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Family Disasters: Preventable?

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The worst family business disaster is having the business collapse, leaving the family so broken they can't gather for holidays. It can be avoided.

Myth: Owners Live Forever

The unexpected death of an owner can create a painful, drawn-out, emotional death of the business. If there's more than one person with an ownership interest, a buy/sell agreement is mandatory. An understanding of what the deceased owner did and how they did it is just as critical to ensure the company keeps operating.

Many people ignore this because it reminds us of our mortality. Many owners don't want anyone else to know about their finances or "trade secrets." If information isn't available to the survivors, the company likely stutters and painfully dies. One son interviewed his dad on video about the business. This first step got the founder to start sharing how and why he did things.

Myth: I Don't Have a Will

Fact: If you didn't write a will, the government wrote one for you. Hire a competent lawyer to understand what the government will do with your assets.

Myth: Only Trust Family

You can't always trust family. Three brothers ran their father's business with their kids (third generation). The oldest brother was a taskmaster. His kids arrived early and worked late. The youngest brother was the company's accountant. His kids were less professional. Nevertheless, each of the third generation workers were paid the same. The company was hemorrhaging money. The oldest brother wanted to make necessary changes. The youngest brother said everything would be fine if they increased sales. The middle brother tried to keep the peace. Family meetings became more heated as the company continued to bleed cash. One of the accountant's kids was handling a very large funeral order. That day, with the job undone, she left to attend her son's baseball game. The order was finished by others and delivered minutes before the service, embarrassing the company and doing damage to the company's reputation.

The annual bank loan renewal was the next week. Based on operating losses, the bank refused to renew the loan without personal guarantees from the brothers and their wives. The accountant brother refused. His two brothers bought him out. The new accountant discovered the departed brother had given bonuses to himself and his kids. He'd also paid personal living expenses from company funds. The apparent drain was $500,000. To preserve family harmony, his two brothers didn't pursue legal or criminal claims. This family no longer gathers at holidays.

Lesson Learned: First, family members may not have the same interests, passions, priorities or ethical values. Second, effective outside directors or auditors can hold all employees, including family, to consistent standards. A third lesson is the importance of buy-sell agreements, including payout terms and clawback provisions, if financial statements are in error. Whether innocent mistakes or malicious errors, it's the accurate value that's important.

Myth: We're All Equal

Leadership requires having those hard conversations usually avoided. Possibly the hardest conversation is the acceptance that we're rarely all equal. It's self-defeating to pay a family member who waters plants the same wage as a head grower or store manager. Recognizing each family member's contribution can resolve problems before they start.

A West Coast firm employed three members of the third generation ranging in education as a high school GED, an MBA and a college dropout. The family said "to be fair" they should be paid the same. Ironically, the high school GED was a very valuable sales manager. He grew business with both retail and commercial customers. The MBA knew numbers, but didn't work well with people. The college dropout never worked outside the family business. Leaving college, he immediately came into the business. He couldn't admit anyone on his production team wasn't the best. It would mean he made a mistake hiring or training, which he couldn't accept.

Lesson Learned: All three were paid the same and would be "given" an equal piece of the company to "keep things equal." Resentment was strong. The sales leader wanted commissions. The MBA wanted at least average MBA wages. With three protagonists, the first two formed a loose alliance, further alienating the third, who left the company. The production area needed an immense overhaul. An unsolicited offer to buy the real estate caused the family to evaluate the work to be done. They sold.

The Road to Success

Longfellow's Greenhouses (Manchester, Maine) is well on their way to successful succession. In 1976, Scott Longfellow's parents started the business, selling it to Scott and his wife, Sandy, in 1987. All three of their offspring worked in the business early on, left for other careers and then returned. Scott said, "The kids go home exhausted, but love it. They show up the next morning ready for more fun on the job."

Today, Will, the eldest son, is general manager. Will worked for D.S. Cole in New Hampshire, and then in construction in Washington and Missouri before coming back to Longfellow's. Evan, the younger son, worked with USDA Farm Service before returning to the family business. Daughter Ellie Longfellow Bilodeau was on L.L. Bean's management track. She was sidelined by COVID and weathered the shutdown at home. After returning to L.L. Bean, she realized she belonged at the greenhouse.

Scott said, "The kids see the rewards of what we do. Work/life balance is more important to newer generations. My kids tell me, 'We can't go home at 5:00 p.m. because you're hanging around working late, making us feel bad if we leave before you do, so you should go home at 5:00, too.'

"It may be better that way. Rather than working harder, enjoy life a bit more. Delegate what must be done. Ignore what isn't necessary. I'm very impressed with younger people today. How you respect them and include them in group conversations determines their desire to be part of the team."

He continued: "All three of our kids are problem-solvers and we encourage them to discuss problems together. They'll have years of experience in being part of the decision-making process before they take over. Our biggest concern is creating an atmosphere where, 50 years from now, they'll all still love each other."

Scott said they work with a family business advisor. Everyone agrees to get along. They don't necessarily agree on strategy or direction, but they do agree to listen, respect and delegate to competent people—and then get out of their way.

Outside groups have always been influential to Scott. He's learned not only how to do things better, but also what trends are coming and which are dying out.

"I'll always invest money in tours, conventions, consultants, etc. I take one of the kids to every event I attend," he said. "I introduce them to as many people as possible. They're building their own informal network of confidants with whom to discuss business opportunities.

"By having them go with me, I jump-start the conversations by introducing them to my confidants and then step back and let them shine. Each of them made new friends immediately and their contributions to the conversations were valuable to everyone who took part. They're each eagerly looking forward to more events. They've established their credibility in their own right with different groups."

Longfellow's is a member of Ian Baldwin's GAP Group, as well as The Garden Center Group. Scott admitted, "We wouldn't be where we are if it weren't for what we've gotten out of those two groups."

Scott and Sandy will sell the business to their kids. "Don't give it away," Scott said. "The kids need skin in the game to respect the value of the blood/sweat/tears prior generations put into the business."

The Longfellow family knows what works in a family business and how to prepare for a successful succession. We can all take a lesson from them. **GP**