

Is your business goal **CURRENT INCOME** or **LONG-TERM** **GROWTH?**

Distinguish between an income-focus and a growth-focus.

BY CHARLIE CARR

A second-generation family business owner asked us to analyze their combined family business and family office in order to reduce costs. He believed salaries were too high, staffing levels were bloated and processes were inefficient. After several conversations, building on prior interactions, we concluded that while this business has been very successful, the current owners are overly focused on managing costs and maximizing their current dividends, to the detriment of growth for the benefit of future generations.

Is the primary purpose of your business to provide income for the current generation of family owners, or is it to grow wealth for future generations? If asked directly, every family we've worked with says they are building for future generations. However, sometimes their behavior doesn't match that answer.

Let's start by saying what we're not talking about in this article. In the early years of most businesses, the founders are trying to pay their mortgage and feed their family. We are not discussing the family business that is getting off the ground and just providing what the family needs to survive. Over time, often extending into the second or third generation, the business income and value grows to a point where it exceeds what the current generation is likely to spend. As this happens, we sometimes see second-, third- and even fourth-generation business owners who remain focused on maximizing their own income rather than the benefit to future generations.

Years ago, a family business leader told us, "I'm not working my tail off so my kids can live on a beach somewhere." We echo that sentiment, and that is definitely not the intent here. We don't want owners living like paupers so the next generation can live like rock stars. On the other hand, a growth-oriented business owner recently said he is conflicted when focusing on opportunities that likely won't come to fruition during his career — "Am I wasting my time?"



Charlie Carr

**TALK TO
YOUR NEXT
GENERATION.
IDENTIFYING
WHAT THEY
WANT AND WHAT
WILL GET THEM
EXCITED ABOUT
THE BUSINESS.**

Income focus vs. growth focus

Below are some questions that help distinguish between an income focus and a growth focus. These are not hard and fast rules but rather indicators that need to be considered in their totality. There are gradations to each item, with redeeming qualities on both sides of the equation.

- Are you more concerned about how big your staff's salaries are (income focus) or how much value staff members add to the business (growth focus)? As an aside, in the last few years, each time we've been asked whether a business was overpaying its staff, the answer was no. Often, reality showed that they were underpaying those people.
- What are you doing to train and prepare the next generation of leaders, both family members and non-family members? Do you have a formal plan for preparing them and giving these leaders opportunities to develop (growth), or are you letting it happen on its own (income)?
- Does your governance structure include outside advisers who can challenge and improve the business (growth), or is it just you and perhaps one or two longtime staff members (income)?
- Do you have a documented strategic plan for the future, perhaps five or 10 years out? If so, did you create it by yourself (income), or did you involve a broad group of leaders in the creation (growth)?
- When you have to make a choice, is it more important to maximize income on current investments and holdings, or to develop and grow holdings for future value?

Why this distinction matters

You might wonder why you should care about an income focus versus a growth focus. Families that are focused on maximizing income for the current generation often have some mix of the following:

- There frequently is a level of dissatisfaction among business staff,

as they are often underpaid and they have less opportunity to grow and improve the business. Most people enjoy being part of something that is growing, while just maintaining the status quo is less interesting.

- The next generation is often disengaged, even though they expect to receive or inherit the business, as they also have not been given opportunities to grow and improve the business.
- Rarely is there any excitement about the future of the business.
- The business is no longer growing at rates that it once did. While it may have grown spectacularly in the past, there generally is not a plan for doubling it in the future.

On the other hand, with families that are focused on growing the business for future generations:

- There is a strategic plan, showing how to maintain impressive growth rates.
- The current generation is more interested in what value they get out of staff, and may even slightly overpay them to ensure they stay and build for the future.
- The next generation wants to be in the business and is being prepared for leadership.
- Family members and staff are excited and generally having fun in the business.
- Governance is designed for the next generation, providing the oversight and guidance they will require when they take over

ownership — not necessarily the simpler governance that has worked for the current generation.

How to change course

If you find yourself on the wrong side of this equation, there is still hope. You may need help from an outsider to turn things around, but begin by assessing your current condition. Engage with your key staff and truly try to understand their concerns and challenges. Talk to your next generation, identifying what they want and what will get them excited about the business. You can't force the next generation or current staff to be in the business, but you can create a vision that is exciting and enticing enough that they want to be part of it. Then, as you engage the rising generation, implement the governance that the next generation will require to bring that vision into fruition.

Finally, involve your key staff and the next generation in creating a long-term strategic plan for the business. If you can convince them that you are sincere in your efforts, you might be surprised by what they come up with and the newfound excitement and joy in running the business. In fact, you might even find that the road to building long-term value also has a side benefit of increasing your current income. **FB**

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