

Businesses, the next generation

During the past fiscal year, my office provided one-on-one counseling to over 250 individuals. While each of these businesses is unique, there does tend to be common things that I hear from clients. One comment that I hear frequently is that the individuals wish to start a business to provide jobs for their children, teaching the skills of business management and building strong work ethics as they grow. As someone who grew up in a Mom & Pop owned business, I can attest to the learning and values that I experienced. Even now with a masters degree and many years of employment, I frequently fall back on the skills that I learned growing up in that small business.

Not all elements of being part of a family-owned business are positive though, and it is important to understand and prepare for the difficulties. All businesses need to be well managed as do all families. However, when joining the two, additional effort needs to be made so that both do not fail.

An important step is to identify the purpose of the business and set goals for growth. If the sole purpose of the business is to provide summer jobs to your teenagers, the strategies that you will develop will be much different than a purpose of manufacturing and distributing a product nationally. Development of a formal strategic plan is recommended. In my case, that Mom & Pop business was the sole income of the family. Mistakes made in operating the business reflected directly on our family life, not just on my teenage income.



A business that has minimal growth plans also has fewer challenges. Growth adds the issues of employees, crews, departments, managers and capital requirements. Once these elements are added, clear definitions as to roles, responsibilities and pay rates

need to be established. Conduction of the businesses as a business with rules that apply to family and non-family workers equally becomes a high priority.

This is also a good time to address the business's form of entity. A corporate structure may add more flexibility and provide a means to distinguish between the rights of passive shareholders, active shareholders, board of directors, managers and family employees.

One clue for a successful family-owned business is to establish a clear hierarchy, identifying without doubt who is in charge and who has power to influence business decisions and operations. This may seem minor when it is mom, dad and the kids, but when you add the in-laws, siblings and grandchildren, it can get rather hairy.

Pay rates for family-employees need to match skills, qualifications and responsibilities. Non-family employees can resent family employees who do not have

the knowledge or skills for the position they hold, leading to poor production and quality and high employee turnover. Family employees who are not held to standards of responsibility and ethics can hurt the reputation of the business both internally and externally.

Cash management is also an issue. Identifying who has access to bank accounts and credit cards and managing use is very important. Offering free access to company funds for personal expenses can have serious results. Dividend distributions also need to be well thought out. Passive shareholders may want funds distributed that should be kept in the business for future growth.

A final clue for this brief article is to develop an exit strategy. At some point, if the business has been successful, Dad and/or Mom will need to leave the business. Unfortunately it is inevitable. Planning for this exit well in advance can make the difference between continued success or unexpected failure. Again, this step has both internal

elements and external elements. Internal training and transition before the actual exit is very important. Planning for an unexpected departure due to health or accident is also important. Have someone trained and create written plans where all are involved. The plans will only be useful if the successor has been involved.

External elements include setting up a trust or creating a will, distributing shares of stock and having proper bylaws. For some businesses, having buy-sell agreements prepared may also be appropriate, whether the intent is to sell to family members or to sell to outside parties. Just closing the business is certainly an option, but needs to be understood by everyone as the best option.

Statistics gathered in 2003 indicated that 40% of family owned businesses survive to the second generation and only 12% survive to the third. It is important to understand the dynamics of operating a family business and setting the plans and strategies in place that will facilitate success. Don't hesitate to seek outside counsel. Many

times it is difficult to see the problems when you are on the inside.

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