

Hello, this is Wayne Rivers at The Family Business Institute. Thanks for tuning in. Please click on our social media icons. And as always, we welcome your comments and thoughts about this or any other blogs for that matter.

So, this week, I want to do a little case study and I'll talk about a family that called into the Family Business Institute and presented their facts and then what we gave them in the way of advice. So why is this important to you? Because you have probably seen family businesses in this exact situation. You may have even experienced this in your own family business. So, we'll do this in a graphic, so it's easier to understand.

So, in this case, we've got a grandmother and a grandfather, both 80 years old, that's generation one, that started this business. Generation two has two sons and a daughter. The two sons work in the family business, the daughter does not, nor does her spouse. And then among generation three, there's about nine generation three members. One grandchild and her husband work in the family business. And they're the people who are frustrated and who called us. Okay?

So, the gist of the fact was this. The 80-year-old grandparents are not actively engaged in the business anymore, but they continue to own it 100%. And generation two, about 55 and 53 years old respectively, both work there. So, these aren't kids. And then generation three, around 26, 28 years old, kind of kids but not so much, also work in the family business. So, the question among G2 and G3 is, well, what's going to happen to the business? And grandma and grandpa keep saying, "We have it all taken care of. Don't worry about it. We're acting in your best interest. Just trust us." Okay?

And that is a nonstarter. For me at the Family Business Institute after 30 years of working with family businesses, that is a nonstarter. So, I've got three reasons or two reasons really why that's the case. The first is for family. What grandma and grandpa are saying is our love equals benevolence. We're going to look out for you. We're going to do the right thing. Just trust us. And I just think that history shows us there's no such thing in the long run of a benevolent dictator. There's no such thing. For these 80-year olds to be dictating to their adult G2 and G3 family members just trust us, we're going to handle it, but we're going to keep you completely in the dark about it, is just wrong.

It's top down planning. It's planning in a vacuum because they're not getting any input from G2 or G3 and it's not going to work out. Why do I say this? Why I sound too cynical? Because I've seen it go wrong a million times. It's a huge frustration for us. This top-down planning, this benevolence, the idea of benevolence. That with no input from the others, it just goes haywire every time. It's not going to work in this time either.

Why would the grandparents be using this approach? Well, again, they think they know what's best for the family. The second thing is I think they probably have too many alternatives because the lawyer is recommending something of intentionally defective grant or trust or something really complicated. The CPA's recommending something else. The banker's recommending something else. The investment person and the insurance person are recommending still other things.

They're reading articles in the trade press about how other family businesses did it. I think there are too many alternatives for these 80-year olds to get their minds around. Therefore, they do nothing. They do nothing because they're hamstrung by all these different alternatives. Look, let's make it simple. There are only two alternatives in this case. There are only two alternatives. You either have G2 and G3 share everything equally, right? So, three kids, only two work there, and then only one from G3 works there, but you either have them share things equally across the board and work it out or the second alternative is you direct the business to the people that actually work there and then you equalize. It's not equal,

it's never equal, but you make equivalent the other people in the business through other means, whether it's property or 401k proceeds or life insurance or just sum of money, whatever it is. You make other people whole and treat them fairly that way.

Those are the only two alternatives. So, we don't care. We don't have a dog in this fight. At one time, early in my career, we kind of insisted that only people who work in the business ought to inherit. But we've seen many, many cases where it works out fine the other way too. You just need to build structure into the program. So, it works for people that work there, people that don't. Everyone's protected from everyone else and no one has dominion over anyone else, kind of like grandma and granddad do now. So, what's my advice ultimately to the 28 and 26-year old people that are calling. And it was two things. First, in your frustration, stop, get your head on straight. Produce a business plan. Produce a plan in business like terms that G2 and G3 can really get their minds around and understand. And show them how you want to run the business, how you intend to operate the business.

Put together a pro form of budget. Show them a business plan for how this thing ought to look five and 10 years into the future. And negotiate with them and negotiate as equals not children. Negotiate as equals for how things are going to be exchanged over the coming years. Not waiting until the demise of the two 80-year olds. We want to do something now and that's only fair in my opinion. Why should you have to wait 10 or 20 or 30 years to inherit your livelihood? If you're working hard to make the business successful, why should you wait to enjoy the fruits of your labor? I just don't understand that. I wouldn't be satisfied with that. And most of you as entrepreneurs watching this blog, you wouldn't be satisfied with it either.

My second recommendation to them is polish up your resumes because you've got two generations ahead of you, neither of which may be willing to be reasonable. So, take the high road, do your business plan, and approach them as equals and negotiate. Take the high road, by all means. But you've got to be realistic. That may not work. So, you better be polishing up your resume and trying to figure out how you can take this entrepreneurial ambition either off on your own or go to work for somebody else with these ideas. So that sounds like harsh advice. Leave the family business. But it could be, as Reagan said back in the day, he didn't leave one political party. The party left him. And in this case, it may not be these young people leaving the family business. It may be that the family business is leaving them.

So that's my advice. I'd like to hear your advice. This ought to be interesting. This is Wayne Rivers at The Family Business Institute. Thank you.