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FAMILY BUSINESS FORUM

Preserving Family Wealth

By Donald Levitt

“Shirtsleeves to shirtsleeves in three generations.” “Clogs to clogs in three.” “Rice paddy to rice paddy in three.”

It’s been the same all over the world and through the ages: entrepreneurs start from nothing and build a business; their children maintain the business – and a wealthy lifestyle; their grandchildren grow up in affluence and lack the inclination to work and be responsible – and end up losing the business and the wealth.

In the U.S., only 12% of family businesses continue into the third generation. Wouldn’t it be nice if there were specific tools and guidelines which family businesses could follow to help them succeed through the generations?

It’s Not About Money, It’s About People

There’s a secret to preserving the family business and wealth through the generations, and here’s the secret: focusing largely on building financial assets leads to losing financial wealth; focusing on building “human assets” leads to keeping and growing financial wealth.

How simple and obvious. Maintaining a family business and wealth requires generations of family members who feel a sense of responsibility – to customers, employees, the community, and their family. It requires family members who have character and self-confidence; who respect the value of work and leadership; and who want to collaborate as a family. It requires family members who help each other to grow and succeed in their life journeys – even if those journeys do not lead to working in the family business. The “secret” to preserving financial wealth is to preserve family wealth: to create successful and productive families through the generations.

The Tools for Preserving Family Wealth

A strategic plan for family wealth. Preserving family wealth requires careful planning. Just as a business does strategic planning to help reach its goals, a family also needs to plan the steps for building family wealth. You won’t get there without a plan.

A family mission and values. Is the family committed to individual growth? Is the family committed to helping the next generation to grow? Am I willing to subordinate my own

immediate goals for the sake of my extended family? Are we committed to a greater good? Every generation in the family business has to grapple with, customize, and reenergize the family mission and values. Every generation has to bring their own creative energy to the project of building “human assets” and family wealth.

A system for joint decision making. If family members want to collaborate they need a clearly defined system for sharing information, discussing issues, making decisions, and resolving conflicts. This is sometimes called “family governance.” If you can’t keep everybody on-board through the difficult issues – issues like control, influence, money, and values – you can’t continue as a family unit. Having “family meetings” and creating a “family constitution” – which includes specific family agreements regarding potential trouble spots – are important elements of family governance.

A periodic measurement of success. Just as financial wealth is measured, family wealth can also be measured. Are individuals learning and growing? Are family members helping each other? Are grandparents mentoring their grandchildren? Are aunts and uncles mentoring their nieces and nephews? Does the family come together to celebrate life events – yet allow individual families their own “space”?

The Tip

If you want to preserve a family business and financial wealth through the generations, focus on growing the vitality of individual family members and the family as a whole. Rather than “shirtsleeves to shirtsleeves in three”, each succeeding generation can become another “first generation” – bringing creativity, drive and maturity to the enterprise of being a family in business.

Donald Levitt, president of Levitt Consulting, helps family businesses to succeed as both a business and a family. More information about this month’s topic, and other family business issues, can be found at LevittConsulting.com.