Hello, this is Wayne Rivers at The Family Business Institute. Click on our social media icons please, and as always, give us the benefit of your feedback. We'd love to have your comments below.

This week I want to talk about family business lessons from General Electric's rather shocking decline. This is important because success is really a two-sided coin, I think. You've got to know what to do to be successful. But after 30 years in business, I think it's almost more important to know what not to do. In hindsight, General Electric has made some rather colossal mistakes that even a fairly casual observer can see and learn from. So, we want to talk about these six family business lessons.

At the turn of the 21st century, you couldn't pick up a financial magazine or a newspaper without seeing General Electric and Jack Welch and, man, it was the most admired company in America, maybe in the world. Hands down, General Electric, GE was everything to everybody. Every CEO emulated Jack Welch. Everybody wanted to be him. It was omnipresent. It was like they could do no wrong. Well, their stock peaked in about 2000 and has not recovered since. Even in the great stock market run up we've had in the last two or three years, GE stock has been flat. It has not recovered. So, what are the six things that they did that, in hindsight, stand out?

Well, the first thing is they did a bunch of share buybacks. Share buybacks are a great Wall Street thing for pumping up a stock's value, but they don't add a lot of value to the end customers. Now, how does that relate to a family business? Well, for family business, the parallel for me is legacy costs. If you're still paying mom and dad a couple of hundred thousand bucks a year, or you're paying mom and dad a couple of hundred thousand bucks in excess, rather unnecessary rent per year to support their old age lifestyle, that to me is similar to a stock buyback program for a public company. It's money that you have to expend, after tax money usually, that you have to expend and ... Well, not always after tax, but the money you have to expend. I'm not a tax accountant and it doesn't do anything for the end user. It doesn't do anything to improve the culture or the company or the people or anything in it. It's simply a legacy cost. That's all.

The second thing. Debt always catches up with you. General Electric has really high leverage. They went out and bought a lot of companies and did all kinds of stuff. They used leverage like crazy. And then as their stock has kind of been moribund, their credit rating fell and all of a sudden, their borrowing costs went up considerably. Well, guess what? I mean, they're not actually servicing their debt. They may be paying the interest on their debt, but they're not really servicing their debt right now from what I read. So, if that's the case in your family business ... Now, thank goodness most family businesses instinctively are, they just recoil at the idea of debt. Debt is just anathema to them. So that's a great thing. I used to think it was kind of silly, 30 years ago, why? Why does nobody creatively use debt and running their family businesses?

But now I'm thinking, wow, that that really, running lean, having that, not a scarcity mentality, but having the mentality of avoiding debt and avoiding some of the negatives that can spiral from having debt is really a good thing.

The third thing, GE had too much complexity. They bought all these kinds of businesses in all kinds of different fields and it was just all over the place. So, if you're successful in your family business and your core legacy business is this and you start buying this, then you've really got to figure out what are you best at? Maybe it's not the core business anymore. Maybe the core business was construction and now you're a real estate developer and that's where you're creating wealth. Maybe you let the construction company go. But you can't have too much complexity in your family business system or it just makes it hard to run.

The fourth thing is complacency. And this is a killer for family businesses. For GE, they thought they were too big to fail. They started to read their own press clippings. The board of directors became rather complacent and became more like a cheerleading group and didn't really hold senior management as accountable as they should have. So that complacency, in a family business context it might be, "Yeah, yeah, there's going to be a recession in 2020 or 2021 or whenever it is. But we've made it through recessions before. No big deal. We don't need to do anything special." If you hear that kind of talk that just stinks of complacency. It just turns my stomach when I hear family businesses say those kinds of things because the things that made you successful in the '70s and '80s and '90s and beyond are not necessarily the things that are going to make you successful ten years from now.

Look around your home town and look at the family businesses that used to be big, shiny examples of family business success. Where are they now? So many of them have failed and only a few are able to stay on top. It's really, really hard to get on top and it's twice as hard to stay there. So, if you see complacency in the family business system, call it out, call me and I'll help you. I'll give you some energy. Okay?

The fifth thing is having one business unit covering up the sins of another. For GE, it was always GE capital. It threw off just scads of cash and they could hide some accounting sins in there and things like that. If you have a family business and you have two or three different divisions and one is consistently a loser, I know you can rationalize it, but you really have to have ... To me, best practices would be every business unit stands on its own successfully. Maybe it's not a big winner, but it shouldn't be a big loser either. It should at least be a break-even proposition.

And then the sixth thing is accountability at the top. We talked about the board of directors becoming cheerleaders and not really holding senior management accountable. Well, what's the parallel in the family business? Well, most family businesses only have boards on paper. They don't really have functioning boards. So, to get outside your own ear space, you've really got to tap into a peer group. You've got to join your local business chapter. You've got to do something, because getting that outside third-party objective viewpoint is so critical in helping you see your blind spots, see where you have weaknesses and figure out ways creatively and inexpensively to shore those things up.

So those are the six things that befell General Electric. I'd like to hear from you in your comments, what things are you concerned about? Is it the economy? Is it the lack of a great people and attracting them to your company? What is it that you are concerned about? What steps are you taking to hold yourself accountable as the leader and try to develop your people and your company to get to that next level?

This is Wayne Rivers at The Family Business Institute. Thank you.

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