Perils of Family Business
Succession woes and higher failure rates

By George Orwel

Frank’s Cocktail Lounge, a popular nightclub in the Fort Greene section of Brooklyn, N.Y., has gone through many changes in the past 50 years. What used to be a vintage beer-style front sign has given way to a tasteful burgundy awning. Weekends now have a $5 cover and hip-hop DJs spin rap, R&B, house and reggae.

But there’s one change afoot that the club’s mostly African-American regulars dread. Frank Perkins, who started the business when he was in his 20s, plans to retire soon, turning over the business to his 45-year-old son, Tyrone. Frank worries that his business may not survive long after he’s gone. “It’s hard to know,” he tells The Network Journal, “I can’t tell [whether the business will survive] because it depends on who’ll run it after me.”

Perkins’s concerns are shared by many other Black business owners who are struggling to avoid the fate of thousands of small businesses that fail daily due to succession-related problems. There are currently 1.2 million Black-owned firms operating in the United States, generating about $88.6 billion in revenues annually, according to the most recent data from the U.S. Census Bureau. Black-owned firms — most of them started as small family-run outfits — account for 5 percent of all nonfarm businesses countrywide. In New York State, there are now more than 129,329 of these, the most of any state. New York City alone has more than 98,080 Black-owned firms, the most of any U.S. city.

Research suggests that small, family-run businesses — especially immigrant and Black-owned companies — fail at a higher rate than others. The average life span of Black family-owned companies is now down to 10 years from more than twice as much in prior decades. Some of the problems have to do with changes in market trends, but a lot more are due to management problems, including infighting among family members, says Ernesto J. Poza, Ph.D., a professor of global family enterprise at Thunderbird School of Global Management in Glendale, Ariz., and president of E. J. Poza Associates Inc., a family business consultancy in Scottsdale, Ariz. Poza also is the author of several books on family business. He’s also a columnist at BusinessWeek’s SmallBiz magazine.

Yet family-run businesses shouldn’t be at risk if managed well. Successful ones enjoy access to capital and trust among top managers and customers. Trust is typically high among business founders who are driven to succeed, but then trust declines with each successive generation of managers because they are far removed from the goals and aspirations of the business founders, says Murray Low, a professor and director of the Entrepreneurship Program at the Columbia University School of Business in New York City. Low also consults with both small and large companies, family businesses and not-for-profits.

Experts suggest two ways to deal with these succession problems. The first is to write a family charter, or guiding document, which broadly states the history, the guiding principles, the vision and the goals of the family and the company. The charter should also spell out policies that guide the family’s relationship to the business, as well as employment and management issues. In addition, the charter should explain in detail the rights and responsibilities of every family member and how much company stock would be passed on from generation to generation. To ensure that disputes don’t get out of control, the family charter needs to be drawn up well in advance when relationships between the principal family members are still cordial, because they need to trust each other to make it work, says Poza.

The second strategy, if the company is big enough, is to establish two separate executive boards: one to run the affairs of the family and the other to manage the company. Both boards should meet regularly to share what the company is doing and to sort out any problems. However, the family board should refrain from interference with company executives, especially when those executives are not members of the family, says Low.