



# Will Power

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## CHILDREN ON THE PAYROLL

Edwin was despondent, “I run a successful company in Ohio that I would like to sell,” he began, “but my children rely upon the income that I pay them.”

“Why don’t you sell them the company?” I asked. “Because they wouldn’t know how to run it,” Edwin replied. “You see, they are all on the payroll, but they perform only nominal tasks at best. It would go right into the ground under their tutelage.”

This isn’t an uncommon problem. The matriarch and patriarch of the family might spend years devoted to building a business. As every parent wants to help their own children, the children take advantage of the altruism, gladly accepting funds from the business even though they didn’t earn their keep.

At some point Mom and Dad would like to retire. But as the years went by, the children, sometimes even the grandchildren, become dependent upon the business. This is a major mistake for business owners as it leads to several problems including:

- Employee morale sinks as incompetent family members gain privilege within the company;
- Business value decreases as capital and human resources drain from the entity;

- Family members get caught in a vicious circle –becoming more dependent upon business resources and less self reliant;
- Customer service nosedives;
- The matriarch and patriarch find it increasingly difficult to retire and “cash out” of the business;
- Family fighting and turf wars ensue

I believe that when one discovers this happening to one’s own family business, drastic measures should be immediately taken. These include sitting down with one’s attorney and CPA to discuss a viable “exit strategy”. Exit strategies can take a number of forms, from an outright sale of the business to a transition to family members who may actually be competent to run the business.

Many clients who have found themselves in this situation don’t want to take any action as they fear family calamity. Failure to take any measures at all, however, only delays the inevitable disaster.

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