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'Some Day This All Will Be Yours.' Then What?

Second (and later) generation family-business owners must reconcile continuity with necessary change



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by **Steve
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When a business is all in the family, the most challenging times often come during the changing of the guard from one generation to the next.

Surrendering control to a new generation can be very emotional and difficult for a company founder. After starting a business and spending years building it up, letting go can be traumatic.

However, it can be even more difficult for the new generation to take control from a parent or other relative, since they are acutely aware of the founder's close emotional attachment to the business.

Conflict often arises during or after the transition because the

new generation wants to make changes and grow the business. A company that sustained one family for many years may need to grow in order to support two or three second-generation families now in charge. But the founder may have spent years resisting change, and being suddenly confronted with the need to change can be a difficult adjustment.

"You have to keep the business healthy but you also have to keep the family healthy," says Paul L. Sessions, director of the Center for Family Business at the University of New Haven. "That can be very challenging for the younger generation, when they find out how all-consuming a business can be. It can take a toll on marriages and on new relationships."

Make no mistake: Family-owned enterprises are the backbone of the American business world: About 90 percent of all U.S. businesses are family-owned or -controlled, and family businesses generate about half of the nation's gross domestic product and half of total wages, according to Baylor University's Institute for Family Business.

Connecticut alone is home to an estimated 70,000 to 90,000 family-owned businesses, out of a total of more than 100,000 businesses (not counting self-employed persons).

Sessions says family businesses face more pressure than ever today, as a result of two long-term trends. First, globalization and the technology revolution are forcing all businesses to adapt more rapidly than in the past.

"They face substantial changes and they need to be more globally aware, especially if they're in the manufacturing world," he says.

Second, the dynamics of families themselves have changed dramatically in recent decades. "We're a much more mobile society than we were 30 years ago," Sessions says. "Children are not necessarily as tied to their home or to the family business as they used to be. There is less loyalty, even in family businesses."

While some children of company founders feel a great deal of self-imposed pressure to succeed - they don't want to ruin the family business - others bring the opposite problem: They feel a sense of entitlement and may be found out on the golf course more often than in the office.

"Some second-generation owners are really focused and dedicated, while others just want the paycheck," explains Sessions.

Lack of dedication was never a problem at the DiMatteo Cos., a Shelton insurance, accounting and financial advisory firm. Since founder Anthony DiMatteo retired in 1992, all four of his children have come into the business, along with two of their spouses.

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"We each have our own responsibilities," says Loretta Lesko, Anthony DiMatteo's daughter and vice president of the firm. "We've taken on individual roles."

DiMatteo started the company in 1959 and until he retired it was a small insurance agency with an even smaller tax practice in the mix. The only employees were himself, his wife and an office manager.

Today the DiMatteo Cos. employs 21 people and handles not only insurance but also full-service accounting, financial planning and benefits consulting.

"The biggest change we made was to grow the company," Lesko says. "We have four families to feed as opposed to one."

Lesko says her father was always supportive of the second generation, but noted that he controlled the budget for several years as she and her brother first began running the business in the mid- to late-1980s.

"We were running it before he retired, and he still held the purse strings. He would make sure we did our research before any decisions were made," she says.

Lesko says she believes a major reason her company's transition went smoothly was because her father required all of the siblings to work outside the family business before entering it.

"We all went out into the business world, and that gave us a better appreciation for what we have here," she says.

The four children now have seven children of their own, and a few of those appear interested in joining the family business, Lesko says. The second-generation leaders have already agreed to require third-generation members to obtain a college degree and then work outside the company for at least two years before joining DiMatteo.

Sessions says that is a highly effective strategy for family businesses. "Some owners will insist the children work outside the company for two to five years," he says. "That does a lot for the child: They realize that they can get a job elsewhere, outside the protective family network, and it gives them some real-world experience."

Paul Dostie and his brother Brian took a different route, having both started working at their father's shop, Jerry's Transmission Service in Guilford, as young boys. The two brothers started running the shop in 1987 and in 2001 bought it outright from their father, Jerry Dostie, who had started the business in 1959.

Paul Dostie says he and his brother benefited from a lengthy transition period. "The transition started in 1980, and we were running the shop by 1987," he says.

Yet the brothers did not actually buy the auto shop from their father until 2001, and it wasn't an easy subject to broach.

"He was Jerry's Transmission Service, and it was tough for him to let go," Paul Dostie says. "But once we started to have children of our own, we needed to know what the future held."

Dostie says the brothers had to make several changes over the years, starting with bringing in up-to-date equipment in the early 1980s and later having to change many other aspects of the business, such as dealing with employees.

"When he had started the business, people were eager to work," Dostie says. "There are more rules and regulations now."

The sons also grew the business rapidly so it could support both their families, which led to a larger workforce. Today the shop employs ten people, whereas in the early 1980s the employees were Paul and Brian and one man who had worked at the shop since it opened.

"We knew what needed to be done to improve and grow the business," Dostie says. "He was from the old school, where you try to do things as economically as possible. It worked great at the time, but things started to change in the 1980s."

The transitional period was difficult at times because it was hard for the brothers to make any decisions if their father wasn't on site.

"It was tough to make decisions if he wasn't there, like a decision on hiring somebody or giving somebody a raise. We didn't have full control," he says.

Jamison Scott has had to make even more changes to shepherd his family business through the tough times Connecticut manufacturers have endured in recent years. Scott joined his father, Dave, in running Air Handling Systems in Woodbridge in the early 1980s. Dave Scott remains the president today, and he had joined his own father in the business in the 1960s. The business was started in 1950 by Dave Scott's father and grandfather.

Air Handling Systems makes dust and fume collection systems and specializes in industrial air handling systems.

"In order to survive and succeed you have to always be improving the business," Jamison Scott says. "We don't change for the sake of change. We change because the technology is

changing, the economic climate is changing, and the industry is changing and at the same time hopefully improving."

Originally the company was a traditional heating, ventilation and air conditioning contractor, but Dave Scott saw the industry changing in the mid-1970s and moved to create a warehouse containing collection systems, in order to serve customers more efficiently. In the 1980s the company got out of the installation business and transitioned to fabrication.

Another major change has involved diversification in the face of globalization. In the early days, Sikorsky Aircraft was the firm's biggest customer and accounted for 50 percent of revenues, and most of the customers were local. Dave Scott moved to change that and today no single customer accounts for more than five percent of revenues.

"Now we're in many different industries and we cover the entire country," Jamison Scott says.

Today Dave and Jamison Scott are avidly pursuing lean manufacturing techniques and constantly buying new technology in order to continue competing in a global market against large multinational firms.

Sessions says that attitude of openness to change is a vital component in the survival of every family business.

"Success depends on the relationship that exists between the family members and the competence of each. It depends on the ability of both sides to see outside the company," he says.