



## *The Family Business Legacy*

*Surprisingly alert after a late-evening meal, he came forward in his arm chair, leaned against the table and responded to my question, “How important is the succession of my business? Loyd, I am almost embarrassed to tell you how important succession of this business is to me.”*

*Lou Bachrodt, Jr. was a grand gentleman in his late 60s who was from the old era of hard work and sacrifice. He had been an automobile dealer for 49 years. He was a man possessing great pride in his family and business.*

*We were in the initial discussions about my firm helping him establish a business succession plan that would perpetuate his three automobile dealerships and his accumulated wealth for his three sons and daughter.*

*“This business is like one of my children,” he continued. “It’s part of my soul. Bachrodt Chevrolet is a member of our family, even though it doesn’t have skin and bones like the rest of us. I’ve devoted my adult life to its development, just as I have done for each of my children. For this business to fail and not succeed to the next generation would be a tragedy and a disappointment that I just don’t have words to describe.”*

*I could see the emotion well up in his eyes, just as I had seen it when he described the death of his youngest daughter in a car accident. “It is probably not healthy to feel this way, but honestly that is where I am. Regarding your question about peace of mind and my objectives, I feel that peace of mind for me is to know that I have done everything within my ability to provide for the succession of these businesses.”*

Over the last 30 years, those same feelings have been expressed to me repeatedly in different words and surroundings by countless men and women who own family businesses and intend to pass those businesses to their children or prized employees.

It is not at all uncommon for owners to develop feelings for their businesses that are comparable with those they have for their children. The closely held family business is an amazing entity that can generate phe-

nominal emotions of love, happiness, gratification, anxiety, disappointment, frustration and sadness.

And that is nothing new. Since the industrial revolution, America has enjoyed a unique environment of free enterprise. Our open society has encouraged hard work and has provided opportunities to choose any vocation.

Over the generations, all one really needed was a dedicated family to cover the bases and watch the cash, as it did not require much capital to start a business. Large, closely-knit families were commonplace. Children were an asset to help carry the workload. There was little or no regulation or taxation.

For 200 years America has grown and prospered through the creation of family businesses. In some cases, they were passed on to the children. Yet, most of these businesses failed to go beyond the founder's generation.

Children were drawn away to pursue "better opportunities." Major wars consumed successors.

However, more businesses were started to fill the void and to take advantage of the growing opportunities of an expanding economy. Some of the family businesses that achieved succession and ultimately became institutions were Ford, DuPont, and Anheuser-Busch.

A profound aspect of the emerging American culture was that the "little guys" were challenged by these success stories. In addition, the little guys were not restricted by tax regulations and were actually encouraged by government to break out on their own. Many Americans made their mark in business, saying: "If Henry Ford can do it, so can I."

Today, the environment for starting and building a business is different. Cash is king and debt is difficult to manage. Substantial capital is required to do everything, from opening the doors to financing accounts receivable. Capital is more difficult to accumulate because of taxation and a more competitive global economy. Where capital is inadequate, debt equity is required.

Operating credit lines are more difficult to establish and maintain as a result of the defensive posture at lending institutions after the real estate problems of the 1980's. The ambient risks of business created by open market competition are further complicated by overzealous government agencies that regulate everything from the environment to hiring practices.

Now it is difficult to find motivated employees, including family members, who are really willing to work. Unions, entitlement programs,

workmen's compensation regulations and a "do your own thing" mentality have hindered the development of a stable, dedicated work force.

With regard to succession, educational opportunities allow prospective successors to pursue their own unique interests outside of the family business. Today there are fascinating job opportunities across towns, the country and the globe that were not available before. Thus, the percentage of family businesses achieving succession today is significantly less than it was 50 years ago. The continuation of a family business from one generation to the next has become progressively more difficult.

***The family business is a vital part of our economy and culture. It holds a unique position in our society - the most sought-after business entity in America.***

The desire for independence and growth still exists and the emotions associated with children, family and making a mark are alive and well. Most importantly, the motivating forces of power, prosperity, freedom and creativity, although frustrated, are as strong as ever.

The family is a natural structure for business. God, through His divine wisdom, established the family as the basic structure of man. He recognized the need for a fundamental organization that nurtures, protects and instructs mankind in the critical aspects of life. Long before there were governments, prisons or social security, man was thriving through the family structure.

God established basic procedures to assure the effective operation of the family. These procedures are written into the hearts of mothers, fathers and children and automatically go into operation at birth. Parents love, children cling; parents provide, children honor; parents lead, children follow. Everyone is programmed with the basic knowledge needed for the family to function effectively.

Thousands of years of experience, from Cain and Abel to the Ford Motor Company, illustrate the family structure. The success of the family as a business unit, using these God-given instincts of unity and synergy, has been illustrated repeatedly over the ages.

Unfortunately, the vulnerability of family operated businesses has also been illustrated. Once we recognize the potential effectiveness of unified families, the efficiency and productivity of highly structured groups are not a mystery. As an example, the Japanese culture has demanded compliance

with the basic family principles of respect and unity to enhance survival for thousands of years. Japanese society continues to capitalize upon the belief in the family principle of respect at the highest corporate level.

Large Japanese corporations make sure employees receive the family feelings of being valued and needed. Regardless of the size of the business, each employee is made to feel important, a vital part of the business, which makes a significant impact upon their success. As a result, the everyday Japanese employee of a large industrial company performs beyond the norm, striving to work harder and more efficiently. Through the amazing strength of its cultural tradition, the average Japanese employer thinks in terms of the group's (the business') welfare before his own needs or those of his family.

According to statistics provided by the U.S. Commerce Department, the family business accounts for 60% of our country's gross national product and employs approximately 60% of the work force. The family business is, pound-for-pound, the strongest, most responsive and productive of all business units. Efficiency is reached through inbred unity and synergy with strong motivation for proficiency and productivity. Members of a family business have a clear understanding that waste comes right out of the family's pocket. Phenomenal production levels are realized through a willingness to go the extra mile and a desire to bring honor and prosperity to the family name.

Although coveted by the masses, its make-up and operation are understood by only a small minority. The uneducated ranks include the federal government, the general public, and even the owners of family businesses themselves.

Unfortunately, the federal government does not understand that the family business is a vital, fundamental production unit, not an immediate, unending source for tax revenue. The family business is not bulletproof and is easily choked by unreasonable taxation and smothered by regulation and reporting. On one hand, the federal government professes how important small businesses are to America, and on the other hand, it continues to break the back of the family business with never-ending reports, regulations, taxes and fees. As a motivational mystery, government actually discourages people from continuing the production and tax paying abilities of the family business by imposing confiscatory estate taxes. It is confusing how our government claims to promote private business while simultaneously killing

the goose that lays the golden eggs of jobs and income taxes with regulations and estate taxes.

The general public certainly is unaware of the challenges and hardships of the family business. The typical man or woman on the street feels that the family business owner is just the lucky beneficiary of the “sperm lottery.” They feel that owning a successful family business is due to the luck of inheritance or having a great break. They see a private business as an easy street where one can live out of the business’ checkbook, have a new car every year, work half days and play golf every Wednesday afternoon. When Dad gets tired, he just cashes a business check and turns the company over to Junior, who, without ever doing a solid day’s work, becomes blessed with a life of conspicuous consumption.

***The family business is also the least understood member of the American business community.***

The general public does not understand that private business, not the government, is the base of the economic chain that creates jobs, products and prosperity. John Q. Public does not understand that private business is his friend and the champion of individual rights. The average man on the street does not recognize that, through lobbying, financial contributions and trade associations, family businesses battle big government and fight for not only themselves, but all private citizens. The family business struggles against Big Brother and the quagmire of regulations and programs that can destroy an individual’s motivation and dignity.

Finally, what the general public does not realize is that whatever is good for the family business is good for America. Family businesses employ most of the private citizens in America and do not lay off masses of employees just to maintain profits and justify big bonuses to management. On the contrary, the average confused citizen feels that what is good for the family business only makes the fat cats get fatter. They do not understand that many of the business assets, such as buildings, plants, and equipment do not represent wealth, but liabilities to the bank, tax collectors and the EPA. These are obviously the attitudes that come into play when private citizens become legislators and impose upon the family business more regulation and taxes.

Additionally, there is the individual family business owner who commonly does not understand how fortunate he is to independently own a

business. The typical family business owner does not realize that success and succession are not synonymous, and that succession is not an inherent right of his children. He may not understand the hard, cold odds his children are facing.

Many are ill informed regarding the everyday problems of cash flow, regulation, competition, and employee motivation. These are monumental problems of succession. These same parents usually overlook the growing probability that their children will avoid these problems and skip the family business to pursue other careers. They do not recognize the natural hesitancy of a child to stay under the controlling wing of a parent who is slow to recognize their maturity and capability. Parents tend to think their children will naturally want to be in the family business when, in reality, most of the time the sharp kids have to be sold on the idea.

Finally, there is the business owner who is out of touch with the value of his company and does not fathom the cost of selling the business or passing it on to the children. He has not recognized that, if he sells the business, the net after-tax returns on the proceeds will probably not equal the salary and benefits the family realizes from the business.

Or he has not accepted the fact that, from an estate tax perspective, he may be worth more dead than alive. There are some people who just cannot accept the harsh and often gruesome reality of estate taxes. As a result, the process of developing ways to finance the projected estate tax to enable the business to be passed to the next generation without the burden of debt is beyond the understanding of some business owners. Far too many businesses are in harm's way of impending estate taxes that will ultimately cause the sale or liquidation of a business that could otherwise be passed on to heirs.

When questioned about the areas of successor management development or family harmony, most family business owners respond that they'll work it out. In saying this, they fail to reflect on past experiences with their friends and even their own family, where loving brothers and sisters not only failed to work it out, but threatened the unity of the family with petty jealousy and greed.

Nevertheless, the resiliency of the family business is an utterly amazing phenomenon. In the midst of all this misunderstanding by the federal government, the general public and the business owner, it is remarkable that the family business endures so much abuse and continues to be the bedrock in the contemporary American economy. However, these misunderstandings

have begun to erode this foundation. There is a crisis looming on the horizon of this great country if this trend is not reversed. Many highly productive family businesses originated in the 1950's and 1960's are now at the threshold of succession. As the pressure against the succession of family businesses continues, this pivotal sector of our economy gets weaker and weaker.

Yet this trend can be reversed and America can continue to be a world leader in innovation, creativity, productivity, and most importantly, freedom.

Without a doubt, what is good for the family business is good for America. Increased education and understanding are the greatest hopes for reversing this trend of the declining family business. The stakes are high. It is important to everyone in America that we improve the perceptiveness of government and the general public toward the succession of the family business. And it is critical that those of you who own family businesses develop an understanding of your greatest resource and what it will take to pass it to the next generation.

