The Dispatch

January 2021: Family Business Myths

We live in an age of clichés. Everyone, it seems, wants to explain life to us in ten words or fewer. Family business also has its clichés, which, when examined, are more like myths – statements we often take for granted but may not be true. In this issue of the Dispatch we explore three of these. Davon discusses the statement "Only 3 Percent of family businesses survive through the third generation." Lance picks up on the implied destructiveness in the warning, "You can't ever sell the land!" Finally, he challenges the myth that your next leader needs to be a male family member. We hope you enjoy our take on these three myths.

"Most Family Business Don't Survive" (A story of doom or hope?)
Davon Cook

We've all heard the statistics—only 3% of family businesses survive through the third generation or, more simply, "shirtsleeves to shirtsleeves in three generations." This statistic is a bit misleading, and I don't like how it's used to invoke fear of failure.

First, the actual empirical research by John Ward that began this statistic is from a limited Illinois manufacturing data set in 1987—that's almost 35 years ago! Perhaps we would get the same results today but who really knows? And, it's been canonized as a "30/13/3" statistic that oversimplified the research even more.

Even if you take that debatable statistic as fact, the results say that 30% of firms survive *through* the first generation, 13% *through* the second, and 3% *through* the third generation. That is, 3% get into the fourth generation—likely 100 years or more. That's pretty impressive! So maybe we shouldn't focus on the negative connotation of "only" survive.

And how does this performance compare with public companies? Craig Aronoff, the co-founder of Family Business Consulting Group, reviewed the length of time that companies are listed on the Dow Jones Industrial Average. Only one company out of thirty, GE, was on the list for 100 years—a "survival" rate of 3%, similar to family business! And GE was delisted in 2018 after 111 years. While it's not the same definition of survival, the point is, why do we consider our performance so negatively?

Perhaps most importantly, the definition of "survive" in a family business context needs reconsidered. The original research deemed a family firm *not* to survive if it went public, was sold, or was shut down to pursue other enterprises. We negatively jump to failure for reasons like bankruptcy or infighting, but there may be good reasons to sell or restructure or start a new business. Today, research focuses on the activities and impact of *enterprising families* rather the survival of one firm. Family members may be involved in a number of business ventures that evolve over time. Or they may choose to dissolve the joint family business and use the capital to build entirely new pursuits individually or in new groupings.

Which brings me to that pesky word "only". There's judgment that "only" surviving so long is failure. The reality is, every situation is different. Many of you hope your great-grandchildren will lead the business you have devoted your life to; that's the focus of much of our work. But don't let the statistics make you afraid. Your family, its businesses, and the use of its trans-generational wealth may take on many shapes and forms in the future. Won't *that* be amazing to see!

“You Can’t Ever Sell the Land”
Lance Woodbury

Most farming and ranching families we work with are in perpetual land-buying mode, for good reason: control of the land is important to an operating farming or ranching business. Land ownership provides an ongoing income stream, creates equity to buy more land, transitions easily to future generations, and often has sentimental attachment. I know at least two families where “Grandpa won that land in a card game.”

So the idea of selling family land can bring immediate opposition, with dire threats of how future generations of the family will suffer. Yet, in spite of this tendency, selling land might be good for these reasons:

First, over time the ownership of land becomes diluted. Siblings, then cousins, become land-business partners, and often family members (who may have spouses with opinions) struggle to make land-related decisions jointly. Family members might be better off, and have better family relationships, with separate equity in other forms, like home equity, other business investments, stocks, or bonds.

Second, land requires some investment. Improvements associated with irrigation, drainage, conservation, and fences take a reinvestment of profits. Finding a good tenant, and understanding the industry and their business challenges, is important and takes time. Land owners have a responsibility to invest money and time in caring for the land, and that burden is not suited for everyone.

Finally, when family members move away but retain land ownership, rental income generated from the land leaves the local community. Many rural towns are struggling and, as fewer people return to the farm, the financial outflow makes it harder for businesses to survive. Local ownership helps the community, and might even help a young farmer or rancher get started, much like it did for someone in your family generations ago.

“The Farm Won’t Continue if He Doesn’t Return”
Lance Woodbury

Many farms and ranches look to the next generation, and often a son, as the necessary future leader of the operation. But we know several operations who challenge this myth in two ways.

First, women are just as capable of leading a business, and leading a farm today is less about physical labor, and more about intellectual capacity and managerial skills. Agronomy, negotiation, finance, commodity marketing, equipment operation, and technology are not gender-specific. And a farm manager’s skills in supervision and delegation have nothing to do with their gender. The obstacle usually lies with the person being supervised – they often have trouble accepting leadership from a woman.

Second, as farms become more professional and benefit from more experience, skills, and wisdom, the belief that a family member *has* to run the business can limit the organization’s potential. It also puts tremendous pressure on younger family members who haven’t yet returned, who may operate under the assumption that “family business survival” depends solely on them. A number of successful agriculture businesses we know have employed non-family leaders, and are quite successful because of the strategy.

What myths does your family business hold on to? Challenge your assumptions in 2021!