Beane Associates News May 2010

A bimonthly collection of news and advice for stakeholders of financially and operationally challenged businesses

Welcome…

Our topic in this edition of the newsletter, Keeping the Family Business Strong, is one that is especially meaningful to me. Beane Associates is a family business, started by my father 26 years ago. My brother, Chris Beane, is part of the team and the co-author of the featured article.

Significantly, at Beane Associates we have followed a couple of the suggestions mentioned in the article. All three of us — my father, Chris and myself — worked for other companies before joining the family business, so we gained valuable experience by seeing how other organizations operate. Also, I belong to Vistage, the membership organization for CEOs, and the experiences shared at my Vistage group's meetings have given me many fresh insights into business management.

We hope you find this article helpful, and we encourage you to forward it to others who hold leadership positions in family businesses.

For additional information on us, visit
www.beaneassociates.com

Sincerely,
Tom Beane, President CMC CIRA

Tip Sheet

Here are some suggestions for running your family business successfully.

1. Delegate responsibilities to younger family members.
2. Train family members entering the business from the bottom up.
3. Hire outsiders to fill gaps in expertise.
4. Practice transparency in all dealings.
5. Have an exit strategy.
6. Set up a board of directors.
7. When you need advice, go outside the organization.

Our move is complete

We have finished our move into new office space. Our new address is:

22 The Commons
3518 Silverside Road
Wilmington, DE 19810-4907

Our phone numbers remain the same:
302-479-5438 and (fax) 302-479-5434.

Keeping the family business strong By Christopher Beane and Millard Brown

By some measures, the family business seems indisputably the backbone of the U.S. economy.

The Small Business Administration estimates that families own or control about 90 percent of all U.S. businesses, and these businesses generate about one-half of the country's gross national product (GNP). Family-owned businesses account for 35 percent of the Fortune 500 firms. Nationwide, six of every 10 jobs are within family businesses, according to the Institute For Family-Owned Business.

Other measures suggest that our economic backbone is lacking in strength. Family-owned businesses have a shorter life expectancy than large companies. Fewer than one-third of family businesses survive the transition to second-generation ownership. Of those that do, about half do not survive into the third generation. And, the SBA notes, at any given time 40 percent of U.S. businesses are facing a transfer of ownership issue — will the next generation take over or is it time to sell out?

As turnaround professionals, we've helped numerous family-owned businesses resolve management and financial issues and, earlier in our careers, we've worked inside family-owned businesses. We've seen what works and why they sometimes fail.

Let's take a look at some of the pitfalls that family-owned businesses encounter, and then offer some suggestions that might keep problems from developing.

Starting at the top, the first-generation founder/owner/CEO of a successful family-owned business has to be a special person. He (or she) is the quintessential entrepreneur, with the vision to get the business started, the steadiness needed to secure financing, the sales skills to ensure growth, the discipline to manage production and, perhaps most importantly, the willingness and strength to work 80 or 90 hours a week to make it happen.

While that description may seem a prescription for prosperity, it also carries its perils. The workaholic owner puts his physical and emotional well-being at risk; as for the business, the more he does on his own, the less likely things will be done well when he's not around (like when he's on vacation or on a business trip) and the more likely it is that the next generation won't be prepared when it's time for them to step up.

We often have to remind the workaholic: "if your business can't run without you, you don't own a business, you have a job."

What about the second generation? Here's where the issues begin to develop — and the potential problems will repeat, and will likely become more serious, with each succeeding generation.

There are two main issues here: the next generation's business skills and their sense of entitlement. Subordinate but related factors include differences of ability and opinion among the members of that generation and how non-family members are treated inside the business.

In an ideal world, the founder's children would have a blend of talents and interests — one could learn to manage the finances, another the sales, another the operations — and they all would have the commitment to move the business forward. In the real world, not only is it likely that the children don't have all the needed skills, but chances are that one or more will exhibit a profound sense of entitlement — a belief that he (or she), as a family member, as the first-born, for whatever reason — deserves preferential treatment, is destined to inherit the business and doesn't have to work as hard as everyone else.

Now toss in some other complicating factors. Perhaps all the members of the second generation don't share the same commitment to the business. One might be staying with the company because it would seem disloyal to leave; another might be staying because the pay is better than he could get anywhere else. Consider, too, how the non-family members feel. Certainly there's something they like about the business, otherwise they wouldn't be working there, but are they given the same considerations as family members? Do they feel they

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must work harder than the family members to get a raise or a promotion? Do they sense that some people receive preferential treatment because of their family status?

One of the ironies of the family-owned business is that, the more it grows and the longer it endures, the greater the potential for the problems we've described to develop. When the third generation enters the business, there's the potential for conflicts among not only brothers and sisters, but also among cousins, aunts and uncles. And the passage of time tends to enhance the sense of entitlement.

In our work with troubled businesses, we've seen numerous situations where bankers are ready to cut off funds because a family's new generation of managers is not up to the task of running the business. But we've also learned many strategies for preventing the occurrence of problems like the ones we've described.

Here are some suggestions.

- The founder (or the current CEO, if the business is in its second generation or later) must delegate responsibilities so younger family members can gain a foothold in the operation and become prepared to assume leadership.
- When family members join the business, start them at the bottom, and rotate them through all departments. The approach prevents development of "the silver spoon effect" and gives them a better understanding of how the business operates.
- Some of the best family-owned businesses (and not nearly enough, in our opinion) require family members to work as much as five years for other companies before joining the family enterprise. You could say this gives them the opportunity to make their mistakes elsewhere. Stated positively, it means they'll learn what other companies do well and have the opportunity to bring those best practices into the family enterprise.
- Practice transparency in all dealings within the business. Employees who are not part of the family must know their prospects for advancement. Family members must understand their responsibilities, how to interact with each other and the importance of treating those from outside the family as equals. Spell out everything, even codes of conduct.
- Since family members may not always have the expertise to run a department, consider hiring an experienced executive, perhaps someone who has recently retired from another company, to lead a department for a few years and mentor an up-and-coming family member.
- The founder/CEO needs an exit strategy, and the management team has to know what it is. In most cases, this will be a succession plan, designed to ensure an orderly transition to the next generation. However, if the plan is to sell the business eventually to non-family interests, family members should not be in a position where they're surprised by a change in ownership.
- Establish a board of directors, and have it meet at least once a year. It's far better to have major decisions made and corporate policies ratified by a group, rather than one individual. Be sure the board has at least one member with significant financial expertise. The larger the business, the greater the need for outside directors who have no familial relationships.
- Consider creating an advisory board, a team of outside experts with varied skills and backgrounds, to meet periodically with the CEO and offer impartial advice.
- Communicate well and minimize rivalries. Keeping business problems to yourself in order to preserve family harmony is a losing strategy; letting family disputes impact business decisions is equally damaging.
- Seek outside help when you need it or, better yet, before you need it. Some consultants specialize in family businesses and in succession planning. Government agencies, like the Small Business Administration and SCORE, can be helpful. CEO membership organizations like Vistage can be valuable. Some colleges have created offices to assist small and family-owned businesses.

With six in 10 jobs dependent on family businesses, it's essential that they remain strong. Smart planning and transparency will keep your business prosperous for the next generation — and maybe longer.

About Beane Associates, Inc.

Founded in 1984, Beane Associates, Inc. continues to build an impressive track record in helping private and publicly owned companies improve operational effectiveness and profitability during a time of financial challenge. The company has offices in Wilmington, DE, and Atlanta, GA.

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