dad, who also felt hurt by the departure. As author Quentin J. Fleming notes in *Keep the Family Baggage Out of the Family Business*, "You're not loyal to the family if you are selfish."

His other three sons stayed with the business, and at age 75, when he was still CEO, Jim transferred all the company stock into their names, making them owners. He consulted with his financial and legal advisers and set up a trust. He included a financial agreement that would provide income to himself and his wife for the rest of their lives, and, at his wife's insistence, gave his children who did not work in the business an amount equal to the value of the stock the others received.

Jim's retirement was sudden and sad. Following a stroke, his mental capacity was diminished, and he showed little interest in the company. But he had set up the business to recover quickly from such a change, and his oldest son took charge.

Not enough planning

Unfortunately, when Jim left, his vision went with him. Soon, the oldest son wanted to sell the business to a competitor or merge with another company. The brothers did not share his view. They could have hired an independent third party consultant to help them with a long-term plan (even mid-size accounting firms now offer long-range planning services). But they didn't.

After months of trying to negotiate a way through their differences using various scenarios, the youngest brother put together a deal to buy the company, assuming the debt and making his brothers millionaires.

What went wrong?

Jim's business survived, but not as he might have wished. In his book, *Perpetuating the Family Business*, John L. Ward writes about key conditions for maintaining the family business, including impersonal ownership and a family mission statement, both of which might have helped to mediate the brothers' conflict over the future of the business.

Moreover, Jim's company never formed a Board of Directors or other advisory body with broader business experience to support objective decision making and help resolve family disputes. In other words, Jim did not go far enough to set up the infrastructure the business would have needed to fulfill his dreams.

Nonetheless, today the youngest brother still refers to his company as a family business and hopes one day to bring his own children aboard. He is implementing new ideas to grow the company. He's hired new advisers. The third oldest son has stayed on as an employee to give his brother moral support and offer his experience in managing operations. Feeling more like a pitcher than an infielder, the youngest brother and new owner now says he will persevere, "having had the best coach ever."

You can do it!

If you work in a family business or are thinking about starting one, here are some suggestions to ensure that it will survive beyond your tenure.

1. Check out the health of your business through a family business survey. Go to

www.efamilybusiness.com/fep_tools_survey.php and click on the CEO Order Page link at the bottom of the page. All results are delivered via the Internet at a cost of \$45 per family member.

2. Write a family constitution, using this book as a guide: *The Family Constitution: Agreements to Secure and Perpetuate Your Family and Your Business* (Paperback) by Daniela Montemerlo and John L. Ward.
3. Form a Board of Directors or get advisers who can make objective decisions in the family's best interests.
4. Be proactive. Designate a successor to the founder or current CEO in writing.
5. Conduct long-range planning sessions with the entire staff to help ensure a common vision.
6. Find a Family Business Center near you through the Family Firm Institute Website. Enter the name of your city.

Sources

Perpetuating The Family Business : 50 Lessons Learned from Long Lasting, Successful Families in Business by John L. Ward

Keep the Family Baggage Out of the Family Business: Avoiding the Seven Deadly Sins That Destroy Family Businesses by Quentin J. Fleming

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