

**For Business Advantage, April, 2007**

## **FAMILY BUSINESS FORUM**

### **Preventive Maintenance in Each Generation**

**By Donald Levitt**

“If you tell me what generation your family business is in, and the number of shareholders, I will tell you what challenges you are facing.”

This is a familiar line in family business consulting, and one which makes a lot of sense. Challenges in a family business follow a predictable pattern. Knowing this pattern can help you to take a “preventive maintenance” approach to reducing the likelihood of family business failure.

Here are the predictable challenges, and preventive maintenance actions, for each generation. Your family business may not follow this exact pattern – but some of these preventive maintenance actions may help to save your business.

#### **First Generation Challenges**

Founders and entrepreneurs tend to be autocratic. This is a terrific trait during the early years of a family business. As a business grows, however, there needs to be more attention paid to the organization itself: the organizational structure; roles and responsibilities; accountability; performance management; rewards; building a culture of trust and respect; and strategic planning. Many entrepreneurs feel that this is a waste of time, or they are simply unfamiliar with these concepts, or they find it boring – so everything remains “loose”.

#### **First Generation Preventive Maintenance**

Meeting with peers on a regular basis (as in YPO, TEC, or in a family business center) can help teach the entrepreneur about “professional management” and convince them of its importance. External board members or an advisory board can also teach about and encourage professional management.

#### **Early Second Generation Challenges**

The second generation often feels subtle – or not-so-subtle – pressure to enter the family business, so making their own career decisions is the first challenge for the second generation. If they do decide to enter the family business, the second generation often feels that they cannot live up to the achievements of the founder – and the founder often *agrees* that the second generation can never be good enough. Then again, some of the

founding generation's concerns about the second generation can arise from their own sense of feeling threatened or of not wanting to give up what they have created.

### **Early Second Generation Preventive Maintenance**

Having the second generation work outside the family business for several years helps the second generation to: recognize that they have career options; build their self-confidence; learn about professional management; and enter the family business as an accomplished professional who can be trusted by employees – and by the founder.

Creating a systematic plan to develop the second generation, as well as clear criteria for the selection of second-generation leaders, increases the likelihood that the second generation will be prepared to lead. Using external board members or an advisory board can bring discipline to this process. This is also the time to start conducting annual or semiannual family meetings to build family unity and to clarify goals and expectations regarding ownership and working in the business.

### **Late Second Generation Challenges**

It's not a problem if the founder never wants to leave. It's only a problem if the founder *says* they plan to leave and then never leaves. This puts the second generation in a bad spot – having made career decisions based on promises.

### **Late Second Generation Preventive Maintenance**

If the founder plans to partially or fully leave the business, they should start finding new activities and a new “role” for themselves. This might even include a new role in the family business – but the key is to actually start to transition to the new role, and to be clear on your intentions.

### **Third Generation Challenges**

The third generation probably never worked with the founder, and so never experienced their drive and entrepreneurship. They may have grown up with wealth and privilege. This is where the phrase “Shirtsleeves to shirtsleeves in three generations” arises.

### **Third Generation Preventive Maintenance**

Structured family meetings can help the third generation to learn – while they are still young – family values regarding work, money, family, and contributing to the community.

*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](http://LevittConsulting.com).*