The Handoff: What Family Businesses Need To Survive Succession

Bernardo Martinez Forbes Councils Member
Forbes Finance Council COUNCIL POST | Paid Program
Money

POST WRITTEN BY

Bernardo Martinez

Bernardo Martinez leads US strategy and operations for **Funding Circle**, the global small business loans platform.

GETTY

After finishing college, my first job was in my family brokerage firm and in our farm business in Venezuela. I had the privilege of working with my dad, who was a great boss, but one with high expectations. He taught me key leadership traits that have been critical to my career success: trust and respect for people and the value of hard work.

Having experienced the importance of family business in my own career and for those working for us, I know that family businesses play a huge role in job creation, social mobility and economic growth of a country. That's why it's so important to bring attention to a threat they face in the coming years.

In the United States, roughly one in five small businesses is family-run. With the majority of these businesses led by someone in the Baby Boomer generation, this means that millions of family businesses will face the same challenge over the next decade: a transition in leadership and a decision about what to do with the businesses they built from the ground up.

Business owners often say they want to pass their business on to their children and see the company succeed into the next generation. But many businesses fail during the transition phase.

Why do family businesses fail to transition to the next generation? It could be due to any number of factors, as each family business has its own unique characteristics. But one thing is certain: Transitioning a business comes with financial costs. A successor may seek to cash out on their stake in the business. The family may need to hire a lawyer or an outside consultant. There may be unforeseen tax implications or debt that needs to be resolved. When the kids do take over, they may see a need to renovate the business or expand.

To survive and grow, America's family businesses need access to affordable, transparent capital for this important transition period. Smaller family businesses, in particular, have unique financial needs that are not always being met by the traditional financial system.

Generally, I've observed that family businesses use external financing differently than non-family businesses. Since maintaining independent control of the business tends to be a top priority, in my experience, they are less likely to rely on investors outside their circle of family and friends. (Additionally, there is a lack of organized equity markets for small business.) Family businesses also take more of a big-picture approach to decisions about financing, since any move they make could impact their loved ones and future generations.

These factors mean that many family businesses will seek out loans to support their transitions. However, commercial loans can be difficult to access for any small business, family-run or not. The Fed recently found that over half of small businesses that sought new funding last year obtained less than they sought.

The lending community owes it to family businesses to clear any barriers to access so they have the best possible chance of survival. This includes eliminating the weeks-long approval process and onerous document requirements involved with traditional bank loans. It also means that when they are offered financing, it is affordable and transparent. Business lenders must adhere to responsible lending practices, like presenting the cost and terms of their financing in a clear and comparable way, and ensuring that loans do not trap these businesses in an expensive cycle of re-borrowing.

Looking back at my career, I am not sure if I would be where I am today if it were not for the lessons I learned at my family's business. As millions of family businesses in the United States approach a difficult transition period, they deserve the lending community's support to keep their families' dreams alive.

Forbes Finance Council is an invitation-only organization for executives in successful accounting, financial planning and wealth management firms. *Do I qualify?*

Bernardo Martinez

Bernardo Martinez leads US strategy and operations for Funding Circle, the global small business loans platform. Read Bernardo Martinez' full executive profile here....

Read More