

Wednesday, 02/20/2016

Controlling the Life Cycle of a Family Business

By: Todd Martin

Everyone has heard the saying “Shirt Sleeves to Shirt Sleeves in three generations.” It refers to the life cycle of the family business. The first generation starts and grows the business, the second generation maintains it and the third generation loses the business.

It is avoidable, and things can be done to ensure this does not happen. A number of different strategies used by large companies should be adopted by family businesses.

Traditionally, the president or CEO of a family business has been at the helm for a long time. This could be 20-plus years in some scenarios, maybe more. He or she typically has a tremendous amount of trouble giving up control and, in some cases, never really does.

Stepping down can be an emotional issue. The business has become their life, and there is always a fear no one will be able to run it like they did. This lack of a well-designed departure may cause fighting amongst the family.

However, in a large company the president or CEO may only be in that position for six to 10 years. Compared to a family business, there is a fair amount of turnover. Once a new president comes on board, one or more successors is selected to one day fill that position. There is a clear cycle of hiring, training and transitioning out.

A family business should learn from this process that succession planning is a way of ensuring the continued life of their business. A good strategy is to thoughtfully plan out the retirement of the CEO, while preparing the next generation to one day lead effectively.

Adequately preparing family members to take over can be a challenge. In many cases the succeeding generation may not have been sufficiently equipped to take over and lead.

It may have been that the owner is unwilling to relinquish control, which slows the child’s learning curve. Maybe the son or daughter does not have the same skill set as their father. It could be that the next generation might not have the same work ethic. Since their path to the throne is already paved, this situation may condition the family member to not be motivated.

In a large company, the best people are hired and the most talented people move up the corporate ladder, leading to a competitive environment. Family businesses often struggle with this area.

What can help is to have junior family members work for another company after college.

It places them in a competitive atmosphere where they have to earn their keep. It allows them to develop unique skills and a work ethic they can one day bring back to the family business.

Fighting among family members can also destroy a family-owned business. There are a number of reasons for this rivalry. Sometimes one sibling is involved in the business and another is not but is still receiving a high salary because they are family.

One of the most common issues is who will take over as CEO after the owner. Sometimes the oldest sibling, the one who came into the business first, is not the most gifted.

In a public company, this situation wouldn't happen, nor would it be tolerated if it did. The best and most talented people will move up within the company. What a family business should do is recognize that each family member involved in the business has been blessed with a different set of skills, then develop a specific role within the company for each family member involved.

It will give them a sense of control and ownership within the business.

Family businesses can have an enormous amount of complications. The three main areas that need to be addressed are control, preparation and conflict.

If each issue is individually addressed with a well thought out plan, this can reduce the disputes and, with hope, create an environment where the business can continue for many generations.

It may also be beneficial to bring in an independent third party to evaluate the situation and offer guidance on fixing the glitches. Leaving any of these areas unchecked may have devastating impact on the business moving to a future generation.

Todd Martin is a principal with M3 Advisors. M3 Advisors is a business consulting firm in Savannah. He can be reached at Todd@M3Advisors.net or 912-352-9644.