

The Family Business/Next Generation: Pass It On or Pass On It?

by vcmorris - Thursday, July 08, 2010

<http://thethinpinkline.com/2010/07/08/the-family-business-pass-it-on-or-pass-on-it/>

It's a fact: family owned businesses are a huge part of our country's economy.

It's a fact: family owned businesses usually come with built-in problems.

It's a fact: experts say family owned businesses (generally) fail not because of economic issues but because family life and workplace life can create turmoil.

Family owned businesses account for 60% of the nation's employment, 78% of all new jobs and 50% of the country's gross domestic product. But a lot can go wrong in a family owned business so it's important that we all understand these businesses' unique struggles and support them because only about a third survives into the second generation.

Family business success depends on forward-thinking and planning. The problem with family owned business succession plans is that the well-intended founder – the parent who made all the sacrifices – remembers the lean years while in most cases, the adult child, would-be successor doesn't. Instead, the child only recalls seeing over and over that Mom or Dad (or both) took risks, worked the hours, made the sacrifices and got the business to break even and have free cash flow. That's why many 20-30 year family businesses – viable when the parents hand it over (usually to the son) – are run into the ground in two years.

As my long time friend and colleague Dawn Fotopulos, a small business advocate explains: “The bottom line is – it's so hard to get a business profitable but takes just an ‘eye blink’ to destroy it and decades of hard work.”

Fotopulos' business is to improve the viability of small business in the United States. (<http://www.smallbusinessshow2.com/dawn-fotopulos.html>) She's committed. She knows what she's talking about and definitely knows what she's doing when it comes to educating small business owners for success.

“The disconnect,” says Dawn, “is that the parents who made all of the sacrifices understand there are going to be lean years and tend to be conservative about how they spend their money. They loathe spending money but want to give their kids everything *they* didn't have. They spoil the kids and the kids are of the mindset that the business gave them a nice life and is always going to be there.”

There's such truth in Dawn's assessment. When it comes to family owned businesses, the second generation isn't of the frame of mind to save for a rainy day. “When they take over the business”, Dawn says, “the mindset is often first that they must have the biggest and the best of everything – equipment, furniture, expensive environment – that the business may or *may not* need!” She says too often she sees them start to run the cash position into the ground. “So if they lose a client or end up in a tough economic

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environment,” Dawn told me, “they can’t stand economic shocks.”

It's your money so take it personally™ absolutely applies here. In the case of a family owned business that's failing, Dawn says part of the dilemma is pride. Many in this generation wake up and say, “I deserve to have the best” and put themselves first instead of the business. “The family business must be viewed and treated like the third entity it is,” Dawn explains. “The one that provides for them and their family and those they employ.”

Next week: Who should be the successor in a family owned business when the founders are no longer available, willing or capable of continuing to run it? That's definitely a mind over money matters choice.

Here's to your health and wealth.

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