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# From Shirtsleeves to Shirtsleeves

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In virtually every language there is a similar, fatalistic view of family wealth and enterprise. In England they comment: "From clogs to clogs in three generations." In Italian: "From barn stalls to the stars back to barn stalls." In Chinese there is a comparable expression: "The first generation builds the wealth; the second generation lives like gentlemen; the third generation must start all over again."

Our statistical research supports these contentions of family-owned firms. The average life expectancy of a once very successful business being owned by the same family is 50-60 years. In other words, the typical family ceases to own the source of its wealth sometime late in the second generation or early in the third.

Why? We've long been interested in learning the causes or reasons for "shirtsleeves to shirtsleeves." As planners, we want to understand the forces that work against family business continuity so that, perhaps, preventative efforts can be taken.

We think we have identified six major pathologies that can afflict family businesses as they pass through the generations. Certainly none of them are inevitable but they offer real challenges to most families.

1. Inherited wealth can destroy entrepreneurial drive. When security and affluence come too easily, the work ethic can be compromised. Success requires sacrifice — but that lesson is difficult to learn when wealth relieves the need for sacrifice. The second generation, however intelligent and educated, can fail to develop the "fire-in-the-belly" to lead a business through the demanding challenges of change.

Some families counteract this syndrome by requiring their heirs to purchase the business and feel the pressure of debt. Others gift the business but no other family cash — perhaps leaving that to charity.

Both approaches are based on the commitment to pass on opportunity, but not readily consumable wealth.

2. Successful entrepreneurs can't change personal paradigms. We read somewhere that "the price of the battle for early survival is the later need for stability, control and security." We see this frequently. The formula that provides early success must change with the times, but the entrepreneur fears changing the recipe. We see business after business become rigid, frozen by unchanging industry definition, company mission statement, competitive assumptions and day-to-day policies. Involvement of a board of outside directors is the best way we know to challenge historic assumptions and build the entrepreneur's courage to change.

3. Dominant focus on business leads to an underdeveloped family. The tensions and long hours of developing and running a growing or struggling business can sap family life. When business owners make it home, they are sometimes so tired and grumpy they discourage communication, fail to listen and act autocratically.

While the committed entrepreneur may conserve valuable personal energy in this manner, it doesn't encourage family skill development. Family members fail to experience the process of talking through and solving problems. When the next generation successor or siblings need these skills to lead the business, they don't have them.

When we observe families where these skills are well developed, they have usually resulted from extra special efforts by the spouse of the business leader.

4. Business financial growth can't keep up with expanding family and rising family lifestyles. Families usually grow exponentially — and with hopes for ever improving standards of living. Few businesses have that much perpetual potential. Moreover, the business must fund confiscatory death taxes.

Frankly, the longest lasting family businesses we know typically have limited family members dependent on the business for their financial welfare. By having few offspring per generation, developing other sources of income, working to restrain lifestyles, or using capital from other investors to expand their resources, balance can be maintained between family financial demands and the business's ability to supply funds.

5. Family lacks respect for the professionalism of effective management. Because family members may not be well educated in management, they don't fully understand the sophistication and art required to be a manager. Consequently, they put ill-prepared family members in important positions, fail to adequately reward key managers, or are unable to identify, recruit and retain great managers.

Whatever the reason, without effective professional management the business is weakened. The best family businesses we know have extraordinarily high standards for their managers — whether family or not.

6. Business becomes an arena to act out family conflicts. Most all families have rivalries and rebels. Some have jealousies and felt injustices from long ago. All these conflicts become focused in the business. Were there no family business, the conflicts would probably still exist and be unresolved, but there would be no inviting forum to encourage perpetual reenactment.

Families need to recognize that conflicts are normal. They must work hard to manage conflict through family meetings, by encouraging personal growth and developing communication skills, and by investing in strengthening family relationships.

Of course, other forces can still snuff out multi-generational business continuity. For the six we've discussed, at least there are effective antidotes. These regimens require considerable self awareness and effort. Families need powerful motivation to address and resolve the inherent challenges to healthy family business life. If all involved embrace the family business as a cherished opportunity, the efforts--and risk--seem more than worth it.

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