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Trying time for family ties: When businesses go bust
Alpharetta couple's book offers advice on avoiding their company's fate

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Their multimillion-dollar mansion in Alpharetta has so many giant paintings on the walls and statues in the halls that it has the feel of a hifalutin' art museum — not the home of a guy whose 92-year-old family business wound up on the auction block.

The massive house sits in the middle of a cul-de-sac in a gated community. The house is full of vases. And chandeliers. And a staircase that looks like the towering curved one in the fictional Twelve Oaks in "Gone With the Wind."

You get the idea. Larry and Laura Colin are doing well. Very, very well. They don't fit the profile of most family business owners — whose firms seldom last more than a generation or two. Theirs lasted four before family squabbles tore it apart.

Unlike many family business busts, they didn't wind up bankrupt or broke, but with more than $25 million from the sale of the firm that had grown to nearly $200 million in sales since Larry's grandfather started it in 1913.

Having to sell the business because of disputes among family members was heartbreaking, Larry Colin said.

He and his wife, Laura, wrote "Family, Inc.," a 255-page tome of advice to families on how to avoid the pitfalls family firms tumble into.

Its timing, experts say, couldn't have been better, because family businesses and other small firms need all the help they can get in a slowing economy that is driving increasing numbers into bankruptcy or just out of business.

In a weak economy, the smallest firms, often owned by families, have the least amount of capital at a time when banks are being tight-fisted with money, said Joseph H. Astrachan, executive director of the Cox Family Enterprise Center at Kennesaw State University.

And family squabbles, which happen in good times and bad, just make matters worse, said Colin, 60, who co-authored the book with his wife, a former investment banker on Wall Street.

"Better than 90 percent of small businesses are family businesses," Astrachan said. "And there's been an enormous drain of wealth because of the subprime fiasco. To banks, lending money to family businesses probably doesn't seem like a good idea."

'Ton of bankruptcies'

Stuart Gold, a bankruptcy trustee for the firm of Gold, Lange and Majoros, said bankruptcies of family and small businesses "must be trending upward — there's no way to get around that. Small businesses rely on traditional lenders, and some family businesses even rely on credit cards to stay afloat. We're seeing a lot of that."

He said his law firm is "seeing a ton of bankruptcies, a lot of real estate developers, and when they go, it's the landscapers, then the contractors and subcontractors. The numbers are going to keep rising. I can't imagine otherwise."

According to the American Bankruptcy Institute, business bankruptcies have been rising since the end of 2005.

That doesn't bode well for family businesses, but the worst doesn't have to happen, said Colin. He said the biggest problem for family businesses isn't money, but family squabbles.

His grandfather came to the United States from Poland around the turn of the 20th century and started a one-man business he turned into a cleaning company. It kept expanding, and his son joined the business.

It was that next family entry — Larry and his brother — when the problems started, but not until the company, Colin Service Systems Inc., a janitorial, office building and commercial cleaning enterprise, had grown into a business with thousands of employees.

Larry Colin and his brother began to disagree about the company's future.

"It was a mess," he said. "We lost our way, so we sold it."

With success came "growing pains that required changes we were not willing to make," he said. "Eventually, difficult relationships within the family took their toll on the business. I've learned there are three sides to every story about a family business failure — yours, theirs and the truth."

The brothers have since reconciled, he said, "but it broke our hearts to have to sell what we'd worked in for almost four decades, and what my grandfather started."

Still, they beat the odds.

Only 30 percent of family-owned businesses survive to the second generation, 10 percent to the third and 3 percent to the fourth, according to the International Family Enterprise Research Academy.

"So, there is hope if some basic human character flaws can be overcome," Colin said. "One of the biggest problems is jealousy — one family member doesn't think he or she is getting his rightful share. Another is lack of planning — one generation fails to plan for passing the business on. Somebody's got to make a plan."

Unforeseen problems

Family firms must guard against sibling rivalries, founders who are reluctant to pass the torch and succession plans involving grandchildren, Colin said.

Lots more family businesses are going to go under in the current downturn, but not because of poor leadership or planning, according to many business experts, economists and analysts like Steve Palm, head of SmartNumbers, an Atlanta area real estate information firm.

"Nobody could have foreseen this slaughter in the credit markets," he said. "It's a horrible mess out there, and no business plan could have stopped it, because there was no forewarning."

That's often the case for family business owners, Colin said: They can't see except with hindsight what should have been obvious.

BUSINESS STATS

• Family businesses make up 80% to 90% of all enterprises in North America.

• Family-owned businesses account for 60% of total U.S. employment.

• Only 30% of family businesses survive to the 2nd generation, 10% to the 3rd and 3% to the 4th.

Sources: Family Business Review, Financial Planning, Arthur Andersen/Mass Mutual; International Family Enterprise Research Academy.