



ASPEN FAMILY BUSINESS GROUP, LLC

DEEP RELATIONSHIPS. ENDURING LEGACIES.

Sustaining the Family Business

by Leslie Dashew

Starting a business is a lot easier than keeping it alive. Most statistics on survival of entrepreneurial ventures suggest only 1 out of 5 survive for 5 years or more.

Transitioning the business across generations presents another set of challenges.

Thus, we have studied what contributes to the sustainability of family businesses and share some of those lessons with you here.

For example, in a recent study of family businesses in India, Professors Gupta and Das, pointed to variables in their research that correlated with sustainability in family businesses:

- Interest in next generation to carry on the family business.
- Identifying the right people to hold business responsibilities.
- Changing as per market needs.
- Understanding new competitors.
- Diversifying or expanding the core business.
- Continue the family pride in society.
- Increase trust and faith of family.

This research focuses on certain *family* variables that lead to sustainability:

- trust and faith within the family along with attention to the role of the family in the community.
- healthy *business* practices (responding to the market, understanding changing competition, adjusting business lines to respond to changing market place and identifying the best people to hold business responsibilities).
- interest in *the next generation* in order to sustain the business in the future.

Typically entrepreneurs focus their attention on building the business and seeing that it survives. The role of the family in the business is to jump in and help when it is needed. Thinking about the “next generation” is not typically a concern of the entrepreneur—yet. But if the business survives its early stages and family members have become involved as owners and/or employees, attention to sustaining the business over future generations may become a concern of the founder. Some founders, on the other hand, are more concerned with sustaining the business until they can harvest the fruits of their labor by selling the businesses.

If sustainability over generations becomes an interest of the founder (or successors), then attention to the family and successor generations and their engagement in this business becomes essential. If we take some lessons from sustainability of energy for the moment, we can learn *that sustainable development means meeting the needs of the present without compromising the ability of future generations to meet their own needs*. Some recommendations I would make to assure this “win-win” occurs include:

- Clear vision; open communication. As soon as the founder (or older generation) begins thinking about the business continuing into a future generation (rather than selling it or closing it down) it is important that he or she have dialogues in the family about this option. A safe environment for this discussion is imperative. I have found that often the next generation feels compelled to go into the family business because that’s what they think their parents want. Often, parents do have this hope, but want their kids to follow their dreams and not to feel they have to continue dad and/or mom’s dreams. (See the accompanying article on safe settings for open communication).
- Opportunity vs. entitlement. The older generation must make sure that they protect their financial security (and that of any other owners) by securing the business with best business practices.

When the older generation mixes this agenda with letting anyone in the family have a job in the business, whether they are capable or not, they may be dooming the business to failure. Thus, business leaders must ensure that family members understand that working in the business is an opportunity rather than an entitlement.

Creating a family employment policy early on in the life of the family business helps to ensure that everyone understands the conditions under which family members may join the family business (see the “Resources” page on our website and our monographs on “rules for entry” into the family business.)

- Passion creates the fuel for future success. The next generation may not be sure what they want to do when they “grow up.” Sure, working in the family business (and hopefully owning it) can be a great opportunity. But often young people lack the enthusiasm that the older generation has and may not make the commitment required to sustain the business.

Assessment of aptitudes, capabilities and values can help family members clarify whether working in the business is a good decision for the potential successor as well as the business. This type of assessment helps business leaders determine the human resources available in the family business system and explore what type of leadership is needed to carry the business forward into a different business environment.

- Responding with integrity. Often the challenge for families in business is determining what to keep from the past and what to change in order to move into the future. The core values are typically what helped the business be successful. However, family businesses often fail when they don't respond to changing market conditions. A conflict that often arises between generations is how much to continue

Gen. 1: “We've always done it this way and have been successful because of it!

Gen. 2: “There are new competitors and new technologies now that are requiring us to try new things to stay competitive. We will die if we don't change!”

Sorting through those values that truly distinguish the business from others and represent the family well (e.g. honest dealings with customers, suppliers and employees; giving clients at least a dollar's value for a dollar spent; always finding the best solutions for customer challenges) from practices that may become outdated (e.g. not advertising on electronic media) helps families come to agreements about what to maintain and what to change. When the younger generation is not allowed to have a mark on the business, they become disinterested rather than passionate about the business.

- Trust is the lifeblood of families. We have found that trust is essential to the sustainability of the family business. Trust in dad or mom may be implicit: they started the business; they took care of us as children. However, trust in siblings may not be so automatic. Trust and respect are difficult to obtain and easy to lose.

Creating clear mutual expectations, agreements and plans then documenting them, help family members to move from implicit to explicit understandings and help to maintain trust. Reviewing the agreements regularly so that everyone understands the “rules of the game” increases the odds that trust is maintained and the family relationships along with the business can be sustained.

Our soon to be released book “*Keys to Family Business Success*” lists the best practices which we believe help to sustain families and their businesses over multiple generations. Like sustaining energy, sustaining family businesses requires careful attention to our behavior, our use of resources and our commitment to future generations.

More Resources:

Sustainability of the Family Business: *Women in Family Business* program, March 10-13, 2011).

AFBG Website “Resources” page—Darrell Beck writes extensively on assessing and preparing successors.

Webinar Video: “Filling the Family’s Leadership Pipeline,” Darrell Beck

Monographs on specific topics available on AFBG website

Family Business Member Only How To articles