

FAMILY BUSINESS LONGEVITY: THE TRUST FACTOR

“Shirtsleeves to shirtsleeves in three generations” is the norm with family businesses. Another way of describing it is the first generation makes it, the second generation preserves it and the third generation spends it.

Business owners in their 50s, 60s and older looking to transition their wealth to the next generation often ask themselves if their family will be in the same position. They wonder if there is some way that their family can beat the odds so that subsequent generations in their family do more than just preserve or certainly spend what has been built up.

I recently met a 60-something-year-old second generation owner of a successful family business who told me about some of the challenges he and his siblings were facing trying to incorporate the next generation into discussions about the business. On the one hand, they were leery about providing too much information about the business yet on the other hand they realized that in holding back information they were failing to engage the next generation.

I told him that his family was at a critical tipping point in terms of the long-term future of the business not unlike the tipping point that we as parents face when our children are adolescents. It is the balancing act between protectionism and growth, otherwise expressed as how much trust should we put in our children.

I will never forget the first time my wife and I allowed our then teenage son to drive the car on the highway on a particularly snowy night. There was a big part of us that said to ourselves “are we crazy for letting him out in this?” and yet that part was overtaken by “he has to learn to drive in these conditions so why not now?”. Thankfully, he arrived home safely later that night. The point is that we showed him the trust and as a result he learned important driving skills that will benefit him for the rest of his life.

It is a similar situation with this gentleman I met recently. If he and his siblings continue to withhold financial information about the business, the likelihood is that the children will never learn what it means to be an owner. If on the other hand the parents decide to open things up a bit and go down a path of educating the children about what it means to be an owner, then at least they have a chance to have strong ownership in the next generation.

For those who are leery about trusting family in a family business, remember that openness builds trust and secrecy destroys it. Disclosing financial information to family for a company with a history of doing the opposite does not happen overnight, nor should it. If it is to be done at all, it should be done in measured carefully laid out steps following consultation with a skilled family business professional.

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