The Family-run Business – The Good, the Bad, and the Ugly
By Gene Siciliano

Family-run businesses are in many respects the backbone of American business. They are typically the most stable of small businesses, with a much lower failure rate than other small business models. Some of the largest and most successful companies in America are family-owned and operated businesses. Yet 70% of family-run businesses don't make it to the second generation, and a full 90% never make it to the 3rd generation. Not new statistics, to be sure, but appalling just the same.

So why the high failure rate? Most experts chalk it up to poor succession planning, as if a plan would somehow make it all better. While we are strong advocates of planning, we know that no plan will correct fundamental weaknesses in a business unless its managers recognize and address those weaknesses. So in this article we take a slightly different approach to defining what is needed. We're going to go out on a limb and be specific about some of the problems we've seen that prevent many family owned businesses from realizing (very much of) their real potential.

Please understand, we are not saying that all family-run businesses are fundamentally flawed, because they're not. What we've observed, however, is that those that do have problems are often emotionally unwilling to acknowledge them or, having acknowledged them, are unwilling to make the hard decisions necessary to fix them. While far better than the 90 percent average failure rate of small businesses as a whole, this is still a pretty dismal record given the advantages such businesses typically have: loyalty, strong family support systems, management continuity, long training periods for the next wave of managers, love and affection, etc.

So here are the problems that we often see. If you're the founder of a family-run business trying to groom a son or daughter to succeed you, we don't ask you to accept our list as your own; simply consider the possibility that some of these pitfalls may apply to your company. For example:

- Your son simply may *not* be a very good business person. He may have blindly copied your approach over the years, without developing the ability to devise and implement his own approach to problem solving—not a good shortcoming for the boss to have. All the love in the world won't fix this one.
- Your daughter may just have a very different management style than the one you used to build the business, and she may be successful only if she can adopt a style that works for her. Of course if you don't trust any style but your own, that won't seem like a very good idea.
- Your son-in-law (*yes, that qualifies, too.*) may recognize that your way of doing things—so successful 30 years ago—just won't work today, with more demanding customers, more aggressive competition, Internet options at every turn, and the big box competitor just down the street. If he sees that clearly and you don't, trouble lies ahead.
- Your daughter-in-law (*oh, come on, it could happen!*) may not have some of the skills needed for your type of business, yet be a very bright, alert, communicative person who commands respect. For example, a Phi Beta Kappa lawyer who steps into a company where she must be the sales manager is in trouble if her brilliance is mostly manifested at the PC keyboard or in a research library. Worse, you may refuse to see those shortcomings, preventing them from being addressed openly. Still worse, you may see them only too clearly, and use them as a verbal club to prove time and time again that no one can do it the way you did, especially her. This will invariably prove to be a self-fulfilling prophecy.

If anything sounds familiar here, perhaps your spouse has mentioned it a few hundred times, and you still can't see it, it is possible your eyesight is not what it once was—happens to all of us, I've found. Here are some ideas for helping to improve your eyesight—and your ability to pass the business along intact:

1. Treat your children in the business like any other senior manager. Evaluate their performance formally and objectively (as you do with your other employees), and help them work out action plans to correct deficiencies before they become excuses to fail. A child who thinks this is unfair may need to be employed somewhere else for a few years to get a flavor of life "on the outside."

2. Make a detailed list of the skills that are needed to succeed in your business. Not just the ones you used to start the company, but the ones that will help the business grow in the environment in which it *now* does business. You may need help from impartial but knowledgeable outsiders to complete this one, but it's worth it. Then build your would-be successor's grooming program around that list—fill in the holes.
3. Outside advisors can be priceless (no reflection on their fees intended) in this situation. They bring a broad range of expertise and a high level of objectivity. They don't sit around the dinner table and glare at you in the evening and they don't own part of the company. They are the experts from across town, whose advice will have the greatest chance of being accepted as unbiased and valid. Use them to identify what your child needs, to craft a plan to get it, to evaluate the progress along the way, and to support your child in those areas where retraining is just not possible.

All these ideas can be acted on with the same supportiveness that is the glue that holds the family-run business together. If it sounds too much like "tough love," consider the alternative: the pain felt by the son who runs the business into the ground, knowing he has let his father down. And then there's the pain you will feel when you can no longer jump in to fix it, when you have to just watch your daughter gradually fail.