a FAMILY AFFAIR

WHAT HAPPENS WHEN THE SECOND GENERATION ENTERS DAD'S BUSINESS?

BY ***Barbara Bensoussan***

It's an old cliché immortalized in *New Yorker*-style comics: A father stands with his son before the big picture window in his office, overlooking the warehouses and smokestacks of an enormous factory. With one hand on the boy's shoulder, the other raised in a sweeping gesture, the father announces in stentorian tones: "Someday, my boy, this all will be yours."

Most people who start successful businesses do so not only to feed their families, but in the hope of being able to leave a thriving legacy for the next generation. According to the Small Business Administration, about 90 percent of US businesses are family owned or controlled. But what happens when the next generation — the erstwhile son in the cartoon — comes of age and the reins of power must be shared, and eventually transferred? What happens if the generations don't see eye to eye, or siblings jostle for ascendency? How do parents distribute assets among children who may or may not be working for the business?

Family businesses can channel a family's talents and group loyalty to major achievements. But family business conflicts can also undo the hard work of decades in bitter fights of operatic proportions and length. With potential triumphs on one hand and intergenerational mishaps on the other, how can pitfalls be avoided and potential to excel maximized?

Different Generations, Different Outlooks For most people, the establishment of a business is an act no less demanding, creative, and ego-investing than bearing a child. Like parenthood, it draws all of one's resources, talents, and strengths, while providing a reward of *nachas* when it succeeds. "Leadership and ownership looks at the business like a child — perhaps their first-born child," writes Wayne Rivers,president of the consulting group Family Business Institute, on his firm's website. "Going into the business every day is like a visit to the scene of their greatest triumph."

But a business owner's children enter into the actualization of someone else's vision. "It's a broad truth that for the first generation, a business has a different meaning than for the second generation," says Dr. Yisrael Feuerman, a New Jersey-based psychologist specializing in money issues. "When Yosef Hatzaddik rose to power, he named his sons Ephraim and Menashe, meaning 'Hashem made me fruitful' and 'Hashem made me forget my hardship and my father's house.' Those two phrases characterize many *frum* business founders."

He explains the hardship element: "The first generation in America often saw business success as proof of acculturation, of acceptance, and 'making it.' It was a victory over the challenges of immigration. In some cases, it was a victory over the Nazis."

The drive to prove oneself often fueled the first generation's climb to success; furthermore, a couple of generations ago, the absence of government "safety nets" put people under more pressure to succeed. Many of today's *frum* entrepreneurs are truly "self-made" in the sense that they started out without the advantages of family funding, a prestigious name, or even the educational background usually considered necessary to get ahead.

The autonomous climb to success often entailed sacrifices on both the familial and even religious levels. "These older businessmen never took vacations; they went to the earliest minyanim on Tishah B'Av to be able to run to work," Dr. Feuerman says. "Sometimes their children harbor an underlying anger because they felt shortchanged; the business was always their father's priority, not them. Some of them also thought their fathers took too many shortcuts in their Yiddishkeit, even though they as *yeshivah bochurim* were the beneficiaries of those sacrifices." It's only later, when the younger generation comes into the business, that many are able to appreciate the amount of work their fathers' jobs exacted, and forgive them for the time lost.

Dr. Feuerman points out that the creator of a business understands that he has to take care of his business, so that his business will take care of him. His children, however, have a different perspective: For them, the business has always taken care of *them*, in a seemingly automatic fashion. Their schools, camps, and weddings were paid for by the business, and now they expect that the business will continue to provide for them. "Many have a distorted idea, at least initially, of the amount of effort you need to put in to get something out," Feuerman says.

They may also be unaware of the spiritual challenges and sacrifices the business world may exact. Coming out of yeshivah or *kollel*, they are suddenly thrust into a world in which success may hinge on cutthroat competition for clients or government contracts. Ezra F.,* who works in the medical supply industry, has seen fathers push their sons to leave learning to join the family business. "Within a year or two they've changed their style of dress and speaking," he says. "The transition into an upper-middle-class suburban lifestyle is jarring after leaving *kollel*, even if they're financially cushioned. Some guys enjoy it, but I've seen others who struggle emotionally."

Once a parent has set up a prosperous business, intending for his children to succeed him, the best analogy for the business dynamics would be a monarchy, says business consultant Moveed Fazail. In an article published in *The Practitioner* (an online business publication), he compares the father to a king, the oldest son to the heir apparent, and notes that other princes and princesses may also demand a share in the kingdom. As in a monarchy, blood ties rather than sweat equity determine standing in the company.

But most want the line of succession to continue, knowing their livelihood and the prestige of their family name depends on it. "I'm the third generation in a family business, but we younger people are very invested because we want a future for ourselves," says Moshe W.,* whose family has a large business in the Northeast. "None of us want to point out the window and say to our children, 'That's where our factory *used* to be.' "

Does Father Know Best? Family ties may mean a more intense relationship between workers and the boss, but they also generate greater loyalty. Family members are less hesitant than employees to voice opposition to the boss, since they're not afraid of being fired. Nor are they likely to walk out the door if they have a complaint, unless they discover they're really not suited for the job.

Chaim M.* took a job working in his father's insurance business when he finished college, at his father's request. But the clash of personalities made the job insufferable for Chaim. "I'm very quick, more willing to take risks, and at the time I thought I knew everything," he says. "My father, by contrast, is ultra-conservative, methodical, and a slow, careful worker. After a few months I told my father I didn't think insurance was for me. Fortunately, he was able to hear that."

But while some fathers and children clash on the basis of personality, others who work with their parents run up against a "generation gap" between old-school wisdom and newfangled ideas.

A man who has built a business and accumulated years of experience may feel he knows everything there is to know. But the younger generation typically believes itself more abreast of trends and technology, even if it has less business experience. Dr. Feuerman

The business has always taken care of *them*, in a seemingly automatic fashion, paying for their schools, camps, and weddings. And now they expect it will continue to provide for them

knew a man who made a good living in publishing 30 years ago, but as the technology changed, he needed to retool and rebrand. As his sons moved in to take over, they made serious mistakes through their lack of experience. "If you don't adapt properly, you'll ruin the business," he says.

Control Issues "The father loves his child, but does not see him as an equal in the business," Moveed Fazail says. "The son loves his father, but desires to be considered an equal or, in some cases, considers himself better suited to lead." What happens when a son advances far enough that the balance of power needs to be reevaluated?

Sometimes a father cannot bear to hand over the reins, even at an advanced age, leaving the son(s) stuck like a Prince Charles, no longer young yet still denied the control he expected to have by now. Wayne Rivers writes about a 65-year-old man whose 91-year-old father still ruled the business with an iron hand and owned all the stock. When the father was asked when he planned to start transferring ownership and control, he replied that his son wasn't ready yet. "At what age did he expect his son to become ready?" Rivers says. "The son took a walk and dad had to liquidate the company at a reduced value. That wasn't what either one wanted."

In the same way many men resist retirement, for fear they'll lose their identity and purpose in the world, some company founders can't bear to relinquish their hard-earned place at the top of the hierarchy. But sooner or later, they have to learn to trust their children's judgment — a judgment whose acumen can ripen only if given the chance to develop.

"If you tend toward a tyrannical management style, you need to learn to keep your mouth shut," advises Saul N. Friedman, the founder of the Saul Friedman & Company Certified Public Accountants and Consultants (which includes several of his family members). When fathers are authoritarian rather than authoritative ("I am the CEO and I know best" versus "I appreciate your efforts, but I prefer to go with Plan B for reasons X and Y"), they risk hurting their children's feelings or angering them. This may result in pushback or outright rebellion on both the personal and professional levels.

In the same way all parents sometimes have to hold their breath and watch while their children stumble in other areas of life, business owners have to learn to let go. "You have to learn to tolerate a little bit of incompetence," Mr. Friedman says, "even though you do your best to keep damages to a minimum." He admits this is a lesson he himself had to learn, as he tends to be a perfectionist. But wise older men like Friedman became wise through their own trials and errors, and company founders may have to forigve their children a few blunders along the way.

In a recent seminar at the Bottom Line Winning Edge Business Conference, Friedman stressed the importance of constant communication between a parent and children in a business. Then even if something goes wrong, he says, dealing with the fallout becomes a natural continuation of an ongoing dialogue.

Sibling Rivalry Either by choice or circumstances, usually not every child enters the family business. Often, that's not a bad thing. Avi Lazar, COO of *Mishpacha's* US office, comments that recruiting the entire family into the business runs the risk of putting all the family eggs in one basket. "I've seen riches-to-rags situations in which entire families were involved in a business, and then when it failed, they had no family members on the outside to help them out," he says.

But it does frequently happen that several children go into the family business. Hopefully there's room to accommodate everyone, since in a smaller business profits may run thin if too many family members are on payroll.

"I know a once-iconic Boro Park business where the parents were supporting too many families," Chaim M. says. "In the end, they had to close it."

As *frum* family sizes have grown, it has become increasingly challenging for one business

person with a single small business to support all of his children and grandchildren.

Once you have multiple siblings in a business, the potential arises for squabbles in the same way that siblings once fought over Legos and ices. "The position children have in the family is usually the position they'll have in the business," Dr. Feuerman notes.

"Often the oldest son is favored the most," says Dr. Yael Respler, a Brooklyn-based psychologist. "But sometimes a father will favor the child who brings in the most money, who has more intelligence or social skills. Sometimes you have a child — or child-in-law — who knows how to sweet-talk a father, and ends up with more than his share of the bonuses and perks. One of my clients came in complaining that he needed a loan from his father and was told, 'Sorry, I just gave it to your brother-in-law.' "

On the other hand, she notes, that brother-in-law's wife probably feels she and her husband have just as much right to the company profits; after all, she's a child of the boss as well. Why should her brothers get a bigger share than her?

"I think that as a son-in-law, I work even harder than my wife's brothers," Moshe W. says. "They don't feel the need to prove themselves, whereas I feel I have to show I'm not who I am just because of who I married. Of course, I can't tell off a brother-in-law who isn't performing the same way I could scold a non-family employee."

The situation becomes all the more complex in situations, not uncommon in *frum* circles, in which two brothers founded a business and later bring their children in. "If one of the cousins isn't performing, then it's not just his father who's unhappy. The uncle is unhappy too," Mr. Friedman says. "Some brothers make an agreement that allows each of them to bring in only one child, and the other has to approve it. The problem is when a child isn't performing, usually the other employees won't have the guts to tell his father. But the company will suffer for it."

Dr. Feuerman points out the dangers for company owners and offspring of confounding love with money. "An owner's children are working with someone who loves them, and so they may expect to be making $80,000 for a position that only merits $30,000," he says. "But it's a problem to give them way beyond what they deserve. Usually a pay scale is based on two criteria: what the person is worth to the company, and how much people in similar positions are making elsewhere. I suggest hiring a consultant — it's not so expensive — to establish a pay scale. It'll save a lot of heartache."

Despite the challenges, Dr. Feuerman declares it's a beautiful thing when families manage to work together well. "I know families where one brother is the inside man, one is the outside man, and the sisters and other sibs divide the labor and profits equitably," he says. "They grow closer through sharing life in the business."

In the end, he concludes, it's attitude that makes all the difference. When children feel loved enough by their parents, everything is easier; disparities in talent, salary, and title can be more easily digested. When children have felt enough love, money is a minor issue; when there isn't enough love, he says, "money is *always* the issue."

"Right now we're in our 60s, we're healthy, we have our *seichel*. But eventually we won't, and why should our children have to fight over the company?"

An Ounce of Prevention As the adage goes, nobody gets out of this life alive. The same could be said of a family business. But when, after 120 years, the founder passes on, how can he ensure a smooth, peaceful transition of leadership and assets?

The first rule, Mr. Friedman states, is to plan for it. Most families want to distribute their wealth equitably, but if only one or two children are involved with the business, it makes sense to work out a plan in which all parties receive assets of equal value. If your business is worth $5 million, and you have five children but only two are in the business, then give the business to the two who are involved while making sure the others receive an equal financial benefit (even if in other forms, like real estate).

A father and son who are partners might follow the example of two of Friedman's clients who worked out a buy-sell agreement to the effect that if one passed away, the other would buy out his half of the business. To make sure the money would be available, each took out a business life insurance policy worth a little more than the value of his half. He stresses the importance of following through and making sure every I is dotted in the legal agreements. One father had two sons who got along well, and a third he was sure would conflict with the others. Friedman advised him to leave two sons on one coast, and establish the other son in a different city. The arrangement worked out well, but when the father suddenly passed away, it became evident he had neglected to take the out-of-town son's name off his East Coast business. The ensuing dispute nearly destroyed the business.

He has seen tremendously complicated situations, like the family in which two brothers brought their children into their business; when one brother passed away, a decade-long war erupted between the uncle and the cousins that almost ruined the business. Those brothers would have done well to follow the example of two other brotherly clients of Friedman who, after decades of prosperous and amicable business together, decided to separate their very hefty assets. "When the older brother proposed this, the other was shocked," Friedman says. "They'd always gotten along so well. But the brother said, 'Look, right now we're in our 60s, we're healthy, we have our *seichel*. But eventually we won't, and why should our children have to fight over the company?' In three days they split up $200 million of assets."

Passing the Baton Most fathers see their business as their legacy, and harbor the unexpressed hope or expectation that their sons will carry it on after them. "You hope your children will have the same care and respect for your business that you have," Mr. Friedman says. "When they don't, it's deeply hurtful for a father."

"The desire of fathers for their sons to carry on the business is not necessarily rational, but it's very strong," Dr. Feuerman says. "But many sons likewise have the aspiration to follow in their fathers' footsteps." Growing up to be "just like Dad," a son expresses his admiration and approval of everything his father has striven for, and actualizes his own internalized image of manhood.

On the other hand, sons (or daughters) usually hope to leave their own distinctive mark on the world, separate from their parents, in the same way they construct personal identities that both draw from their family of origin and diverge from it.

As business environments change, often a founder's children have no choice but to innovate, expand, and rebrand. Carving out an innovation or area of his own in his father's business is an important opportunity for a child to be able to kindle his own passion for the work, separate from the passion and vision that spurred his father.

"Business is actually a great way to continue a parent's legacy, while at the same time innovating and complementing what they established," Dr. Feuerman says. Such continuity is even good for business, as customers develop long-term trust and generation-spanning relationships. Michael Wildes, Esq., who runs Wildes & Weinberg P.C. with his father, notes that "our associates take pride in the continuity and legacy of our brand."

Families who work together have the advantage of enjoying one precious commodity that was often sacrificed on the way up: time together. As the older generation ages, the business provides them and their children with a golden opportunity to share many hours and memories together, and for children to demonstrate *kibbud av v'eim*. That's a value "beyond rubies," and one that outlasts every company account in the bank.